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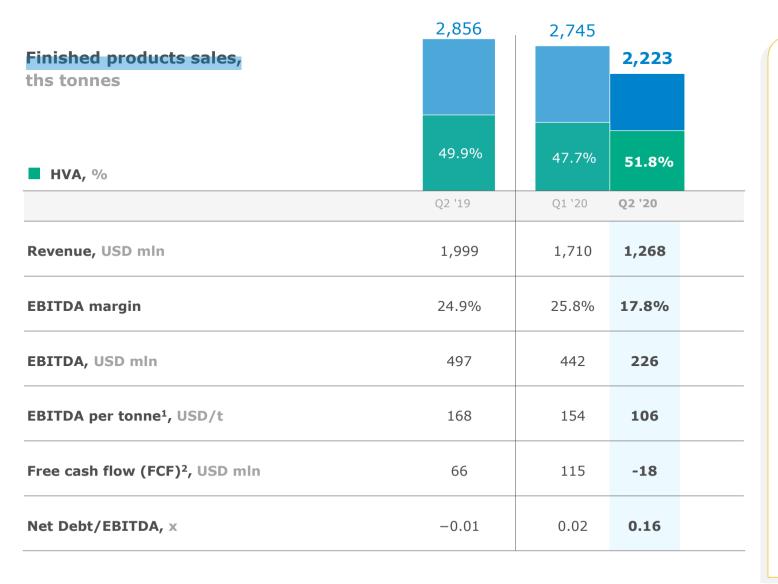
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Q2 2020

## **KEY HIGHLIGHTS**

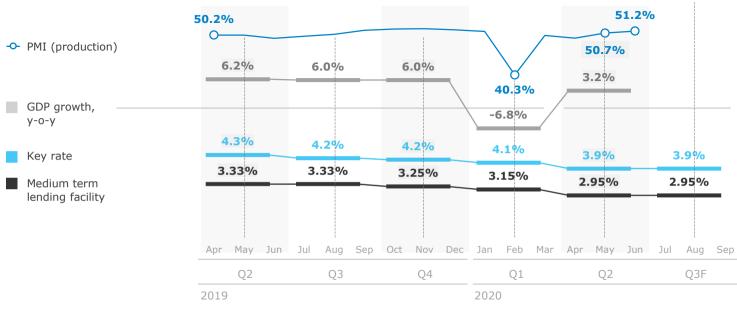






Q2 2020

## MACROECONOMIC ENVIRONMENT IN CHINA



The lifting of lockdown measures in March 2020 provided the main impetus to a recovery in Chinese economic activity in Q2

The implementation of infrastructure projects funded by the proceeds from special bond placements has become a key lever for economic recovery

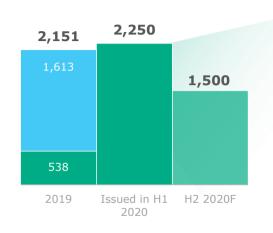
To support the national economy, a decision was taken in Q2 to channel all proceeds (RMB 3.8 bn) from the special bonds issues towards infrastructure projects (as compared to the previously approved RMB 1.8 bn)

## Special bonds issuance dynamics

RMB bn

Deployed on infrastructure

Other



**RMB 3.8 bn** planned to be invested in infrastructure projects in 2020

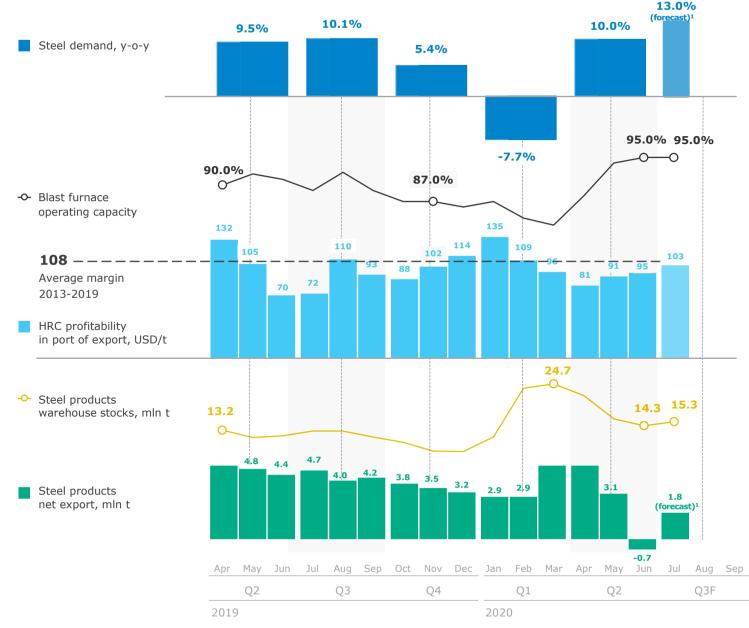
#### **Projects sanctioned in H1 2020:**

- 13 airports
- 19 railways and urban rail projects
- Another 12 railway projects are pending approval in Q3 2020

Steel consumption by the approved projects will total **23.8 mln tonnes** in 2020–2025

Q2 2020

## STEEL MARKET IN CHINA



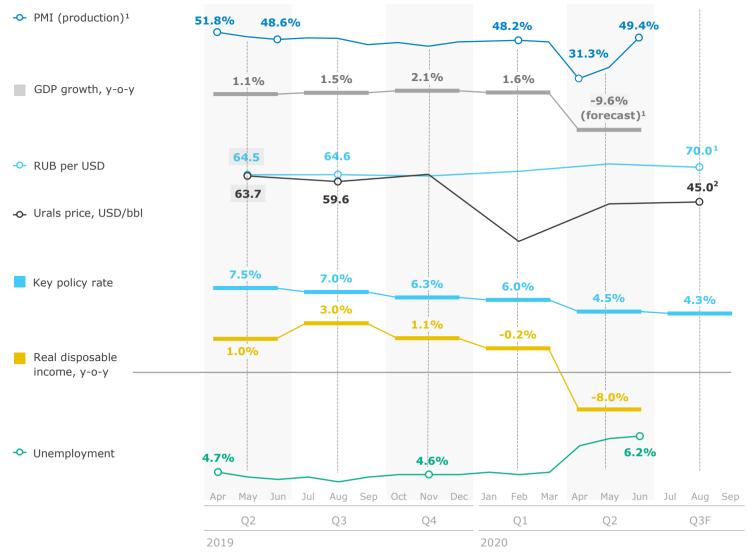
Pent-up demand for steel, coupled with government stimulus-led recovery, resulted in significantly higher apparent steel consumption in China...

...and major increases in blast furnace utilization rates amidst the rapidly dwindling steel product inventories

Net exports of Chinese steel products in Q2 were down to historical lows due to increased domestic demand coupled with higher domestic prices, which proved more attractive than export prices

Q2 2020

## MACROECONOMIC ENVIRONMENT IN RUSSIA



The effects of the pandemic on the Russian economy were most felt in April and May, when restrictions were imposed on both businesses and movement of people

Despite the lifting of lockdown restrictions for most businesses in mid-May, a significant fall in real disposable income was recorded for Q2, along with a higher unemployment rate

The measures taken by the government to soften monetary policy and bolster effective demand led the PMI to rebound to a precrisis level as early as June

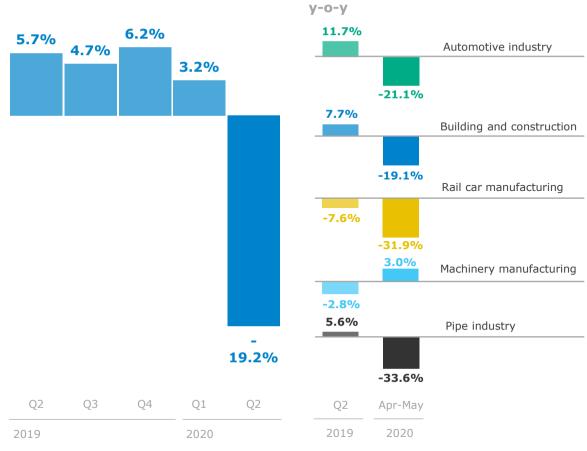
Q2 2020

## STEEL MARKET IN RUSSIA

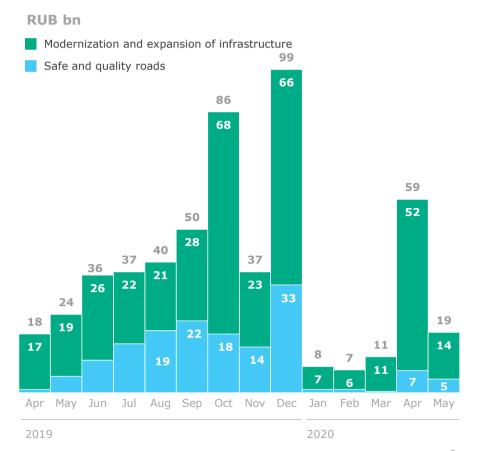
#### **Demand for metal products**

decreased by 19.2% in O2 amid restrictions on business activity in Russia due to pandemic outbreak Almost all metal-consuming industries showed significant declines in steel consumption in April and May

y-o-y



At the same time, a significant increase in federal budget spending on national projects in April, in particular on infrastructure modernisation projects, helped prop up demand for steel products in O2.



Q2 2020

## **PRICE DYNAMICS**

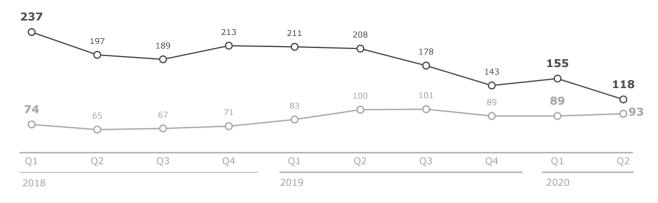
#### Metal products and key raw materials price dynamics

USD/t









#### **Hot-rolled steel**

Recovery in China's domestic demand in Q2 amid growing support from the government has had a positive impact on Chinese metal product prices, which have been showing steady gains since mid-Q2. As a result, hot-rolled product prices in the Black Sea region picked up towards the end of Q2.

#### **Coking coal**

Global prices for coking coal showed significant declines in Q2, driven by plummeting steel capacity utilization rates across the globe and impacted by China's annual coal import quotas

#### Iron ore

Iron ore prices were faring rather well in Q2, driven by growth in China's pig iron and steel output. They were further supported by declines in Brazil's iron ore exports due to bad weather and production restrictions imposed at some plants to curb the spread of coronavirus



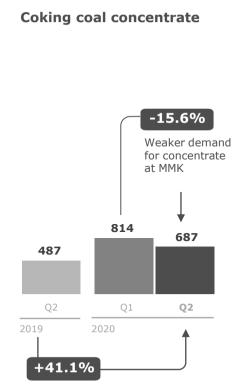
Q2 2020

## **HIGH CAPACITY UTILIZATION** OF HIGH-MARGIN PRODUCTION UNITS

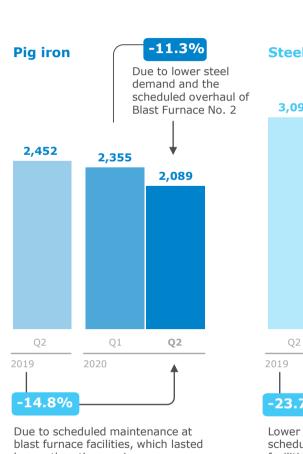
#### **Key production indicators**

→ Quarterly dynamics 2018-2020

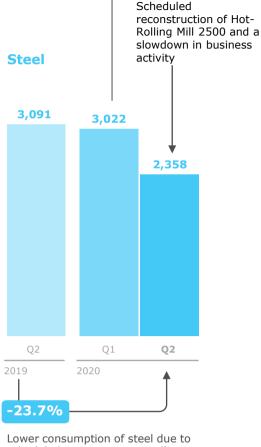
ths tonnes



Following the completion of reconstruction at the beneficiation plant by end-2019



longer than the previous year

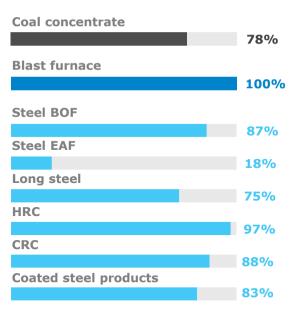


-22.0%

scheduled maintenance at rolling facilities and a slowdown in business activity

#### **Key capacity** utilization rates

02 2020, %



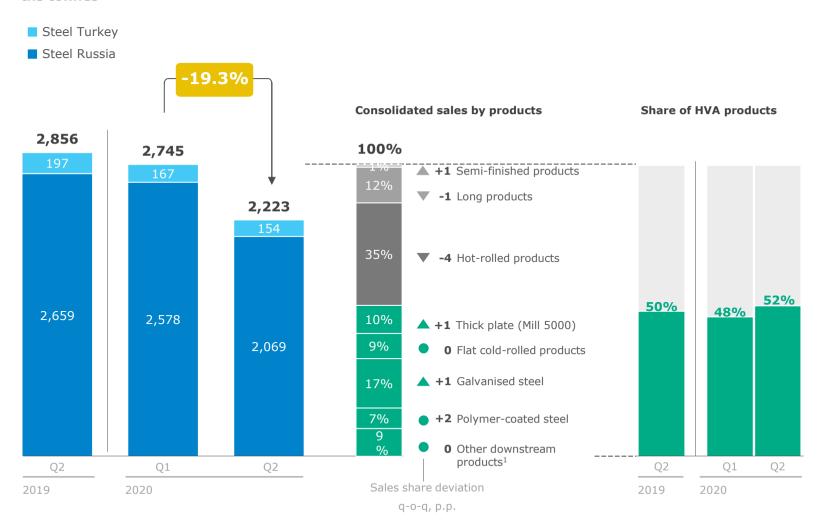
High-margin production facility utilisation rates remain high

Q2 2020

## FINISHED PRODUCT SALES

#### **MMK Group finished product sales dynamics**

#### ths tonnes



Consolidated sales declined by 19.3% q-o-q due to the scheduled reconstruction of Hot-Rolling Mill 2500 and a slowdown in business activity.

The share of HVA product sales grew by 4.1 p.p. q-o-q.

Source: Company data and analysis.

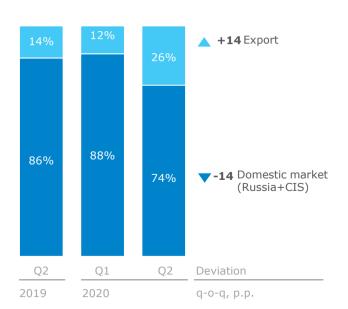
Notes: (1) Including: tin plate, band, formed section, pipes, metalware and other metal products

Q2 2020

# THE DOMESTIC MARKET AND EXPORT SALES BREAKDOWN

## MMK Group's sale share by market

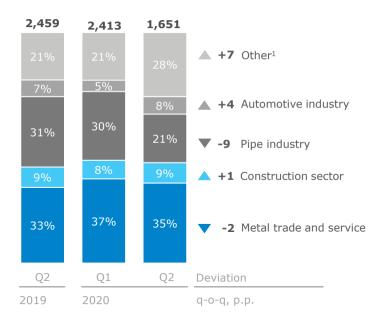
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The decline in domestic sales to 74% in Q2 2020 was caused by a slowdown in business activity in the Russian and CIS market...

## Russia and CIS market sales by sector

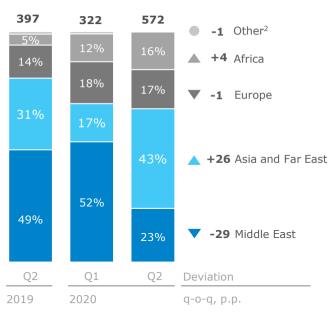
ths tonnes



...which could mainly be seen in the metals trading, pipe and construction industries.

## International market sales by region

ths tonnes



Amid a deteriorating market environment in Q2 2020, there was a growth in export shipments to Asia, Africa and Europe.

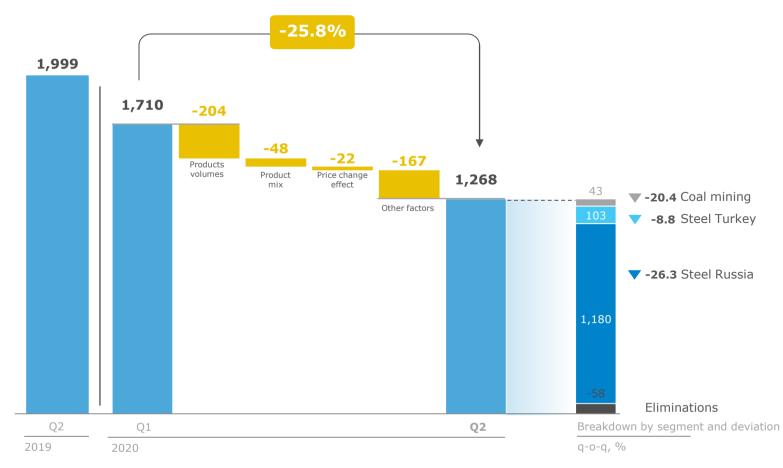


Q2 2020

## **REVENUE**

#### Key revenue drivers

q-o-q, USD mln



The Russian steel segment's revenue dropped by

**-26.3**%

resulting from a decrease in sales volumes amid the scheduled reconstruction of Hot-Rolling Mill 2500 and the decline in global steel prices

The Turkish steel segment's revenue decreased by

-8.8%

reflecting the slowdown in business activity in the Republic of Turkey on the back of the pandemic

The coal mining segment's revenue decreased by

**-20.4**%

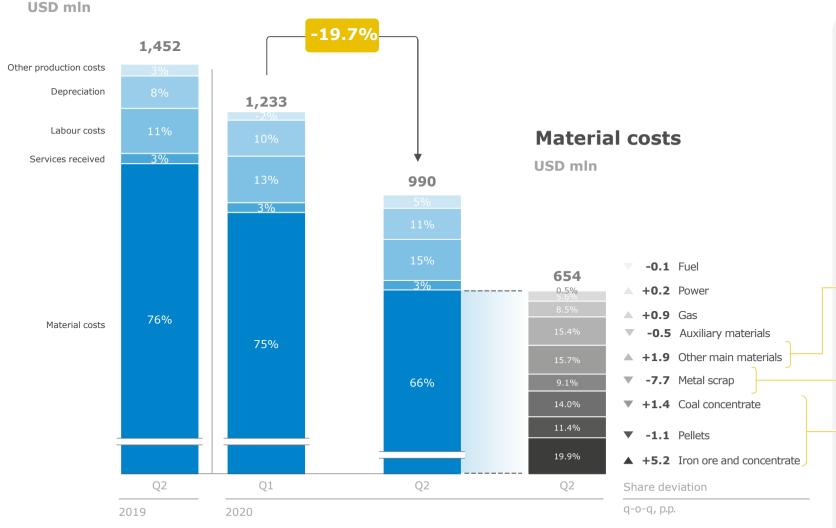
due to lower demand for coking coal concentrate at MMK and the continued correction in coal concentrate prices

→ Historical dynamics 2018 - Q2 2020

Q2 2020

## **COST OF SALES**

#### **MMK Group's cost of sales**



-USD 243 mln

MMK Group's cost of sales decreased due to a decline in sales, the correction in coal concentrate prices, improvements to the cost of sales structure and rouble devaluation

### The share of other materials has increased,

driven by a rise in the share of galvanised and polymer-coated steel in total sales

#### Decrease in the scrap share

amid a lower EAF utilisation rate

#### Increase in the share of blast furnace charge

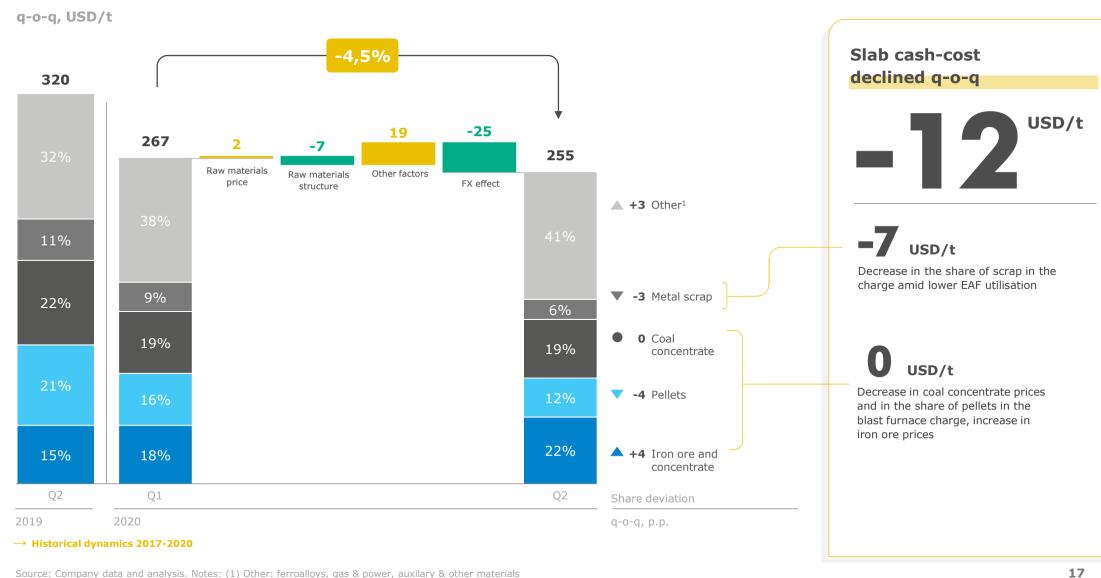
due to a higher share of pig iron in the charge

 $\rightarrow$  Cost allocation

Q2 2020

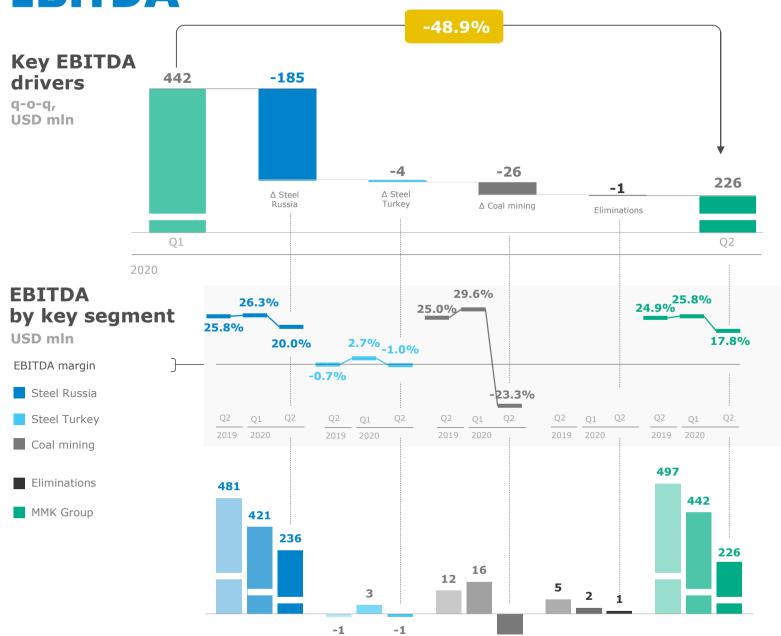
## **SLAB CASH-COST**

#### Slab cash-cost,



Q2 2020





#### **Key changes**

- Sales volumes
- Sales mix
- Finished products prices

#### Steel Russia

- ▼ A decline in sales volumes due to the reconstruction of Hot-Rolling Mill 2500 and a slowdown in business activity
- V Lower share of domestic sales
- Lower prices amid adverse market conditions and an increase in the share of exports

#### **Steel Turkey**

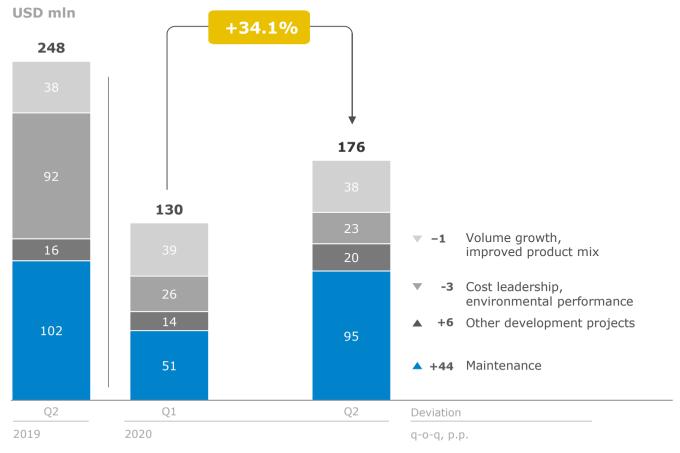
- ▼ Lower sales volumes due to sluggish business activity amid the COVID-19 pandemic
- Galvanised and polymer-coated steel account for 98% of sales
- ▼ Lower prices in the Turkish domestic market

#### **Coal mining**

- Decrease in sales volumes amid lower demand for concentrate at MMK
- Continuing correction in coal concentrate prices in the Russian market
- One-off factor such as the accrual of provision

Q2 2020

## **CAPEX BREAKDOWN**



 $\rightarrow$  Historical dynamics 2011 - Q2 2020

Q-o-q increase in CAPEX

+34.1%

in line with the Group's investment programme schedule under the Group's strategy

#### Q2 2020 highlights

Cost leadership and environmental performance:

- Capital overhaul of Blast Furnace No. 2 and Basic Oxygen Furnace No. 2
- New coke and by-product plant: Coke-Oven Battery No. 12, by-product recovery and processing shop, biochemical plant

Volume growth, improved product mix

 Reconstruction of Hot-Rolling Mill 2500

Q2 2020

## **KEY PROJECTS**

#### Blast furnace #2





Production capacity 3,900 tonnes per day, Dust emission reduction 250 tonnes per year

#### **Expected impact**

The project initiation

#### August 2020<sup>3</sup>

Done in Q2 2020

Overhaul and installation of dust exhausting units at cast and stock houses

#### **Hot rolling Mill 2500 reconstruction**



+0.8 mln t effective addition of HRC1, quality improvement and product portfolio expansion

## +103 USD mln to EBITDA<sup>2</sup>

**July 2020** 

Installed core equipment and an automated process control system; launched preparations for pre-commissioning. The mill was commissioned in July.

Coke and by-product plant (4)







Replacement of 5 batteries, reduced consumption of coal concentrate and natural gas

2021-2022

Site preparation, including the construction of the foundations and pile field

Q2 2020

## DEBT BURDEN AND CREDIT RATINGS

#### Strong financial profile

USD mln

Debt Net Debt

O Net Debt / EBITDA



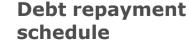
Credit rating at or higher than the sovereign rating Standard & Poor's BBB-Moodv's Fitch Group BBB **Debt structure** 56% 62% 36% Long-term EUR 38% **64%** USD 44% Short-term Non-public

Q2 2020

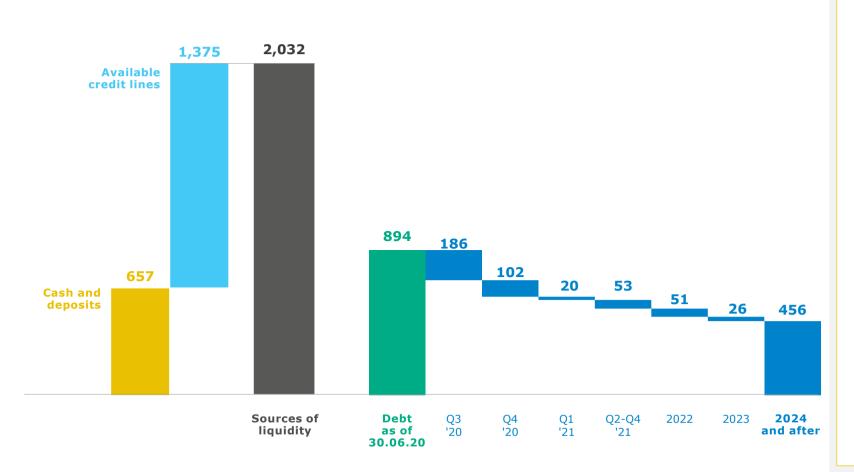
## CREDIT PORTFOLIO AND REPAYMENT SCHEDULE



**USD** mln



USD mln

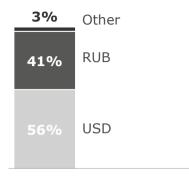


2.81%

average cost of debt

Significant liquidity cushion and a comfortable repayment schedule

### Cash and deposits structure



Q2 2020

## FREE CASH FLOW

#### Free cash flow structure

USD mln **Key factors** Q1 2020 442 **EBITDA** -48.9% Increased export sales with longer delivery lead time Q2 2020 226 EBITDA Change in -33 NWC Paid a semi-annual coupon on -12 **Financial costs** outstanding Eurobonds -37 **Income tax** Implementation of the investment programme in line 14 Other with the project schedule **Operating** 158 cash flow -176 **CAPEX** -18 **FCF** 

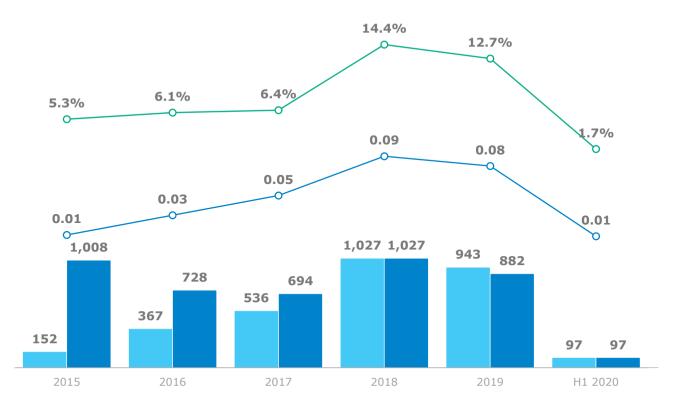
Q2 2020

## **DIVIDENDS**

#### **Dividends payout dynamics**

**USD** mln





Considering the fact that the targets set by the Chairman of the Board of Directors have been achieved over 6M 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 1H 2020.

The Board of Directors has proposed to set the 1H 2020 dividend record date for the close of business on 23 September 2020.

## **OUTLOOK**

#### Q3 2020



#### **Finished products output**

The recovery of domestic demand that emerged in late Q2 will continue into Q3 2020. 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.



#### **Steel products prices**

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.



#### **Capital expenditures**

Expected to 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.

## The Group's performance will be further boosted by:

- Operational excellence initiatives under the Evolution Business System;
- High capacity utilisation of highmargin production units.



**HISTORICAL DYNAMICS** 

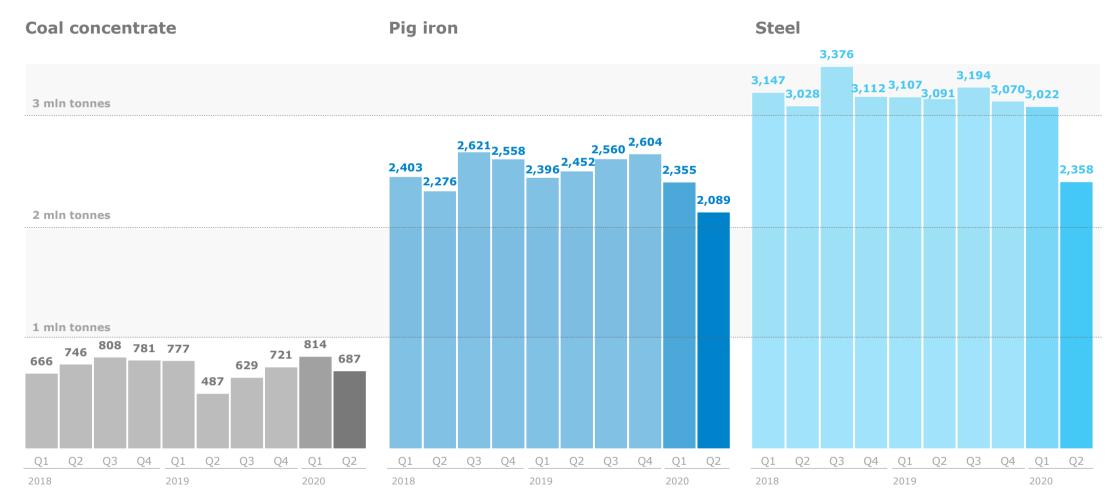
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# KEY PRODUCTION HIGHLIGHTS

#### 2018-2020 quarter dynamics

ths tonnes

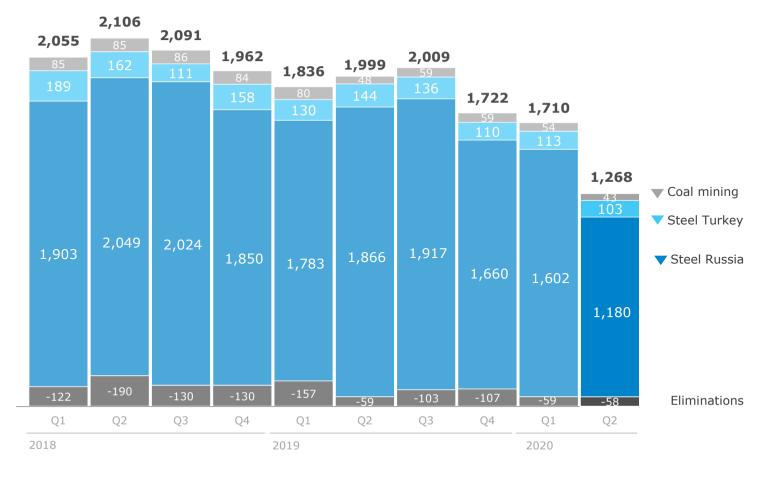


Q2 2020

## **REVENUE**

#### **MMK Group revenue breakdown by segments**

**USD** mln



Source: Company data and analysis

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**HISTORICAL DYNAMICS** 

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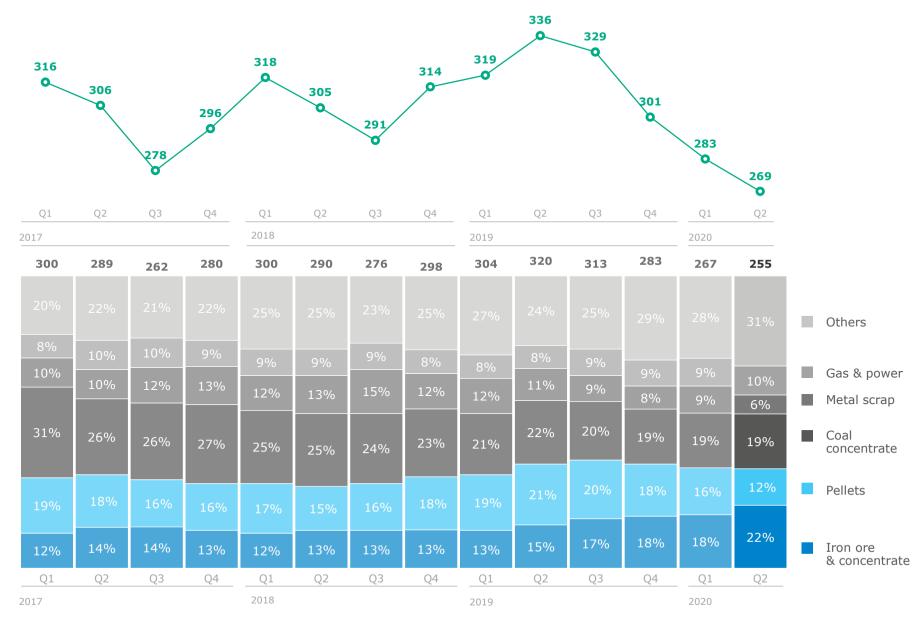
## **SLAB CASH-COST**

## Cash-cost historical dynamics

USD/t

**─** HRC

Slab cash-cost historical dynamics and structure



**HISTORICAL DYNAMICS** 

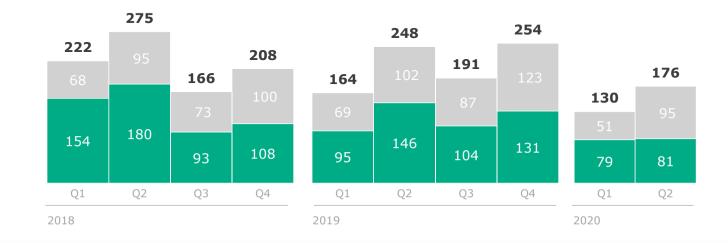
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## **CAPITAL EXPENDITURES**

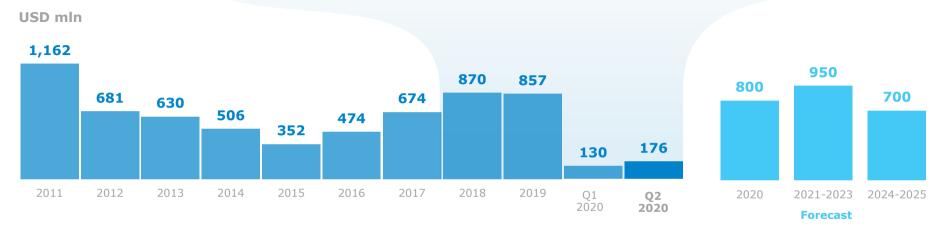
## **Quarterly** dynamics

Maintenance

Development



## Yearly dynamics

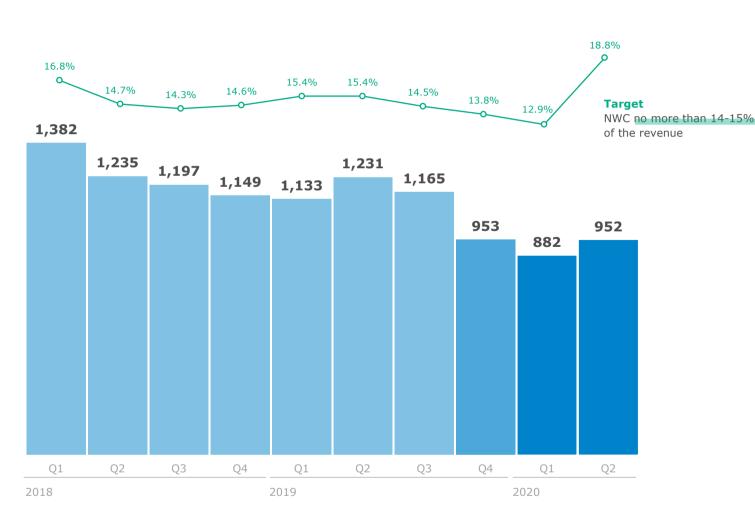


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## **NET WORKING CAPITAL**

#### **Net Working Capital dynamics**

USD mln



The inflow to working capital in Q2 2020 was

USD 33 min

driven primarily by higher export sales on the back of a worsening macroeconomic environment

At the same time, the NWC/revenue ratio increased to 18.8% as of 30 June 2020, mainly due to significantly lower revenue

Q2 2020

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## SENSITIVITY AND KEY INDICATORS BREAKDOWN

