

METALLOINVEST ANNOUNCES IFRS FINANCIAL RESULTS FOR Q1 2020

Moscow, Russia – 25 May 2020 – Metalloinvest (‘the Company’), a leading global iron ore and HBI producer, and one of the regional producers of high-quality steel, publishes its IFRS financial results for the first quarter ended 31 March 2020.

Management comments

Nazim Efendiev, CEO of Management Company Metalloinvest, commented:

“Andrey Varichev, CEO of Metalloinvest, passed away unexpectedly on April 27th. This is a tragic loss for the Company and its thousands of employees.

Metalloinvest’s team continues to pursue a dynamic development course defined by Andrey Varichev. The Company confirms its commitment to its key priorities and business strategy.”

Alexey Voronov, Deputy CEO – Chief Financial Officer of Management Company Metalloinvest, commented Q1 2020 results:

“In the first quarter of 2020, the Company increased the output and shipment of its key products compared to first quarter of 2019 levels. In the reporting period, Metalloinvest’s EBITDA demonstrated considerable growth of around 34% quarter-on-quarter and amounted to USD 534 mn. A year-on-year comparison shows the opposite trend due to a respective decline in global prices for pellets and steel products. Meanwhile, the EBITDA margin remained solid at 34.8%. The Company maintained a comfortable level of leverage, with Net Debt / EBITDA LTM at 1.46x and a minor proportion of short-term debt (around 7%) at the end of the reporting period upholding financial stability.”

FINANCIAL HIGHLIGHTS

- Revenue USD 1,536 mn (-17.2% y-o-y¹)
- EBITDA² USD 534 mn (-26.8%)
- EBITDA margin 34.8% vs. 39.3% in Q1 2019
- Net Income USD 83 mn (-84.6%)
- Total Debt USD 3,768 mn (-7.2% compared to 31 December 2019)
- Net Debt / EBITDA LTM³ 1.46x vs. 1.49x as at 31 December 2019
- Capital Expenditure USD 84 mn (-4.5%)

PRODUCTION HIGHLIGHTS

- Iron ore⁴ 10.3 mn tonnes (+7.2%)
- Pellets 7.1 mn tonnes (+3.4%)
- HBI/DRI⁵ 2.1 mn tonnes (+3.2%)
- Hot metal 0.7 mn tonnes (+1.5%)
- Crude steel 1.3 mn tonnes (+7.3%)

¹ Hereinafter comparison with Q1 2019 unless indicated otherwise

² Hereinafter EBITDA stands for EBITDA adjusted according to IFRS requirements.

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

KEY CORPORATE HIGHLIGHTS

- Launch of CCM⁶ #3 at OEMK's Electric Arc Furnace Shop following the completion of its technical re-equipping
- Approval of the 2020–2025 Environmental Programme with RUB 21 bn in investments
- Placement of BO-04 series RUB-denominated bonds in the amount of RUB 10 bn

INCOME STATEMENT

USD mn	Q1 2020	Q1 2019	Change, y-o-y
Revenue	1,536	1,856	-17.2%
EBITDA	534	730	-26.8%
EBITDA margin	34.8%	39.3%	-4.5 ppt.
Net Income	83	539	-84.6%

Revenue

In Q1 2019, the Company's revenue amounted to USD 1,536 mn, a 17.2% decrease y-o-y. This is mainly related to a decline in pellet and steel product prices in line with a decrease in global prices.

Expenses

In Q1 2020, the Company's cost of sales amounted to USD 806 mn, a 5.4% decrease y-o-y.

Distribution, general and administrative expenses in the reporting period totalled USD 254 mn, a 22.1% decrease y-o-y. Thus, the share of distribution, general and administrative expenses in the Company's total revenue decreased to 16.5% (vs. 17.6% in Q1 2019).

In Q1 2020, the Company reported net other operating income in the amount of USD 63 mn compared to net other operating expenses in the amount of USD 97 mn in Q1 2019. This related to foreign exchange differences.

Profitability

In Q1 2020, the Company's EBITDA increased by 33.8% to USD 534 mn compared to Q4 2019. Meanwhile, EBITDA declined by 26.8% y-o-y mainly due to a decrease in the Mining Segment EBITDA (-26.5% y-o-y) in line with a decrease in iron ore product prices.

The EBITDA margin amounted to 34.8% vs 39.3% in Q1 2019, a decrease of 4.5 p.p.

Net income in Q1 2020 amounted to USD 83 mn, an 84.6% decrease y-o-y, mainly due to net foreign exchange loss from financing activities.

FINANCIAL POSITION

As at 31 March 2020, the Company's Total Debt decreased by 7.2% since 31 December 2019 and amounted to USD 3,768 mn. Long-term debt remains prevalent in the loan portfolio structure (93% of total debt as at 31 March 2020). Short-term debt amounted to USD 270 mn at the reporting date.

As at 31 March 2020, the Company's cash and cash equivalents amounted to USD 391 mn compared with USD 304 mn as at 31 December 2019.

⁶ Continuous Casting Machine

The Company's Net Debt decreased by 10.1% to USD 3,377 mn as at the reporting date (compared to USD 3,755 mn as at the end of 2019). Net Debt / EBITDA LTM ratio was 1.46x as at 31 March 2020 vs. 1.49x as at 31 December 2019.

LIQUIDITY AND CAPITAL RESOURCES

In February 2020, Metalloinvest priced its BO-04 series bonds for a total amount of RUB 10 bn through a public offering. The coupon rate for the period of 6 years was set at 6.55%⁷. The proceeds were used in full to refinance the current debt in order to improve the parameters of the Company's loan portfolio.

In March 2020, based on 12 months of 2019 results, the Company announced its dividends in the amount of RUB 78.5 bn, the majority of which was returned to the Company for the settlement of intragroup transactions.

OPERATIONAL RESULTS

Production by product

tonnes '000	Q1 2020	Q1 2019	Change, %
Iron ore	10,292	9,602	+7.2%
Pellets	7,070	6,840	+3.4%
HBI/DRI	2,085	2,020	+3.2%
Hot metal	688	678	+1.5%
Crude steel	1,272	1,185	+7.3%

Shipments by product

tonnes '000	Q1 2020	Q1 2019	Change, %
Iron ore	1,842	1,624	+13.4%
Pellets	3,910	3,336	+17.2%
HBI/DRI	1,176	1,224	-3.9%
Pig iron	370	532	-30.5%
Steel products	1,184	1,126	+5.2%

In Q1 2020, the Company produced 10.3 mn tonnes of iron ore, a 7.2% increase y-o-y. This was due to an increase in efficiency as a result of improved quality characteristics of the mined iron ore and decreased ore consumption for concentrate. Another factor was the optimisation of maintenance work duration.

In Q1 2020, pellet production increased by 3.4% y-o-y up to 7.1 mn tonnes due to the optimisation of maintenance work duration at MGOK⁸, increased efficiency and a change in the number of working days.

In Q1 2020, Company produced 2.1 mn tonnes of HBI/DRI, which represents 3.2% growth y-o-y. The growth dynamic y-o-y was primarily due to an increase in productivity at HBI plants and an increase in the number of working days.

In Q1 2020, hot metal production increased by 1.5% y-o-y up to 0.7 mn tonnes mainly driven by the optimisation of maintenance work duration. Crude steel production grew by 7.3% y-o-y to 1.3 mn tonnes in Q1 2020 mainly as a result of the stoppage of the EAF⁹ #2 shop in Q1 2019 for the reconstruction of FMF¹⁰ #2 at Ural Steel.

⁷ According to the issue parameters, there is a call option at the bond's nominal value in 3 years (1,092 days) on the maturity date of the 6th coupon. In case the Company decides to complete an early repayment on the maturity date of the 6th coupon, investors are entitled to redeem their bonds at 100.5% of the nominal value.

⁸ Hereinafter MGOK represents Mikhailovsky GOK

⁹ Electric arc furnace

¹⁰ Flexible Modular Furnace

CAPEX PROGRAMME

In Q1 2020, the Company's capital expenditure amounted to USD 84 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)
- Development projects including the construction of a crushing and conveyor facility, and fine screening technology at MGOK; the implementation of the cyclical and continuous transportation system and construction of external electric power supply facilities at LGOK¹¹; modernisation of Blast Furnace #2 and Blast Furnace #3, and construction of medium pressure CHP¹² boilers at Ural Steel; and construction of the grinding ball mill at OEMK
- 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

In March 2020, Metalloinvest launched CCM #3 at OEMK's Electric Arc Furnace Shop following the completion of its technical re-equipping.

OTHER KEY CORPORATE EVENTS

January 2020

Metalloinvest and Zagorsk Pipe Plant (ZTZ) announced that they are holding discussions regarding a strategic partnership between the two companies for the development of Ural Steel, as well as regarding ZTZ becoming a shareholder in Ural Steel. The conclusion of a deal is dependent on the successful completion of negotiations, on the procedure for auditing the financial and economic activities of Ural Steel, the signing of legally binding documentation and obtaining the necessary regulatory approvals.

February 2020

Metalloinvest's Social Council decided to increase the wages of its enterprises' employees from 1 March 2020. The payroll fund will be increased by 5% or RUB 1.7 bn, taking into account deductions for social insurance contributions.

March 2020

Metalloinvest approved the programme of initiatives for 2020 with the governments of the Belgorod, Orenburg and Kursk regions, and the towns of Zheleznogorsk and Novotroitsk, as part of their socio-economic partnerships.

Anton Zakharov was appointed Managing Director of MGOK.

Metalloinvest approved the Environmental Programme for 2020–2025. The programme provides over RUB 21 bn of investments in a range of technological and environmental measures with direct environmental benefits at all of Metalloinvest's production sites. The key objectives of the Environmental Programme to be achieved by 2025 are as follows:

- A 7% reduction in atmospheric air emissions
- Full transition of MGOK and OEMK to a closed-loop water recycling system – elimination of wastewater discharges into water bodies

¹¹ Hereinafter LGOK represents Lebedinsky GOK

¹² Combined Heat and Power

- Gradual transition of LGOK to a closed-loop water recycling system – reduction of wastewater discharges by 50% (Ural Steel operates a closed water recycling system that excludes wastewater discharges)
- 100% processing of technological waste and materials (not including overburden and tailings of LGOK and MGOK)
- A 33% reduction of overburden formation at LGOK and MGOK as a result of the construction of conveyor facilities
- A 1 mn tonne reduction in greenhouse gas emissions (CO₂ equivalent) from Metalloinvest's iron ore consumers

The programme targets will be specified based on the results of an independent environmental audit in 2020.

SUBSEQUENT EVENTS

April 2020

Nazim Efendiev was appointed new CEO of Management Company Metalloinvest after Andrey Varichev passed away unexpectedly. Andrey Varichev headed the Company since October 2013 and held various managing positions at a number of companies within the Group over the past two decades.

Metalloinvest allocated over RUB 100 mn to purchase medical equipment, equip hospitals and provide residents of Belgorod, Kursk and Orenburg regions with personal protective equipment against the coronavirus threat.

The Company provided extra payments as an additional measure to support its employees during the COVID-19 pandemic. The total amount of a one-time financial aid was about RUB 600 mn.

May 2020

Expert RA rating agency confirmed the Company's rating at the level "ruAA" with a stable outlook.

Metalloinvest modernised Pellet Plant #3 at MGOK to implement advanced technology in mining – grinding concentrate on high-pressure rolls.

Metalloinvest opened a credit line at the International Bank for Economic Co-operation in the amount of up to EUR 40 mn with a repayment within 7 years and a grace period of 5 years. The utilisation period under the agreement is 3 years. The interest rate is fixed for the entire loan period. The funds will be used to finance expenditures related to the import of production equipment.

Alexey Voronov was appointed Deputy CEO – Chief Financial Officer of Management Company Metalloinvest.

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For further information, please contact:

Artem Lavrishev

Director of Investor Relations and Corporate Ratings

E: ir@metalloinvest.com

T: +7 (495) 981-55-55, ext. 7243

Anton Troshin

Director of Corporate Communications Department

E: pr@metalloinvest.com

T: +7 (495) 981-55-55, ext. 7629

Metalloinvest is a leading global iron ore and merchant HBI producer and supplier, and one of the regional producers of high-quality steel. The Company has the world's second-largest measured iron ore reserve base and is one of the lowest-cost iron ore producers. Metalloinvest is wholly owned by Holding Company USM LLC. Alisher Usmanov is the major beneficiary of Holding Company USM LLC (49%).