MMK GROUP IFRS RESULTS CONFERENCE CALL TRANSCRIPT

FOR Q2 AND H1 2021

22 JULY 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 Q2 and H1 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

- Andrew Johns, UBS
- Andrey Zakharov, Raiffeisen Bank
- Nina Dergunova, Goldman Sachs
- Nikanor Khalin, VTB Capital
- Yuriy Vlasov, SOVA Capital

MMK GROUP

PRESENTATION

VERONIKA KRYACHKO, HEAD OF IR:

Good day, ladies and gentlemen. My name is Veronika Kryachko. I'm Head of MMK's IR team. On behalf of MMK Group, I would like to welcome you to our conference call on Q2 and H1 2021 IFRS financial, as well as operational results. I would like to introduce the MMK team that is presenting today: Pavel Shilyaev, Chief Executive Officer; Andrey Eremin, Director for Economics; and Maria Nikulina, Director for Financial Resources. I would like to pass the floor to Pavel Shilyaev.

PAVEL SHILYAEV, CFO:

Good afternoon, ladies and gentlemen. We are happy to welcome you. Thank you for joining our call to discuss the financial performance of MMK Group for Q2 and H1 2021.

The Russian economy in Q2 maintained the trend of rapid recovery, what positively affected apparent consumption of rolled metal and helped us demonstrate strong performance. This once again serves to prove that we have selected the right strategic development path.

China's GDP in Q2 2021 increased by 7.9% year on year (y-o-y) reflecting the positive results of the government incentives. The higher margins of local producers contributed to steel outputs increase in China in H1 2021 by 11.8% y-o-y. The net exports remained largely unchanged, with steel inventories continuing to shrink on the back of stable domestic demand implementation of infrastructural projects.

Let us now discuss the macro economic situation in Russia. In the second half, it is expected that Russia's GDP will increase by 5.6% y-o-y on the back of the low-base effect of the previous year and continued economic recovery.

Now this translated into a growing demand for steel products in Q2 by 22.7% y-o-y. The renewal of pipe projects, as well as the automotive industry demand's stimulation and reduced mortgage rates contributed to growth of metal consumption in these industries.

Let us now look at the global metal price performance and key raw materials in Q2 2021. The demand for steel in key regions was ahead of supply. As a result of that, steel prices continue to grow. The 62% Fe index hit a new all-time high amid a price rally in global steel products markets.

Now I would like to discuss the company performance on the sustainable development results. In Q2, specific air emissions fell by 7.3% to 14 kg/t y-o-y, driven by an increase in the share of scrap in the charge on the back of increased EAF steel output. In the reporting quarter, we successfully received a BSI verification certificate for the Group's GHG emissions. In a move that confirms our commitment to Russia's sustainable development and the social well-being of our people, we joined the Russian Union of Industrialists and Entrepreneurs' (RSPP's) Social Charter of Russian Business in Q2 2021.

Moving forward to our key operating results in Q2. Steel output grew 3% quarter on quarter (q-o-q) to 3.4 million tonnes, driven by favourable market conditions and high equipment utilization including in premium products.

Sales were up by 14% in Q2 to 3.3 million tonnes, driven by high steel demand. Sales of premium products increased by 21% to 1.4 million tonnes. The share of such products in the portfolio was up to 42%.

In Q2, stable demand from end consumers coupled with seasonal factors contributed to sales growth in the domestic market by 78%. The favourable market environment in the Middle East Europe, North and South America contributed to higher export sales into those regions.

Now I will discuss the key projects implemented as part of the Group strategy. In Q2, we have completed commissioning and hot testing at Cold-Rolling Mill 1700. The Mill 1700 was put into operation. We continued construction of the foundation for the New coke and by-product plant.

Finally, I would like to discuss the outlook for Q3 2021. Seasonal recovery of demand in Russia and continued favourable conditions in global markets will positively impact the Group's sales in Q3. Sales will be further supported by the start of hot tests at the electric arc furnace facility with a casting and rolling module at the Turkish asset.

CAPEX for Q3 2021 will reflect the implementation schedule for projects pursued under the Group's strategy. This is the end of my prepared remarks. Our financial performance will be further discussed by our Director for Economics, Andrey Eremin.

ANDREY EREMIN, DIRECTOR FOR ECONOMICS:

Good afternoon, ladies and gentlemen. Revenue in Q2 was up by 49% to $3.3, which reflects a growth in sales volumes amid higher global steel prices.

Let us now discuss the slab cash cost and the main drivers there. Driven by the continued growth of prices for key raw materials, the slab cash cost in Q2 increased by 15% to $391 per tonne.

Revenue growth on the back of positive market environments translated into higher EBITDA by MMK Group by 98% to $1.4 million q-o-q. EBITDA margin increased to 44.1%.

I will next discuss our CAPEX. In Q2, the increase in CAPEX by $337 million is fully in line with our investment schedule as part of the Group's strategy. Our current financial position will be discussed by Maria Nikulina.

MARIYA NIKULINA, DIRECTOR FOR FINANCIAL RESOURCES:

Good afternoon. Total debt as at the end of quarter was just under $1 billion. The net debt to EBITDA ratio in Q2 was at zero, which is one of the lowest among global steelmakers.

The Group has a substantial liquidity cushion and a comfortable repayment schedule, as well as the low debt interest rate that's concerned our financial stability.

Free cash flow (FCF) for the quarter was $545 million. Driven by the positive performance in the global markets and the low basis sector of the previous quarter.

The Group continues to abide by its dividend policy. And for Q2 2021, the Board of Directors recommends the shareholders to approve the dividend payment of 100% of FCF for the quarter. This is the end of our presentation and we are now happy to answer your questions. Thank you.

Q&A

YURIY VLASOV, SOVA CAPITAL:

My congratulations on excellent results. My question about your export structure. Do you see any changes there in H2, especially as you have now launched your Mill 1700? And what are the shares of hot-rolled products and premium products in export sales?

PAVEL SHILYAEV, CEO:

Good afternoon. With the launch of Mill 1700, we will have an increase of cold-rolled products output, as well as its subsequent products, galvanized products and polymer-coated steel, some 50 to 60 thousand tonnes per month. And of course, we intend to use some of these incremental volumes for exports.

We understand that the largest share of the export sales mix is hot-rolled products. The volumes that will be send for exports from the Cold-rolled Mill would be galvanized products in small volumes that wouldn't have a material effect.

ANDREY ZAKHAROV, RAIFFEISEN BANK:

Good afternoon. Thank you for taking my question. And congratulations on excellent results. I have three questions. First question is about the new export duties. Can you please perhaps share your views how it can influence on EBITDA in this and next year? And how the tax burden will increase starting from next year?

My second question is about domestic prices. So what domestic prices performance are you expecting going forward on the back of introduction of the export duties? And will you essentially bring your domestic prices up to the export parity that would go down or we could expect different developments?

And my third question is about your Turkish asset. Can you please be more specific about EBITDA guidance for 2021 from the Turkish asset and the volume of the Group's hot-rolled products that you expect in 2021 and 2022?

ANDREY EREMIN, DIRECTOR FOR ECONOMICS:

As for the incremental costs that the company would incur because of the introduction of the export duties from August to December, we have different estimates. And of course, that would depend on the price level, since the export duty is 15%, but not less than $115 for hot-rolled and $133 for cold-rolled. But for our expert volume with the projections that we have, that would be some $150 million of incremental costs in terms of domestic prices. Currently, it's hard to predict the influence of the export duty on prices. Our current understanding is that the domestic prices would follow the export price performance.

PAVEL SHILYAEV, CEO:

As for the Turkish asset in this year, we plan to add there some 230 to 240 thousand tonnes of rolled products driven by restarting the hot section. Also that would be driven by the market environment in H2. But we expect that it would be hot-rolled products that we would market, and thus increase our sales for that period.

NINA DERGUNOVA, GOLDMAN SACHS:

Good afternoon. Thank you for your presentation. Congratulation with excellent results. I have a couple of questions. First is about CAPEX. What is your expected CAPEX for 2021 2022? And second, can you please comment what is the current status of the Federal antimonopoly review of potential antimonopoly law violation by MMK? What's the status there? And when can the decision be potentially made?

PAVEL SHILYAEV, CFO:

Regarding this year's CAPEX, as mentioned previously, we expect to meet the plan that we have for this year. In terms of monthly breakdown or in general for the CAPEX program, it was a bit uneven. Because we expect delivery equipment for our biggest construction facility, that's coke oven battery, and that's when payments would increase. In general, we are on track with our CAPEX program and we believe that we will deliver on the program budget of about $1 billion in 2021.

In terms of CAPEX plan 2022, which we presented in December, is approximately $1.1 billion. In Q2, we decided to take on three more facilities that were in our project portfolio. But in Q2, we finally decided to move them forward. The first one is the new air separation unit. The second one is the steam turbine power station. And just in June, we approved and started a project for constructing a new blast furnace. Those projects are now in a design phase. So, in 2021, they will not significantly affect CAPEX. For 2022, there would be only a moderate increase, only advanced payments for design works. But most of the work for those projects that I mentioned would happen from 2023. Our CAPEX in 2022 and 2023 will be more than $1.1 billion. But we'll discuss more on that in December this year.

As for the Federal antimonopoly service investigation, the process is now in court and we respond to all the requests and we provide very detailed information in terms of any prospects, developments and timing. It is difficult to say about the term. Again, the case is now in court, and it has a process of its own.

NIKANOR KHALIN, VTB CAPITAL:

Good afternoon. Congratulations with this phenomenal quarter. A small question from my side. There were some media reports that our steelmakers because of the export duties from August 1 are ramping up the export volumes in July. Do you have an understanding about what share of export sales would happen in July? Thus, lower volumes would be subject to the extra duty.

PAVEL SHILYAEV, CFO:

No, I don't think that would have any substantial impact on our sales mix in Q3. We have long contracts, both domestically and for exports. We will be sending to export whatever we don't sell domestically, as we have always done. I don't think there will be any change to that.

YURY VLASOV, SOVA CAPITAL:

Thank you for taking a follow-up question. You are opening an asset in Turkey where you would be making your own steel. How much do you expect to supply next year of cold-rolled products in Turkey?

ANDREY EREMIN, DIRECTOR FOR ECONOMICS:

Given the ramping up to planned capacity of the casting and rolling module, we plan to have 1.6 million tons of commercial rolled products to produce and sell that amount. The hot-rolled products are distributed as follows structure: 500,000 tons for further rerolling into galvanized and polymer rolled products, which are now supplied by third-party suppliers and will be replaced by the Turkish asset's own production. The further 500,000 tons we expect to sell as hot-rolled coil in Turkey for domestic customers, and a further 500,000 to 600,000 tons to export, mostly to the European market, and also some of that to the Middle East.

In terms of cold-rolled products supplies from Magnitogorsk, from MMK, the main facility volumes would continue, because the Turkish asset will operate at full capacity. So, the required cold-rolled products for polymer coating and for galvanized steel, that would be some 150 tons.

YURY VLASOV, SOVA CAPITAL:

So next year you expect to produce 1.6 million tons in the Turkish asset?

ANDREY EREMIN, DIRECTOR FOR ECONOMICS:

Yes, that would be the incremental production for the Group — 1.6 million tons.

VERONIKA KRYACHKO, HEAD OF IR:

We will now answer a question from the webcast from Mr. Sosnovsky, Prosperity Capital. He's asking: "How does MMK respond to the price growth? Do you expect drop in steel demand due to high steel prices?"

PAVEL SHILYAEV, CFO:

Judging from press reports, you can see that there's not a lot of happiness about this price growth apparently. We understand that these are historically high prices set by the market. And we also see that in the global market the trend is changing since June and the prices seem to go down. That could be because of the pressure from the buyers, and essentially that's the supply-demand balance that we are seeing. We can mention two trends. First is the buying power of customers in general. And the second is some exceptional demand in China, driven by the government support, and in North America. I believe that the reduction in prices that we are seeing in the global market in general will be driven by that. I don't think that we should expect any demand disruption. But a correction is there and I guess that's a fair one.

ANDREY EREMIN, DIRECTOR FOR ECONOMICS:

Our counterparts also increase their prices for their products. So, it's a bit of a domino effect.

ANDREW JONES, UBS:

Hi. Just a question on that CAPEX. I mean, that was surprising to me that you were increasing it that much. Is that essentially just bringing forward CAPEX from 2024 and 2025 on those projects or is this kind of an incremental CAPEX increase? That was my first question. Second one is just on Turkey. I think previously you said that you're going to have an extra 2 million tons of production coming out of the Turkish asset? I think if the translation was correct, it sounded like you were saying the incremental amount will be 1.6 million. Could you just clarify what you mean with that? Thanks a lot.

PAVEL SHILYAEV, CFO:

Yes, thank you. As far as CAPEX is concerned, indeed, we did say that in our portfolio we have projects with high IRR. And we now see an opportunity to indeed fast track some of them in terms of having the additional financial capacity and in terms of having the provider in place. So yes, we are now essentially fast track and bringing forward some of those projects and the full portfolio to also fast track the return on those investments. When I talked about the new projects which we have decided to start, all of them from our portfolio which we have announced previously. And the IRRs of this projects are about of 30%. Now, we indeed decided to fast track those projects. In terms of the CAPEX announced, I would like to reiterate that this is not a major increase. That's only some $200 to 300 million. Again, when we will update our strategic plans in December, we present them to you. We will be within our plan for 2021. Plan for 2022 is about $1.1–1.15 billion. That's also something that we mentioned previously.

ANDREY EREMIN, DIRECTOR FOR ECONOMICS:

I will try to address your second question on Turkey. Let me try and explain that. We have accepted orders for hot-rolled products since September. There is a period of reaching the planned capacity, which affects the first quarter of the next year. So, in the first quarter we would not reach full capacity utilization. That is why for the full year we'll have 1.6, perhaps 1.65 million tons, if we were to look at an optimistic scenario. And we expect that we will produce 2 million tons of steel products since 2023.

VERONIKA KRYACHKO, HEAD OF IR:

Ladies and gentlemen, since there are no further questions, we will be wrapping up with today's call. Thank you for your attention. Thank you for your questions. If you have any further questions, we will be happy to answer them. Please contact with MMK's IR team. This concludes our conference call. We wish you a very good day. 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 USD 6,395 mln, with an EBITDA of USD 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 18.7%.

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