



# **MMK GROUP IFRS RESULTS CONFERENCE CALL TRANSCRIPT**

**FOR Q3 AND 9M 2021**

**25 OCTOBER 2021**  
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 2021.



## 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

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- Nikanor Khalin, VTB Capital
  - Sergey Donskoy, Sberbank
  - Andrey Zakharov, Raiffeisen Bank
  - Andrew Johns, UBS
  - Artem Bagdasaryan, WOOD & Co
  - Dmitry Smolin, Sinara
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## MMK GROUP PRESENTATION

### VERONIKA KRYACHKO, HEAD OF IR:

Good day, ladies and gentlemen! My name is Veronika Kryachko, Head of MMK IR team. On behalf of MMK Group, I would like to welcome you to our conference call and webcast on the third quarter and nine months of 2021 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; Mariya Nikulina, Director for Financial Resources. I would like to hand over to Pavel Shilyaev.

### PAVEL SHILYAEV, CEO:

Good afternoon, ladies and gentlemen. It is a pleasure to welcome you to our call where we are going to discuss financial disclosure for Q3. Based on the results of this quarter, we have been able to show solid performance despite the negative trends internationally.

In Q3 we saw a slowdown in the Chinese economy precipitated by the advance of the Delta variant of COVID and the related slowdown in business activity. Not surprisingly, Chinese government decided to introduce limitation of steel production in 2021 at the level of previous year, and steel consumption so far has exhibited a downward trend. Net exports of steel from China in Q3 also decreased, reflecting the removal of VAT rebate on steel exports and lower steel production.

As regards Russia, I would like to mention that GDP growth in Q3 slowed down and is expected to be around 6% year-on-year (y-o-y). In the environment of the high inflation risks globally, Russian Central Bank continued to tighten its monetary policy.

Demand for steel products in the Russian Federation in Q3 decreased by 9.5% y-o-y. Among the main factors that impacted our operations, I would like to mention new export duties for metal product and changes in previously accumulated stocks.

The dynamics of world quotations in Q3 showed multidirectional trends. Moderate demand for steel with the continued growth of its supply was reflected by the correction of prices for flat rolled products on the FOB Black Sea basis. The 62% Fe iron ore index saw a significant pullback, particularly against the backdrop of a reduced steel output in China. At the same time, global indices for coking coal continued to grow due to the supply shortages.

Before I turn to our financials, I want to tell you about our sustainable development. Our specific air emissions for 9M decreased by 5% y-o-y, driven by an increase in the share of scrap in the steelmaking charge on the back of increased steel output by the EAF Shop. I am also proud to say that our non-financial reporting was hailed as one of the five world's best in the Metals & Mining category according to ESG Investing.

Steel production output in Q3 remained at the level of the previous quarter. At the same time, the utilisation of the production units of premium products remained at a high level.



Our sales in Q3 were below the previous quarter's sales by about 16.8%, which reflects a decrease in demand in Russia and an increase in exports with longer delivery lead times. The share of premium products in the portfolio was 44%. Against the backdrop of the domestic market corrections, we have reoriented our sales to the much more attractive export destinations such as the European Union and Asia.

Regarding the main projects from our strategy, in July this year we commissioned Cold-Rolling Mill 1700. We are also continuing construction of the coke oven battery No. 12, and we are going to start reconstruction of blast furnace No. 9 in December 2021.

As for Q4 forecast, price correction globally coupled with seasonal decrease in demand in Russia will exert pressure on the Group's sales. At the same time, we believe that the increase in production at the Turkish asset will offset this pressure. We believe that Q4 will be pretty stable.

Here I would like to finish my part of the presentation. Our CFO is actually going to comment on the financial part of the presentation.

**ANDREY EREMIN, CFO**

Good afternoon, ladies and gentlemen. Let me start by making a short comment regarding the revenue. Our revenue in Q3 decreased by 7%, to \$3 billion, due to reduction in sales, which was partially offset by the growth in global steel prices.

Let's look at a slab cash-cost. Raw materials prices in Q3 were generally up, and this resulted in a 12% increase in slab cash-cost up to 437 \$/t.

At the same time, our EBITDA decreased by 19% to \$1.2 billion q-o-q due to the revenue reduction and the introduction of export duties. Our EBITDA margin stood at 38.2%. Let me also stress that our Turkish and Coal mining segments show a robust growth EBITDA in Q3.

Let me tell you briefly now about capital expenditures. In Q3, our CAPEX decreased to \$235 mln. All our projects are now being implemented in line with the schedule.

Next, Mariya Nikulina, as the Director for Financial resources, will tell about our financial position.

**MARIYA NIKULINA,  
DIRECTOR FOR FINANCIAL  
RESOURCES:**

Good afternoon. The MMK Group has one of the strongest financial profiles among all the global metals companies. Total debt at the end of Q3 accounted for \$1 billion. The net debt to EBITDA ratio was at 0.04.

We have a substantial liquidity cushion of \$2.2 billion and very comfortable repayment schedule. At the same time, the low debt interest rate of slightly less than 2.5%.

Our free cash flow in Q3 was \$409 mln due to EBITDA correction and the working capital build up.

Following the results of Q3, the Board of Directors recommended the shareholders to approve the payment of a dividend of RUB 2.663 per share, which is equivalent to 100% of the FCF for the quarter.

This was the end of our presentation, and we will be happy to take your questions now.



## Q&A

**NIKANOR KHALIN, VTB CAPITAL:**

Good evening. Thank you very much for this presentation and for the opportunity to ask questions. Based on your data, you sold about 370,000 tonnes less products than you produced in Q3. Can you actually tell us how much of this amount has been exported, and will be recognized as a slab, and how much of those will be really considered stocks?

**ANDREY EREMIN, CFO**

Our extra inventories of MMK Trade House amount to about 200,000 tonnes. That is, these are the stocks that we expect to sell in subsequent periods. And the rest is what we diverted into the export stream. That is, due to the growth of export sales, we diverted additional rolled steel without selling it.

One of the factors involved in all of this is our Turkish asset. They are increasing their working capital as they're increasing their production volumes at the casting and rolling module.

**NIKANOR KHALIN, VTB CAPITAL:**

Thank you. These 200,000 tonnes of extra products, when do you think they will be effectively sold? Is that Q4, or do you think this is going to happen rather next season, which means Q2 2022?

**PAVEL SHILYAEV, CEO:**

We are seeing signs of market recovery. We believe that we will be able to offload these extra stocks in Q4.

**NIKANOR KHALIN, VTB CAPITAL:**

Thank you. One more question about capital allocation. Are you expecting any changes in dividend policies or maybe any changes in your capital expenditure programme? Particularly, given the recent changes in the taxation system in the Russian Federation.

**PAVEL SHILYAEV, CEO:**

No. We are not expecting any changes in our dividend policy. Things are currently being discussed as regards potential changes in legislation. We have already taken them into account, although they have not materialised yet. In this respect, we do not really see that as a threat. They will not impact our investment programme, nor will it impact our dividend policy.

**SERGEY DONSKOY, SBERBANK:**

Good afternoon. The first question: can you kindly remind me of your CAPEX guidance for the next year? And the second one: could you please comment on the current situation in several export markets, such as the European one, first of all, from the point of view of your Turkish asset. You have mentioned that you see some recovery in markets. I'm wondering to what extent that applies to your European directions. Would you believe that this kind of recovery will last to the end of the year or not?

**PAVEL SHILYAEV, CEO:**

Regarding market recovery, my comments were primarily about the Russian markets. And I should also stress again that the market in Russia has already adapted to the proposed changes to legislation and taxation.



Now as regards to general outlook. Well, obviously, China has always played a very important role. The steel production restrictions announced by Chinese government early this year are being implemented. Now we understand that it's among other things related to the upcoming Olympics in China. At the same time, we see a decrease in supply in the Chinese market, and on the other hand, we see from the dynamics of sales that there is some cooling of demand itself. So again, several factors at play there. And some of them are, in fact balance each other out. Our expectation is that the Chinese position internationally is not going to change dramatically. And I guess this will have a kind of stabilizing effects on global basis.

As regards to current evolution of fuel, gas prices, it is creating a lot of anxiety in the market for sure. And, like, for obvious reasons, a lot of manufacturers have had to hike up their prices. And a number of consumers have already started complaining that it's difficult for them to run business on the back of such crisis. I guess we are going to see a pretty high level of uncertainty in the short term. However, in Q4 and like next year, I think we will see a more balanced situation in terms of supply and demand relationship.

Now, regarding CAPEX. I think we will be according to our plans. But you do remember that plan calls for investments of roughly \$1 billion. There have been certain difficulties, for sure, particularly related to COVID and lockdowns, logistics constraints. Nonetheless, we believe that's, you know, in close collaboration with our partners, we should be able to implement most of our plans.

As for future periods, we're preparing updating of the CAPEX programme, and then the following Investor Day in December, I'm going to share all the details.

**SERGEY DONSKOY, SBERBANK:**

Yes. Thank you very much. As single question about fuel price increases, I wonder to what extent it can actually impact your cost structure in Turkey in Q4 or early 2022.

**PAVEL SHILYAEV, CEO:**

Well, we are obviously monitoring price evolution. However, Turkey has gas price regulation. We don't really think that in Q4 the impact will be significant. And also, please note that the volumes we are expecting from our Turkish assets are roughly like 200,000 tonnes. We plan to produce 100,000 tonnes in December. But we are moving towards this progressively, and I am sure it will give us a serious increase in the indicators of the Turkish asset in this year.

**ANDREY EREMIN, CFO**

Now we also see a trend around the cost increase associated with rising fuel prices, and we also see most manufacturers including the European ones, transferring their cost increase onto their clients. That's happening all over the world.

**ANDREY ZAKHAROV,  
RAIFFEISENBANK:**

Hello, thank you very much for this opportunity. I have two questions. One is about CAPEX and dividend policy. Now we can expect the Russian government to continue sort of considerably increasing income taxes for companies staying proportionately high dividends. Are you expecting any changes in dividend policy in this year or next year? And my second question is about your expectations for next year in terms of how much the mineral extraction tax and steel excise



tax going to impact your operations.

**ANDREY EREMIN, CFO**

Let me actually starts with a second question about the new taxes, including steel excise tax and mineral extraction tax (MET). Actually, MET is not a new tax, the actual rate has been increased. For MMK, the impact of this tax will be negligible due to low integration into raw materials. Now, as regards to steel excise taxes, it more depends on the price parameters. Now, we are currently expecting our total payments for this, the increase by roughly \$230-235 mln, most of which will be contributed by steel excise tax. However, if we compare the current export duties, we have paid this amount in five months.

**PAVEL SHILYAEV, CEO:**

And the first part of the question was about dividend policy. Now, the numbers shared by Andrey should show that we're not going to dramatically review our investments program or our dividend policy. So, we are not going to introduce any changes in our dividend policy.

**ANDREW JONES, UBS:**

Thanks. I have a couple of questions. First of all, on the new electric arc that will be started in Turkey. Given the high power prices we're seeing in various regions, what sort of cost pressure you're expecting from rising power prices? And does that put at risk started of these ramping up to 2 mln tonnes? That's my first question. The second is just on some guidance for Q4, including that 200,000 tonnes of unsold stock. What sort of sales volumes is you expecting on a consolidated basis in Q4, and could you just give us an idea or some guidance on potential working capital changes, and what you expect the overall CAPEX for 2021 to be. Thanks very much.

**ANDREY EREMIN, CFO**

As regards expected sales in Q4. We are expecting ourselves to go up y-o-y. And we've already mentioned that we are seeing market recovery, particularly the Russian market, where we are more present. Accordingly, we expect sales growth q-o-q. We're actually expecting sales in Q4 to be relatively equal to what we had in Q2, we are expecting growth of consolidated sales by 13 to 15% y-o-y for the whole year.

Regarding our working capital. We accumulated the remains of rolled metal at our trading companies in the export direction and from the domestic market. And our plan is to offload this extra volume in Q4 and to return to the FCF the cash that was diverted into the working capital in Q3.

**PAVEL SHILYAEV, CEO:**

And regard electrical arc furnace and our efficiency, I can tell you that we do not expect any real changes, actually, Russian energy costs are pretty stable.

In Turkey, if we're talking about long term, it's pretty difficult to predict such process. I can tell you that for planning, we proceed from the fact that the current prices for electricity and fuel are speculative. We believe that this demand will go down, the process will normalize. And therefore, in the long term, we expect prices to go up at a rate comparable to that of the inflation.

And I'd like to tell you that the marginality that exists in Turkey, is comfortable enough for us to be sort of assured both in terms of



utilisation and in terms of the production of our assets. We are quite optimistic of both.

I should probably mention as well, that we have set for ourselves this target of hitting the of 1.6 mln tonnes for Turkey next year. And I should also probably mention that 2 mln tonnes is the max production volume and we expect to reach the full capacity utilization on monthly basis in 2H 2022.

**ARTYOM BAGDASARIAN,  
WOOD & COMPANY:**

Good evening, ladies and gentleman. Thank you for your presentation. I have actually one question concerning the CAPEX guidance for 2022. During the previous call, if I'm not mistaken, you mentioned that you can spend 1.1 billion in 2022, but in the current presentation you're having something around \$950 mln for 2022 forecast. What's the reason for the discrepancy and what is the actual figure we should expect.

**PAVEL SHILYAEV, CEO:**

Well, the number I've just quoted was my forecast for the end of this year. As regards the next one, let me double-check it again. Yes, I am looking at slide 31 now as well. It's indeed 950. Thank you very much for this. We are updating and reviewing our investment plans. There are some changes due to, for example, our ESG projects. So, we are planning to get back to you in December to finalize plans for the coming years and then we'll be able to give you guidance.

**DMITRY SMOLIN, SINARA  
INVESTMENT BANK:**

Thank you very much for this presentation. I actually have several questions. Due to the colossal increase in coking coal prices, 80% increase, what is your current self-sufficiency in coking coal? What effect do you expect this growth to have on the slab's cash cost in Q3?

My second question deals with Turkey. Now we are seeing a certain decrease in EBITDA margin for Turkey. At the same time, prices, in my understanding, were at peak levels in Q3. And many European companies showed an increase in their profitability. What do you think is the explanation for this negative growth? The last question: after the recent IPO do you think that MSCI is actually going to review the Foreign Inclusion Factor, which should actually mean increased chances for inclusion MMK in the MSCI Russia Index?

**ANDREY EREMIN, CFO**

Thank you for your questions. Let me start with coal prices and slab cash cost. Now we are seeing significant growth in coal prices. Obviously, it's the result of speculations and what's happening in China. We do not think this situation is going to last. However, it has already impacted coal prices in Q3. Now, we are seeing, for example, a nearly 50% increase in CPT prices. We believe that these indexes may continue impacting in Q4 and the increase in coal prices can reach 65%. It will obviously increase our cash costs, but at the same time, iron ore prices are going down. The trend there is the inverse. Prices for iron ore have decreased by over \$100. So far, these two factors have pretty much netted each other out. We expect the cash cost of Q4 to be approximately at the level of Q3. At the same time, I should say that we are expecting market recovery and we are predicting metal products' prices to go up.

Actually, for the past week, we have seen in Turkey an increase in prices for hot-rolled coil by roughly \$40. At the same time, the



evolution of scrap prices seems to have stopped. They increased from \$435 to \$500, but they seem to be stable there. Most of the scrap is now going towards producing long rolled products. The trend there is quite positive for us. Right now, we are seeing an increase in profits in the hot-rolled section of the business. We're quite comfortable with that. \$120 per tonne is what we're making. We believe that this positive margin, so to speak, at this conversion stage will stay. I mean, it's difficult to predict the exact level. But I believe that even long-term, it will not go below \$50 or \$65.

As regards MSCI, I believe it's a bit premature to make any predictions. Well, some of our metrics are certainly good enough for MSCI. I understand that the final decision will be made when the last weeks of October arise. Let's wait at least until then.

**QUESTION NO. 1 FROM THE WEBCAST:**

What is the impact on your operations of the recent increase in electricity prices? Is MMK planning to transfer this cost increase into sales price?

**PAVEL SHILYAEV, CEO:**

I actually think we've answered this one already, right. We did not get we sensitive to these things. Many manufacturers have already transferred their cost increase but for us this cost increase is marginal.

**QUESTION NO. 2 FROM THE WEBCAST:**

There is another question about magnesium production in China and whether changing the magnesium production in China and electricity price surges there are impacting your operations.

**ANDREY EREMIN, CFO**

Nothing that we have noticed of this kind. Now, China today enjoys a situation where exports for Chinese metals companies makes very a little sense, given the exports fee, like the prices is currently closed by Chinese companies are so high. They're not really competitive compared to what the Russian and CIS countries can offer.

**VERONIKA KRYACHKO, HEAD OF IR:**

Ladies and gentlemen, thank you very much for your interest and attention. Thank you very much for your time. If you still have any outstanding questions, please do get in touch with the IR team of MMK. Thank you very much. We'll be happy to see you again. 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 \$6,395 mln, with an EBITDA of \$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 20.2%.

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## KEY UPCOMING EVENTS IN 2021

### FINANCIAL CALENDAR

<b>8-9 November</b>	GS 13th Annual CEEMEA 1x1 Conference, online
<b>10-11 November</b>	10th Global Natural Resources Conference, online