

## FY 2020 Financial Results conference call transcript

### Speakers:

Alexander Frolov, Chief Executive Officer

Nikolay Ivanov, Chief Financial Officer

### Operator

Good day, everyone, and welcome to today's EVRAZ Fiscal Year 2020 Financial Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn things to Mr. Alexander Frolov. Please go ahead, sir.

Alexander Frolov

Thank you. Good afternoon, ladies and gentlemen. Thank you for joining us to hear about EVRAZ full year 2020 results. On this call today, Nikolay Ivanov and myself will be guiding you through our presentation and answering your questions. Let's start with Slide 5. Global uncertainty caused by outbreak of COVID-19 had a profound effect on economies and pressured global markets. The restrictive measures had a significant impact on the level of consumption of steel products around the world, especially in the first half of the year. However, thanks to global market improvements in the second half, EVRAZ delivered solid operational and financial results. In 2020, our EBITDA reached USD 2.2 billion, and our free cash flow generation remained quite strong, allowing dividends and further debt reduction. In recognition of solid performance, the Board of Directors voted to distribute a total of USD 437 million or USD 0.30 per share. Speaking about ESG on Slide 6, I would like to highlight a few points. During the reported period, we continued to implement measures aimed at improvement of our environmental impact. In 2020, greenhouse gas intensity ratio remained at the level of 1.97 tCO<sub>2</sub>e/tcs. Moreover, in 2020, we updated our environmental strategy and set new goals for the period up to 2030, which covers 4 aspects. Greenhouse gases emissions, air emissions, water and waste. At the Group's steelmaking assets, the goals include reduction of greenhouse gas emissions per tonne of steel produced by 20%; a reduction of atmospheric emissions from steel production by 33%; closure of water supply cycle; as well as recycling 95% of general and metallurgical waste. At the mining assets, the goals include recycling 50% of mining waste and utilising 75% of methane released as the process of degassing carried out before and during coal mining. For more information, please see the slide as the appendix and our annual report which was published today. In October 2020, we also published the first dedicated climate change report, prepared in accordance with TCFD recommendations and providing stakeholders with great insight on the actions that EVRAZ is taking. Health and safety remain our top priority and more efforts are required there. 5 people lost their lives during the reporting period. The lost time injury frequency rate reached 1.58, the lowest level for us historically. In 2020, we improved our nonfinancial disclosure and ESG scores. Please see the slide and the appendix for the details.

Let's move now to Slide 7. Our strategic priorities remain the same as before. Retention of low-cost position, development of product portfolio and customer base and prudent CAPEX and debt management, combined with stable dividends. The next few slides are dedicated to these priorities and 2020 results. Starting with Slide 8, having vertically integrated low-cost operations is one of our strategic advantages, and this business model has served us well in 2020. Lower raw material prices, weak rouble and our cost-cutting measures had a positive impact on our cash costs, as you can see on this slide. Turning to Slide 9. Efficiency improvement remains our primary focus. EBITDA effect from cost-cutting initiatives totalled USD 192 million in 2020. Customer focus programme generated another USD 234 million of EBITDA. Now moving to Slide 10 and CAPEX. In 2020, EVRAZ invested a total of USD 657 million in capital expenditures, of which USD 458 million was spent on maintenance projects and USD 199 million on development projects. Given the volatile conditions in the Russian steel market, management decided to reprioritise the investment portfolio of EVRAZ. The decision was made to postpone the integrated flat casting and rolling facility project in EVRAZ ZSMK and to go ahead with rail and beam modernisation project in EVRAZ NTMK which was moved to active implementation. In North America, EVRAZ Pueblo's new long rail mill project continued according to schedule, with active investment phase having commenced in the second half of 2020. Looking into 2021, our CAPEX targets rise to the value of USD 1 billion, of which approximately USD 200 million will be allocated to EVRAZ Pueblo in the new long rail mill project.

The next slide is 11. EVRAZ remains focused on medium-term debt management and stable dividend payout. Overall, we ended 2020 with a net debt of USD 3.4 billion, bringing our net debt/EBITDA ratio to 1.5, which is in line with medium-term targets that EVRAZ has set to maintain net debt below USD 4 billion. In 2020, we were able to generate robust free cash flow of USD 1 billion, which made it possible to pay dividends of USD 872 million, equivalent to a 14% dividend yield. And as I already mentioned, an interim dividend of USD 437 million was declared by the Board yesterday. But now let me say a few words about outlook for 2021, using Slide 12. In 2021, EVRAZ will continue to improve its safety culture, customer focus and operational efficiency using digital tools where appropriate. The Group aims to achieve significant progress in its key investment projects, in particular the rail mills in North America and Nizhny Tagil. EVRAZ will also focus on making the best possible use of the opportunities that arise as the markets begin to recover from the pandemic in 2021. With this, I would like to pass the word to Nikolay. Thank you. Nikolay, please.

Nikolay Ivanov

Thank you, Alexander. Good afternoon, everybody. I'm on Slide 14 of the presentation. In 2020, we reported EBITDA of USD 2.2 billion compared to USD 2.6 billion in 2019. The decline was primarily attributable to lower steel, vanadium and coal product sales prices as well as lower sales of tubular and flat-rolled steel products resulting from weakening market demand in North America. Some comments on segment performance. In steel, revenues dropped by 14.4% year-on-year to almost USD 7 billion. However, EBITDA increased by 7.5% and amounted to USD 1.9 billion and lower expenses compared to revenue. And this is a result of a decline in prices for raw materials, including coal, scrap, other raw materials as well as rouble denominated costs. For steel North America segment, revenues decreased by 28.8% year-on-year to USD 1.8 billion. EBITDA decreased year-on-year as well due to lower revenues from sales of flat-rolled, tubular, railway and construction products. In coal segment, revenues fell by 26.3% year-on-year to USD 1.5 billion, mainly due to a decline in coal product sales prices by 35%, which was partly offset by a 9.6% increase in coal product sales volumes. EBITDA was down amid lower coal product sales prices while the cost of sales was unchanged.

Turning your attention now to free cash flow presented on Slide #15. We were able to deliver robust free cash flow of USD 1.20 billion for the period. Free cash flow generation was supported by working

capital release following a decrease in inventories at coal North America Steel segment as well as decrease in receivables in North American segment because of sales volume decline. Moving to the next slide, Slide 16. In 2020, our debt management efforts were primarily focused on capital market maturities coming due in the first quarter of 2021. Specifically, in March of last year, we signed a USD 750 million committed syndicated facility with a group of international banks. This availability period is till March 2021. At the end of the year, this facility remained undrawn. Also in March, we utilised RUB 5 billion committed credit facility with VTB and later in April another RUB 15 billion under the uncommitted credit facility with the same bank. This action led to an increase in total debt during 2020 by USD 150 million, and amounted to almost USD 5 billion. And by the end of 2020, we achieved a net debt reduction of USD 89 million to USD 3.356 billion. As of 31 December 2020, cash amounted to more than USD 1.6 billion while short-term loans and the current portion of long-term debt amounted to just over USD 1 billion. Cash balances and committed credit facilities available comfortably cover upcoming debt maturity. Moving to Slide 17. As Alexander mentioned, yesterday, the Board approved an interim dividend in the total amount of approximately USD 437 million or USD 0.30 per share, which will be paid on 7 April 2021. With this, I would like to thank you for listening to our presentation. As always, we have a few more slides on operational performance, closing the presentation for your review. And now we are ready to take your questions. Thank you.

Operator

Thank you. At this time, if you do have a question, please signal us by pressing \*1. Again, that will be \*1 for questions. We'll pause for just a moment. We will hear first today from Nikolay Sosnovskiy with Prosperity Capital Management.

Nikolay Sosnovskiy

Yes, hello, thanks a lot for the presentation. I've got a couple of questions. First one, on your U.S. division. We've seen that some of your colleagues managed to avoid import taxation on slabs in order to run normally the production chain, supplying slabs from Russia and then rebate the tax amount. The question is the EVRAZ able to do the same and enjoy Russian slabs at North American facilities? That's my first question. And the second question is on the financial side of things on dividends. The dividend amount you announced USD 437 million, coupled with the first half dividend of similar size, slightly less, I think. Total is about USD 700 million, but the free cash flow was around USD 1 billion. What was the decision, what was behind this decision to pay not 100% of free cash flow given that the debt situation is not that significant? And even more so, the market is quite good in the first half of 2021, why does EVRAZ need this money elsewhere?

Alexander Frolov

Okay. That's Alexander Frolov. Let me start with the first question. I think that you are referring to the case of Novolipetsk who got partial rebate for the taxes they had paid because of so-called 232 Section. It does not mean that slabs for future supply will be exempt from taxation. This is one thing. Secondly, our North American division has filed claim also for partial refund for the taxes we have paid during the prior year based on success of Novolipetsk. However, it's probably premature to speak about whatever, let's say, whether outcome would be positive or negative. We just started the process in the last quarter of 2020. Then speaking about dividends, I guess, the view was that we still remain a little bit cautious about current situation at the market which is definitely positive. The question is for how long it will last. And in view of that, the Board decided to take a little bit more conservative approach. Also having in mind that our capital expenditures in 2021 should be high in U.S. dollars.

Nikolay Sosnovskiy

Yes, many thanks. May I specify what was the debated amount in the U.S? So that if, like your peers, you receive one-off payments, what can be the size of this payment?

Alexander Frolov

We answered the question. Shall we move to the next one?

Operator

Well, we will hear next from Timothy Riminton with Barclays.

Timothy Riminton

Thank you very much for your time. Just a couple of questions on the coal business to start with. We saw recently the announcement that you're considering spinning out or selling this division. Could you talk a little bit about your thinking on that? And on a related point, could you perhaps discuss a bit about what you're seeing in domestic coal markets at the moment? Obviously, we've seen prices rise quite a lot for Australian benchmarks. Are you seeing that feed through into demand and prices for your products as well?

Alexander Frolov

Well, look, starting from your second question, I guess, coal market has improved over the last month or 2. The situation is at the moment is relatively good. Again, the question is for how long it will last. Talking about your fourth question, I don't think that we are ready to give any further comments on this subject yet. What we have announced as the management of EVRAZ, has received a task from our Board to study an option of, I say, a strategy for coal assets. It does not mean that we are going to sell this business as well. Again, most probably, the business would be dividended out to the existing shareholders of EVRAZ. That decision is not yet taken. That's why I guess it's premature to discuss potential, let's say, benefits or disadvantages.

Timothy Riminton

Okay, thanks. And just a couple of questions on your Eurobonds. Firstly, on the 2022 which are due in under a year now. Have you had any thoughts about how you view those? Whether you'll be refinancing or paying them down bank debt or the cash?

Alexander Frolov

Nikolay, could you answer the question, please? Nikolay? Are you with us?

Nikolay Ivanov

Yes. Can you hear me?

Alexander Frolov

Not quite well, unfortunately. We were talking about Eurobond refinancing options.

Nikolay Ivanov

Yes. That is correct. So can you hear me now?

Alexander Frolov

Yes.

Nikolay Frolov

Thank you. This year, we have to pay approximately USD 1 billion of debt, and this entire amount to be exactly USD 992 million we need to be paid in the first quarter. As a matter of fact, we have already paid USD 750 million worth of Eurobonds in January of this year, and there will be another payment for Russian rouble bonds in March for approximately USD 250 million. The next payment, which needs to be made next year, is slightly below USD 1 billion. We still have plenty of time to think about how we want to refinance it. We have a few good proposals from the banks, and we obviously have a possibility to raise some public debt. But again, I think it's too early to speak about the option we will choose. We still have some time for that.

Timothy Riminton

Okay, thanks. I mean, my next question is going to be how do you look at, how do you see your current Eurobond curve? I mean, it's getting a little bit more short-dated now and current yields in the market look very attractive. Do you have any thoughts on that? How does that compare to your bank debt at the moment?

Nikolay Ivanov

Nothing to add to what I said before. Again, what I can say, we are studying different options. And obviously, we'll look what's the best option for us.

Timothy Riminton

Okay, thank you very much.

Operator

We'll move now to Ivan Salkovskiy with VTB Capital.

Ivan Salkovskiy

Hello! Thank you very much for the presentation. Just a couple of questions from our side. I suppose it would be better if I post it one by one. The first question, could you please provide us some view where do you see Russian steel production in 2021? Yes, it's the first question.

Alexander Frolov

Well, do you mean EVRAZ production or you mean Russian market?

Ivan Salkovskiy

No, Russian market, yes, Russian market share.

Alexander Frolov

Well, to answer your questions, first of all, I would probably start with 2020. And I think demand for different products had different dynamics in comparison with 2019, and you can see the details in our presentation. But just to give an example, market for rebar for example, has declined. At the same time, market for beams and structural has improved. In general, we believe that 2021 is going to be a good year, and it will represent further recovery of the markets to the level where they were before last year or before the pandemic. And our plan for 2021 is we'll run full capacity.

Ivan Salkovskiy

Okay, thank you very much. My second question is EVRAZ plans to increase share of hard coal grades in coal production and so maybe could you please provide some exact targets for 2021 and -- for the medium-term of the share of coking coal in production mix, obviously?

Alexander Frolov

Well, look, I think I would suggest we better do it offline because I don't have all those numbers at the top of my head. What I can say is that additional volumes would be coming from Rapsadskaya-Koksovaya mine, where we now have more stable production than we had in 2020. And that's why we expect better output for the next year. But again, numbers, it's probably better to verify offline.

Ivan Salkovskiy

Yes. Got it. So it would be fair to assume, for example, that the production will be somehow closer to 2019 levels, maybe on Rapsadskaya-Koksovaya mine?

Alexander Frolov

Again, better to double check. My expectation is the numbers must be better. But again, percentage-wise, let's say, total volume, as I said, better to double check offline.

Ivan Salkovskiy

Thank you very much. Great. And yes, please, if it's possible, so one more question. We heard about some market movement towards direct contracts. And so has the company increased the share of direct supply contract with consumers in 2021? And if yes, so would be effect from this on the Company's average realised price, taking all other things equal, just the effect from increase?

Alexander Frolov

Look, first of all, just to remind you that some of our products, namely rails, are supplied to Russian railroads based on 5-year contract. If you talk about the recent development, for instance, initiative, which was introduced by Russian steel, that has to do with the developments with direct contract, we are supporting this idea. However, I don't think that we see a lot of demand on the direct contract side because, I guess, the market is just organised differently, and it will take some time to implement those changes. That's why I don't think that you should assume any change on average realised price in comparison with the prior period. I don't think so.

Ivan Salkovskiy

Okay, thank you very much. And just one follow-up, a small question, the last one from my side. Am I right that -- I heard that you told that the final decision on spin-off of coal assets has not been taken yet?

Alexander Frolov

That's very clear, yes. You're right.

Ivan Salkovskiy

And no precise timings? Maybe if you can indicate it there.

Alexander Frolov

Thank you.

Ivan Salkovskiy

I mean, okay. Thank you very much for your answer, very helpful. That's all from my side.

Operator

We'll hear next from Anton Fedotov with Bank of America. Anton, your line is open for your questions.

Anton Fedotov

Yes, hello! Thank you very much for the presentation. I have a couple of questions. What's your outlook for Russian market growth this year reference to market, given that some other competitors came up with quite positive outlook? And the second question relates to your CAPEX profile, starting from next year? And would you expect some CAPEX slowdown or CAPEX may stay at the current level?

Alexander Frolov

I'm sorry. I'm not quite sure that I fully understand your questions because the line was not so good. Starting from your second question, our guidance for CAPEX in 2021 is around USD 1 billion. And it is more than we have spent in 2020, which was on the level of USD 650 million something. Then talking about Russian market, I would say we are kind of cautiously positive. We are not bullish. We believe that there are still a number of risks and uncertainties in the global steel markets and in the Russian steel market as well.

Anton Fedotov

Thank you. And my second question was about your CAPEX starting from next year. Should we expect it to stay flat versus 2021 or it may go down?

Alexander Frolov

Again, that's probably a bit early to say. What I can say for sure, it should not be more than USD 1 billion. But then the exact numbers will be known more close to the period because basically, all our

development projects we approve them at stages. And we are trying to make sure that again, we keep maximum flexibility in case of some whatever negative changes in the market.

Anton Fedotov

Thank you.

Operator

Again, for the questions, it is \*1 at this time. We'll move on to Andrew Jones with UBS.

Andrew Jones

Just a few for me. First of all, on coal pricing. Given the large difference we're seeing between the traditional Aussie benchmark and prices in China, which is presumably a decent export market for you now that Australian imports have been blocked. Have you had any success in switching some of your domestic contracts over on to that more of a sort of Chinese benchmark rather than the traditional Australian one? And related to that, how much have your shipments to the Far East increased in recent months since that block on Aussie imports in China? That's my first question. I'll ask a follow-up after this one. Thanks.

Alexander Frolov

Look, starting from your second question, I guess, our shipments to the Far East stay more or less at the same level as before. And the reason is that because the capacity of railroad transportation there is limited. We are just trying to maintain maximum share in this transportation flow, okay? And it does not depend too much on spot market situation. Then talking about the Russian market, first of all, again, about 30% of a majority of our coal goes to EVRAZ. And in this case, it's not very relevant, I mean which kind of benchmark we use. At the same time, not all our sales in Russia are based on long-term relationships. We also have quite significant volume of spot sales and those spot sales, of course, reflect the situation that Australian benchmark does not represent the actual market situation.

Andrew Jones

Understood. And my second question would be on North America. Obviously, you've temporarily idled some facilities. Could you give us a bit of an indication as to which facilities are currently temporarily idle? And if you have any plans to bring them back in the near term? And just can you give us some sort of idea as to what is happening in your key markets there as we've seen obviously massive price appreciation in strip steel and some commodity type products, but obviously, tubular and so forth has obviously been lagging. Could you give us some idea as to what's happening on the demand side? And how are you seeing the operation of those aspects in the near term?

Alexander Frolov

Are you talking about North American assets -- sorry, I didn't catch?

Andrew Jones

Yes, North America's assets.



Alexander Frolov

Well, look, I don't think that we see anything different in comparison what is publicly available. Plate market is improving, for sure, price wise, also demand wise. OCTG market also demonstrates positive dynamics. And we are, let's say, fully booked in Canada for Q2 which is a little bit unusual because the second quarter was always the weakest quarter for the year because of seasonal outbreak. But at the same time, as the situation with LD pipes is very challenging. And you have seen one of the first actions of new American administration was cancellation of this Key Stone project. This is a weak point. Let's say, otherwise, OCTG, for the rails we see positive or neutral dynamics.

Andrew Jones

Understood. And just finally, on your cost savings that you reported or your EBITDA gains, I should say, which were over USD 400 million and ahead of your original guidance there. Is all of that structural and kind of permanent in nature? Or some of that is related to temporary short-time working, idling of some of those North American plants?

Alexander Frolov

Well, look, obviously some of those initiatives have short-term nature, meaning that, for example, if it had been an aim to export more rails last year, it does not necessarily continue in 2021. But I don't think that a portion of these non-sustainable results is big. Mostly, we are talking about yields and productivity. Of course, productivity maybe also sometimes impacted by the market demand.

Operator

Again, for questions, it is \*1 at this time. We'll move on to Alexey Kirichov with Sber.

Alexey Kirichov

Hello, It's Alexey Kirichov from Sber. One question from our side. Thank you for your presentation. Could you please remind us what is the plan regarding Sobstvenno-Kachkanarsky iron ore deposit. What could be the total CAPEX for the first phase? When do you plan to ramp-up first phase to full capacity? And what could be EVRAZ iron ore self-sufficiency after this deposit reaches full capacity? And what could be your vanadium production? How it could change your current level after Sobstvenno-Kachkanarsky runs at full capacity?

Alexander Frolov

Well, it doesn't look like one question. But anyway, we are progressing with development. And again, maybe you have not seen that news. But we actually started development just during the last month. And basically, the surface is cleaned and the digging has started out. Then, on more structural side, we are not developing additional production. This Sobstvenno-Kachkanarsky deposit should replace one of the existing deposits and total production should remain unchanged. Total CAPEX for development of Sobstvenno-Kachkanarsky deposit is about USD 300 million over the next 5 to 7 years, if I recall correctly.

Alexey Kirichov

Thank you very much. You don't see this as a growth project, just a maintenance one and you don't plan to increase your iron ore production maybe not in the short-term but the midterm and mid-2020, is that correct?

Alexander Frolov

Production would remain the same in total, but just let's say, mining basis, so pace would change with that.

Alexey Kirichov

Okay, thank you very much.

Operator

And we don't have any other questions at this time.

Irina Bakhturina

Ladies and gentlemen, we see that there are no further questions, and we would like to end this call. Thank you very much for joining us today and have a great rest of the day. Thanks again. Bye-bye.

Alexander Frolov

Thank you very much.

Nikolay Frolov

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you all for joining us.