

Severstal reports Q2 & H1 2020 financial results

PAO Severstal (MICEX-RTS: CHMF; LSE: SVST), one of the world's leading steel and steel-related mining companies, today announces its Q2 & H1 2020 financial results for the period ended 30 June 2020.

CONSOLIDATED FINANCIAL RESULTS FOR Q2 AND H1 2020

\$ million, unless otherwise stated	Q2 2020	Q1 2020	Change, %	H1 2020	H1 2019	Change, %
Revenue	1,590	1,777	(10.5%)	3,367	4,208	(20.0%)
EBITDA ¹	501	555	(9.7%)	1,056	1,416	(25.4%)
EBITDA margin, %	31.5%	31.2%	0.3 pts	31.4%	33.7%	(2.3 pts)
Profit from operations	382	425	(10.1%)	807	1,180	(31.6%)
Operating margin, %	24.0%	23.9%	0.1 pts	24.0%	28.0%	(4.0 pts)
Free cash flow ²	190	54	251.9%	244	652	(62.6%)
Net profit	391	72	443.1%	463	903	(48.7%)
Basic EPS ³ , \$	0.47	0.09	422.2%	0.56	1.10	(49.1%)

Notes:

1. EBITDA represents profit from operations plus depreciation and amortisation of productive assets (including the Group's share in depreciation and amortisation of associates and joint ventures) adjusted for gain/(loss) on disposals of PPE and intangible assets and its share in associates' and joint ventures' non-operating income/(expenses). A reconciliation of EBITDA to profit from operations is presented in Severstal's quarterly financial statements.
2. Free Cash Flow ("FCF") is determined as the aggregate amount of the following items: Net cash from operating activities, CAPEX, proceeds from disposal of PPE and intangible assets, interest received and dividends received. A reconciliation of FCF to net cash from operating activities is presented in Severstal's quarterly financial statements.
3. Basic EPS is calculated as profit for the period divided by the weighted average number of shares outstanding during the period: 825 million shares for Q2 2020 and Q1 2020, H1 2020 and 824 million shares for H1 2019.

Q2 2020 vs. Q1 2020 ANALYSIS:

- Group revenue declined by 10.5% q/q to \$1,590 million (Q1 2020: \$1,777 million) as a result of lower average sales prices for steel products and a decline in sales volumes.
- Group EBITDA declined by 9.7% q/q to \$501 million (Q1 2020: \$555 million), reflecting lower revenues during the period, which was partially mitigated by lower sales costs. Severstal's vertically integrated business model delivered an EBITDA margin of 31.5%, maintaining the Group's position of having one of the highest EBITDA margins in the steel industry globally.
- Free Cash Flow increased to \$190 million in Q2 2020 (Q1 2020: \$54 million), primarily reflecting positive changes in net working capital.
- Net profit totalled \$391 million (Q1 2020: \$72 million), including a FX gain of \$168 million, which mainly reflects an accounting gain on the translation of USD debt balances due to the appreciation of the rouble in the quarter.
- Cash CAPEX amounted to \$331 million (Q1 2020: \$344 million). □ Net debt increased to \$2,006 million at the end of Q2 2020 (Q1 2020: \$1,528 million).
- Severstal is committed to returning maximum value to its shareholders whilst managing and maintaining a comfortable level of debt. Severstal's financial position remains strong with a Net debt/EBITDA ratio of 0.8 as at the end of Q2 2020. The Board of Directors has therefore recommended a dividend of 15.44 roubles per share for Q2 2020. H1 2020 vs.

H1 2019 ANALYSIS:

- Group revenue declined by 20.0% y/y to \$3,367 million in H1 2020 (H1 2019: \$4,208 million). This drop in revenue y/y was due to weaker pricing dynamics for steel products and lower sales volumes in the period.
- Group EBITDA was 25.4% lower y/y at \$1,056 million (H1 2019: \$1,416 million), primarily reflecting lower revenues, which were partially offset by a reduction in the cost of sales. The Group's EBITDA margin remained high at 31.4% (H1 2019: 33.7%).
- The Company generated \$244 million of FCF (H1 2019: \$652 million), mainly reflecting a decline in EBITDA and CAPEX growth y/y.

FINANCIAL POSITION HIGHLIGHTS:

- At the end of Q2 2020, cash and cash equivalents declined to \$584 million (Q1 2020: \$1,042 million).
- Gross debt remained almost unchanged at \$2,590 million (Q1 2020: \$2,570 million).
- Net debt increased to \$2,006 million at the end of Q2 2020 (Q1 2020: \$1,528 million). The Net debt/EBITDA

ratio was 0.8 at the end of Q2 2020 (Q1 2020: 0.6). Severstal's Net debt/EBITDA ratio remains one of the lowest among steel companies globally and allows the Company to maintain a comfortable level of debt, whilst continuing to return value to its shareholders.

- The Group's liquidity position remains strong, with \$584 million in cash and cash equivalents in addition to unused committed credit lines and overdraft facilities of \$1,059 million, more than covering the Company's short-term principal debt of \$47 million.

Alexander Shevelev, CEO of Severstal Management, commented:

"The health and safety of all Severstal employees remains our first priority. For this reason, in response to the COVID-19 pandemic we have implemented strict protective measures across all our sites and organised remote working for our office staff since the middle of March. Fortunately, in almost all of the regions where we operate, we have avoided any large-scale outbreak of COVID-19 and our operations have continued without interruption. As long as necessary, Severstal will continue to maintain strict sanitary requirements and to closely monitor adherence in this area.

Moving on to our financial results for Q2 2020, I am pleased to note that all our businesses demonstrated a strong performance despite the market disruptions made by the COVID-19 outbreak. We have maintained almost 100% utilisation rate at our steelmaking facilities. At our mining operations we have increased sales volumes of coking coal by 34% q/q, maintained strong sales volumes of iron ore products and achieved significant end-to-end optimisation effects. The flexibility of our distribution network allowed us to maintain a high share of exports, keeping sales volumes relatively steady during the period. The weighted average selling prices declined only by 4% q/q as we continue developing our downstream operations. Despite the 11% decline in revenues in Q2 2020, our high levels of operational efficiency enabled us to maintain an EBITDA margin of 31.5%, which is the highest in the global steel industry globally. Free Cash Flow also increased from \$54 million to \$190 million q/q, even though our capital investment level remained high.

Despite the COVID-19 pandemic our transformation programme continues and remains a very high priority for us.

Severstal's financial position remains strong with Net Debt/EBITDA ratio of 0.8 times, the Board remains confident in its outlook and is recommending a dividend of 15.44 roubles per share for Q2 2020."

DIVIDEND

The Board of Directors is recommending a dividend of 15.44 roubles per share for Q2 2020. Approval of the dividend is expected to take place at the Company's EGM on 28 August 2020. The record date for participation in the EGM is 3 August 2020. The recommended record date for the dividend payment is 8 September 2020. The approval of the record date for the dividend payment is also expected to take place at the Company's EGM on 28 August 2020.

OUTLOOK

In Q2 2020 global steel demand was impacted by the spread of COVID-19 as a result of lockdown restrictions throughout the EU and Russia. According to industry experts, global steel demand is expected to decline by 6% y/y in 2020. Iron ore prices demonstrated strong upward dynamics due to high production rates in China, whereas production contraction elsewhere resulted in lower demand for coking coal.

Russian domestic steel demand reduced significantly in Q2 2020; however, this is expected to partially recover in H2 2020.

Despite a number of potential headwinds on both export and domestic markets, Severstal's low cost position allows us to remain competitive and the Board remains confident in the resilience of the Company's business model relative to its local and global peers.

NOTES

Full financial statements are available at http://www.severstal.com/eng/ir/results_and_reports/financial_results/index.phtml

The Annual Report 2019 is available at http://www.severstal.com/eng/ir/results_and_reports/annual_reports/index.phtml