

# INDUSTRIAL METALLURGICAL HOLDING

FY 2020 FINANCIAL RESULTS



14.04.2021

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# FY 2020 KEY FINANCIAL HIGHLIGHTS



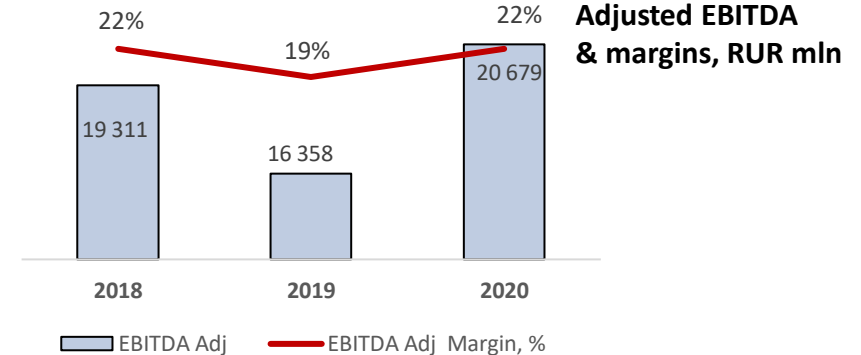
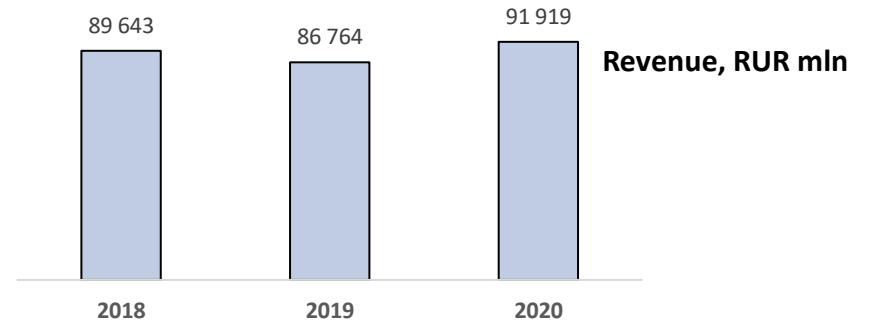
## IFRS financial highlights, RUR mln

	2020	2019	Change,%
<b>Revenue</b>	<b>91,919</b>	<b>86,764</b>	<b>6</b>
Cost of sales	(66,336)	(65,414)	1
<b>EBITDA</b>	<b>17,201</b>	<b>13,742</b>	<b>25</b>
EBITDA margin, %	19	16	-
<b>Adjusted EBITDA *</b>	<b>20,679</b>	<b>16,358</b>	<b>26</b>
Adj. EBITDA margin, %	22	19	-
<b>(Loss)/ Profit for the period</b>	<b>(14,388)</b>	<b>6,123</b>	-
Profit margin, %	(16)	7	-
<b>Capex</b>	<b>(9,038)</b>	<b>(8,490)</b>	<b>6</b>
<b>Total Debt</b>	<b>75,373</b>	<b>69,470</b>	<b>8</b>
Short term debt	12,166	13,401	(9)
Cash & cash equivalents	6,101	9,851	(38)
<b>Net Debt</b>	<b>69,272</b>	<b>59,619</b>	<b>16</b>
<b>Net Debt/ Adjusted EBITDA</b>	<b>3.3x</b>	<b>3.6x</b>	-
<b>Net cash from operating activities</b>	<b>11,102</b>	<b>16,276</b>	<b>(32)</b>
Free cash flow	2,064	7,786	(73)

Record high result

Notes: (1) EBITDA by segments according to the Company's IFRS financial statements for respective periods; (2) Covenant EBITDA is calculated using the formula and definitions stipulated in the Loan agreement for Eurobond as the sum of profit or loss for the period plus the following: (a) interest expense, including capitalised interest; (b) income tax expense; (c) depreciation and amortisation; and (d) all other non-cash charges (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income (other than accruals of revenue and interest income in the ordinary course of business). (2) Net Leverage is defined as Net Debt divided by Covenant EBITDA LTM

Source: Company data



## Company's credit ratings



## MARKET OVERVIEW

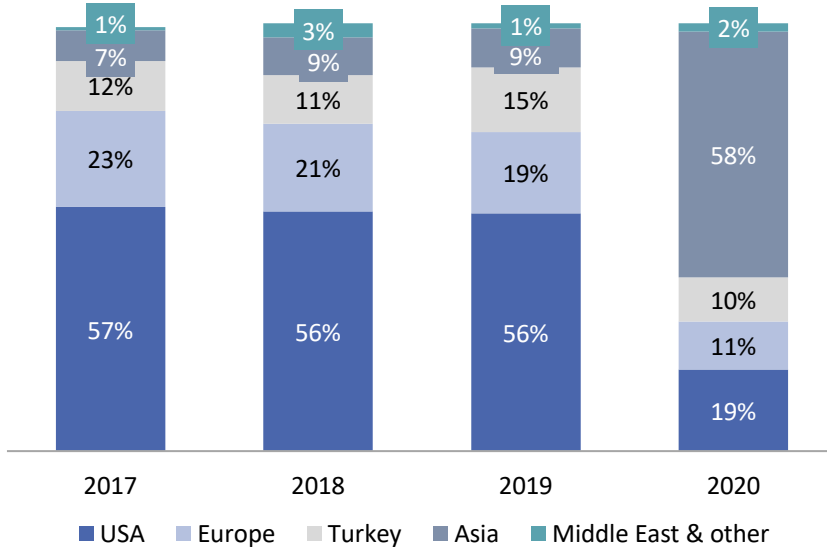


# DIVERSIFIED INTERNATIONAL CUSTOMER BASE

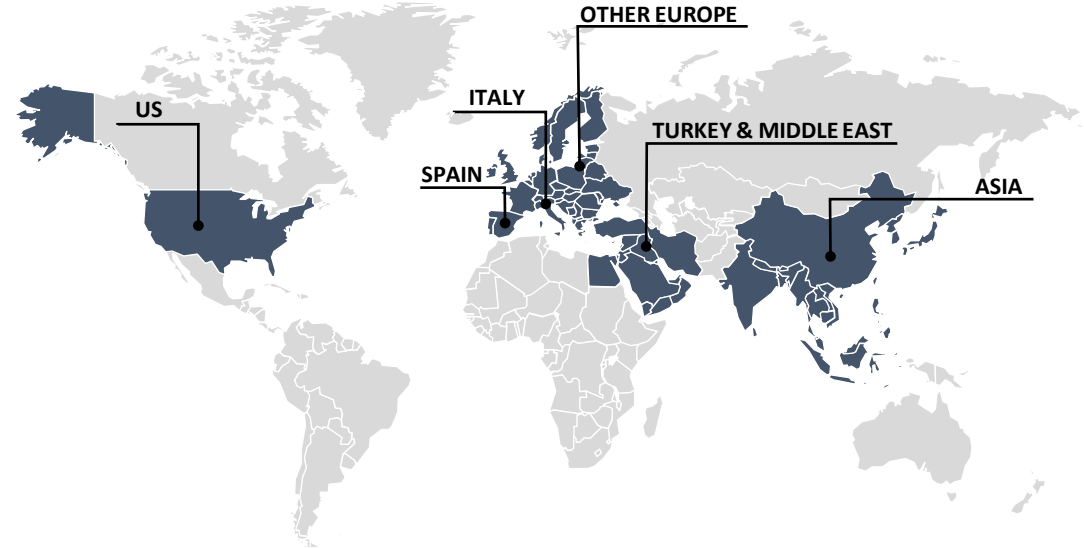


## IMH pig iron export sales<sup>(1)</sup>

In volume terms



## IMH key export markets for merchant pig iron



## Key merchant pig iron customers in 2019

- ✓ IMH is one of the largest pig iron exporters globally, with 8% market share in 2020
- ✓ Starting from April 2019 a new large consumer Tula-Steel is buying significant volume of IMH's pig iron, as a result of it IMH's export sales declined in 2019-2020
- ✓ Pig iron remains an essential additive to other raw materials for high-quality steel and castings production with no adequate substitute product due to low contents of impurities
- ✓ Chinese pig iron demand remains high due to environmental restrictions driving investments into EAF-based steelmaking substituting conventional BF-BOF steelmaking technology



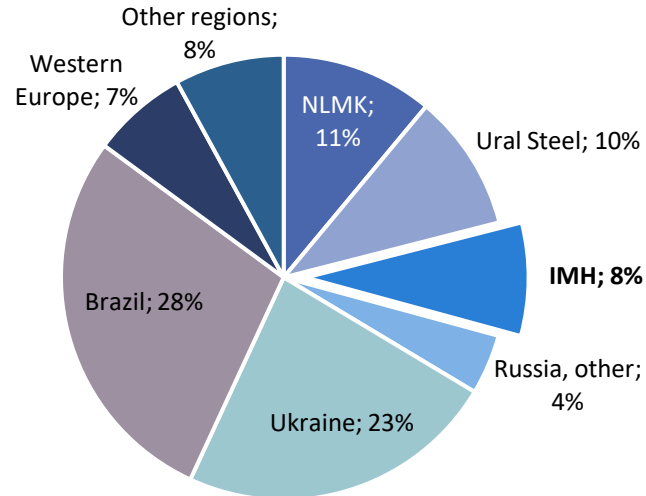
Notes: (1) share in pig iron export sales by volume through trader's data (Lafonte Commerce S.A.)  
Source: MMI, Company data

# TOP-2 MERCHANT PIG IRON PRODUCER GLOBALLY AND STRONG POSITION IN MERCHANT COKE IN CIS



## Global merchant pig iron seaborn market<sup>(1)</sup>

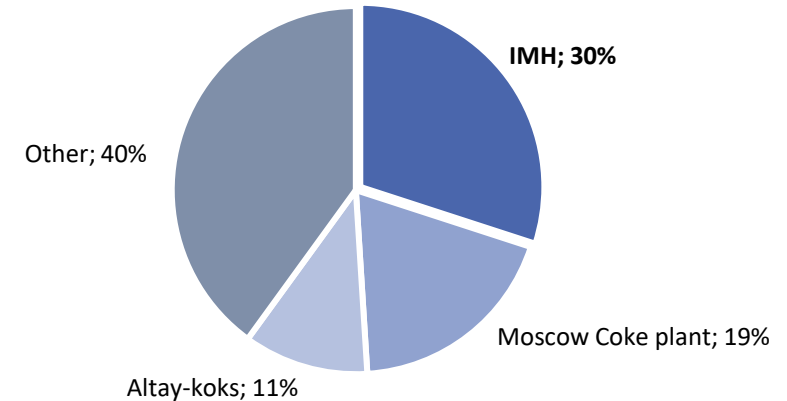
As of 2020



- Advantageous location of IMH (Tulachermet) in close proximity to Moscow region allows to achieve higher sales margins both for export and domestic sales
- Since 2019 IMH's share of export market of pig iron has been decreasing because of rising sales volumes to a large domestic customer Tula Steel
- At the same time IMH became an absolute leader at the Russian merchant pig iron market with the Company's market share reaching 80% in 2019 and 87% in 2020 backed by growing sales to Tula Steel
- Due to numerous closures both connected with bankruptcies during the times of low demand (Brazil) and environmental protection initiatives (China and Europe), global supply of merchant pig iron has decreased

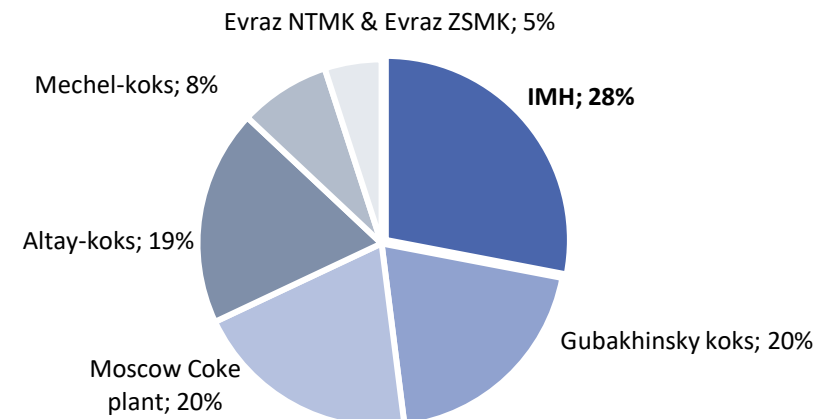
## Leader among Russia's merchant coke exporters

As of 2020



## IMH is the main supplier of merchant coke in Russia<sup>(2)</sup>

As of 2020

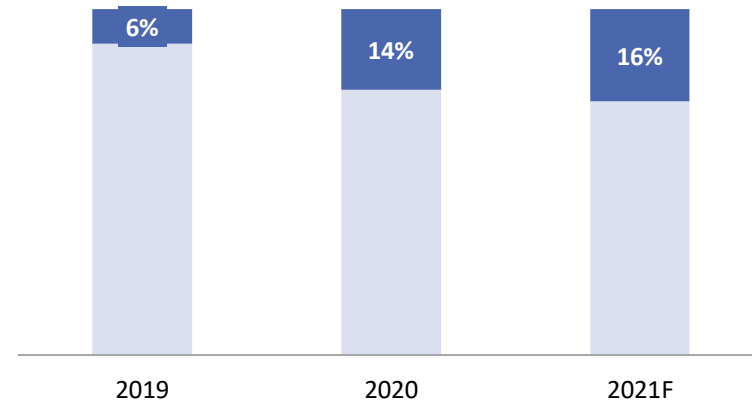


# ...ON FAVORABLE PRICING TERMS

- Starting from April 2019, a large portion of the Group's pig iron is sold to Tula Steel<sup>(1)</sup>
- Group's operations with Tula Steel are on an arm's length basis, with pricing being more beneficial for the Group compared to other local sales and export due to savings on casting and transportation costs
- Introduction Tula Steel as a major domestic customer would reduce IMH's dependency on the pig iron export market
- IMH sold 511Kt of pig iron to Tula Steel in 2019 (~21.7% of total pig iron sales for 2019) and 1.3 Mt in 2020 (50% of the total pig iron sales for 2020).
- Tula Steel is conveniently located in less than 200km from Moscow, the largest construction market in Russia

## Tula Steel's market share

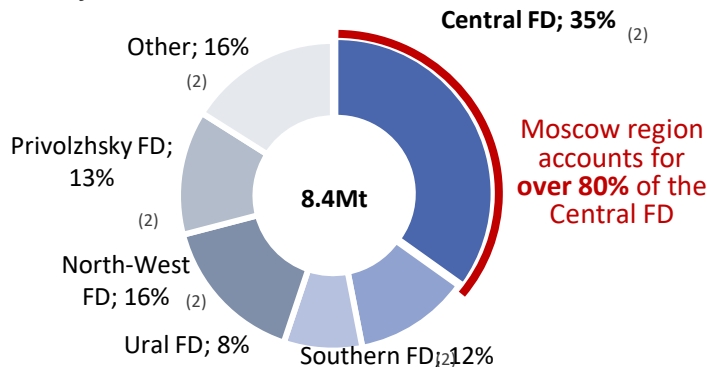
According to Metal Expert's analysis



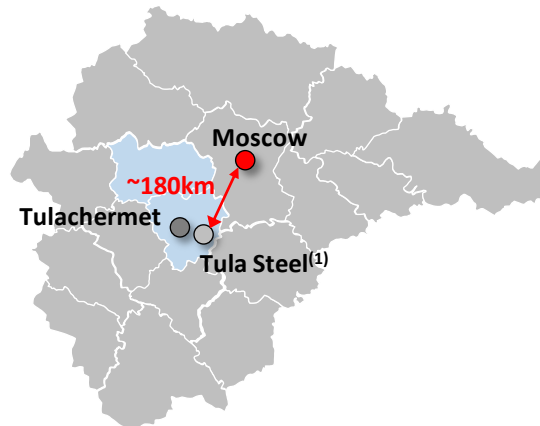
■ Tula Steel's share

## Russian reinforcing steel market, split by regions

As of 2020, in Mt

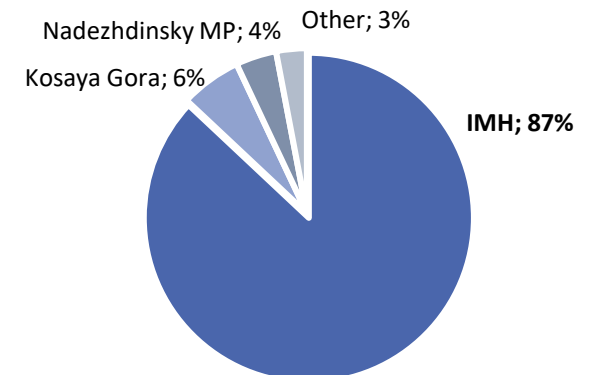


## Close proximity to the largest construction market in Russia



## Russian pig iron domestic market main suppliers

2020, in volume terms

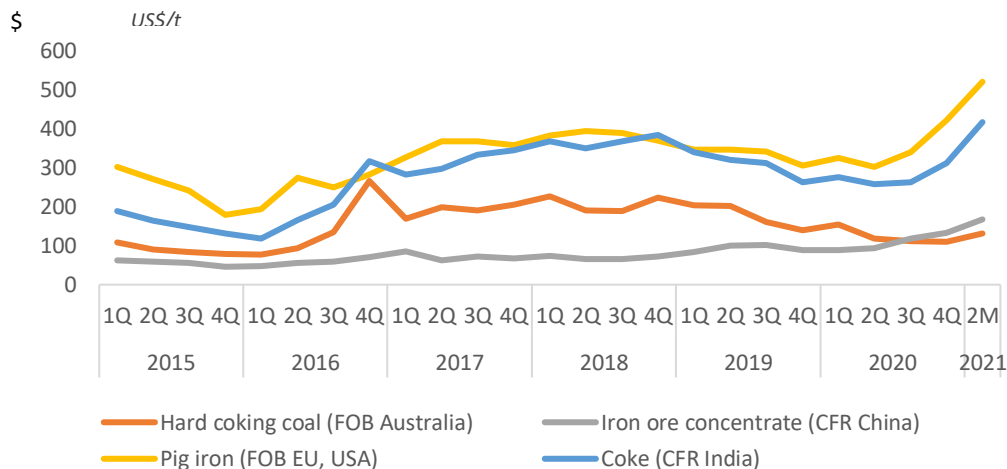


Notes: (1) Tula Steel is an IMH related party but not a part of the IMH group; (2) FD states for "federal district"; (3) calculated as the difference between the average price per tonne of liquid pig iron sold to Tula-Steel during the month and the average price per tonne of merchant pig iron sold outside Russia or the average price per tonne of merchant pig iron sold to other Russian customers during the same month. Prices on the liquid pig iron and the merchant pig iron are not directly comparable as these are separate products with different cost basis

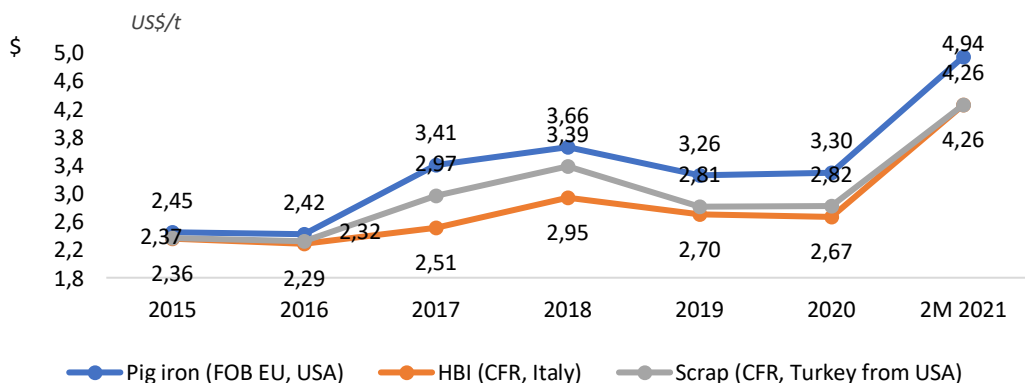
Source: Metal Expert, Company data

## Despite COVID-19 pandemic and volatile markets, IMH shows strong results in 2020

### Price dynamics for key products

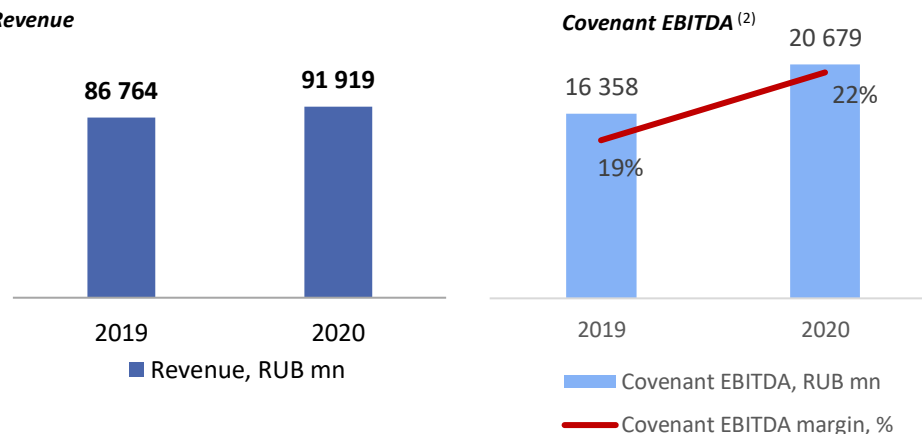


### Price for 1% Fe in raw materials<sup>(1)</sup>



### Key financial metrics in 2020

#### Revenue



### Official status of strategic importance

- The Group is listed among companies of strategic importance by the Russian Ministry of Economic Development<sup>(2)</sup>. A number of Group's companies are also considered to be of high priority for regional economy

#### Key benefits:

- During 2020 the Company operated normally even during COVID-19 lockdown all over the country, without any shut-downs or interruptions
- Priority access to subsidized credit facilities from state banks at low interest rates and to government support in case of market downturn
- Simplified state registration and other regulatory procedures

Note: (1) special index showing the metallurgical value of each product for steel production. Calculated as price per tonne of product divided by actual iron content in a tonne (2) official web site of the Russian Ministry of Economic Development

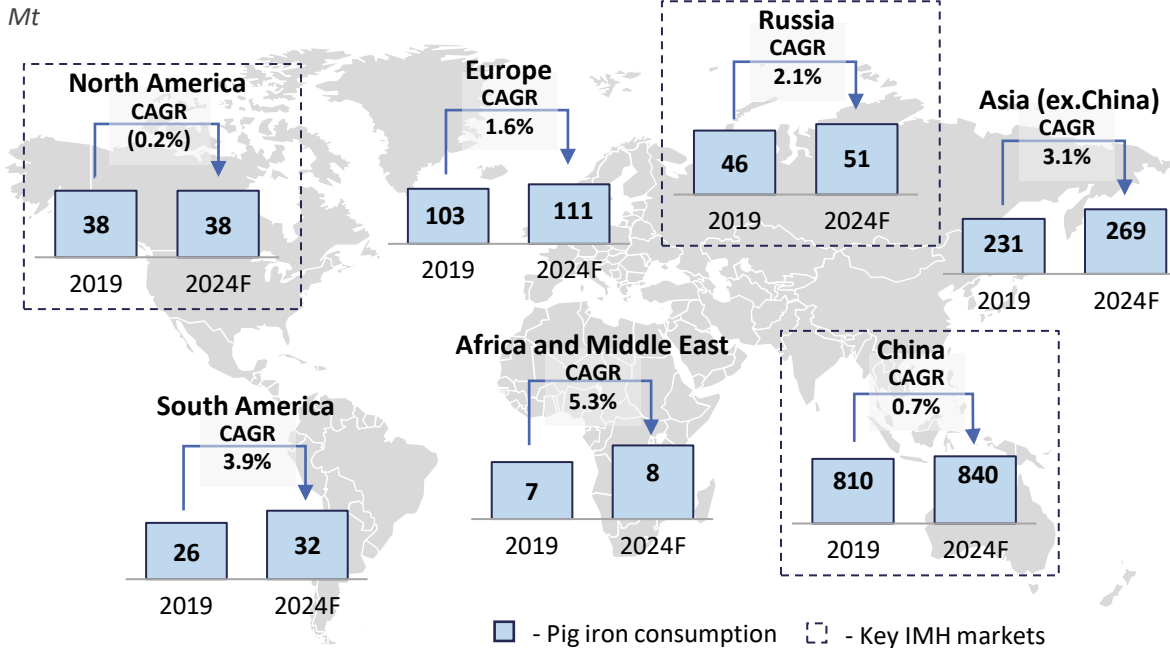
Source: Metal Courier, Metal Bulletin, SBB

(2) Adjusted (loan covenant) EBITDA is calculated as earnings before income tax, interest expense, exchange gain/loss, depreciation, amortization, impairment and other non-cash items

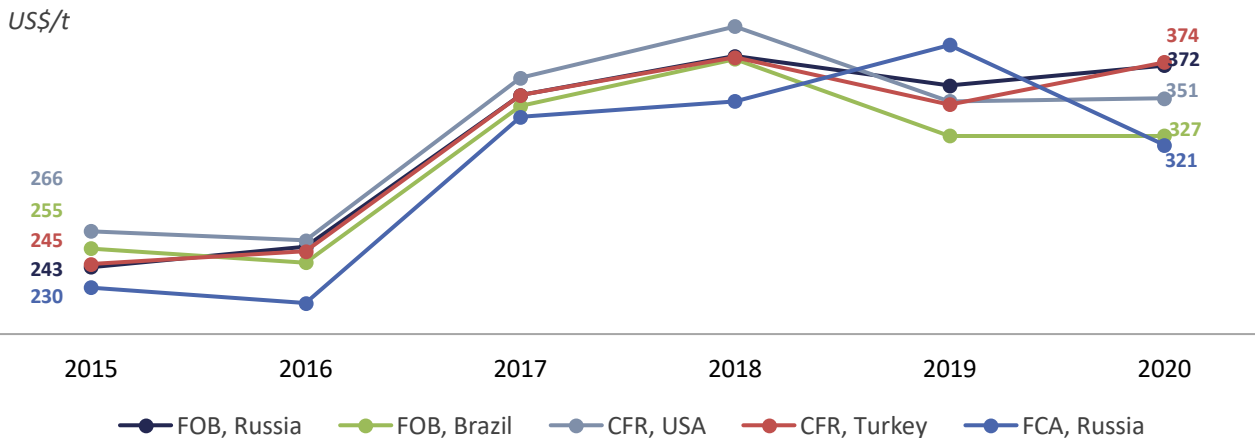


# PIG IRON MARKET OVERVIEW

## Major merchant pig iron markets



## Global and Russian pig iron prices



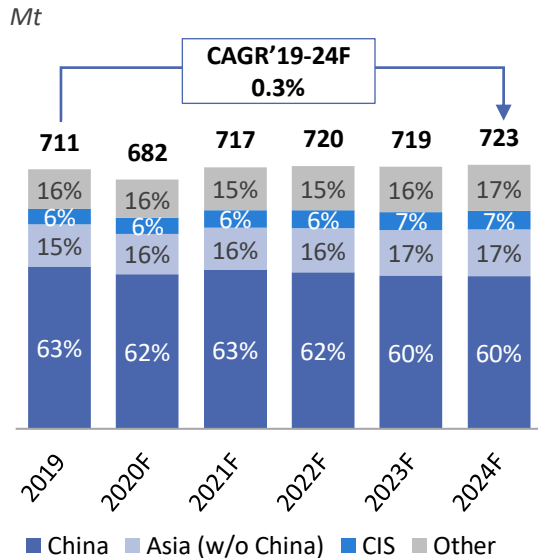
Source: MMI, Company data

## Key market trends

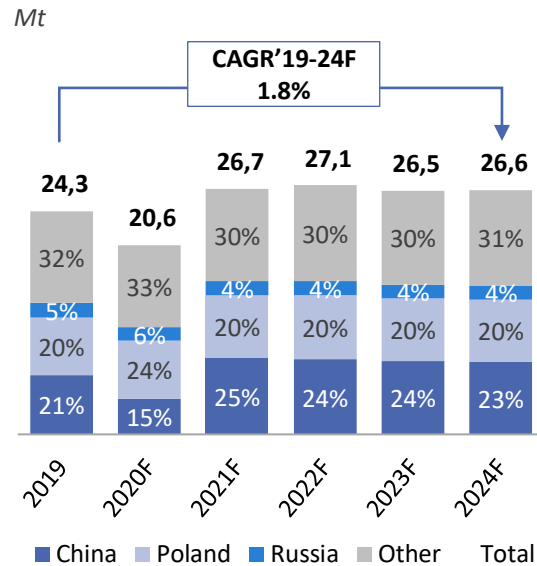
- The world production of pig iron in the medium term is estimated to remain at the level of ca. 1.3bn tonnes per year
- Global supply: less available material on the market due to lower supply from Russia. IMH and Metalloinvest significantly decreased their sales to the market in 2019
- COVID-19 affected pig iron prices less compared with the effect of falling segment of the industry development cycle in 2018 - 2019
- China: active government's support provides strong recovery signs in the steel industry. China buys all the available pig iron on the back of its intension to produce environmentally safe "green" steel by electric arc technology
- Europe: a number of European blast furnaces closed thus decreasing domestic supplies, but the economy recovers slowly, steel industry affected by expectations of the "second wave" of COVID-19 pandemic

# COKE MARKET OVERVIEW

## Global coke production by region



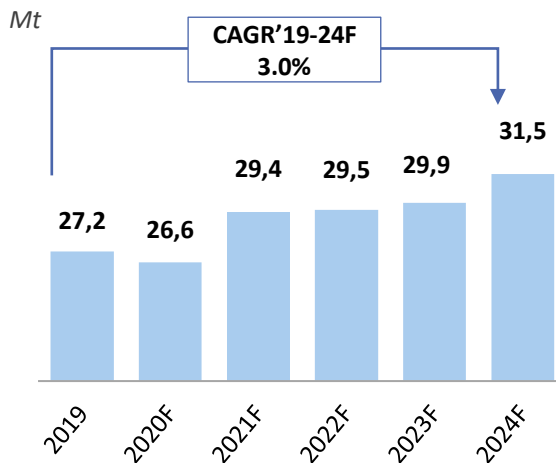
## Global coke exports by region



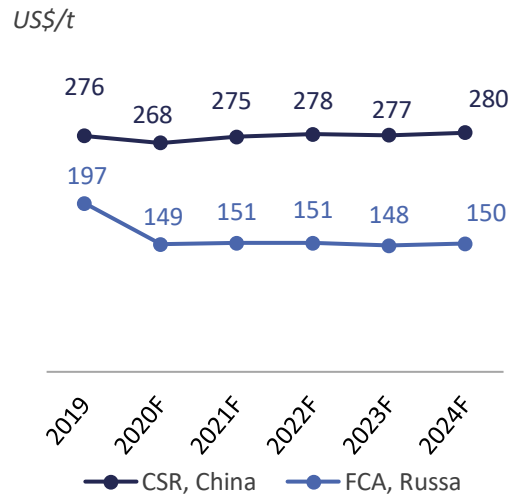
## Key market trends

- Global coke production trends and developments generally follow those of pig iron
- Coke demand and pricing are expected to be positive in the upcoming periods due to the expected increase in pig iron production
- China was the largest consumer of coke in 2019 with 445Mt (66% of global consumption)
- In addition to China, the largest producers and consumers of coke in the Asian region are India and Japan
- The CIS produced 41.7Mt of coke in 2019, which accounted for 6% of global production
- Russia: over 90% of the coke produced is consumed internally by vertically integrated steelworks
- Coke price at the global market is determined mostly by the export price from China
- The coke price in Russia is determined mainly by producers' marginality and consumers' demand for coke

## Coke consumption in Russia



## Coke prices in Russia and China



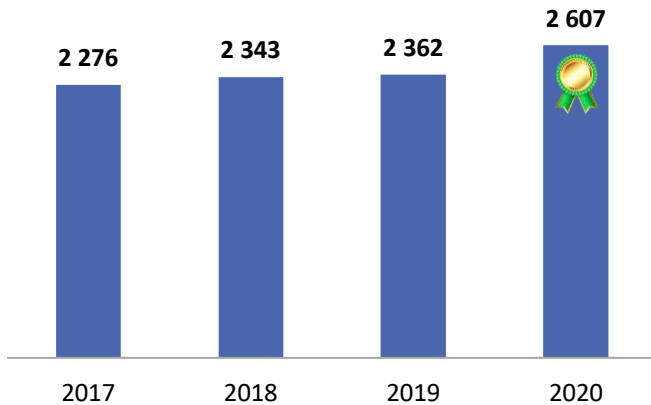
FINANCIAL & OPERATING PERFORMANCE  
FY 2020



# OPERATING RESULTS OVERVIEW

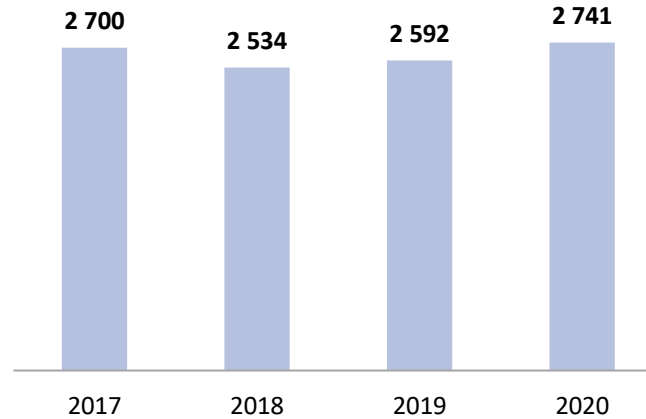
## Pig iron production volume

Kt



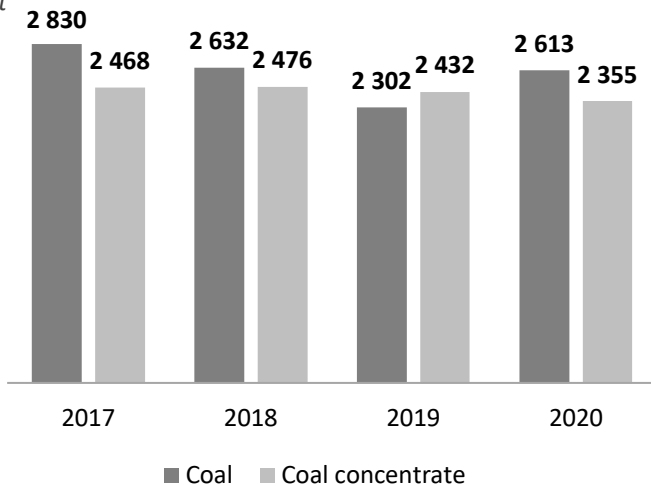
## Coke production volume

Kt



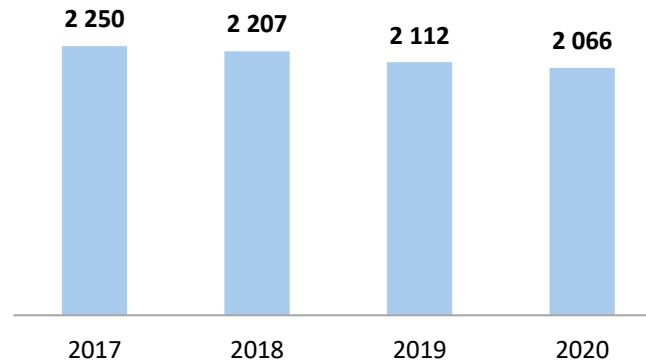
## Coking coal & concentrate production volume

Kt



## Iron ore concentrate production volume

Kt

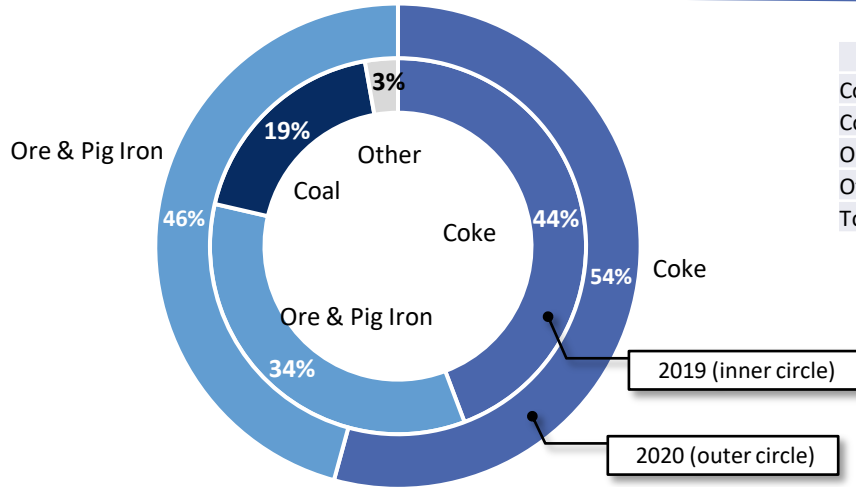


- Coal production volume is back to normal at Tikhova mine
- Record high pig iron production on the back of successful maintenance of blast furnaces and high-quality raw materials from internal sources.
- Coal concentrate production slightly lower because of processing raw coal with higher ash content from Tikhova mine,
- Coke production growth as a result of growing domestic consumption as well as internal consumption.
- 100% Koks capacity utilization and reduced carbonization time due to high market demand
- Iron ore concentrate volume was mainly stable to compare with 2019.

# KEY FINANCIAL HIGHLIGHTS

## Negative EBITDA from Coal segment offset by record high EBITDA from coke & pig iron

### EBITDA<sup>(1)</sup> by segments

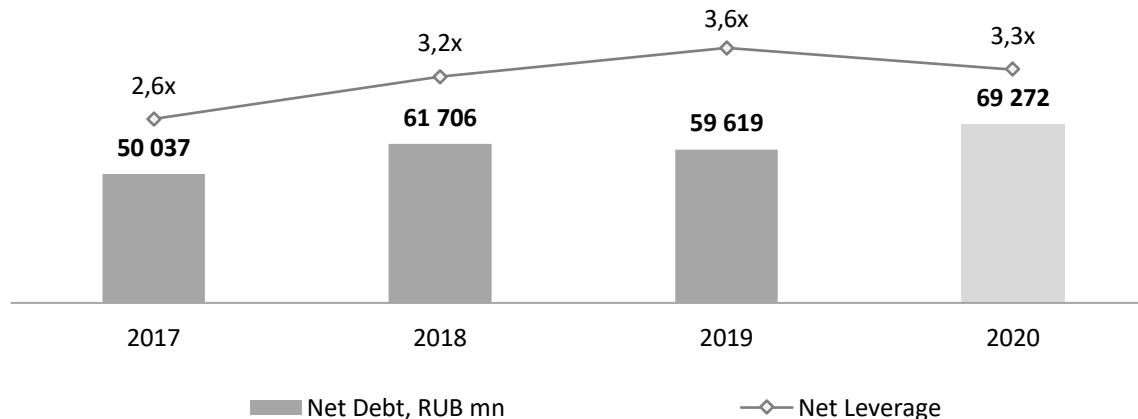


	2020	2019
Coal	-588	2 552
Coke	9 877	6 080
Ore & Pig Iron	8 329	4 722
Other	-417	388
<b>Total</b>	<b>17201</b>	<b>13742</b>

- Revenue increased by 6% y-o-y because of:
  - Prices for pig iron recovery;
  - Pig iron and coke sales growth at the domestic market;
  - Pig iron and coke production growth.
- Higher US\$/RUB exchange rates positive for export revenue
  - Covenant EBITDA 26% up y-o-y in 2020 thanks to:
    - Lower (-27%) transportation costs due to selling major part of pig iron to Tula Steel, located near Tulachermet;
    - Decrease of coal and iron ore prices and growing own coal production
    - Lower coke consumption at Tulachermet

### Net Debt and Net Leverage dynamics

RUB mn



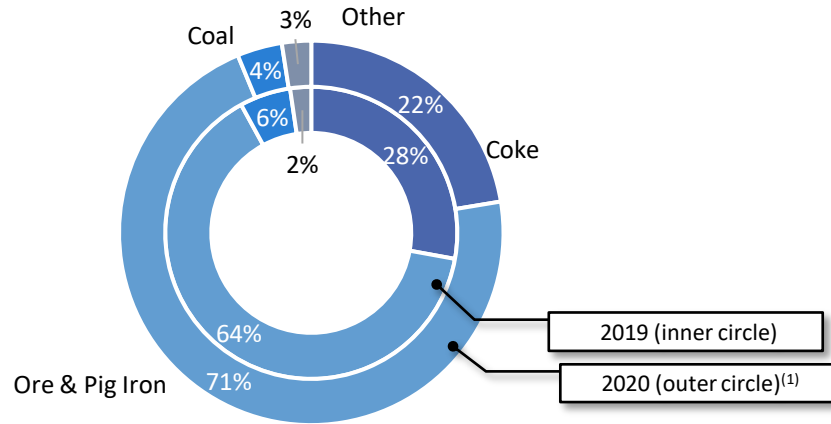
- Increase of Net Debt is caused by exchange rates growth that led to revaluation of the US\$-denominated bond

Notes: (1) EBITDA by segments according to the Company's IFRS financial statements for respective periods; (2) Covenant EBITDA is calculated using the formula and definitions stipulated in the Loan agreement for Eurobond as the sum of profit or loss for the period plus the following: (a) interest expense, including capitalised interest; (b) income tax expense; (c) depreciation and amortisation; and (d) all other non-cash charges (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income (other than accruals of revenue and interest income in the ordinary course of business). (2) Net Leverage is defined as Net Debt divided by Covenant EBITDA LTM

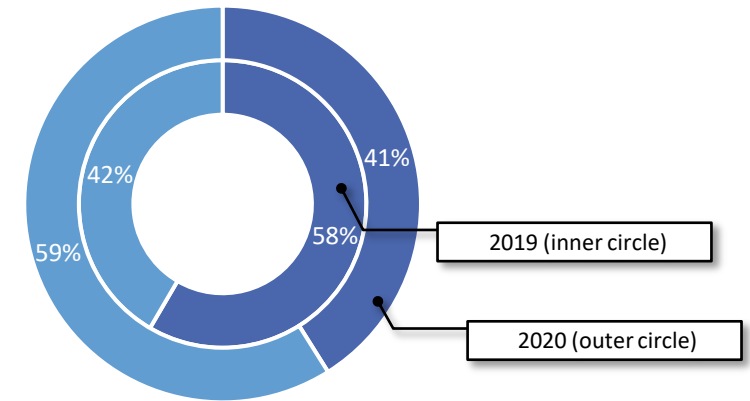
Source: Company data

# REVENUE STRUCTURE

## Revenue by segment

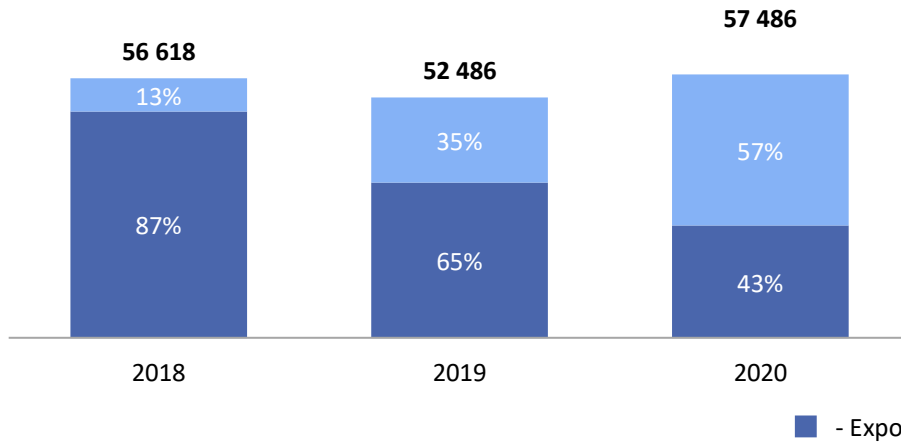


## Revenue by geography



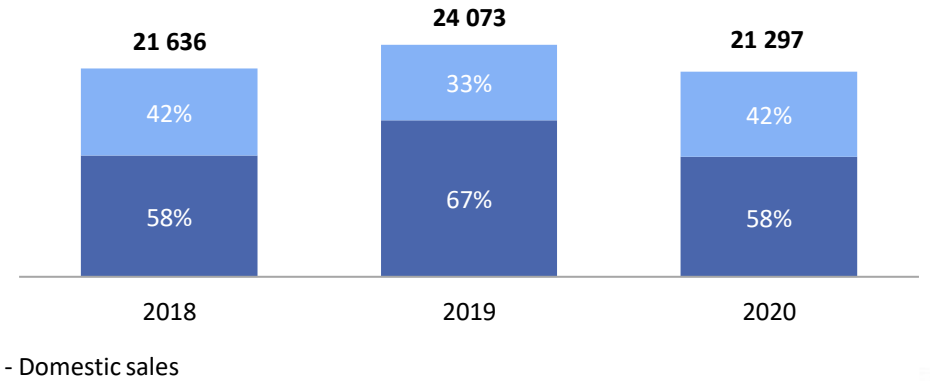
## Pig iron sales by geography

RUB mn



## Coke sales by geography

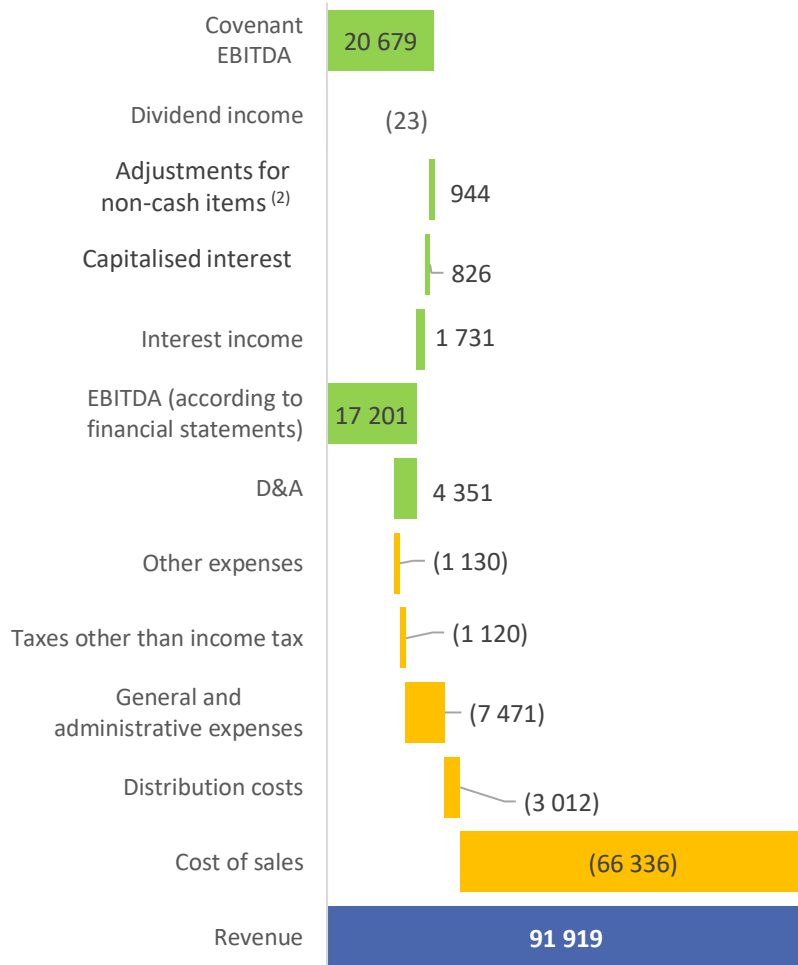
RUB mn



# COST STRUCTURE

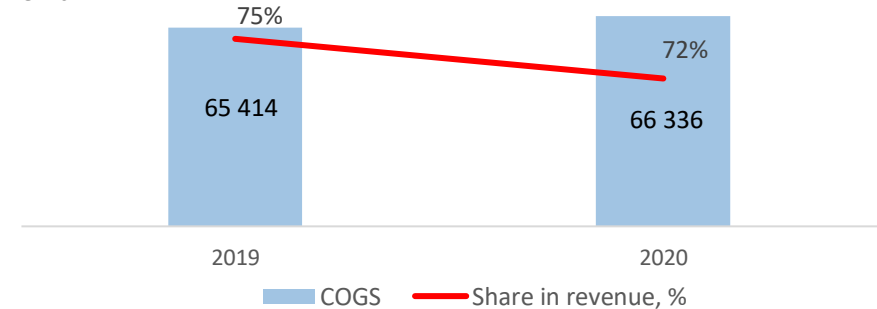
## Revenue to Covenant EBITDA<sup>(1)</sup> bridge

RUR mn

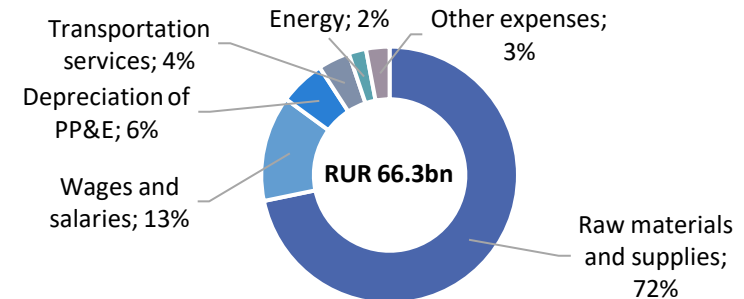


## Cost of sales dynamics

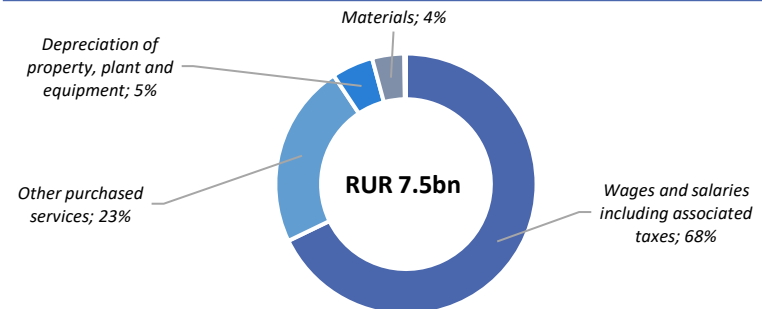
RUR bn



## Cost of sales breakdown



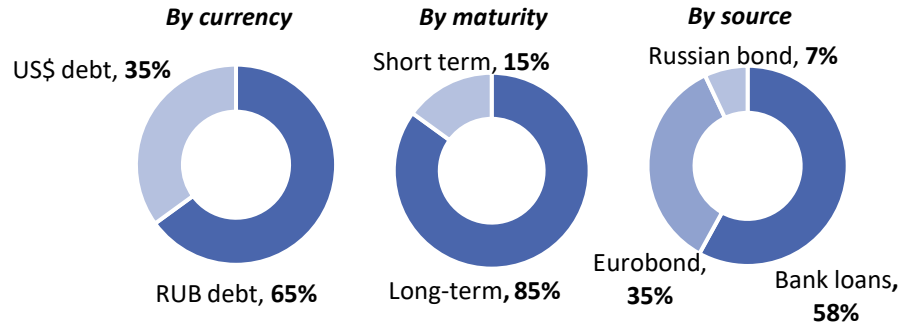
## General and administrative expenses breakdown



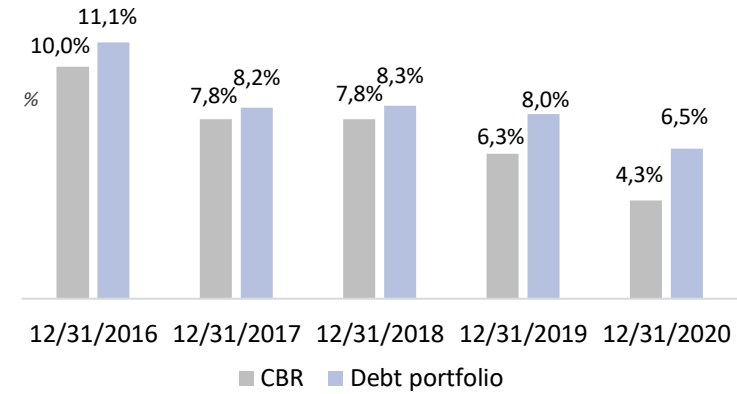
Notes: (1) Covenant EBITDA is calculated using the formula and definitions stipulated in the Loan agreement for Eurobond as the sum of profit or loss for the period plus the following: (a) interest expense, including capitalised interest; (b) income tax expense; (c) depreciation and amortisation; and (d) all other non-cash charges (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income (other than accruals of revenue and interest income in the ordinary course of business); (2) Includes net impairment losses on financial and contract assets, vacations reserve, write-down/(reversal of write-down) of inventories to net realisable value, provision for uncertain tax position.  
Source: Company data

# BALANCED DEBT PORTFOLIO

## Debt structure<sup>(1)</sup> as of January 1, 2021

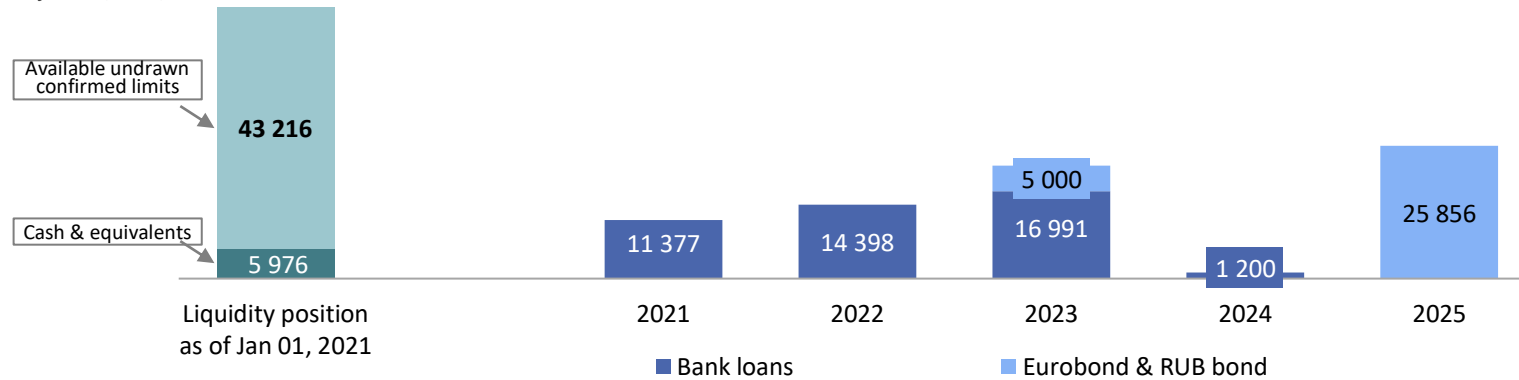


## Average interest rates dynamics



## Liquidity position and debt maturity schedule<sup>(1)</sup>

As of Jan 01, 2021, in RUB mn



Notes: (1) According to management accounts, including repayment of rollover tranches;  
Source: Company data, CBR official web site



Strategy and development



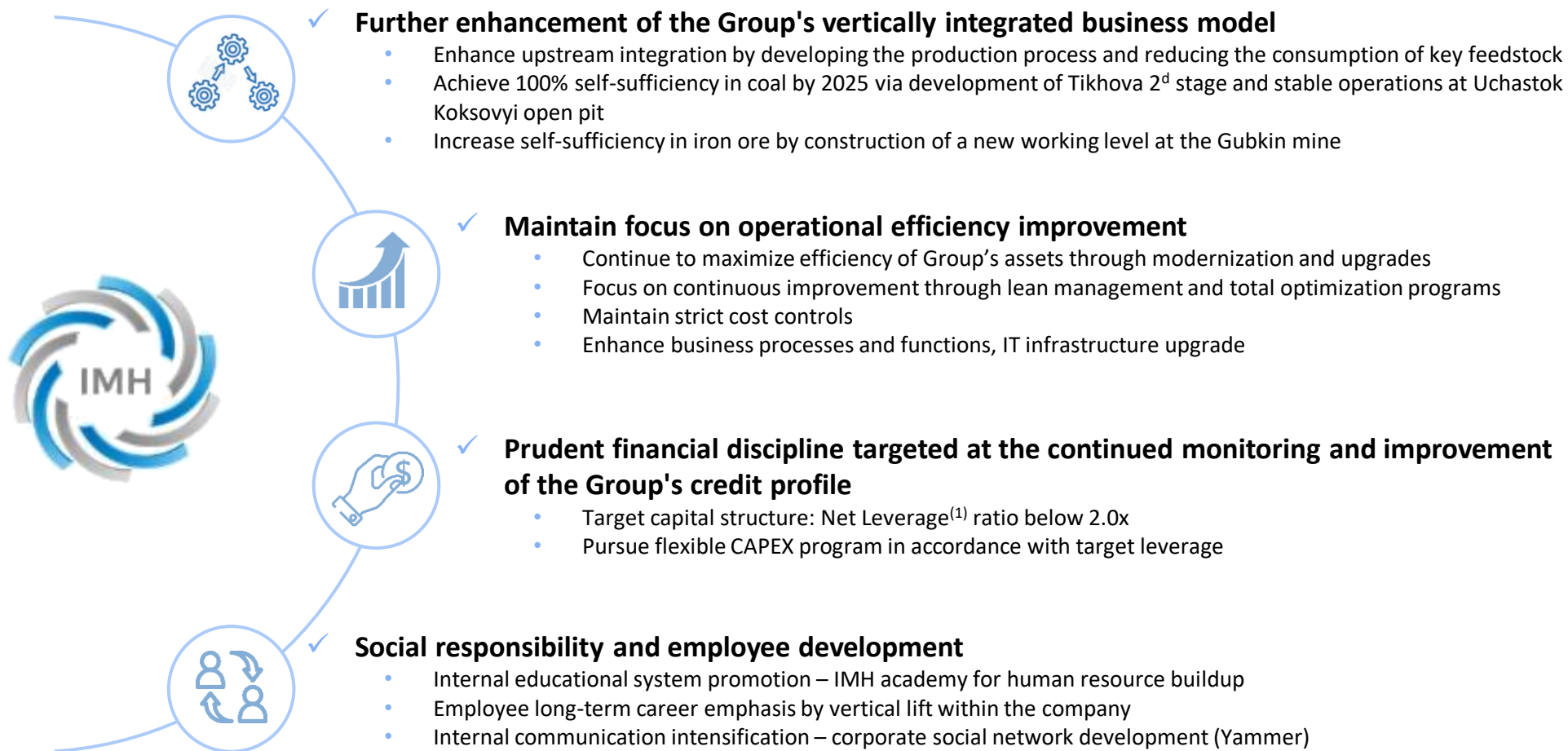
# PRUDENT FINANCIAL POLICY



Capital structure	Target Net Leverage ratio of $\approx 2.0x$ on a long-term basis	<ul style="list-style-type: none"><li>• Management strives to maintain conservative capital structure with target Net Leverage<sup>(1)</sup> ratio of <math>\approx 2.0x</math> for the long term</li><li>• That could be achieved thanks to strategic investment cycle completion and shifting into the production stage</li></ul>
CAPEX	Flexible investment program subject to target leverage	<ul style="list-style-type: none"><li>• Company's decade-long investment cycle is largely complete, shifting to the stage of return on investments</li><li>• Flexibility to revise CAPEX to bring down to maintenance subject to market conditions and target leverage</li><li>• More flexible CAPEX control due to strategic investment cycle completion</li></ul>
Development	Organic growth focus	<ul style="list-style-type: none"><li>• Focus on achieving organic growth due to core assets upgrades</li><li>• Raw materials vertical integration boost strategy</li><li>• Prudent investment management in accordance with the target leverage</li></ul>

Note: (1) Net Leverage is defined as Net Debt divided by Covenant EBITDA LTM. Covenant EBITDA is calculated using the formula and definitions stipulated in the Loan agreement for Eurobond as the sum of profit or loss for the period plus the following: (a) interest expense, including capitalised interest; (b) income tax expense; (c) depreciation and amortisation; and (d) all other non-cash charges (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income (other than accruals of revenue and interest income in the ordinary course of business); .

Source: Company data



# IMH'S KEY PRIORITIES IN SUSTAINABLE DEVELOPMENT





## Safety working conditions

- ✓ Established industrial safety rules and instructions
- ✓ Conducting regular industrial safety trainings for employees
- ✓ Regular modernization of the equipment and fleet
- ✓ Own medical center
- ✓ Regular health check for production employees



## Trainings and education

- ✓ In-house training centers at Tulachermet, PJSC KOKS and KMaruda
- ✓ Development program for the high potential employees for management positions
- ✓ Annual IMH's conference at Skolkovo innovation center
- ✓ IMH's Academy launched in 2016
- ✓ "Leaders of changes" management reserve training program

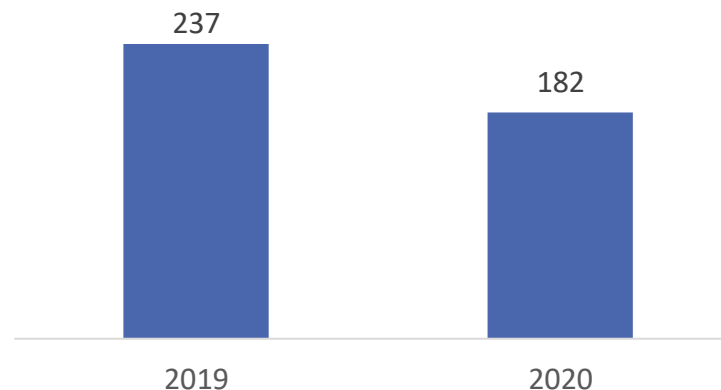


## Selected health & safety projects for 2019-2020

Project's brief overview	Investments (RUB mn)
▪ Personnel positioning system at KMaruda	112
▪ Launching preliminary methane drainage system at Tikhova mine	93
▪ Underground radio communication system at Tikhova mine	35
▪ Construction of a waste dump at Butovskaya mine	19
▪ Acoustic shields installing at Tulachermet	13
<b>Total for selected projects:</b>	<b>272</b>

## Charity spending, IFRS

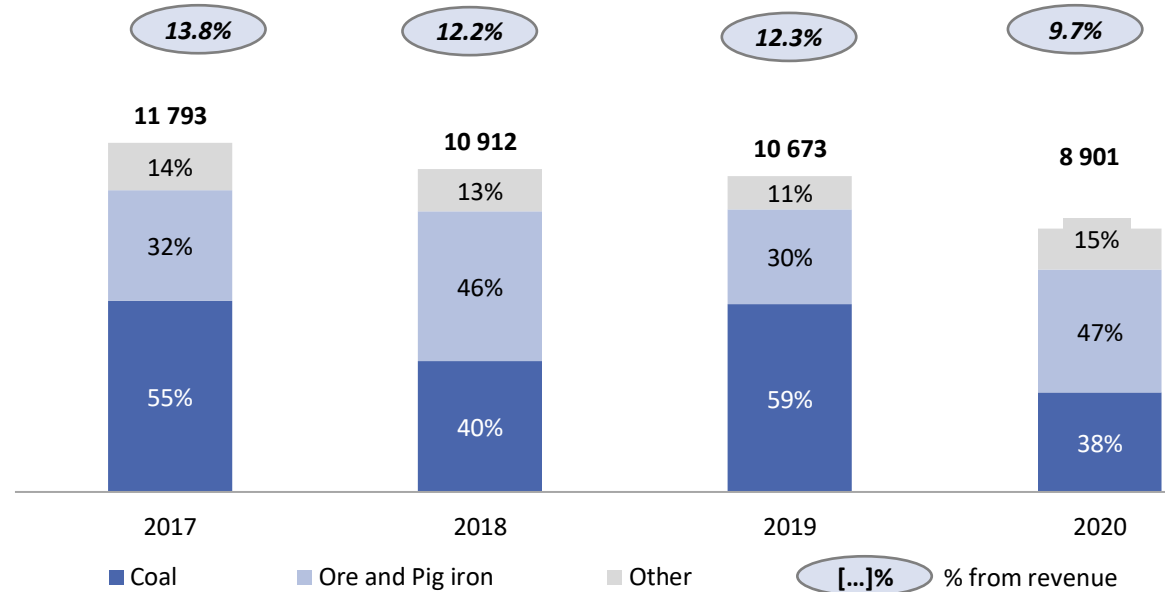
RUB mn



# CAPITAL EXPENDITURES ANALYSIS

## CAPEX<sup>(1)</sup> dynamics by key sectors, 2017- 2020

- ✓ Company's decade-long investment cycle is largely complete, shifting to the stage of return on investments
- ✓ Flexibility to revise CAPEX to bring down to maintenance subject to market conditions and target leverage
- ✓ More flexible CAPEX control due to strategic investment cycle completion



## Selected development projects

Sector	Brief overview of the project	Expected timing	Target efficiency
<b>Iron ore</b>	<ul style="list-style-type: none"> <li>▪ Expanding iron ore production through the construction of a new working level at the Gubkin mine</li> <li>▪ Building new mining shafts, purchasing larger and more powerful mining equipment and constructing a large new ore processing plant</li> </ul>	<ul style="list-style-type: none"> <li>▪ Launch of skip shaft – 2024</li> <li>▪ Reaching full extraction capacity - 2027</li> </ul>	<ul style="list-style-type: none"> <li>▪ Producing 3.0Mt of iron ore concentrate per year by 2027</li> <li>▪ Increasing iron ore extraction capacity to 8.5Mt/year by 2028</li> </ul>
<b>Pig iron</b>	<ul style="list-style-type: none"> <li>▪ Reconstruction of Blast furnace №1 at Tulachermet</li> </ul>	2021	<ul style="list-style-type: none"> <li>▪ Pig iron production capacity to increase by 1.4Mt/year</li> </ul>



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