

Metinvest announces financial results for the first six months of 2018

Metinvest B.V., the parent company of a vertically integrated group of steel and mining companies (jointly referred to as “Metinvest” or “the Group”), announced its unaudited IFRS interim condensed consolidated financial statements for the six months ended 30 June 2018.

Due to rounding, numbers presented throughout this release may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures.

| Summary - production results ⁶ | 1H 2018 | 1H 2017 | Change, y-o-y | |
|---|---------------|---------------|---------------|-----------|
| | | | kt | % |
| Crude steel | 3 794 | 3 654 | 140 | 4% |
| Azovstal | 2 181 | 2 166 | 15 | 1% |
| Ilyich Steel | 1 613 | 1 488 | 125 | 8% |
| Iron ore concentrate | 13 987 | 13 649 | 338 | 2% |
| Northern GOK | 5 729 | 5 544 | 185 | 3% |
| Ingulets GOK | 6 231 | 5 788 | 443 | 8% |
| Central GOK | 2 026 | 2 317 | -291 | -13% |
| Coking coal concentrate | 1 340 | 1 317 | 23 | 2% |
| United Coal | 1 340 | 1 317 | 23 | 2% |

| Summary - financial results | 1H 2018 | 1H 2017 | Change, y-o-y | |
|---------------------------------------|---------|---------|---------------|-------|
| | | | US\$ mn | % |
| Income statement highlights | | | | |
| Revenues | 6 179 | 3 913 | 2 266 | 58% |
| Adjusted EBITDA ¹ | 1 335 | 839 | 496 | 59% |
| Margin | 22% | 21% | | 1 pp |
| Net profit | 668 | 72 | 596 | >100% |
| Margin | 11% | 2% | | 9 pp |
| Cash flow highlights | | | | |
| Net cash from operations | 457 | 305 | 152 | 50% |
| Net cash used in investing activities | -97 | -169 | 72 | -43% |
| Net cash used in financing activities | -240 | -106 | -134 | >100% |

| Summary - financial results | 6/30/2018 | 12/31/2017 | Change, YTD | |
|--|-----------|------------|-------------|-----|
| | | | US\$ mn | % |
| Gross debt ² | 2 891 | 3 017 | -126 | -4% |
| Cash and cash equivalents ³ | 370 | 259 | 111 | 43% |

| | | | | |
|--|-------|-------|-----|-------|
| Net debt ⁴ | 2 263 | 2 298 | -34 | -2% |
| Net debt ⁴ /EBITDA ⁵ | 0.9x | 1.1x | | -0.2x |

Notes:

- 1). Adjusted EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign-exchange gains and losses, the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures. We will refer to adjusted EBITDA as EBITDA throughout this release.
- 2). Gross debt is calculated as the sum of bank loans, bonds, trade finance, finance lease, seller notes and subordinated shareholder loans.
- 3). Cash and cash equivalents do not include blocked cash for cash collateral under issued letters of credit and irrevocable bank guarantees and include cash blocked for foreign-currency purchases.
- 4). Net debt is calculated as gross debt less cash and cash equivalents less subordinated shareholder loans.
- 5). EBITDA for the last 12 months
- 6). Figures for 2017 have been updated to exclude production at assets, control over which was lost in March 2017.

OPERATIONAL HIGHLIGHTS

In July, after the reporting date, Metinvest secured long-term coal supplies in Ukraine by acquiring, with four other co-investors, stakes of up to 100% in some coking coal assets, the most significant being Pokrovske Colliery and Svyato-Varvarinskaya Enrichment Plant, which form the largest coking coal extraction and production business in the country. The Group's effective interest in the newly acquired business equals 24.99%, for which the total consideration was around US\$190 mn. In addition, Metinvest obtained an option to purchase the remaining 75.01% from the other co-investors pursuant to certain conditions including governmental consents.

- Over the first half of the year, the Group launched 20 new steel products, mainly heavy plates and coils (hot and cold-rolled) used in construction, machine-building and pipe production, as well as further steel downstream.
- In April, the first-phase facility of the sinter plant gas cleaning system was launched at Ilyich Steel.
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DEBT MANAGEMENT

- In February, Metinvest fully repaid United Coal's seller notes.
- In April, **the Group completed the refinancing of its US\$2,271 mn of debt, issuing two tranches of bonds and amending and restating its pre-export finance (PXF) facility.** As a result, Metinvest issued US\$1,592 mn in new bonds and secured US\$765 mn in the PXF facility. New incremental proceeds from the combined transaction amounted to around US\$205 mn.
- In May and July, after the reporting period, Metinvest repaid ahead of schedule US\$237 mn under the PXF facility using new proceeds from the refinancing and its own cash flows. Following this repayment, the total outstanding under the PXF facility is US\$528 million, while certain PXF agreement restrictions have been eased, including regarding some restricted payments.
- In July, after the reporting period, the Group secured a seven-year repayment buyer credit facility of some EUR43.2 mn for the construction of continuous casting machine no. 4 at Ilyich Steel. The facility is covered by an Austrian export guarantee issued by Oesterreichische Kontrollbank Aktiengesellschaft (OeKB), while Raiffeisen Bank International AG acted as a sole lender.
- In January, international rating agency S&P assigned Metinvest a long-term corporate credit rating of 'B-', the outlook 'stable'. In April, after the successful completion of the refinancing, Fitch changed its outlook to 'positive' and affirmed its 'B' credit rating.

Commenting on the results, Yuriy Ryzhenkov, Chief Executive Officer of Metinvest, said:

“In the first half of 2018, Metinvest delivered strong operational and financial results, as our clear strategic vision helped to navigate the volatile environment and set the basis for sustainable growth.

Hot metal production surged by 14% year-on-year to 4,292 thousand tonnes. Given the bottleneck in steel casting capacity at Ilyich Steel, this translated into a more moderate rise in crude steel output, of 4% year-on-year to 3,794 thousand tonnes, and a greater increase in pig iron production. We remain focused on delivering organic growth from the existing assets and boosting the share of high value-added products. A new continuous casting machine at Ilyich Steel, due for completion by the year-end, will make it possible to use additional hot metal to improve crude steel and finished product volumes.

Iron ore concentrate production rose by 2% year-on-year to 13,987 thousand tonnes, while the mix between pellets and concentrate shifted in favour of pellets.

Coal production climbed by 2% year-on-year to 1,340 thousand tonnes. Metinvest has secured important additional long-term supplies of high-quality coking coal in Ukraine by acquiring up to 24.99% in several assets, the most significant of which are Pokrovske Colliery and Svyato-Varvarinskaya Enrichment Plant. This is in line with the Group’s strategic priority of improving self-sufficiency in coking coal to strengthen vertical integration.

Metinvest’s performance was buoyed by rising global steel prices amid strong demand in all regions, as well as a spike in premiums for both Fe content and pellets, despite a drop in the 62% Fe iron ore benchmark. While global protectionism remains a concern amid trade disputes between the US, Europe and China, we are confident of being able to mitigate any negative impact on our business.

Revenues surged by 58% year-on-year to US\$6,179 million amid higher prices, a greater share of in-house product volumes and higher resales. Sales in Ukraine soared by 80% year-on-year, driven by recovering demand as the economy continued to grow for the 10th consecutive quarter. Ukraine’s GDP rose by 3.1% year-on-year in the first quarter of 2018 and an even stronger 3.8% year-on-year in the second quarter.

Europe remains our priority market for steel and iron, accounting for 32% of metallurgical sales and 46% of mining sales. The Middle East and North Africa region confirmed its status of a fast-growing market, as our sales there doubled year-on-year.

Higher prices and volumes translated into improved EBITDA, which surged by 59% year-on-year to US\$1,335 million. Importantly, resales contributed US\$184 million of this. The EBITDA margin reached 22%, up 1 percentage point year-on-year, amid a higher contribution from the Metallurgical segment.

With the ongoing implementation of our Technological Strategy 2030, capital expenditure doubled year-on-year to US\$420 million, while the share of expansion projects grew to 37%. Free cash flow totalled US\$360 million, given the strong EBITDA and the dividends from our mining joint venture.

In April, Metinvest successfully completed the refinancing of its US\$2,271 million of debt, which allowed it to extend its debt maturity profile, decrease total funding costs and secure a longer-term capital structure. The Group remains committed to further deleveraging, having voluntarily repaid US\$237 million under the syndicated facility in May and July. This brought our net leverage ratio to below 1.0 times, the market standard for investment-grade companies. Metinvest’s financing strategy also envisages using ECA facilities offering cheaper and longer funding for investment projects. In July, the Group secured its first facility covered by an Austrian export guarantee, with a tenor of seven years.

Looking ahead, we remain cautiously optimistic. In 2019, there is potential for some turbulence due to the elections in Ukraine and uncertainty about future global growth. Nonetheless, we believe that there will always be demand for high-quality products, which should underpin global steel and iron ore prices, and quality is central to our Technological Strategy 2030.”

RESULTS OF OPERATIONS

| Results of operations | 1H 2018 | | 1H 2017 | | Change, y-o-y | | |
|-----------------------|--------------|---------------|--------------|---------------|---------------|------------|----------------|
| | US\$ mn | % of revenues | US\$ mn | % of revenues | US\$ mn | % | pp of revenues |
| Revenues | 6 179 | 100% | 3 913 | 100% | 2 266 | 58% | - |
| Cost of sales | -4 739 | -77% | -3 006 | -77% | -1 733 | 58% | - |
| Gross profit | 1 440 | 23% | 907 | 23% | 533 | 59% | - |
| Distribution costs | -432 | -7% | -361 | -9% | -71 | 20% | 2 |

| | | | | | | | |
|---|------------|------------|-------------|------------|------------|-----------------|----------|
| General and administrative expenses | -104 | -2% | -93 | -2% | -11 | 12% | - |
| Other operating expenses | -66 | -1% | 13 | 0% | -79 | <-100% | -1 |
| Operating profit | 838 | 14% | 466 | 12% | 372 | 80% | 2 |
| Results of the loss of control over the assets located on temporarily non-controlled territory | - | 0% | -329 | -8% | 329 | - | 8 |
| Finance income | 115 | 2% | 74 | 2% | 41 | 55% | - |
| Finance costs | -206 | -3% | -143 | -4% | -63 | 44% | 1 |
| Share of result of associates and JV | 91 | 1% | 118 | 3% | -27 | -23% | -2 |
| Profit before income tax | 838 | 14% | 186 | 5% | 652 | >100% | 9 |
| Income tax | -170 | -3% | -114 | -3% | -56 | 49% | - |
| Net profit | 668 | 11% | 72 | 2% | 596 | >100% | 9 |

Revenues

Metinvest's revenues are generated from sales of its steel, iron ore, coal and coke products and resales of products from third parties. Unless otherwise stated, revenues are reported net of value-added tax and discounts and after eliminating sales within the Group.

| Revenues by market | 1H 2018 | | 1H 2017 | | Change, y-o-y | | |
|-----------------------|--------------|---------------|--------------|---------------|---------------|------------|----------------|
| | US\$ mn | % of revenues | US\$ mn | % of revenues | US\$ mn | % | pp of revenues |
| Total revenues | 6 179 | 100% | 3 913 | 100% | 2 265 | 58% | - |
| Ukraine | 1 676 | 27% | 931 | 24% | 746 | 80% | 3 |
| Europe | 2 096 | 34% | 1 473 | 38% | 622 | 42% | -4 |
| MENA | 1 267 | 21% | 628 | 16% | 639 | >100% | 5 |
| CIS (ex Ukraine) | 410 | 7% | 348 | 9% | 62 | 18% | -2 |
| Southeast Asia | 260 | 4% | 282 | 7% | -22 | -8% | -3 |
| North America | 388 | 6% | 222 | 6% | 166 | 75% | - |
| Other regions | 82 | 1% | 29 | 1% | 53 | >100% | - |

In 1H 2018, Metinvest's consolidated revenues increased by 58% y-o-y to US\$6,179 mn due to several factors. First, steel selling prices rose y-o-y in line with global benchmarks, while iron ore realised prices grew amid higher premiums for quality and focus on priority markets. Second, stronger demand spurred greater sales volumes of pig iron, slabs, flat products, coke and pellets. Third, the volume of goods and services for resale surged.

In 1H 2018, revenues in Ukraine amounted to US\$1,676 mn, up 80% y-o-y, primarily due to increased selling prices, as well as higher sales volumes of flat (+288 kt) and long (+50 kt) products amid greater local demand, as the economic upturn continued. Real GDP increased by 3.1% y-o-y in 1Q 2018 and 3.8% in 2Q 2018 [1]. Apparent consumption of steel products (excluding pipes) in Ukraine rose by 6.4% y-o-y to 2.7 mt [2] in 1H 2018, supported by stable demand in key steel-consuming industries. Economic activity climbed by 2.8% y-o-y in the construction sector [3], 6.6% y-o-y in the machine-building industry¹ and 4.9% in the hardware production sector². Moreover, sales of coke and pellets increased by 591 kt and 772 kt, respectively, amid stronger demand. As a result, the share of Ukraine in consolidated revenues rose by 3 pp y-o-y to 27%.

International sales increased by 51% y-o-y to US\$4,503 mn in 1H 2018, accounting for 73% of consolidated revenues. Sales to Europe rose by 42% y-o-y amid higher realised prices of steel and iron ore products, as well as greater sales volumes of semi-finished (+468 kt), long (+126 kt) and iron ore (+1,134 kt) products. At the same time, the region's share in consolidated revenues was 34%, down 4 pp y-o-y. Sales to the Middle East and North Africa (MENA) doubled y-o-y amid greater sales volumes of semi-finished (+780 kt) and flat (+175 kt) products, as well as higher selling prices of all products, boosting MENA's share in consolidated revenues by 5 pp y-o-y to 21%. Sales to the CIS (ex Ukraine) rose by 18% y-o-y, due to higher selling prices and volumes of both flat and

long products. Meanwhile, the region's share in consolidated revenues decreased by 2 pp y-o-y to 7%. Sales to North America rose by 75% y-o-y, mainly due to higher pig iron prices and volumes (+452 kt), while the region's share in consolidated revenues remained flat y-o-y at 6%. Sales in Southeast Asia dropped by 8% y-o-y, mainly due to lower volumes of iron ore products (-1,749 kt). As a result, that market's share in consolidated revenues fell by 3 pp y-o-y to 4%. Sales to other regions tripled y-o-y, which helped keep their share in consolidated revenues flat y-o-y at 1%.

Metallurgical segment [3]

The Metallurgical segment generates revenues from sales of pig iron, steel and coke products and services. In 1H 2018, its revenues increased by 68% y-o-y to US\$5,313 mn, driven by higher selling prices, stronger demand for Metinvest's products and greater resales. Sales of flat products rose by US\$658 mn, square billets by US\$376 mn, pig iron by US\$352 mn, coke by US\$203 mn, slabs by US\$202 mn, long products by US\$187 mn, tubular products by US\$4 mn and other products and services by US\$164 mn. In 1H 2018, the Metallurgical segment accounted for 86% of external sales (81% in 1H 2017).

| Metallurgical segment Sales by market | 1H 2018 | | | 1H 2017 | | | Change, y-o-y | | Change, y-o-y % | |
|--|--------------|----------------|--------------|--------------|----------------|--------------|---------------|--------------|-----------------|------------|
| | US\$ mn | % of reven. | kt | US\$ mn | % of reven. | kt | US\$ mn | kt | US\$ mn | kt |
| Total sales | 5 313 | 100% | 8 919 | 3 165 | 100% | 5 900 | 2 147 | 3 020 | 68% | 51% |
| Ukraine | 1 318 | 25% | 2 055 | 669 | 21% | 1 105 | 650 | 950 | 97% | 86% |
| Europe | 1 701 | 32% | 2 711 | 1 213 | 38% | 2 218 | 488 | 493 | 40% | 22% |
| MENA | 1 267 | 24% | 2 204 | 628 | 20% | 1 279 | 639 | 926 | >100% | 72% |
| CIS (ex Ukraine) | 410 | 8% | 587 | 348 | 11% | 559 | 62 | 29 | 18% | 5% |
| Southeast Asia | 155 | 3% | 276 | 74 | 2% | 161 | 81 | 115 | >100% | 72% |
| North America | 387 | 7% | 949 | 205 | 6% | 517 | 182 | 432 | 89% | 84% |
| Other regions | 74 | 1% | 136 | 29 | 1% | 61 | 46 | 75 | >100% | >100% |

| Metallurgical segment Sales by product | 1H 2018 | | 1H 2017 | | Change, y-o-y | | Change, y-o-y % | | |
|---|--------------|--------------|--------------|--------------|---------------|--------------|-----------------|-----------------|------------------|
| | US\$ mn | kt | US\$ mn | kt | US\$ mn | kt | US\$ mn | due to price | due to volume |
| Semi-finished products | 1 397 | 2 992 | 467 | 1 191 | 930 | 1 801 | >100% | 48% | >100% |
| Pig iron | 572 | 1 468 | 220 | 617 | 352 | 852 | >100% | 22% | >100% |
| incl. resales | 203 | 520 | 8 | 22 | 195 | 499 | >100% | >100% | >100% |
| Slabs | 422 | 754 | 220 | 506 | 202 | 247 | 92% | 43% | 49% |
| Square billets | 403 | 770 | 27 | 68 | 376 | 702 | >100% | >100% | >100% |
| incl. resales | 403 | 770 | - | - | 403 | 770 | - | - | - |
| Finished products | 3 209 | 4 890 | 2 359 | 4 262 | 850 | 627 | 36% | 21% | 15% |
| Flat products | 2 661 | 4 068 | 2 003 | 3 595 | 658 | 474 | 33% | 20% | 13% |
| incl. resales | 984 | 1 638 | 684 | 1 328 | 300 | 310 | 44% | 21% | 23% |
| Long products | 503 | 754 | 315 | 597 | 187 | 157 | 59% | 33% | 26% |
| incl. resales | 175 | 285 | 7 | 15 | 168 | 270 | >100% | >100% | >100% |
| Tubular products | 45 | 68 | 41 | 71 | 4 | -3 | 11% | 15% | -5% |
| Coke | 344 | 1 038 | 140 | 447 | 203 | 591 | >100% | 13% | >100% |
| Other products and services | 363 | - | 199 | - | 164 | - | 82% | - | - |