

METALLOINVEST ANNOUNCES IFRS FINANCIAL RESULTS FOR 9M 2020

Moscow, Russia – 23 November 2020 – Metalloinvest (‘the Company’), a leading global iron ore and HBI producer, and one of the regional producers of high-quality steel, today announces its IFRS financial results (unaudited) for the third quarter and nine months ended 30 September 2020.

Management comments

Alexey Voronov, Deputy CEO – Chief Financial Officer of Management Company Metalloinvest, commented:

“In the nine months of 2020, the Company’s results were expectedly under pressure due to the deterioration of economic activity in global markets, which primarily affects the structure of markets and prices, driven by increased transportation costs. At the same time the Company was able to decrease costs by 17%, which allowed to maintain a solid EBITDA margin of 35.7%. The sales markets grew in Q3, EBITDA increased 9% compared to Q2 2020. We expect positive dynamics to continue in 2020. Company maintained a comfortable level of leverage and a solid liquidity reserve.”

FINANCIAL HIGHLIGHTS

- Revenue USD 4,572 mn (-14.2% y-o-y)
- EBITDA¹ USD 1,632 mn (-22.8%²)
- EBITDA margin 35.7% vs. 39.7% in 9M 2019
- Net Income USD 752 mn (-49.3%)
- Net Debt USD 3,420 mn (-8.9% compared to 31 December 2019)
- Net Debt / EBITDA LTM³ 1.68x vs. 1.49x as at 31 December 2019
- Capital Expenditure USD 326 mn (-7.3%)

PRODUCTION HIGHLIGHTS

- Iron ore⁴ 30.4 mn tonnes (+1.0%)
- Pellets 20.8 mn tonnes (-2.2%)
- HBI/DRI⁵ 5.8 mn tonnes (-2.4%)
- Hot metal 1.8 mn tonnes (-13.0%)
- Crude steel 3.7 mn tonnes (+3.1%)

KEY CORPORATE HIGHLIGHTS

- MGOK begins pilot production of premium pellets for metallisation
- Fitch affirms Metalloinvest rating at “BB+” with a stable outlook
- New credit rating AA+(RU) with a stable outlook obtained from Analytical Credit Rating Agency (ACRA)
- New “C-” sustainability rating obtained from ISS ESG
- To ensure reserve sources of liquidity, as well as to improve the parameters of its debt portfolio, the Company extended existing credit lines and opened new ones with Russian and international banks

¹ Hereinafter EBITDA stands for EBITDA adjusted according to IFRS requirements

² Hereinafter comparison with 9M 2020 vs. 9M 2019

³ The indicator is for information only and does not contain adjustments as per the loan documentation; EBITDA LTM stands for EBITDA for the last 12 months

⁴ Hereinafter iron ore refers to iron ore concentrate and sintering ore

⁵ Direct reduced iron

INCOME STATEMENT

USD mn	9M 2020	9M 2019	Change, %	Q3 2020	Q3 2019	Change, %
Revenue	4,572	5,328	-14.2%	1,497	1,744	-14.2%
EBITDA	1,632	2,115	-22.8%	573	705	-18.6%
EBITDA margin	35.7%	39.7%	-4.0 p.p.	38.3%	40.4%	-2.1 p.p.
Net Income	752	1,484	-49.3%	222	464	-52.1%

Revenue

In 9M 2020, the Company's revenue amounted to USD 4,572 mn, a 14.2% decrease y-o-y. This is mainly due to a change in the structure of markets and a decline in prices, given the increased transportation costs.

Cost of sales, distribution and general and administrative expenses

In 9M 2020, the Company's cost of sales amounted to USD 2,072 mn, a 17.1% decrease y-o-y. This is related to changes in prices for raw materials and cost optimisation. The cost of sales as a proportion of overall revenue amounted to 45.3%, slightly lower than in 9M 2019 (46.9%).

Distribution expenses in the reporting period totaled USD 748 mn (+23.7% y-o-y). General and administrative expenses in the reporting period totalled USD 248 mn, a 9.4% increase y-o-y. This is mainly driven by increased supply to more distant markets, including China, as well as the one-off costs associated with ongoing support measures against COVID-19. Thus, the share of distribution, general and administrative expenses in the Company's total revenue increased to 21.8% (vs. 15.6% in 9M 2019).

Other operating expenses decreased to USD 31 mn compared to USD 162 mn in 9M 2019, which is mainly related to foreign exchange differences.

Profitability

In 9M 2020, the Company's EBITDA decreased by 22.8% y-o-y, amounting to USD 1,632 mn. The decline was mainly due to a decrease in the Mining Segment EBITDA (-24.0% y-o-y) which mainly resulted from the changes in structure of markets, an increase in transportation costs and a decrease in selling prices for iron ore products.

The EBITDA margin amounted to 35.7% vs 39.7% in 9M 2019, a decrease of 4.0 p.p.

Net income in 9M 2020 amounted to USD 752 mn, a 49.3% decrease y-o-y, mainly due to the different trends of the RUB exchange rates used in accounting for the Company's foreign currency debt in the reported periods (foreign exchange loss in the amount of USD 468 mn in 9M 2020 and foreign exchange gain in the amount of USD 174 mn in 9M 2019).

FINANCIAL POSITION

As of 30 September 2020, the Company's Total Debt decreased by 8.3% since 31 December 2019 and amounted to USD 3,723 mn. Short-term debt amounted to USD 265 mn at the reporting date, which is less than 7% of its loan portfolio structure as of 30 September 2020.

As of 30 September 2020, the Company's cash and cash equivalents amounted to USD 304 mn and remained unchanged compared to the prior period.

The Company's Net Debt decreased by 8.9% to USD 3,420 mn as at the reporting date (compared to USD 3,756 mn as at 31 December 2019). Net Debt / EBITDA LTM ratio was 1.68x as of 30 September 2020 vs. 1.49x as at 31 December 2019.

Metalloinvest has announced its dividends in the amount of RUB 116.5 bn. To achieve the objective of improving the Company's financial profile, the shareholders have made the decision to reduce a significant share of intragroup loans. Thereby, the major part of declared dividends returned to the Company's balance.

LIQUIDITY AND CAPITAL RESOURCES

In Q3 2020, Metalloinvest continued improving the repayment schedule and optimising its debt portfolio:

- The Company signed additional agreements with ING Bank on the extension of two credit lines for a total amount of USD 200 mn (or EUR equivalent). The reserve credit lines will be valid for 36 months. The interest rate of one of the credit lines in the amount of USD 100 mn will remain linked to the Company's Corporate Social Responsibility (CSR) rating from EcoVadis
- In order to improve the Company's liquidity position, a new credit line was opened with Sberbank (RUB 15 bn), and another credit line with Credit Bank of Moscow (RUB 7 bn), with a repayment period for both lines of up to 36 months

To partially refinance and improve the commercial terms of the Company's loan portfolio, two new credit lines were opened with Sberbank (RUB 10 bn) and Gazprombank (RUB 10 bn). Both credit lines mature in 2026.

OPERATIONAL RESULTS

Production by product

tonnes '000	9M 2020	9M 2019	Change	Q3 2020	Q3 2019	Change
Iron ore	30,360	30,069	1.0%	10,180	10,404	-2.2%
Pellets	20,767	21,228	-2.2%	6,611	7,157	-7.6%
HBI/DRI	5,761	5,905	-2.4%	1,649	1,857	-11.2%
Hot metal	1,811	2,081	-13.0%	546	719	-24.1%
Crude steel	3,741	3,628	3.1%	1,198	1,197	0.1%

Shipments⁶ by product

tonnes '000	9M 2020	9M 2019	Change	Q3 2020	Q3 2019	Change
Iron ore	5,769	5,167	11.7%	2,331	1,996	16.8%
Pellets	11,625	10,784	7.8%	4,097	3,894	5.2%
HBI/DRI	3,270	3,328	-1.7%	895	1,006	-11.0%
Pig iron	919	1,391	-33.9%	216	465	-53.5%
Steel products	3,516	3,407	3.2%	1,061	1,113	-4.7%

In 9M 2020, iron ore production amounted to 30.4 mn tonnes, a 1.0% y-o-y increase. This is mainly attributed to the increase in productivity due to the processing of higher quality ore and the reduction of iron ore consumption for concentrate.

Due to the reconstruction of Pellet Plant #3 at MGOK, which took place in Q3 2020, pellet production in 9M 2020 decreased by 2.2% y-o-y and amounted to 20.8 mn tonnes. In Q3 2020, pellet production decreased by 7.6% y-o-y.

⁶ Due to the transition to a new integrated financial and business operations management system based on SAP S/4 HANA business suite the methodology for shipments disclosure has changed. Starting from 01.01.2020 the export supplies are presented as the shipments to the final customer from the warehouses of Metalloinvest Trading AG (until 31.12.2019, exports are represented by shipments from the warehouses of plants)

In 9M 2020, the Company produced 5.8 mn tonnes of HBI/DRI, which is 2.4% less than in 9M 2019. The decrease is due to the major maintenance works at HBI Plants #1 and #3 and the modernisation of DRI Plant #1 in Q3 2020.

In 9M 2020, hot metal production decreased by 13.0% y-o-y and amounted to 1.8 mn tonnes due to a decrease in the productivity of Blast Furnace #3 at Ural Steel, as a result of repair works. Crude steel production increased by 3.1% y-o-y to 3.7 mn tonnes. This growth was mainly due to the reconstruction of electric arc furnaces using FMF⁷ technology at Ural Steel carried out in 2019 and a change in the product mix at OEMK. In 9M 2020, production at Ural Steel grew by 9.1% y-o-y.

CAPEX PROGRAMME

In 9M 2020, the Company's capital expenditure amounted to USD 326 mn and was mainly allocated to the following projects:

- Technical re-equipping of the open-pit mines through the purchase of special equipment – mining dump trucks with a lifting capacity of 180-220 tonnes, heavy-duty excavators and locomotives, dump cars and others, technical re-equipment of processing plant at LGOK and MGOK (mill replacement, separators, pumping equipment, etc.)
- Development projects including the construction of a crushing and conveyor facility, introduction of fine screening technology and modernisation of Pellet Plant at MGOK; the implementation of the cyclical and continuous transportation system and construction of external electric power supply facilities at LGOK; modernisation of Blast Furnace #2 and Blast Furnace #3, and construction of medium pressure CHP⁸ boilers at Ural Steel; and construction of the grinding ball mill and reconstruction of Pellet Plant at OEMK
- Social projects dedicated against COVID-19, including the purchase of CT scanners at LGOK and MGOK
- Final stage of integration of the business transformation programme to create an integrated financial and business management system based on Industry 4.0 at all of the Company's production sites

MGOK achieved 3 mn tonnes of iron ore concentrate production using fine screening technology. The advanced iron ore beneficiation technology using Derrick equipment was launched at the plant in September 2019. The new technology is implemented at four sections of MGOK beneficiation plant. The produced concentrate, with increased iron content and reduced silicon dioxide content, is a raw material used in the production of pellets at the pelletising unit with quality characteristics varying according to customer needs.

At Ural Steel, the active construction phase of the Air Separation Unit #6 and related infrastructure has started. The facility will have the capacity to produce industrial oxygen, nitrogen, dry compressed air and argon.

SUSTAINABLE DEVELOPMENT

Metalloinvest allocated a total of RUB 2 bn to support medical organisations in Stary Oskol, Gubkin (Belgorod region), Zheleznogorsk (Kursk region) and Novotroitsk (Orenburg region), as well as regional centres and nearby towns (Kursk, Belgorod, Orenburg and Orsk).

A new sustainability rating from ISS ESG was assigned to the Company. ISS ESG is a leading international agency covering more than 200 Metals & Mining companies across the world. Following the assessment, Metalloinvest obtained a "C–" rating, with the overall performance score just above the industry average.

⁷ FMF – Flexible Modular Furnace

⁸ Combined Heat and Power

Julia Mazanova, Social Policy and Corporate Communications Director, has been elected to the governing board of the Association ‘National Network of the Participants to the Global Compact for Implementing the Principles of Responsible Business in Corporate Practice’.

Company co-hosted “DOBRO 2020” conference, the sixth international educational conference for non-profit organisations and socially responsible businesses.

OTHER KEY CORPORATE EVENTS

June 2020

Andrey Belyshev appointed Deputy CEO – Organisational Development and Human Resources Director of Management Company Metalloinvest.

Denis Lugovskoy appointed Maintenance and Repairs Director at Management Company Metalloinvest.

Fitch affirms Metalloinvest rating at ‘BB+’ with a stable outlook. According to the Fitch statement, the rating upgrade reflects the Company’s continually strong operational profile with competitive cost position, comfortable net debt level, solid liquidity cushion, robust financial flexibility and transparent financial policy.

September 2020

The Company has been ranked among the Top-10 Russian companies in the first national “Anti-Corruption Rating of Russian Business” by the Russian Union of Industrialists and Entrepreneurs (RSPP). The best ratings were awarded to companies with the highest level of anti-corruption activity as well as minimal levels of corruption risks and associated threats to investors, creditors, business partners and other stakeholders.

Based on the results of the rating committee, ACRA assigned the Company an AA + (RU) rating with a stable outlook on the national scale. In their report, the agency’s experts noted the unique market position of the Company, low production costs, a high degree of processing of iron ore products, diversification in sales markets and flexibility in managing commodity flows, as well as high standards of corporate governance and a strong financial profile.

Together with its OMK colleagues, Company organised a Coordination Council meeting, which was held online for the first time. The partners discussed improving the quality of concast billets for railway wheel production and implementing the production of billets with improved characteristics at Ural Steel.

SUBSEQUENT EVENTS

October 2020

Metalloinvest increases employee pay. The increase will amount to 5% with over RUB 620 mn allocated to the raise by the end of 2020. Following the two pay increases in 2020, as well as the introduction of new plans for bonuses, redistribution of payroll fund and other payments, the total pay increase for Metalloinvest enterprise employees will amount to around 14% by the end of 2020.

Andrey Cherepov appointed Deputy CEO – Health, Safety and Environment Director.

Ildar Isakov appointed Managing Director of Ural Steel.

Company renamed OEMK to Alexey Ugarov OEMK.

Metalloinvest received award at the Russian Business Leaders: Dynamics, Responsibility, Sustainability 2019 competition.

OEMK completed a major overhaul of mill-700 and launched a ball rolling mill.

Metalloinvest started shipping export products from a new terminal in Ust-Luga.

November 2020

Julia Mazanova appointed Deputy CEO for Sustainable Development and Corporate Communications.

MGOK introduced an advanced conveyor technology for transporting ore from the open pit mine with a capacity of 15 mn tonnes of ore per year.

In order to improve the safety culture, the Company is implementing a pilot behaviour-based safety audit project designed to encourage the correct workplace actions and practices among employees.

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