MMK GROUP IFRS RESULTS CONFERENCE CALL TRANSCRIPT

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, announces its financial results for Q1 2020.

MMK GROUP SPEAKERS

- Andrey Eremin, CFO
- Mariya Nikulina, Director for financial resources
- Veronika Kryachko, Head of Investor Relations

MMK GROUP

PRESENTATION

VERONIKA KRYACHKO, HEAD OF IR:

Good day, ladies and gentlemen, my name is Veronika Kryachko and on behalf of MMK Group, I would like to welcome you to our conference call on Q2 and H1 of 2020 IFRS financial results. I would like to introduce the MMK team that is presenting today:

- Andrey Eremin, Chief Financial Officer
- Maria Nikulina, Director for Financial Resources

We will start our call with update on key financial results and markets overview presented by Andrey Eremin. Please sir, go ahead.

ANDREY EREMIN, CFO:

Ladies and gentlemen, good afternoon!

We are pleased to welcome you to the presentation of MMK Group's financial results for Q2 and H1 2020.

As the current pandemic evolved in Q2, it had a negative impact on the global steel market environment. As demand from key consuming industries dwindled, many global steelmakers had to halt or cut production at their plants.

MMK used the lockdown period to push ahead with its scheduled reconstruction of Hot-Rolling Mill 2500, which, coupled with a worsening macroeconomic environment, caused Q2 EBITDA to fall by 48.9% to USD 226 mln, with EBITDA margin at 17.8%.

Our free cash flow (FCF) for Q2 was negative USD 18 mln, reflecting lower margins, higher CAPEX and the working capital build up due to higher export sales.

Now let's move on to an overview of China's macroeconomic environment.

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

To support the national economy, the Chinese Government decided in Q2 to direct all proceeds from its special bonds issues towards infrastructure projects – double the initially planned amount.

Paired with pent-up demand for steel, this led to a significant rise in metal consumption and higher blast furnace utilisation rates across China. At the same time, steel product inventories have been steadily declining throughout the second quarter.

Strong domestic demand and a more favourable pricing environment have pushed exports of Chinese metal products to historical lows.

Now I would like to discuss Russia's macroeconomic environment, detailed over the next slides.

The Russian economy struggled in April and May as restrictions were imposed on both Russian businesses and citizens.

However, the measures taken by the government to soften monetary policy and bolster effective demand led the PMI to rebound to a pre-crisis level as early as June.

Russia's GDP is expected to have contracted by 9.6% in the second quarter.

Demand for metal products in Russia was down by 19.2% in Q2, driven by an unfavourable economic environment. Almost all metal-consuming industries showed major declines in steel consumption in April and May.

At the same time, a significant increase in federal budget spending on national infrastructure projects helped prop up demand for metal products in Q2.

Now let's move on to price trends.

Recovery in China's domestic demand in Q2 has had a positive impact on Chinese metal product prices. FOB China prices for hot-rolled products were up from April levels towards the end of Q2.

This, in turn, has bolstered hot-rolled coil prices in the Black Sea region in Q2, which rose by 9.5% to USD 403 per tonne in June.

Global prices for coking coal remain in a downtrend, driven by falling steel capacity utilisation rates across the globe and impacted by China's annual coking coal import quotas.

Iron ore prices were faring rather well in Q2, driven by growth in China's pig iron and steel output. They found further support in declines in Brazil's exports. As a result, iron ore prices increased by 4.5% to USD 93 per tonne in Q2.

Now let's move on to second quarter operating results.

Pig iron production decreased by 11.3% q-o-q to 2.1 mln tonnes, driven by a major overhaul of Blast Furnace № 2. Steel production reduced to 2.4 million tonnes due to the scheduled reconstruction of Hot-Rolling Mill 2500 and a slowdown in business activity. High-margin production facility utilisation rates remained high.

Following scheduled maintenance and the slowdown in business activity, the consolidated volume of sales declined by 19.3% q-o-q to 2.2 mln tonnes. The share of HVA products grew to 52%.

The slowdown in business activity in the Russian and CIS market in Q2 2020 caused a decline in the share of the Group's domestic sales to 74%.

In this environment, there was a growth in exports to Asia, Africa and Europe. Now let's move on to financial performance.

A decrease in sales volumes amid the scheduled reconstruction of Hot-Rolling Mill 2500, the correction in global steel prices and higher export sales resulted in a 25.8% decline in revenue to USD 1.3 bn.

At the same time, the cost of sales decreased by 19.7% to USD 1.0 bn, which reflects, in addition to the points mentioned above, the correction in coal concentrate prices, improvements to the cost of sales structure and the rouble devaluation.

The slab cash cost totalled USD 255 per tonne, down 4.5% q-o-q, driven by the improved structure of the steelmaking charge and the rouble devaluation.

The Group's profitability was undermined by adverse market conditions and an increase in the share of exports.

As a result, MMK Group's EBITDA for Q2 decreased by 48.9% q-o-q to USD 226 mln, with EBITDA margin down to 17.8%.

The Group's Q2 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. Let's move to CAPEX.

Our CAPEX grew by 35.4% q-o-q to USD 176 mln, in line with our investment programme schedule under the Company's strategy.

In Q2, the Group continued implementing its projects to achieve cost leadership, enhance its environmental performance, increase output and improve its product portfolio.

The overhaul of Blast Furnace No. 2 launched in Q1 was accompanied by the construction of dust exhausting units at cast and stock houses to improve MMK's environmental performance.

Q2 also saw the final stage of the reconstruction of Hot-Rolling Mill 2500, which was eventually launched on 17 July 2020. To start with, this project will increase our output of hot rolled products by 0.8 mln tonnes while improving their quality and expanding the product mix.

In Q2, we continued the construction of our new coke and by-product plant.

Now, I would like to discuss the Company's current financial position.

MMK Group's total debt was USD 0.8 bn as at the end of Q2.

The Group had USD 0.7 bn in cash and deposits in its accounts as of 30 June 2020.

Thus, the Group's net debt/EBITDA ratio was 0.16x as at the end of Q2, which is among the lowest in the global steelmaking industry.

The Company's substantial cash balances, coupled with USD 1.3 bn of available credit facilities, provide MMK with a significant liquidity cushion.

Our comfortable repayment schedule with no repayment spikes and our low cost of debt reflect MMK Group's stable financial position.

Now let's move on to cash flow.

Higher CAPEX and a worsening macroeconomic situation in Q2 2020 resulted in a decline in free cash flow to negative USD 18 mln.

Other contributing factors worth mentioning include an inflow to working capital due to increased export sales with longer delivery lead time.

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

In conclusion, I would like to comment on our Q3 2020 outlook.

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.

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.

Our CAPEX is 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.

Our operational excellence initiatives under the Evolution Business System will boost Group performance in Q3 2020.

This brings us to the end of our presentation. Thank you for your attention.

We are happy to answer any questions.

Ladies and Gentleman thank you for participation in our call today. Once again, I would like to highlight that we expect gradual steel sector recovery in Russia in the second half of the year. We are confident that MMK business model along with government economy stimulus could yield us a good performance in coming quarters.

VERONIKA KRYACHKO, HEAD OF IR: Ladies and gentlemen, thank you very much for your time today. If you have any questions, please feel free to contact us anytime. With this, I would like to close the call and wish you a very pleasant end of the 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 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 margin. MMK Group had revenue in 2019 of USD 7,566 mln and EBITDA of USD 1,797 mln. MMK's debt load is the lowest for the industry. 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, S&P.

MMK's ordinary shares are traded on 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

6 August	Direct line with MMK. Sberbank virtual conference for retail investors
11 August	Dialogue with MMK. VTB Capital virtual conference for retail investors
13 October	Q3 and 9M 2020 Trading Update
22 October	Q3 and 9M 2020 IFRS financials