IFRS financial results for Q4 and FY 2019

MAGNITOGORSK IRON & STEEL WORKS

5 FEBRUARY 2020
MOSCOW

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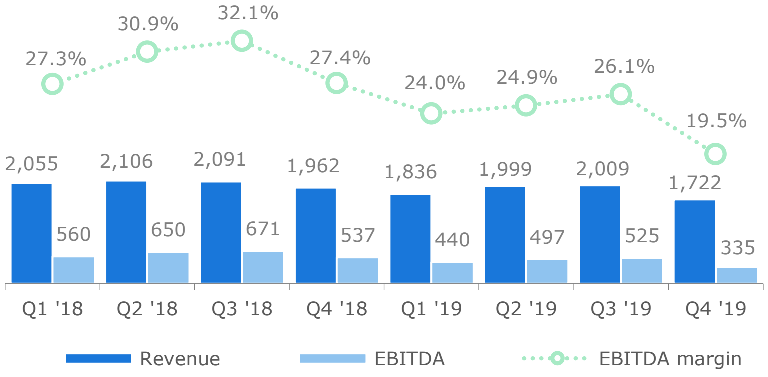
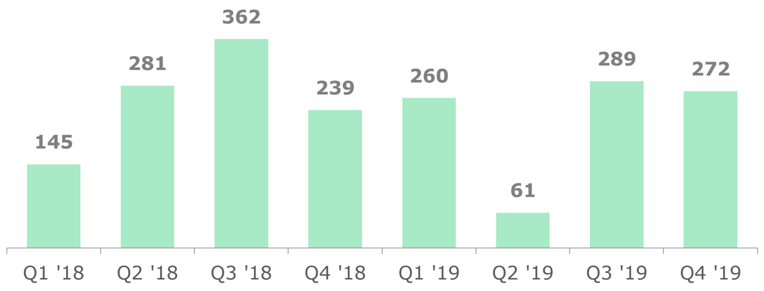
- **MMK Group's revenue declined by 14.3% quarter-on-quarter (q-o-q)** in Q4 2019 amid seasonal weakening of business activity and a decline in prices on the global steel market
- **EBITDA was down 36.2% q-o-q** amid declining revenue
- Despite the significant decline in profit, **free cash flow (FCF)** amounted to USD 272 mln
- Efficient maintenance of working capital allowed the Company to offset the negative effect from adverse market environment in Q4 2019

EBITDA and EBITDA margin dynamics
USD mln



Free Cash Flow dynamics
USD mln



Source: Company data and analysis

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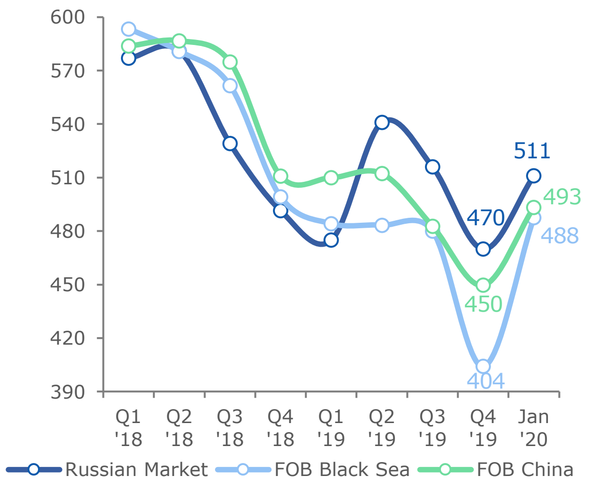
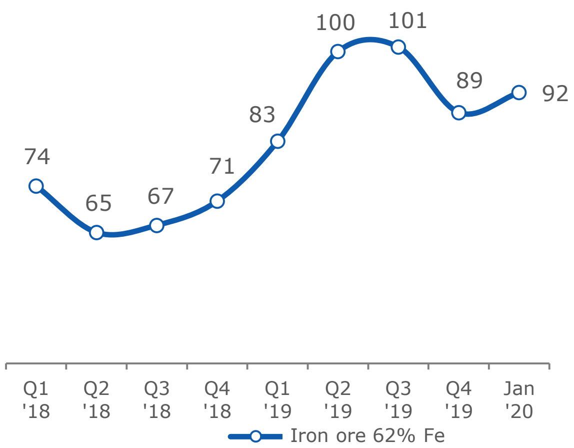
METAL PRODUCTS AND KEY RAW MATERIALS PRICE DYNAMICS IN Q4 2019

Hot-rolled steel prices
USD/tonne



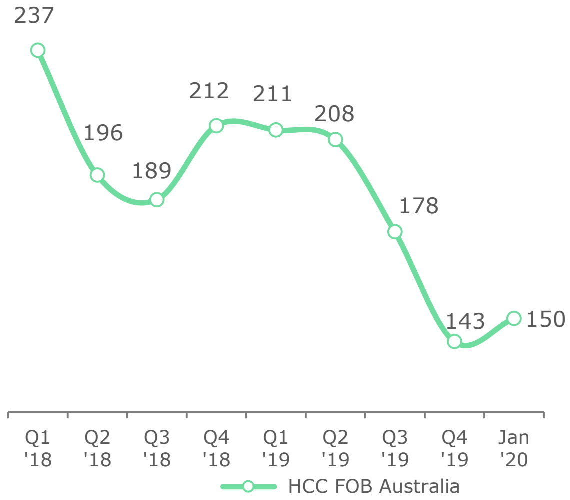
- During Q4 2019, global steel prices saw a significant decline and reached their lowest level in several years

Iron ore prices
USD/tonne



- After the peak of iron ore prices in Q2/Q3 2019, prices adjusted against a backdrop of negative price dynamics for metal products and high rates of export shipments of iron ore from Australia

Coking coal prices
USD/tonne



- The downward trend of coal concentrate prices continues, which is confirmed by the decline in global benchmarks

Source: Company data and analysis, Metal Expert

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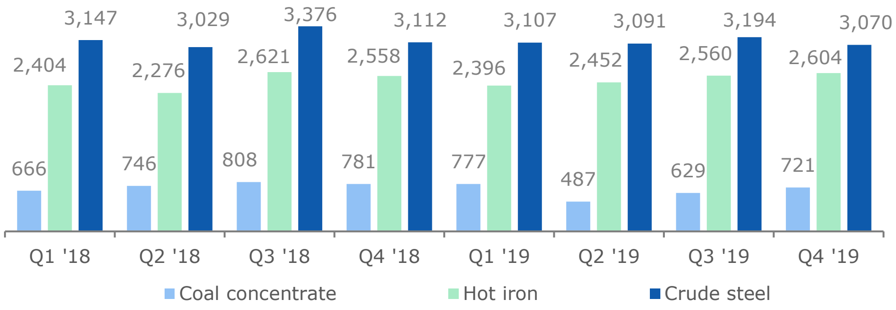
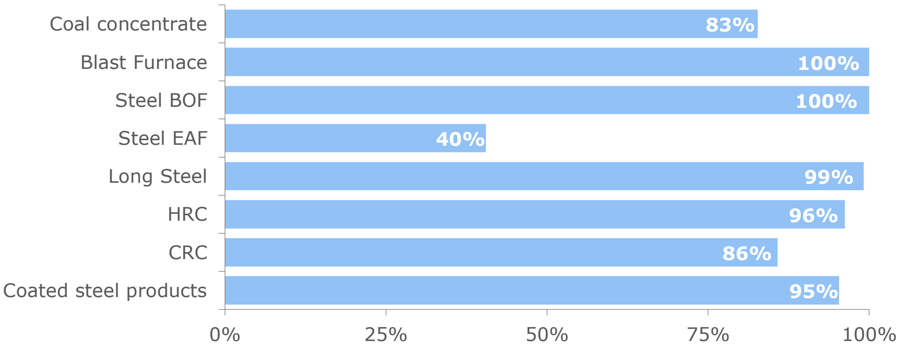
HIGH CAPACITY UTILIZATION OF HIGH-MARGIN PRODUCTION UNITS

- **Pig iron output in Q4 2019 increased by 1.7% q-o-q** due to improved productivity of blast furnaces
- The decrease in steel output in Q4 2019 by 3.9% q-o-q was due to the seasonal decline in demand
- **Pig iron output in FY 2019 increased by 1.6% y-o-y** due to a reduction in the volume of maintenance work at blast furnace facilities compared to last year
- Steel output in FY 2019 was down by 1.6% y-o-y due to decreased demand for steel and reconstruction work at hot-rolling Mill 2500.
- Capacity utilization of high-margin production units remained at a high level

Key production indicators
Ths tonnes



Key capacity utilization rates, Q4 2019
%

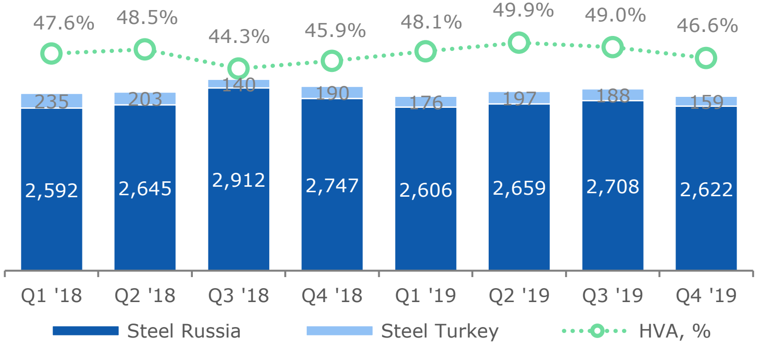


SEASONAL WEAKENING OF BUSINESS ACTIVITY AMID PRICE DECLINES ON THE GLOBAL STEEL MARKET HAD A NEGATIVE EFFECT ON FINISHED PRODUCT SALES

- **Total sales declined by 4% q-o-q in Q4 2019,** amid a seasonal weakening in business activity and a significant decline in prices on the global steel market
- **Sales of high added value (HVA) products remained strong,** despite a decline in Q4 2019 amid weaker demand from the construction industry and more complex production mix at thick plate Mill 5000

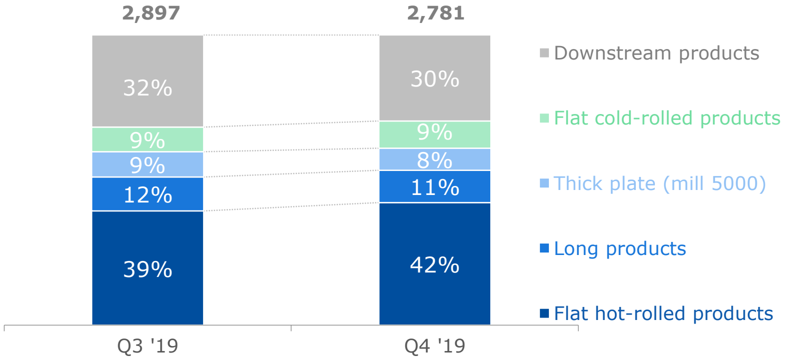
MMK Group finished product sales

Ths tonnes



Consolidated sales by products

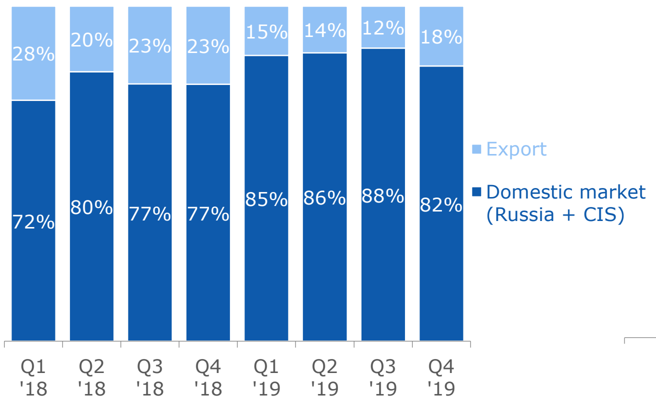
Ths tonnes



Source: Company data and analysis

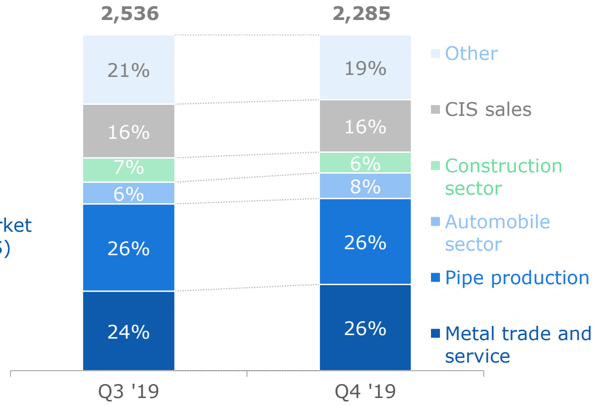
A HIGH SHARE OF SALES OF HIGH-MARGIN PRODUCTS ON THE DOMESTIC MARKET AND FLEXIBILITY OF EXPORT SALES

MMK Group's sale share by market
%



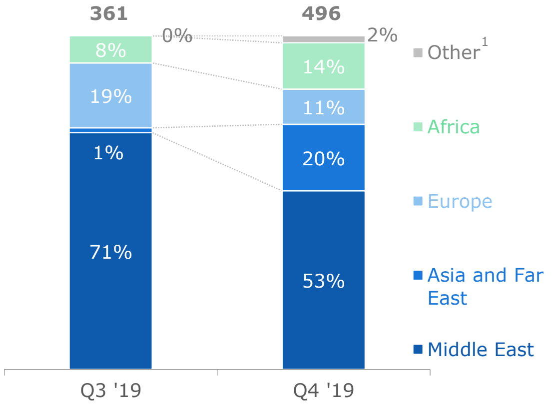
- The reduction of the share of sales to the domestic market to 82% in Q4 2019 was due to a seasonal slowdown in business activity
- The increase in the share of sales to the domestic market in FY 2019 to 85% had a positive impact on the Company's performance

Russia and CIS market sales by sector
Ths tonnes



- The industry sales structure in Q4 2019 was influenced by a decline in demand from a number of industries, partially offset by an increase in sales to automakers

International market sales by region
Ths tonnes



- A reorientation of export sales in Q4 2019 towards Asian market where margins are higher, resulted in a 20% share of sales to Asia and the Far East

Source: Company data and analysis
(1) North America, Central America, Latin America and Australia

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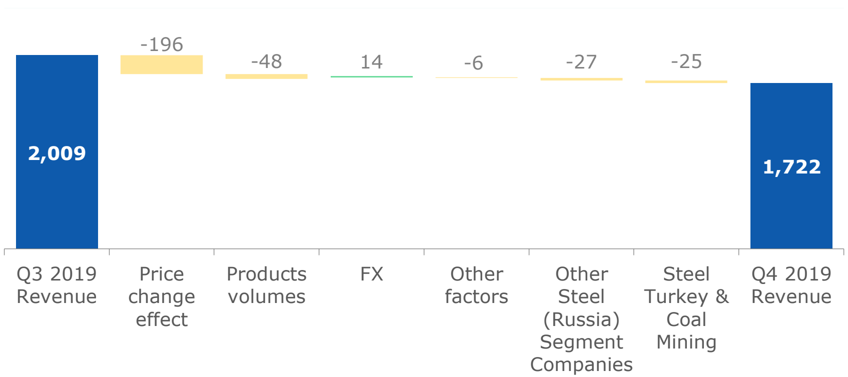
THE SEASONAL SLOWDOWN IN BUSINESS AMID LOWER MARKET PRICES HAD A NEGATIVE IMPACT ON SALES OF FINISHED PRODUCTS

- **The decline in revenue in Q4 2019 by 14.3%** was due to a seasonal slowdown in business activity and a significant decline in prices on global steel markets
- **Revenue of the coal segment** in Q4 2019 remained **flat q-o-q** and amounted to USD 59 mln amid lower prices for coal concentrate which was offset by sales increase
- **Revenue of the steel segment (Turkey)** for Q4 2019 **decreased by 19.1%** due to a decrease in the volume of domestic and exports sales of galvanized steel

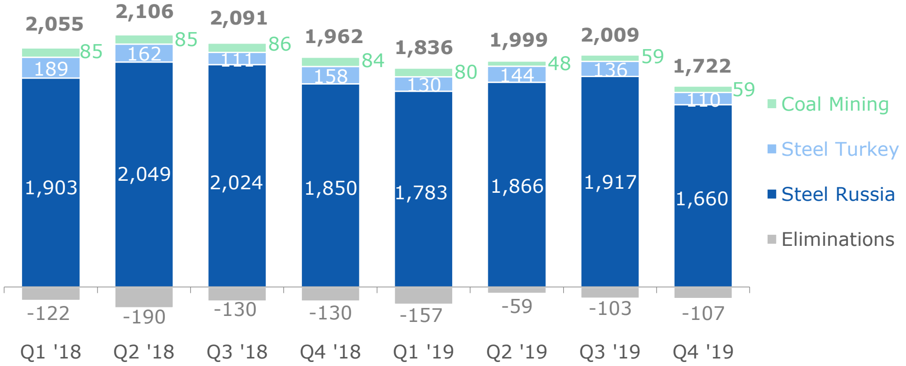
Key revenue drivers, q-o-q

USD mln



MMK Group's revenue by segment

USD mln

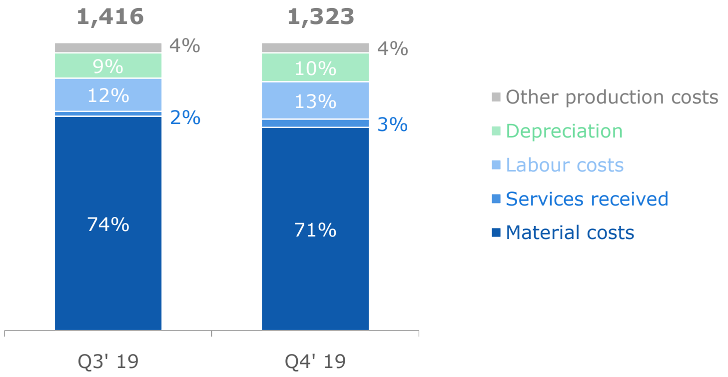


Source: Company data and analysis

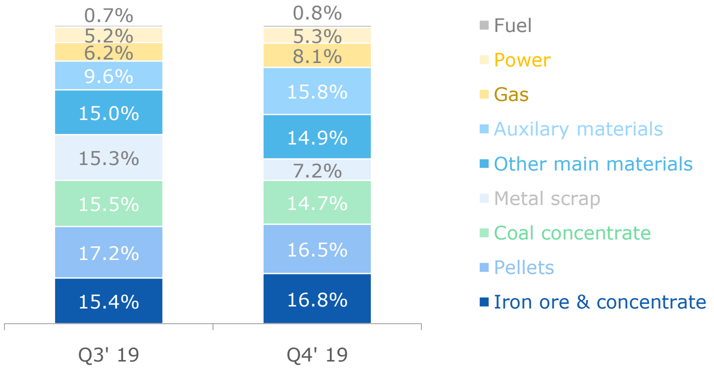
DECLINE IN COST OF SALES AMID A SEASONAL DECLINE IN SALES VOLUMES

- **MMK Group's cost of sales in Q4 decreased by 6.6% q-o-q** due to a decrease in sales volumes and a decline in raw materials prices
- **The growth in the share of blast-furnace raw materials** in the structure of material costs in Q4 2019 was due to an increase in pig iron production
- **The significant reduction in the share of metal scrap** was due to lower capacity utilization at electric arc furnaces
- The increase in the share of other materials in the cost structure is associated with **an increase in purchases of third-party hot-rolled semi-finished products by the Steel segment (Turkey)**

MMK Group's cost of sales
USD mln



MMK Group's material costs
USD mln



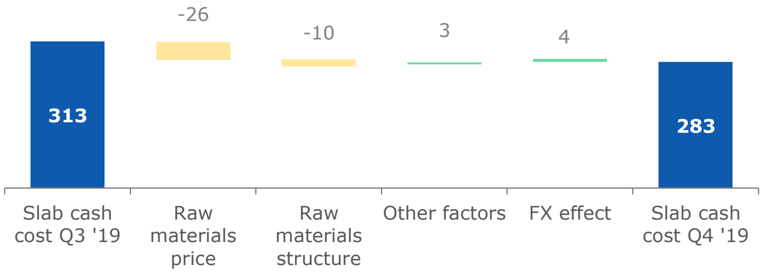
Source: Company data and analysis

DECLINE IN SLAB CASH COST AND IMPROVEMENTS TO THE STRUCTURE OF RAW MATERIALS USE IN Q4 2019

- **Slab cash cost declined by 9.6% in Q4 2019 to USD 283 per tonne:**
  - (-)USD 26/t – decline in prices for iron ore raw materials and coal concentrate;
  - (-)USD 10/t – decline due to lower share of pellets in the blast furnace charge and metal scrap in the steel production process.

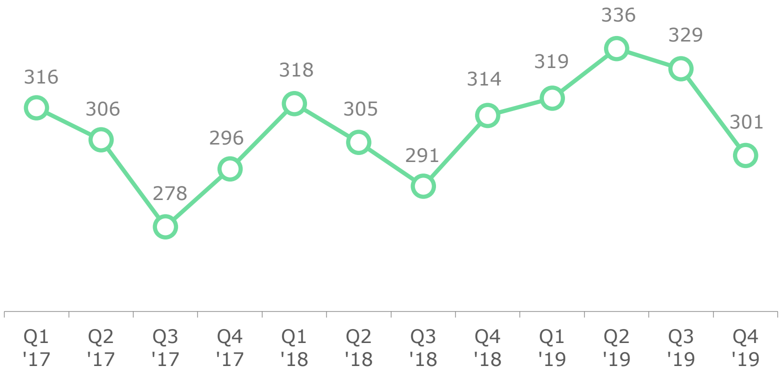
Slab cash cost, q-o-q

USD/t



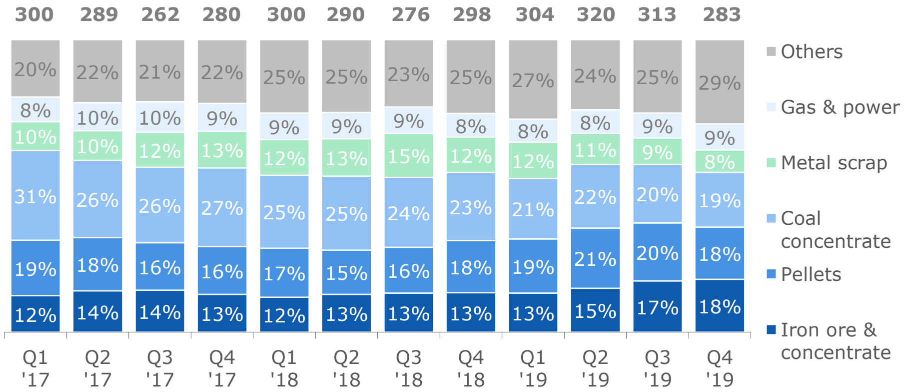
Historical HRC cash costs

USD/t



Historical dynamics and structure of integrated slab cash costs

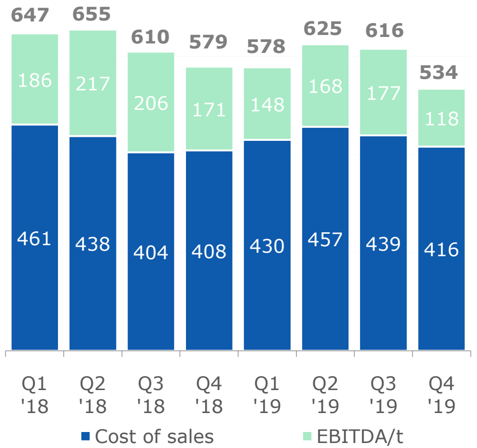
USD/t



Source: Company data and analysis

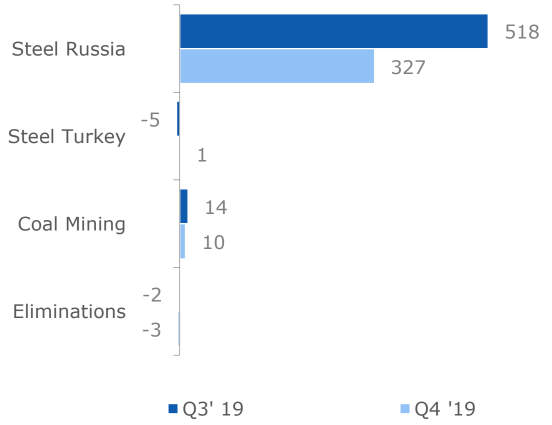
EBITDA DECREASED SIGNIFICANTLY IN Q4 2019 DUE TO SIGNIFICANT DECLINE IN PRICES ON THE GLOBAL STEEL MARKET

EBITDA/t vs metal sale price
USD/t



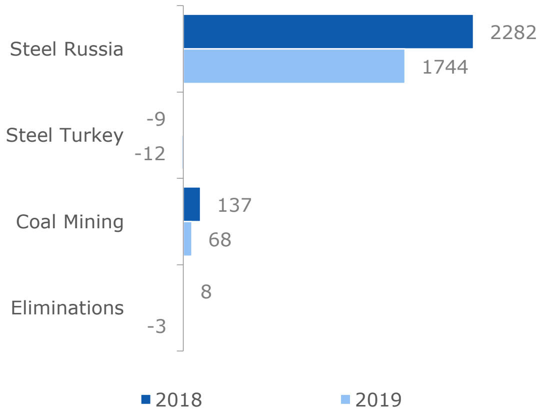
- EBITDA per tonne decreased significantly in Q4 2019 amid a significant decline in prices on the global steel market and seasonal weakening of business activity

EBITDA by key segment, q-o-q
USD mln



- The management's efforts to improve efficiency allowed the Turkish steel segment to demonstrate positive EBITDA in Q4 2019
- Coal segment EBITDA was down 28.6% q-o-q amid lower market prices for coal concentrate

EBITDA by key segment, y-o-y
USD mln

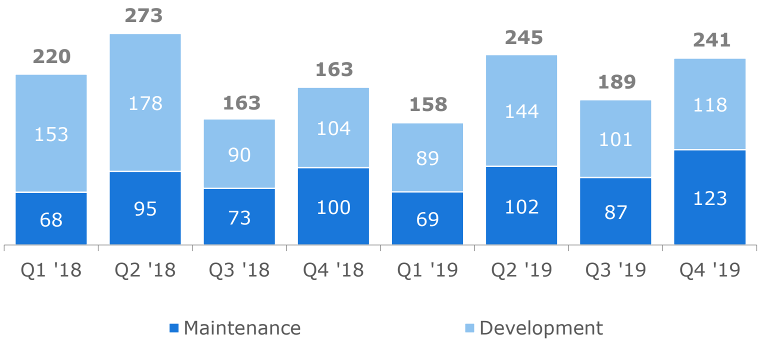


- The difficult economic situation in Turkey exerted pressure on Company performance in the Turkish steel segment
- Coal segment EBITDA decreased due to a decline in sales volume amid the reconstruction of the beneficiation plant

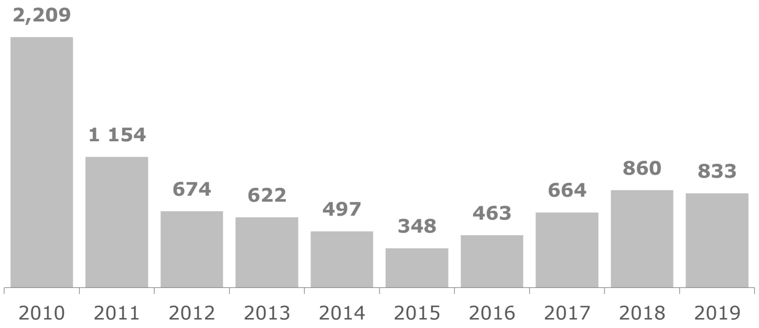
CAPEX REMAINED IN LINE WITH THE COMPANY'S INVESTMENT PROGRAMME SCHEDULE

- **CAPEX increased by 28.2% in Q4 2019,** which is in line with the Company's investment programme schedule
- **CAPEX was down 3.1% y-o-y.** Key investments in 2019 included:
  - the launch of the new sinter plant No.5
  - the reconstruction of the roughing train at hot-rolling Mill 2500

Quarterly CAPEX dynamics
USD mln



Annual CAPEX dynamics
USD mln



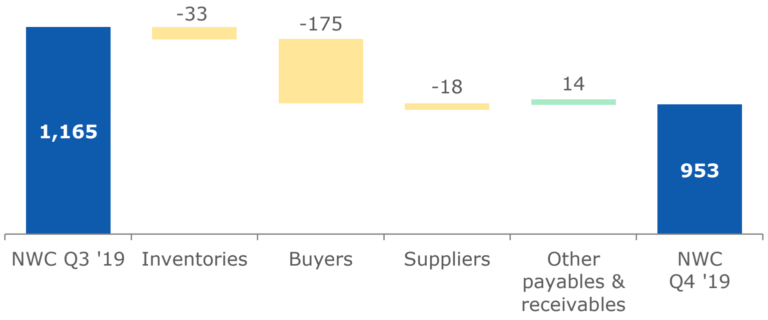
Source: Company data and analysis

THE NET WORKING CAPITAL TO REVENUE RATIO DECLINED TO 13.8% BY THE END OF THE QUARTER/YEAR

- **Working capital release amounted to USD 256 mln in Q4 2019** (compared to working capital release of USD 51 mln in Q3 2019). The release occurred mainly due to a decrease in accounts receivable and an increase in advance payments from customers
- **In FY 2019, cash inflow from working capital amounted to USD 287 mln.**
- At the same time, the net working capital to revenue ratio declined to 13.8%, its lowest level during the last several years.

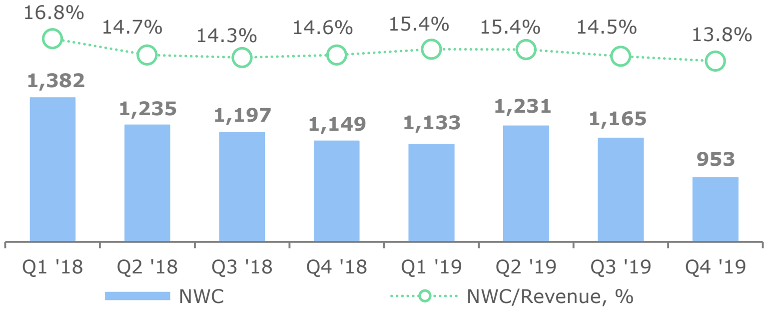
Key drivers of net working capital, q-o-q

USD mln



Net working capital dynamics

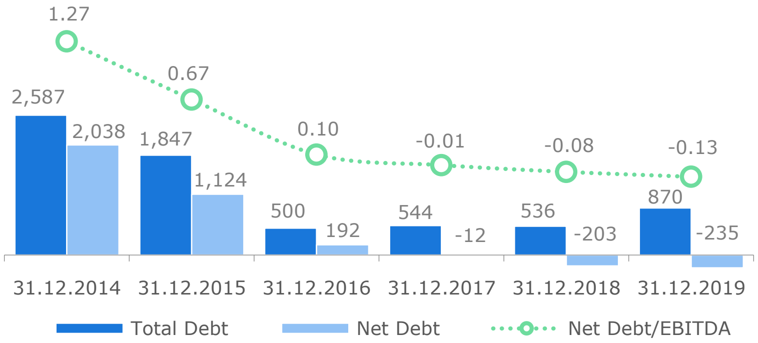
USD mln



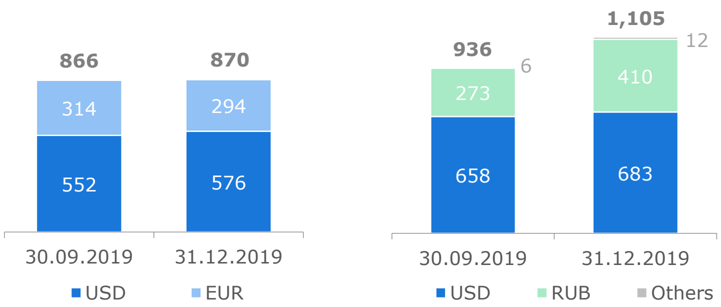
LOW DEBT BURDEN AND COMFORTABLE DEBT REPAYMENT SCHEDULE

- MMK Group's total debt increased to USD 870 mln at the end of 2019 due to a successful placement of five-year Eurobonds in June 2019
- As of the end of 2019, the Company had USD 1,105 mln in cash and deposits on its accounts
- **The Company's net debt/EBITDA ratio as of 31.12.2019 stood at -0.13x** following a decline of 0.05 p.p., which is one of the lowest debt loads among global steelmakers

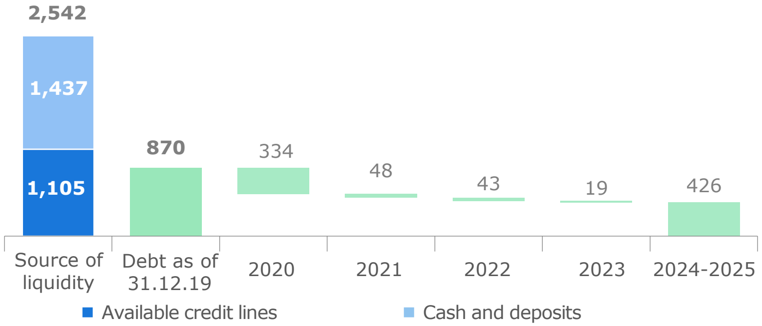
MMK Group's net debt,
USD mln



Debt and cash funds structure by currency
USD mln



Debt repayment schedule
USD mln



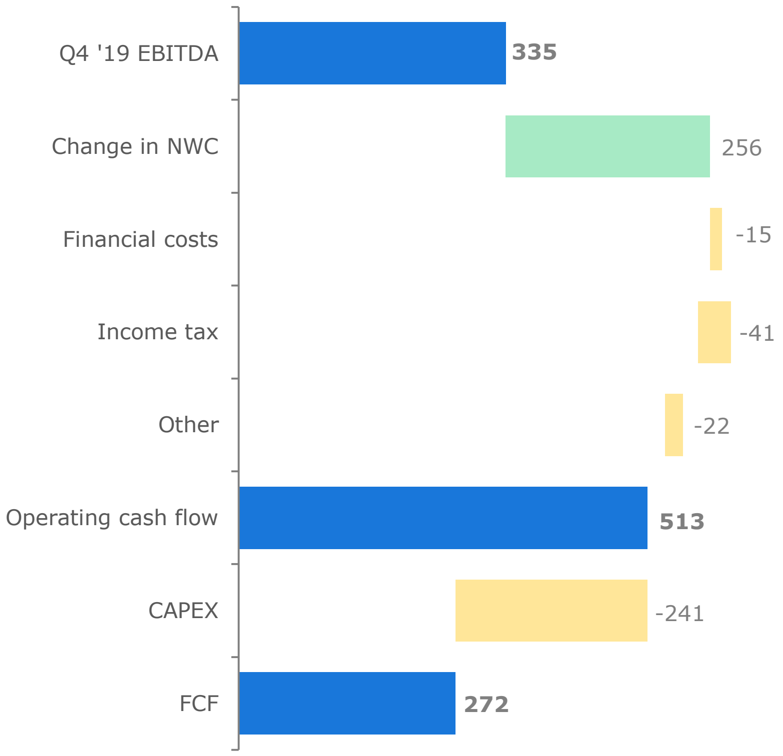
Source: Company data and analysis

EFFICIENT MAINTENANCE OF WORKING CAPITAL AND GENERATION OF POSITIVE FREE CASH FLOW

- **FCF was down in 4Q 2019 by 5.9% q-o-q and amounted to USD 272 mln**
- EBITDA decline by 36.2% q-o-q largely affected the FCF in Q4 2019
- Efficient maintenance of working capital, measures focused on improving operational efficiency and lower CAPEX y-o-y allowed the Company to largely offset the negative effect from the EBITDA decline:
  - (+) USD 205 mln - decrease in accounts receivable and an increase in advances received;
  - (+) USD 81 mln - decrease in raw materials and finished products.

Key drivers of the Free Cash Flow

USD mln

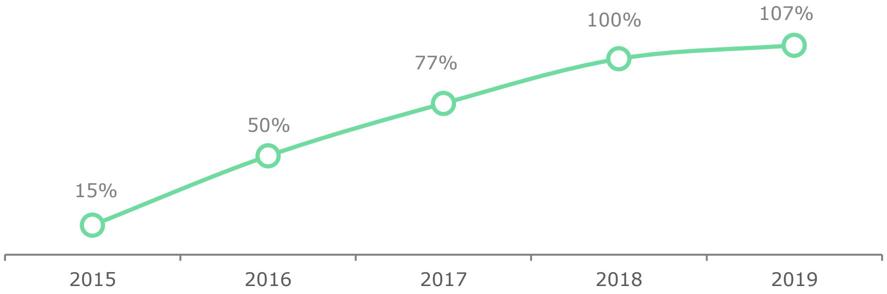


Source: Company data and analysis

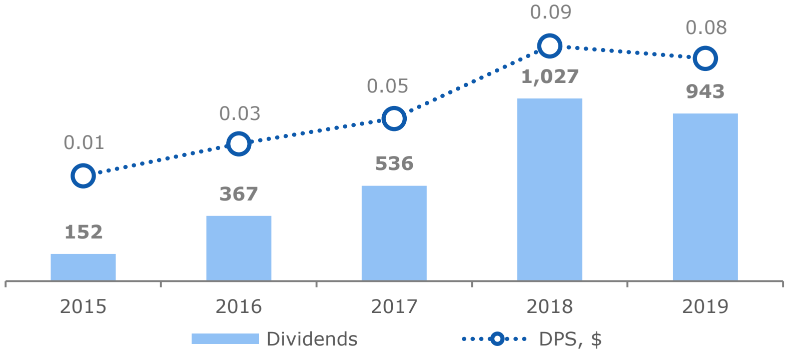
DIVIDEND PAYMENTS ON A REGULAR BASIS

- **Stable generation of positive FCF** and a sustainable financial position allow the Company to distribute its profit among its shareholders on a regular basis
- **On 4 February 2020, the Board of Directors recommended the Annual General Meeting of Shareholders** to approve the payment of dividends for Q4 2019 of RUB 1.507 per share (100% of FCF for the quarter)

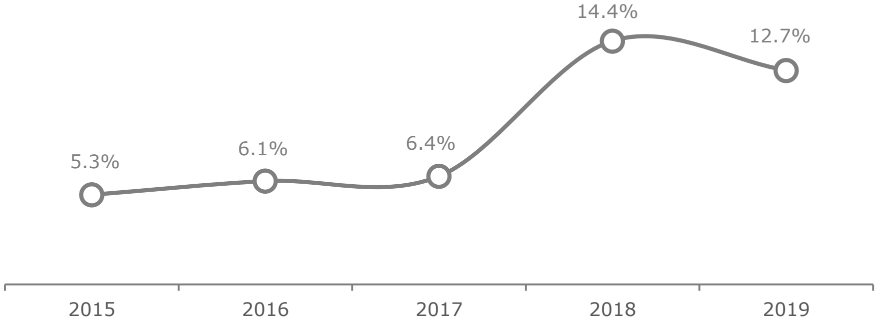
Dividend payments as % from FCF
%



Dividend payments
USD mln



Dividend yield[1]
%



Source: Company data and analysis
Notes: (1) The ratio of dividends accrued in 2019 to the Company's market capitalization as of 31.12.2019

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OUTLOOK

- The Company expects its metal production to decline in Q1 2020 due to the maintenance of blast furnace and converter facilities, as well as suspension of operations at hot-rolling Mill 2500 due to its planned reconstruction in March (for 110 days)
- Capital expenditure in Q1 2020 is expected to be unchanged from Q4 2019, which is fully in line with the investment programme being implemented as part of the Company's strategy
- The Company's performance should be supported by the favourable price environment on the domestic market and price stabilization for key raw materials
- The Company's performance should be further supported by measures aimed at operational efficiency increase and high capacity utilization of high-margin production units

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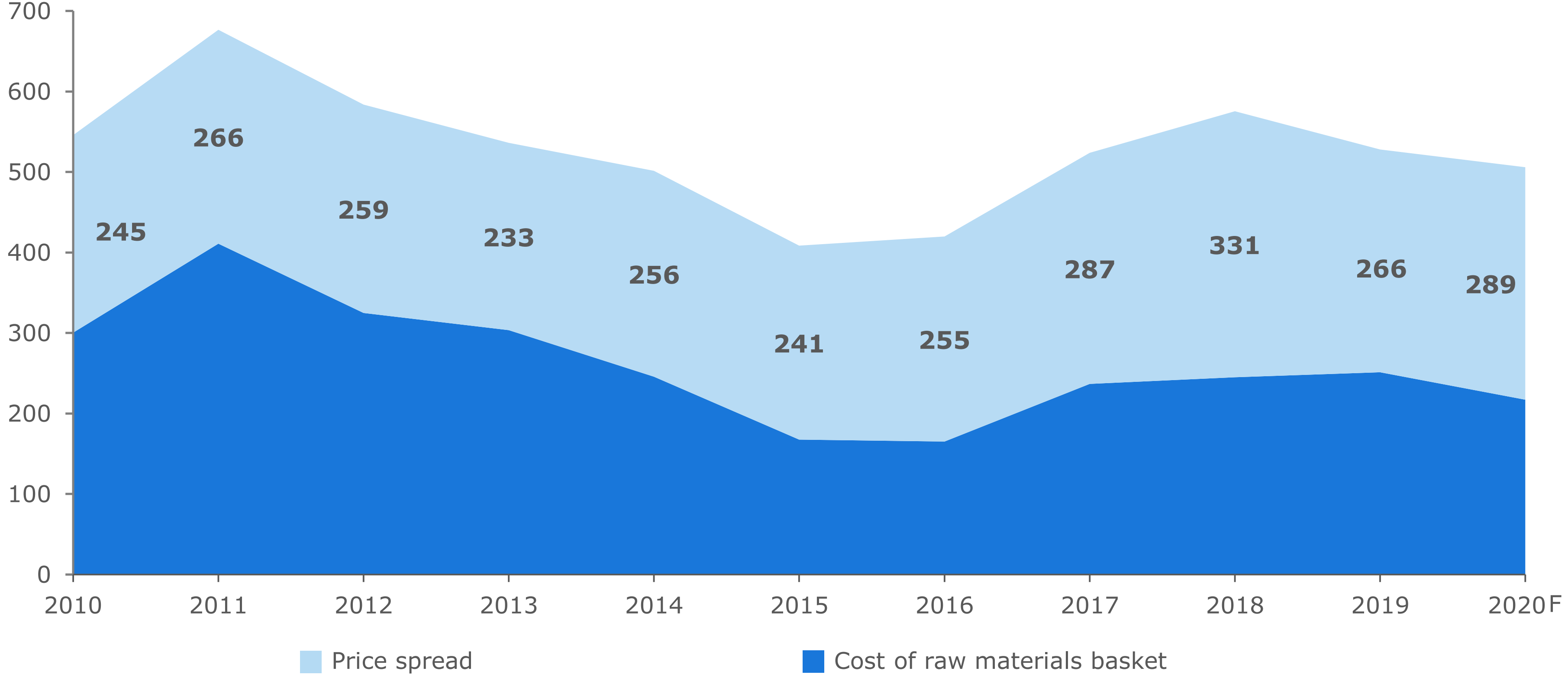
PERFORMANCE OF KEY INVESTMENT PROJECTS

Volume growth, improved product mix		Launch date	CAPEX 2016–2025	EBITDA[1]	IRR
✓ New galvanising unit	+0.36 mln t of galvanised steel	2017	USD 82 mln	USD 85 mln	73%
✓ New polymer coated plant	+0.35 mln t of polymer-coated steel, Steel Art niche rolled steel	2017	USD 71 mln	USD 92 mln	61%
✓ Metalware capacities upgrade	+0.1 mln t of metalware, capacity upgrade, expanded product line, cost reduction	2019	USD 63 mln	USD 31 mln	32%
✓ Transition to monograde 'Zh' (pure fat coal concentrate), beneficiation plant upgrade	+1.3 mln t of concentrate: transition to monograde 'Zh' (pure fat coal concentrate); beneficiation plant upgrade	2018–2019	USD 40 mln	USD 25 mln	50%
Reconstruction of hot-rolling Mill 2500	+0.8 mln t of hot-rolled steel, improved quality, +0.9 mln t of steel	2020	USD 287 mln	USD 103 mln	26%
Cost leadership, environmental performance					
✓ New oxygen unit (No 5)	+0.25 mln t of pig iron, reduced consumption of scrap metal, +0.35 mln t of steel	2018	USD 88 mln	USD 18 mln	26%
✓ New sinter plant	+1.0 mln t of sinter, reduced cash cost of pig iron, reduced environmental impact	2019	USD 400 mln	USD 47 mln[2]	23%
New coke and by-product plant: coke-oven battery No 12, by-product recovery and processing shop, biochemical plant	Replaced 5 batteries, reduced consumption of coal concentrate and natural gas, reduced environmental impact, increased production of own electricity	2021–2022	USD 785 mln	USD 54 mln[2]	24%
New blast furnace, new steam turbine power station	Replaced 3 blast furnaces, +0.4 mln t of pig iron, substitution of scrap metal, reduced consumption of raw materials, increased production of own electricity, reduced environmental impact	2024	USD 694 mln	USD 119 mln	36%
New oxygen unit (No 9)	Increased oxygen production, cost reduction	2025	USD 167 mln	USD 51 mln	21%
Other development projects	Reduced consumption of raw and other materials, use of by-products, increased machine capacity	2020–2025	USD 202 mln	USD 61 mln	>22%
		Total	**USD 2,879 mln**	**USD 686 mln**	

✓ Completed projects

Source: Company data and analysis
Notes: (1) Average annual impact based on estimates under current macroeconomic conditions; (2) Excluding the impact of production losses

HIGHLY STABLE PRICE CORRIDOR – SPREADS BETWEEN MMK RAW MATERIAL BASKET AND HRC PRICE[1] ($/T)



Source: Platts, Company data and analysis
Notes: (1) The cost of the raw materials basket for 1 tonne of steel is calculated as the sum of the products of consumption indices and the average purchase price for iron ore, pellets, coking coal concentrate and scrap metal

RUSSIA, 45500
MAGNITOGORSK
KIROVA STREET, 93

VERONIKA KRYACHKO
HEAD OF INVESTOR RELATIONS
M.: +7 915 380 62 66
E.: KRYACHKO.VS@MMK.RU

ILYA NECHAEV
INVESTOR RELATIONS
M.: +7 909 093 08 98
E.: NECHAEV.IA@MMK.RU