



MMK GROUP IFRS FINANCIAL RESULTS

FOR Q3 AND
9M 2020

22 OCTOBER 2020

Magnitogorsk, Russia

Public Joint Stock Company Magnitogorsk Iron & Steel Works ("MMK", or the "Group") (MICEX-RTS: MAGN; LSE: MMK), one of the world's largest steel producers, is pleased to announce its financial results for Q3 and 9M 2020.



MMK GROUP FINANCIAL RESULTS

Q3 2020

USD mln	Q3 2020	Q2 2020	%	9M 2020	9M 2019	%
Revenue	1,565	1,268	23.4%	4,543	5,844	-22.3%
EBITDA	350	226	54.9%	1,018	1,462	-30.4%
EBITDA margin, %	22.4%	17.8%	4.6 p.p.	22.4%	25.0%	-2.6 p.p.
Profit for the period	102	58	75.9%	291	768	-62.1%
Free cash flow ¹	335	-18	-	432	617	-30.0%
Net debt	-34	237	-	-34	-70	-
Net debt/EBITDA	-0.03	0.16	-19.0 p.p.	-0.03	-0.04	0.01 p.p.
Net working capital	672	952	-29.4%	672	1,165	-42.3%
L3M Net working capital/revenue	10.7%	18.8%	-8.1 p.p.	10.7%	14.5%	-3.8 p.p.

¹ – Free cash flow is calculated as net cash from operating activities plus interest received and proceeds from disposal of PPE and intangible assets, net of purchase of PPE and intangible assets (CAPEX).

KEY FINANCIAL INDICATORS

FOR Q3 2020 VS Q2 2020

- MMK Group's revenue increased by 23.4% quarter-on-quarter (q-o-q) to USD 1,565 mln, which reflects a growth in sales volumes thanks to a recovery in business activity and a rise in steel prices due to positive market trends in Russia and globally.
- EBITDA for Q3 2020 amounted to USD 350 mln, up 54.9% q-o-q, reflecting the improving market environment in Q3 and a significant growth in the share of higher-margin domestic sales. EBITDA margin increased by 4.6 p.p. to 22.4%.
- Despite a rouble devaluation in Q3, net profit was up by 75.9% q-o-q to USD 102 mln.
- Free cash flow (FCF) significantly increased, totalling USD 335 mln in Q3. FCF growth was driven by higher sales and margins, and the management team's effective efforts to reduce working capital amid a favourable domestic market environment.



KEY FINANCIAL INDICATORS

**FOR 9M 2020
VS 9M 2019**

- MMK Group's revenue declined by 22.3% year-on-year (y-o-y) to USD 4,543 mln due to the challenging market situation and the reconstruction of Hot-Rolling Mill 2500.
- EBITDA decreased by 30.4% y-o-y to USD 1,018 mln following the overall slowdown in business activity and correction in global steel prices driven by the spread of the pandemic. EBITDA margin was down by 2.6 p.p. to 22.4%.
- Net profit declined by 62.1% y-o-y to USD 291 mln, mainly due to worsening market conditions and the growing foreign exchange losses driven by rouble devaluation.
- FCF amounted to USD 432 mln, down 30.0% y-o-y, due to the worsening market environment.

COMMENT BY MMK'S CEO

CEO
PAVEL SHILYAEV



Dear shareholders and colleagues,

The gradual global economic recovery trend that emerged in mid-Q2 continued into Q3 amid vigorous efforts by national authorities around the globe. In Russia, for instance, the government quickly provided assistance to the sectors of economy most affected by the pandemic, as well as introduced measures to support real disposable household income to give the necessary impetus for further economic recovery despite the still looming threat of the COVID-19 pandemic.

In this respect, I would like to stress that MMK maintains a strong focus on taking all necessary measures to protect the health of the Group's workers and employees and ensuring the continuity of all business processes.

I would also highlight the positive impact on the Russian steel market of the pent-up demand that built during Q2. Apparent steel consumption trended higher in Q3, driven by the built-up backlog of demand for metal products, coupled with a strong demand for steel from the construction and automotive industry during the quarter. However, trends in demand for steel products still vary across other metal-consuming sectors. As a result, we managed to grow our sales in the domestic market (Russia and CIS) to 84% while maintaining a high share of HVA products in sales (49%), which is in line with our strategic priorities.

In Q3, we launched Hot-Rolling Mill 2500 and blast furnace No. 2 after scheduled reconstruction and continued the construction of the new coke-oven battery. Overall, we expect that our CAPEX for the full year will total about USD 700 mln. This correction vs previously stated targets is primarily caused by the new coke-oven battery and other projects construction period postponing and by the rouble depreciation, as most of our CAPEX is rouble-denominated.

Financial stability remains a key focus for the Company. MMK's debt leverage remains among the industry's lowest at 0.03x Net Debt/EBITDA as of the end of Q3, and the Group's high level of available liquidity (USD 2.4 bn) provides it with a strong cushion to successfully meet its strategic commitments.



MMK consistently generates a sufficient cash flow and reiterates its commitment to its dividend policy. Dividend payout is a key element of our operations, aimed at creating more value for all shareholders in the Company. Considering the Q3 2020 results, coupled with our confidence in our outlook amid the further economic recovery in Russia and globally, the Board of Directors can recommend that MMK shareholders approve a dividend of RUB 2.391 per ordinary share (100% of FCF for Q3) for Q3 2020.





MMK GROUP'S PERFORMANCE ACROSS CORE SEGMENTS

STEEL SEGMENT RUSSIA

USD mln	Q3 2020	Q2 2020	%	9M 2020	9M 2019	%
Revenue	1,456	1,180	23.4%	4,238	5,566	-23.9%
EBITDA	336	236	42.4%	993	1,417	-29.9%
EBITDA margin, %	23.1%	20.0%	3.1 p.p.	23.4%	25.4%	-2.0 p.p.
Cash cost of slab, USD/t	263	255	3.1%	262	312	-16.0%

+23.4% q-o-q

REVENUE

The Russian steel segment's revenue for Q3 2020 totalled USD 1,456 mln, up 23.4% q-o-q due to higher sales and steel prices amid a recovery in business activity. The y-o-y decline in revenue by 23.9% to USD 4,238 mln was driven by a significant slowdown in business activity and the correction in global steel prices as a result of the pandemic's spread in Russia and globally.

+42.4% q-o-q

EBITDA

The segment's **EBITDA** for Q3 2020 amounted to USD 336 mln, up 42.4% q-o-q, due to a better macroeconomic situation and a significant growth in the share of higher-margin domestic sales by 39%. EBITDA declined by 29.9% y-o-y to USD 993 mln as a result of the slowdown in economic activity and the correction in global steel prices.

The Group's Q3 2020 profitability saw a positive boost to the sum of USD 16 mln for the quarter from the operational efficiency and cost optimisation programmes within the Evolution Business System.

+3.1% q-o-q

SLAB CASH COST

The slab cash cost in Q3 2020 amounted to USD 263 per tonne, up 3.1% q-o-q, driven mainly by growing iron ore and scrap prices, and the higher share of scrap in steelmaking charge. The slab cash cost declined 16.0% y-o-y to USD 262 per tonne, reflecting the impact of the rouble devaluation, decline in prices for raw materials and improved structure of the blast furnace and steelmaking charge.



STEEL SEGMENT TURKEY

USD mln	Q3 2020	Q2 2020	%	9M 2020	9M 2019	%
Revenue	137	103	33.0%	353	410	-13.9%
EBITDA	11	-1	-	13	-13	-
EBITDA margin, %	8.0%	-1.0%	9.0 p.p.	3.7%	-2.9%	3.9 p.p.

+33.0% q-o-q

REVENUE

The Turkish steel segment's revenue for Q3 2020 increased by 33.0% q-o-q to USD 137 mln, reflecting the removal of lockdown restrictions and a recovery in business activity in the Republic of Turkey. Revenue declined by 13.9% y-o-y to USD 353 mln, due to the unfavourable market environment and the EU import quotas imposed on rolled products from Turkey.

The favourable environment in the market and the growing share of higher margin sales of polymer-coated steel drove an increase in the segment's EBITDA to USD 11 mln in Q3 2020. Year-on-year, the Turkish steel segment's EBITDA grew to USD 13 mln as the strategy to boost sales margins was successfully implemented and prices for purchased hot-rolled metal declined faster than prices for the segment's products amid the correction in global steel prices.

COAL MINING SEGMENT

USD mln	Q3 2020	Q2 2020	%	9M 2020	9M 2019	%
Revenue	36	43	-16.3%	133	187	-28.9%
EBITDA	0	-10	-	6	58	-89.7%
EBITDA margin, %	0.0%	-23.3%	23.3 p.p.	4.5%	34.4%	-29.9 p.p.

-16.3% q-o-q

REVENUE

The coal mining segment's revenue for Q3 2020 amounted to USD 36 mln, a decrease of 16.3% q-o-q, due to the continued correction in coal concentrate prices and rouble devaluation. Revenue for 9M 2020 decreased by 28.9% y-o-y to USD 133 mln following a significant correction in coal concentrate prices.

Due to the challenging environment in the coking coal market, the segment's EBITDA in Q3 2020 was USD 0 mln. EBITDA for 9M 2020 decreased by 89.7% y-o-y to USD 6 mln, due to a significant correction in coal concentrate prices and the accrual of provisions.



CASH FLOW AND FINANCIAL POSITION OF MMK GROUP

CAPEX AND CASH FLOW

- In Q3 2020, CAPEX decreased by 9.7% q-o-q to USD 159 mln, following the project implementation schedule. Over 9M 2020, CAPEX decreased by 22.9% y-o-y to USD 465 mln, fully in line with the Group's investment programme schedule under the Group's strategy.
- Working capital was positively impacted by the recovery in economic activity in Q3 2020 and the Group management team's effective efforts to increase sales margins and win a greater share of the domestic market. As a result, the inflow from working capital in Q3 was USD 190 mln, with an improved net working capital to revenue ratio of 10.7% in Q3 2020, an 8.1 p.p. decrease q-o-q.
- The improving market environment, coupled with working capital reduction and lower CAPEX in Q3 2020, resulted in a significant growth in free cash flow for Q3 2020 to USD 335 mln. FCF for 9M 2020 decreased by 30.0% y-o-y to USD 432 mln, reflecting the pandemic's impact in Q2 2020 and negative market trends.

DEBT BURDEN

- The Group's total debt for Q3 2020 was USD 946 mln, up from USD 894 mln in Q2 2020 (USD 866 mln for 9M 2019).
- As of the end of Q3 2020, the Group had USD 980 mln in cash and deposits in its accounts.
- The Group's net debt as of the end of Q3 2020 totalled minus USD 34 mln, while its net debt/EBITDA ratio was -0.03x – one of the lowest among the leading global steelmakers.



DIVIDENDS OF MMK GROUP

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- The Group remains committed to its dividend policy. Considering our high margins, paired with our confidence in further business recovery in Russia and globally, the Board of Directors is convinced that the Group sits in a stable position and recommends shareholders to approve the payment of a dividend of RUB 2.391 per share (100% of FCF for the quarter) for Q3 2020.
 - The Board of Directors has proposed to set the Q3 2020 dividend record date for the close of business on 14 January 2021.

OUTLOOK

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- The pent-up demand from the construction industry along with government economic stimulus packages are expected to bolster sales in Q4 2020.
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- Higher utilisation of Hot-Rolling Mill 2500's capacity in Q4 2020 will additionally support MMK Group sales.
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- The Group will continue its strategy to maximise utilisation of high-margin production units.
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- Amid the stabilisation of hot-rolled coil prices in the Black Sea region, domestic prices in Q4 are expected to remain flat from the previous quarter.
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- CAPEX for Q4 2020 is expected to grow q-o-q, in line with the implementation schedule for projects pursued under the Group's strategy.
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- Operational excellence initiatives under the Evolution Business System will boost Group performance in Q4 2020.



CONFERENCE CALL

MMK Management will hold a conference call to discuss its financial results

- **Date:**
22 October 2020

- **Time:**
4:30 pm Moscow time
2:30 pm London time
9:30 am New York time

	Russia	UK	USA
Local access	+7 495 646 9190	+44 330 336 9411	+1 323 794 2590
Toll free	8 10 800 2867 5011	0800 279 7204	888 394 8218

- **Conference ID:**
in Russian – 7139677
in English – 9608380

- **Webcast:**
To register for the webcast please use the following [link](#).

The call recording will be available for seven days on the following numbers:

Call recording ID:
in Russian – 7139677
in English – 9608380

	Russia	UK	USA
Local access	8 10 800 2702 1012	+44 207 660 0134	+1 719 457 0820

A presentation of the financial results and the IFRS financial statements can be found at: http://eng.mmk.ru/for_investor/financial_statements/



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 margins. Group revenue in 2019 totalled USD 7,566 mln, with an EBITDA of USD 1,797 mln. MMK boasts the industry's lowest debt burden. 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 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 2020

FINANCIAL CALENDAR

26-27 October	Non-deal roadshow (NDR), online
29 October– 3 November	Moscow Exchange Forum, online
9–11 November	Investor conference, Goldman Sachs, online
9–13 November	Investor Conference, Renaissance Capital, online
23–24 November	Non-deal roadshow (NDR), online