PRESS RELEASE

# IMH ANNOUNCES IFRS CONSOLIDATED FINANCIAL RESULTS FOR 2020

*1 April 2021*

**Industrial Metallurgical Holding (IMH), one of the largest global suppliers of merchant pig iron and Russia's biggest merchant coke exporter, announces IFRS financial results for 2020.**

## IMH key financial indicators:

| RUB mln | 2020 | 2019 | Change, % |
|---|---|---|---|
| **Revenue** | **91,919** | **86,764** | **6** |
| COGS | (66,336) | (65,414) | 1 |
| **Gross profit** | **25,583** | **21,350** | **20** |
| **Operating profit** | **1,159** | **9,514** | **(88)** |
| Operating profit margin, % | 1 | 11 | - |
| **EBITDA** | **17,201** | **13,742** | **25** |
| EBITDA margin, % | 19 | 16 | - |
| **Adjusted EBITDA**[1] | **20,679** | **16,358** | **26** |
| **(Loss) / Profit for the period** | **(14,388)** | **6,123** | **-** |
| **Net cash from operating activities** | **11,102** | **16,276** | **(32)** |
| **Total debt** | **75,373** | **69,470** | **8** |
| Cash and cash equivalents | 6,101 | 9,851 | (38) |
| **Net debt** | **69,272** | **59,619** | **16** |

**Financial results**

- In 2020, the Group's consolidated revenue increased by 6% y-o-y to RUB 91.9 bln, hitting an all-time record, which was driven by an increase in output and sales of pig iron and coke in the domestic market, as well as higher exchange rates.
- Adjusted EBITDA[1] grew 26% y-o-y to record-high RUB 20.7 bln on the back of rising revenue and virtually flat COGS.
- The cost of goods sold went up 1% y-o-y to RUB 66.3 bln, mainly as a result of the cost of raw materials and supplies going up 7% amid lower coal and iron ore prices and a 13% growth in coal production in 2020, as well as lower coke consumption per tonne of pig iron. On top of that, IMH enjoyed a reduction of transportation expenses (down 27%) due to strong pig iron sales to Tula Steel located in close proximity to the producer, Tulachermet. A slight increase in COGS was attributable to a higher output of pig iron and coke boosting demand for third-party feedstock.
- Gross profit expanded by 20% on the back of rising revenue and only a marginal increase in COGS.
- Operating profit plunged 88% y-o-y to less than RUB 1.2 bln due to RUB 11.2 bln of recognised losses and impairment of property, plant and equipment resulting from the temporary suspension of the Butovskaya mine operations amid a hostile market environment translating into a slump of prices for semi-lean coal it produces.

[1] EBITDA calculated in accordance with the Eurobond loan agreement (LPN, Reg S / 144A)

- In 2020, the Group reported a net loss of RUB 14.4 bln, mainly as a result of the Butovskaya mine asset impairment and FX differences attributable to Eurobonds and interest accrued on them. The Group's total financial expenses went up 129% y-o-y to RUB 12.8 bln.
- The Group's free cash flow dropped by 73% y-o-y to RUB 2 bln due to changes in working capital, mainly driven by an increase in accounts receivable as the Group was diversifying its customer base (now focusing on Tula Steel) and ramping up domestic sales on a deferred payment basis as opposed to export sales payable upfront.

**Operational results**

| Production, '000 tonnes | 2020 | 2019 | Change, % y-o-y |
|---|---|---|---|
| Pig iron | 2,607 | 2,362 | 10 |
| Coal | 2,613 | 2,302 | 13 |
| Coal concentrate | 2,355 | 2,432 | (3) |
| Coke (6% moisture content) | 2,741 | 2,592 | 6 |
| Iron ore | 4,790 | 4,845 | (1) |
| Iron ore concentrate | 2,066 | 2,112 | (2) |

**Production and sale of merchant products:**

- Pig iron production exceeded 2.6 million tonnes, with two blast furnaces' output hitting an all-time record, thanks to timely overhauls, equipment upgrades and the intra-Group supply of high-quality feedstock and fuel.
- Coke output grew 6% y-o-y in 2020 on the back of stronger domestic demand.

**Production of raw materials:**

- In 2020, coal production rose by 13% y-o-y, driven by a higher output from the Tikhova mine.
- The output of coal concentrate demonstrated an upward trend. Total output in 2H 2020 was 9% higher than in 1H 2020, even though it marginally slid in Q4 2020 due to a coal face transfer and a temporary decline in coal production from the Tikhova mine.
- The output of iron ore and concentrate largely remained flat.

**Key segments financial results**

**Coal segment**

| RUB mln | 2020 | 2019 | Change, % y-o-y |
|---|---|---|---|
| Segment revenue | 8,254 | 10,544 | (22) |
| EBITDA | (588) | 2,552 | - |
| EBITDA margin, % | (7) | 24 | - |

- The Coal segment revenue in 2020 dropped by 22% due to a significant decline in market prices for coal, which was partially offset by higher production volumes of premium fat coal.
- Profitability metrics also suffered from a loss from operations of the Butovskaya mine amid a downright hostile market environment.

**Coke segment**

| RUB mln | 2020 | 2019 | Change, % y-o-y |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Segment revenue | 38,064 | 42,273 | (10) |
| EBITDA | 9,877 | 6,080 | 62 |
| EBITDA margin, % | 26 | 14 | - |

- The Coke segment revenue slid by 10% y-o-y on the back of lower coke prices both in the internal and external markets as the pandemic caused some coke consumers to suspend their operations. The waning demand in 1H 2020 was partially offset by higher production and sales volumes and the market recovery starting in Q4 2020.
- EBITDA increased by 62% and EBITDA margin rose to 26% in response to a significant decline in prices for raw materials sourced for coke production. On top of that, the Group benefited from a reduction of transportation expenses as a result of increased domestic sales.

**Ore & Pig Iron segment**

| RUB mln | 2020 | 2019 | Change, % y-o-y |
|---|---|---|---|
| Segment revenue | 65,748 | 55,879 | 18 |
| EBITDA | 8,329 | 4,722 | 76 |
| EBITDA margin, % | 13 | 8 | - |

- In 2020, the Ore & Pig Iron segment revenue grew 18% y-o-y, which came on the back of recovering pig iron prices in 2H 2020 both in the internal and external markets and a rise in production and sales volumes. On the upside, the segment's revenue saw a positive impact from favourable exchange rates and a significant increase in the sales of scrap by the segment's IMH-VTORMET (up 351% y-o-y).
- The segment's EBITDA soared by 76% to over RUB 8.3 bln. EBITDA margin increased by 5 pp y-o-y. Profitability metrics were supported by a decline in transportation costs due to strong pig iron sales to the nearby Tula Steel plant, while prices for iron ore raw materials and coke remained low in 1H 2020. On the back of the above drivers, EBITDA margin peaked at 17% in 1H 2020. However, prices for iron ore raw materials and coke recovered in 2H 2020, restraining EBITDA growth. As a result, EBITDA margin came in at 13%.

**Debt portfolio management**

As at 31 December 2020, the Group's net debt went up to RUB 69.3 bln following the revaluation of its foreign currency debt portfolio due to the US dollar appreciation.

Short-term loans account for 15%[2] of the Group's total loans and borrowings, with the remaining 85% represented by long-term borrowings, the largest of which is the 5.9% Eurobond issue placed in September 2020 and maturing in 2025. The Group redeemed its 7.5% Eurobonds placed in 2017 and maturing in 2022 in full and ahead of schedule.

The Group's debt portfolio includes bank loans and bond issues. Based on management accounts, bank loans account for 58% of the Group's debt portfolio, with another 35% attributable to the new Eurobonds and 7% represented by the RUB-denominated bonds due in 2023.

The Group's cash and cash equivalents as at the reporting date amounted to RUB 6.1 bln. Undrawn committed limits under existing credit facilities exceeded RUB 43 bln. This amount comfortably covers the Group's short-term debt and other current liabilities worth a total of RUB 11.8 bn.

Driven by Adj. EBITDA growth, net debt / Adj. EBITDA decreased from 3.64x as at 31 December 2019 to 3.35x as at 31 December 2020.

Fitch Ratings affirmed the Group's credit rating at B with a stable outlook. The Analytical Credit Rating Agency (ACRA) affirmed the Group's credit rating at A- with a stable outlook.

**Development of production assets**

***February 2020.*** Uchastok Koksovy obtained the permission to put into operation a total of 2,513 metres of new non-public railway lines at the Vostochnaya station of the Kiselyovsk Loading and Transportation Company.

---

[2] Based on management accounts.

Each of the new tracks at the Vostochnaya station is capable of holding at least 70 rail cars to make departure trains. Total costs of the project amounted to RUB 165 mln.

***March 2020.*** KMAruda passed an integrated management system audit and was certified to ISO 45001:2018 (Occupational Health and Safety Management Systems) and ISO 50001:2018 (Energy Management Systems). ISO 45001:2018 replaced OHSAS 18001:2007. The main difference of the new standard is a risk-oriented approach to analysing health and safety threats to both employees and all the stakeholders.

***October 2020.*** The Group completed full automation of management systems at Uchastok Koksovy and Berezovskaya washing plant which was recognised as the best IT project of the year. The state-of-the-art infrastructure helps automate and consolidate information on production, operational and financial performance, procurement, personnel, inventories, repairs, etc. This results in enhanced production process transparency, as well as better efficiency and quality of decision making.

***March 2021.*** KMAruda launched a new ball mill at its grinding and concentrating plant as part of equipment upgrade efforts, with two more mills to be replaced in 2021.

**Sergey Frolov, Vice President for Strategy and Communications, commented on the 2020 financial and operating performance:**

"Our strategy seeks to ensure robust sales and further growth by producing high-quality and appealing goods at each stage of the production chain from coal and iron ore to merchant pig iron. Our approach to implementing this strategy consists in continuous improvement of production processes and we saw it play out successfully in 2020.

Amid the pandemic and weaker demand from our traditional markets, we managed to refocus commodity flows by selling our products in Russia and Asia, ramping up production and winning new customers. As a result, we hit an all-time record in terms of revenue and adjusted EBITDA. Our increased focus on the domestic market translated into lower transportation costs, which positively affected the profitability of sales. With COGS remaining flat amid lower raw materials prices, the Company hit yet another record in pig iron production.

The decline in coal prices forced us to make a tough choice and suspend operations at the Butovskaya mine as it mainly produced semi-lean coal which was hit the hardest. The mine could not generate sufficient cash flow to cover its own costs. Neither could the Group consume all the coal on its own as its demand for this coal grade was limited. Given the economic losses from the mine operations and the Group's intention to produce coal for its own needs only to minimise greenhouse gas emissions, we decided to suspend operations at this mine for a while. The resulting asset impairment coupled with rising finance expenses amid adverse FX differences caused the Group to report a net loss.

The landmark event of 2020 was the global pandemic, so we were taking active efforts to protect lives and well-being of all our employees. Since mid-March, we had been implementing an action plan to prevent the spread of infectious diseases. All employees who are not directly involved in the production process work remotely. The staff are provided with personal protective equipment, while premises and high-touch surfaces are subject to intensive disinfection protocols. Temperature checks are applied to all people entering our facilities. We closely monitor the compliance with sanitary rules and regulations and actively support employee vaccination initiatives across all our operations.

We also keep our investment programme unchanged. Our priority is to commission the underlying horizon at KMAruda's iron ore asset, which will allow us to meet internal demand for extra volumes of high-quality iron ore concentrate. On top of that, we intend to launch renovated blast furnace No. 1 at Tulachermet to increase our pig iron output.

In 2020, we opted to rebuild our strategy around the sustainable development principles. Koks was chosen as a pilot site for this exercise. It has a sustainable development policy in place, with a Board committee established to deal, among other things, with sustainable development issues. Our top priority is to launch a reporting system which will then be supporting our long-term sustainable development programmes."

**Sergey Cherkaev, Vice President and CFO, commented on the 2020 results:**

"In 2020, we worked hard to optimise our debt portfolio along two focus areas, specifically by reducing foreign currency borrowings as the riskiest part of the portfolio and increasing the share of long-term loans. We made good progress in both as we repurchased our 7.5% Eurobonds placed in 2017 for c. USD 400 mln before maturity. Instead, we placed Eurobonds for USD 350 mln due in 2025 at 5.9% p.a. At the time, it was the lowest coupon rate ever for a Eurobond offering among issuers from the CIS with similar international financial ratings, and we are grateful to our investors for their trust and many years of working together.

On top of that, our intensive negotiations on the loan terms with the lending banks helped the Group reduce its average interest rate to record-low 6.5% p.a.

Thanks to production and sales process optimisation and a favourable market environment, the Group achieved record-high revenue, profitability of sales and adjusted EBITDA. We expect the positive trends to continue into Q1 2021.

The Group significantly increased its general market and financial stability capitalising on its diverse sales geography and unique experiences from the pandemic. On a final note, we are in a position to implement our investment plans and clearly see the prospects for further growth. We also continue to pursue a conservative financial policy to achieve 2.0x net debt/EBITDA in the near term."

***

**Industrial Metallurgical Holding (IMH)** is a Russian vertically integrated group of companies specialising in production of pig iron, extraction and processing of coking coal and iron ore, foundry casting and powder metallurgy. IMH is one of the world's largest suppliers of merchant pig iron and Russia's biggest exporter of merchant coke. The Group's key production facilities are located in the Kemerovo, Belgorod, Tula and Kaluga regions of the Russian Federation.

***

Ekaterina Popova
Head of Strategic Communications
+7 495 725 56 82, ext. 654

popova_ea@metholding.com
www.metholding.ru