



# MMK GROUP IFRS FINANCIAL RESULTS

FOR Q2 AND H1 2020

**29 JULY 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, is pleased to announce its financial results for Q2 and H1 2020.



## MMK GROUP FINANCIAL RESULTS

### Q2 2020

USD MLN	Q2 2020	Q1 2020	%	H1 2020	H1 2019	%
Revenue	<b>1,268</b>	1,710	-25.8%	<b>2,978</b>	3,835	-22.3%
EBITDA	<b>226</b>	442	-48.9%	<b>668</b>	937	-28.7%
EBITDA margin, %	<b>17.8%</b>	25.8%	-8.0 p.p.	<b>22.4%</b>	24.4%	-2.0 p.p.
Profit for the period	<b>58</b>	131	-55.7%	<b>189</b>	497	-62.0%
Free cash flow	<b>-18</b>	115	-	<b>97</b>	325	-70.2%
Net debt	<b>237</b>	30	-	<b>237</b>	-27	-
Net debt/EBITDA	<b>0.16</b>	0.02	14.0 p.p.	<b>0.16</b>	-0.01	17.0 p.p.
Net working capital	<b>952</b>	882	7.9%	<b>952</b>	1,231	-22.7%
L3M Net working capital/revenue	<b>18.8%</b>	12.9%	5.9 p.p.	<b>18.8%</b>	15.4%	-3.4 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 Q2 2020 IN COMPARISON TO Q1 2020

- MMK Group's revenue decreased by 25.8% quarter-on-quarter (q-o-q) to USD 1,268 mln, which reflects a decline in sales volumes amid the scheduled reconstruction of Hot-Rolling Mill 2500, and the correction in steel prices due to negative market trends in Russia and globally.
- EBITDA fell 48.9% q-o-q to USD 226 mln, reflecting the difficult market environment in Q2 and the impact of one-off factors. EBITDA margin decreased by 8.0 p.p. to 17.8%.
- Net profit for Q2 2020 amounted to USD 58 mln, down 55.7% q-o-q.
- Free cash flow (FCF) totalled negative USD 18 mln. The FCF change was mainly driven by lower margins and the working capital build up due to higher export sales amid a deteriorating domestic market environment.

#### KEY FINANCIAL INDICATORS

### FOR H1 2020 IN COMPARISON TO H1 2019

- MMK Group's revenue declined by 22.3% year-on-year (y-o-y) to USD 2,978 mln, due to the slowdown in business activity amid the correction in global steel prices.
- EBITDA decreased by 28.7% y-o-y to USD 668 mln following negative market trends driven by the spread of the pandemic. EBITDA margin was down by 2.0 p.p. to 22.4%.



- Net profit declined by 62.0% y-o-y to USD 189 mln, mainly due to worsening market conditions and increase in foreign exchange loss due to the rouble devaluation.
- FCF amounted to USD 97 mln, down 70.2% y-o-y, due to the worsening market environment.

### COMMENT BY MMK'S CEO

CEO  
PAVEL SHILYAEV



*Dear shareholders and colleagues,*

*Over the last three months, PJSC MMK has been faced with an unrelenting pandemic. Nonetheless, the Group has consistently taken all the necessary measures to protect the health of its people. For more details on MMK's efforts to combat the pandemic see the special STOP COVID section of our corporate website at [http://mmk.ru/press\\_center/covid/](http://mmk.ru/press_center/covid/).*

In my brief overview of our quarterly performance, I would like to highlight that May and June have probably been the most challenging months over the last decade, both for the Russian and the wider global economy. However, we have taken advantage of our flexible business model to rapidly redirect about 40% of our sales, including high value-added (HVA) and hot-rolled products (a total of 26% for Q2), to MMK's traditional export markets, such as Southeast Asia, the Middle East and North Africa. In May, we shipped our first HVA products to Europe, confirming the highly competitive quality of MMK's rolled products.

Since mid-May, we have witnessed a gradual recovery in demand from the automotive and pipe industries, as well as an upsurge in the activity of metal traders. At the same time, we see a phased but steady recovery in demand and prices for steel in the Russian market, leading to a decline in MMK's exports, as more profitable domestic sales grow, which is in line with our corporate strategy.

Financial stability remains a top priority for the Group. MMK's debt leverage remains among the industry's lowest at 0.16x Net Debt/EBITDA as of the end of Q2, and the Group's high level of available liquidity (USD 2 bn) provides it with a strong cushion.

The economic recovery trend that emerged in late Q2 has beaten expectations. We have adjusted the construction schedule for the new coke-oven battery and will partially construct the foundation and pile field during the summer and autumn of 2020. As a result, our CAPEX target for 2020 will be around USD 800 mln.

*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 Group. Considering the H1 2020 results, coupled with our confidence in the MMK's financial position amid the gradual economic recovery in Russia, the Board of Directors can recommend that MMK shareholders approve a dividend of RUB 0.607 per ordinary share (100% of FCF for the six months) for H1 2020.*





## MMK GROUP'S PERFORMANCE ACROSS CORE SEGMENTS

### STEEL SEGMENT RUSSIA

USD MLN	Q2 2020	Q1 2020	%	H1 2020	H1 2019	%
Revenue	1,180	1,602	-26.3%	2,782	3,649	-23.8%
EBITDA	236	421	-43.9%	657	898	-26.8%
EBITDA margin, %	20.0%	26.3%	-6.3 p.p.	23.6%	24.6%	-1.0 p.p.
Cash cost of slab, USD/t	255	267	-4.5%	261	312	-16.3%

**-26.3%** q-o-q

REVENUE

The Russian steel segment's revenue for Q2 2020 amounted to USD 1,180 mln, down 26.3% q-o-q, resulting from a decrease in sales volumes amid the scheduled reconstruction of Hot-Rolling Mill 2500 and the decline in steel prices on the back of negative market trends. Revenue fell 23.8% y-o-y to USD 2,782 mln, due to the slowdown in business activity following the correction in global steel prices.

**-43.9%** q-o-q

EBITDA

The segment's EBITDA for Q2 2020 amounted to USD 236 mln, down 43.9% q-o-q, due to a worsening macroeconomic situation and switching to the lower margin export sales. EBITDA declined by 26.8% y-o-y to USD 657 mln as a result of the slowdown in economic activity and the correction in global steel prices.

The Group's Q2 2020 profitability saw a positive boost to the sum of USD 20 mln for the quarter from the operational efficiency and cost optimisation programmes within the Evolution Business System.

**-4.5%** q-o-q

THE SLAB CASH-COST

The slab cash-cost in Q2 2020 amounted to USD 255 per tonne, down 4.5% q-o-q, driven by the rouble devaluation and the correction in coal concentrate prices, coupled with the improved structure of the blast furnace and steelmaking charge. The slab cash-cost declined 16.3% y-o-y to USD 261 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	Q2 2020	Q1 2020	%	H1 2020	H1 2019	%
Revenue	103	113	-8.8%	216	274	-21.2%
EBITDA	-1	3	-	2	-8	-
EBITDA margin, %	-1.0%	2.7%	-3.7 p.p.	0.9%	-2.9%	+3.8 p.p.

**-8.8%** q-o-q

REVENUE

**The Turkish steel segment's revenue** for Q2 2020 decreased by 8.8% q-o-q to USD 103 mln, reflecting the slowdown in business activity in Turkey on the back of the pandemic. Revenue declined by 21.2% y-o-y to USD 216 mln, due to the unfavourable market environment and the EU import quotas imposed on rolled products from Turkey.

**The segment's EBITDA** declined to negative USD 1 mln in Q2 2020 due to the unfavourable market situation. Year-on-year, the Turkish steel segment's EBITDA grew by USD 10 mln up to USD 2 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	Q2 2020	Q1 2020	%	H1 2020	H1 2019	%
Revenue	43	54	-20.4%	97	128	-24.2%
EBITDA	-10	16	-	6	44	-86.4%
EBITDA margin, %	-23.3%	29.6%	-52.9 p.p.	6.2%	34.4%	-28.2 p.p.

**-20.4%** q-o-q

REVENUE

**The coal mining segment's revenue** for Q2 2020 amounted to USD 43 mln, a decrease of 20.4% q-o-q, due to lower demand for coking coal concentrate at MMK and the continued correction in coal concentrate prices. Revenue for H1 2020 decreased by 24.2% y-o-y to USD 97 mln following a significant correction in coal concentrate prices.

The challenging environment in the coking coal market and one-off factors such as the accrual of provisions drove a decline in the segment's **EBITDA** to negative USD 10 mln. EBITDA for H1 2020 decreased by 86.4% 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

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- In Q2 2020, CAPEX grew by 35.4% q-o-q to USD 176 mln due the active phase of the reconstruction of Hot-Rolling Mill 2500 and the overhaul of blast furnace No. 2. Over H1 2020, CAPEX decreased by 25.7% to USD 306 mln, fully in line with the Group's investment programme schedule under the Group's strategy.
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- The deterioration in market conditions in Q2 2020 led to an increase in exports with longer delivery lead time. As a result, the working capital build up in Q2 was USD 33 mln, with the net working capital to revenue ratio up to 18.8% in Q2 2020 on the back of a substantial decline in revenue.
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- Higher CAPEX and a worsening macroeconomic situation in Q2 2020 resulted in a decline in free cash flow for Q2 2020 to negative USD 18 mln. Free cash flow for H1 2020 decreased by 70.2% y-o-y to USD 97 mln due to market headwinds.

### DEBT

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- The Group's total debt for Q2 2020 was USD 894 mln, down from USD 899 mln in Q1 2020. The debt grew insignificantly y-o-y from USD 880 mln in H1 2019.
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- As of the end of Q2 2020, the Group had USD 657 mln in cash and deposits in its accounts.
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- The Group's net debt as of the end of Q2 2020 totalled USD 237 mln, while its net debt/EBITDA ratio was 0.16x, which is among the lowest in the global steelmaking industry.



## DIVIDENDS

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- Considering the fact that the targets set by the Chairman of the Board of Directors have been achieved over H1 2020, coupled with our confidence in gradual business recovery in Russia and globally, the Board of Directors is convinced that the Group sits in a stable position and can recommend the shareholders to approve the payment of a dividend of RUB 0.607 per share (100% of FCF for the six months) for H1 2020.
  - The Board of Directors has proposed to set the H1 2020 dividend record date for the close of business on 23 September 2020.

## OUTLOOK

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- The recovery of domestic demand that emerged in late Q2 will continue into Q3 2020.
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- The launch of Hot-Rolling Mill 2500 in mid-July following its reconstruction, started in Q1, will increase the Group's hot-rolled production capacity and boost Q3 sales volumes.
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- Group performance will be further supported by the high capacity utilisation of high-margin production units.
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- The recovery of hot-rolled coil prices in the Black Sea region in late Q2 will have a positive impact on domestic prices for metal products.
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- Our CAPEX for Q3 2020 will be slightly higher q-o-q due to the postponement of the launch of Hot-Rolling Mill 2500 and the ongoing construction of the foundations for a new coke oven battery. All projects are implemented as part of the Group's strategy and are aimed at improving both operational and environmental performance.
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- Operational excellence initiatives under the Evolution Business System will boost Group performance in Q3 2020.



## CONFERENCE CALL

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

- **Date:**  
29 July 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 2588
Toll free	8 10 800 2867 5011	0800 279 7204	888 220 8451

- **Conference ID:**  
9109134

- **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: 9109134

	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/](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 affirmed 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

**13 October** Q3 and 9M 2020 Trading Update

**22 October** Q3 and 9M 2020 IFRS financials