METINVEST

# Corporate presentation

Dragon Capital
15th Annual Ukraine Investor Conference

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# 11M 2018 financials and FY2018 production

| US$ mn | 9M 2018 | Oct-18 | Nov-18 | 11M 2018 | 11M 2017 | Change |
|---|---|---|---|---|---|---|
| **PL** | | | | | | |
| **Revenues** | **9,063** | **932** | **917** | **10,912** | **8,016** | **36%** |
| - Metallurgical | 7,712 | 793 | 758 | 9,263 | 6,635 | 40% |
| - Mining | 1,351 | 139 | 159 | 1,649 | 1,381 | 19% |
| **Adjusted EBITDA**[1], incl. | **2,015** | **211** | **184** | **2,410** | **1,793** | **34%** |
| - Metallurgical | 1,126 | 105 | 69 | 1,300 | 655 | 98% |
| - Mining | 946 | 104 | 105 | 1,155 | 1,286 | -10% |
| **EBITDA margin** | **22%** | **23%** | **20%** | **22%** | **22%** | **0 pp** |
| - Metallurgical | 15% | 13% | 9% | 14% | 10% | 4 pp |
| - Mining | 33% | 36% | 34% | 34% | 40% | -6 pp |
| **Cash flows** | | | | | | |
| **Operating cash flows before W/C changes** | **1,721** | **172** | **160** | **2,053** | **1,554** | **32%** |
| - Change in W/C | -349 | -1 | -65 | -415 | -793 | -48% |
| - Income taxes paid | -245 | -1 | -57 | -303 | -138 | >100% |
| - Interest paid | -208 | -34 | -4 | -246 | -127 | 94% |
| **Net cash from operating activities** | **919** | **136** | **34** | **1,089** | **496** | **>100%** |
| **Net cash used in investing activities**, incl. | **-335** | **-49** | **-74** | **-458** | **-386** | **19%** |
| - Purchase of PPE and IA | -540 | -80 | -74 | -694 | -401 | 73% |
| - Dividends received | 346 | 31 | 0 | 377 | 0 | n/a |
| **Net cash used in financing activities** | **-393** | **-88** | **-39** | **-520** | **-138** | **>100%** |
| **Free cash flow**[2] | **584** | **87** | **-40** | **631** | **110** | **>100%** |

| US$ mn | 30 Sep 2018 | 31 Oct 2018 | 30 Nov 2018 | 30 Nov 2018 | 31 Dec 2017 | Change |
|---|---|---|---|---|---|---|
| **Gross debt**[3] | **2,869** | **2,767** | **2,745** | **2,745** | **3,017** | **-9%** |
| **Cash and cash equivalents**[4] | **446** | **445** | **366** | **366** | **259** | **41%** |
| **Net debt**[5] | **2,257** | **2,238** | **2,345** | **2,345** | **2,298** | **2%** |
| **Net debt**[5] **to LTM EBITDA** | **0.8x** | **0.8x** | **0.9x** | **0.9x** | **1.1x** | **-0.2x** |

| Production[6] (kt) | 2018 | 2017 | Change |
|---|---|---|---|
| **Crude steel** | **7,323** | **7,361** | **-1%** |
| **Coke** | **5,269** | **4,736** | **11%** |
| **Iron ore concentrate** | **27,353** | **27,464** | **0%** |
| **Coking coal concentrate** | **2,683** | **2,461** | **9%** |

Source for 11M 2018 and 11M 2017 financials: monthly reports for January-November 2018 and 2017

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. Adjusted EBITDA will be referred to as EBITDA in this presentation
2. Free cash flow is calculated as net cash from operating activities less net cash used in investing activities
3. Gross debt is calculated as the sum of bank loans, bonds, trade finance, finance lease, seller notes and subordinated shareholder loans
4. Cash and cash equivalents do not include blocked cash for cash collateral under issued letters of credit and irrevocable bank guarantees, but do include cash blocked for foreign-currency purchases
5. Net debt is calculated as gross debt less cash and cash equivalents and less subordinated shareholder loans
6. Figures for 2017 have been updated to exclude production at assets, control over which was lost in March 2017

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# 9M 2018 highlights

# Summary

| US$ mn | 9M 2018 | 9M 2017 | Change |
|---|---|---|---|
| **Revenues** | **9,063** | **6,222** | **46%** |
| **Adjusted EBITDA** | **2,015** | **1,373** | **47%** |
| EBITDA margin | 22% | 22% | 0 pp |
| **CAPEX** | **620** | **308** | **>100%** |
| **Free cash flow** | **584** | **243** | **>100%** |

| US$ mn | 30 Sep 2018 | 31 Dec 2017 | Change |
|---|---|---|---|
| **Gross debt** | **2,869** | **3,017** | **-5%** |
| **Cash and cash equivalents** | **446** | **259** | **72%** |
| **Net debt** | **2,257** | **2,298** | **-2%** |
| **Net debt to LTM EBITDA** | **0.8x** | **1.1x** | **-0.3x** |

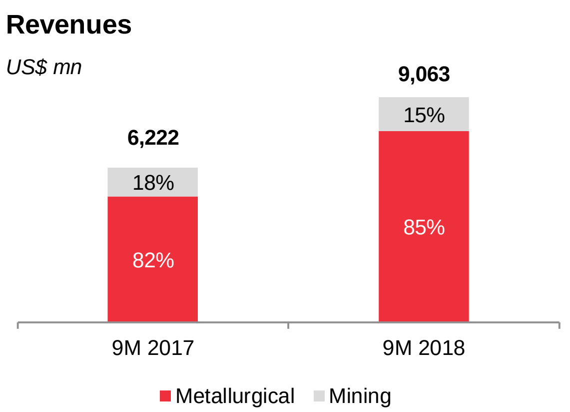
| Production (kt) | 9M 2018 | 9M 2017 | Change |
|---|---|---|---|
| **Crude steel** | **5,597** | **5,456** | **3%** |
| **Coke** | **3,910** | **3,407** | **15%** |
| **Iron ore concentrate** | **20,540** | **20,440** | **0%** |
| **Coking coal concentrate** | **1,974** | **1,895** | **4%** |

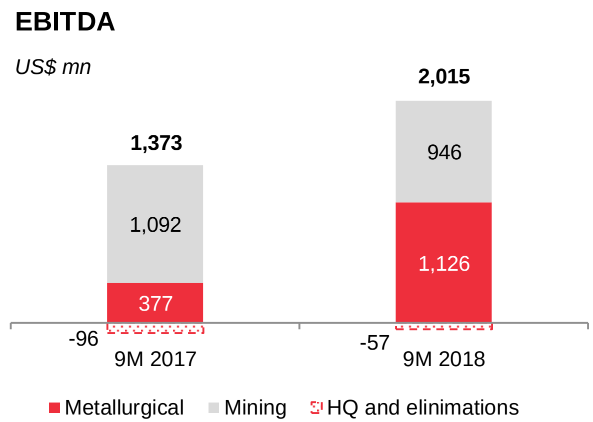
| Credit ratings | Fitch | S&P | Moody's |
|---|---|---|---|
| **Rating / outlook** | **B / positive** | **B- / positive** | **B3 / stable** |

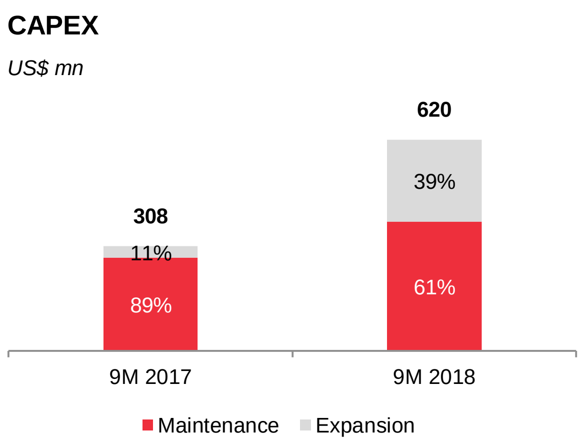
Due to rounding, numbers presented throughout this presentation may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures

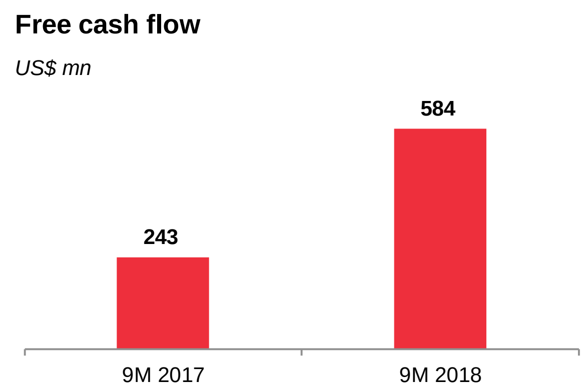
# Financial highlights

- Total revenues increased by 46% y-o-y
  - Metallurgical revenues rose by 52% y-o-y to US$7,712 mn
  - Mining revenues climbed by 19% y-o-y to US$1,351 mn
- Total EBITDA increased by 47% y-o-y
  - Metallurgical EBITDA tripled y-o-y to US$1,126 mn
  - Mining EBITDA decreased by 13% y-o-y to US$946 mn
- The segments' shares in EBITDA[1] changed in 9M 2018 as compared to 9M 2017: 54% for Metallurgical (26% in 9M 2017) and 46% for Mining (74% in 9M 2017)
- Consolidated EBITDA margin was 22%, flat y-o-y
  - Metallurgical EBITDA margin soared by 8 pp y-o-y to 15%
  - Mining EBITDA margin dropped by 8 pp y-o-y to 33%
- Total CAPEX doubled y-o-y to US$620 mn
- Free cash flow[2] soared by 140% y-o-y to US$584 mn



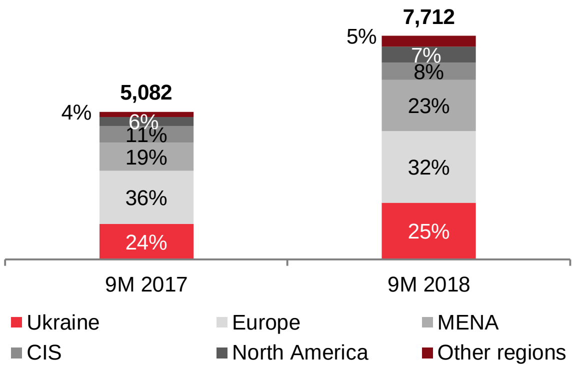

1. The contribution is to the gross EBITDA, before adjusting for corporate overheads and eliminations
2. Free cash flow is calculated as net cash from operating activities less net cash used in investing activities

# Sales portfolio

- Total sales increased by US$2,841 mn y-o-y, mainly driven by:
  - higher selling prices
  - greater sales volumes of in-house products
  - higher resales
- Metallurgical sales
  - higher share of Ukraine (+1 pp y-o-y), amid improved local demand, as the economy continued to expand
  - lower share of Europe (-4 pp y-o-y), mainly following redirection of HRC resales to MENA (+4 pp y-o-y) and Southeast Asia (flat y-o-y)
- Mining sales
  - share of Ukraine rose by 7 pp y-o-y to 42% amid strong demand for pellets
  - share of premium European market rose by 4 pp y-o-y to 44% following long-term agreements signed with customers
  - FCA prices for iron ore products increased by c.20% y-o-y amid higher sales in Ukraine and Europe
- Proportion of sales in hard currencies (US$, EUR, GBP) totaled 79% in 9M 2018, up 2 pp y-o-y

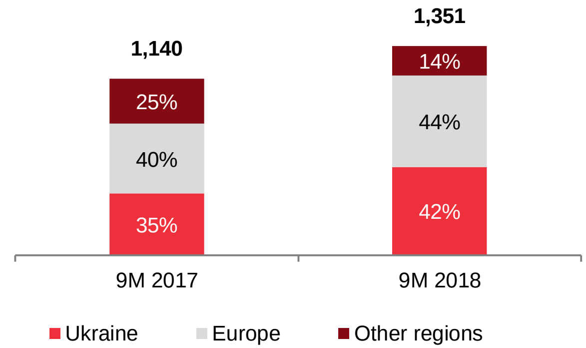
## Metallurgical sales by region

*US$ mn*



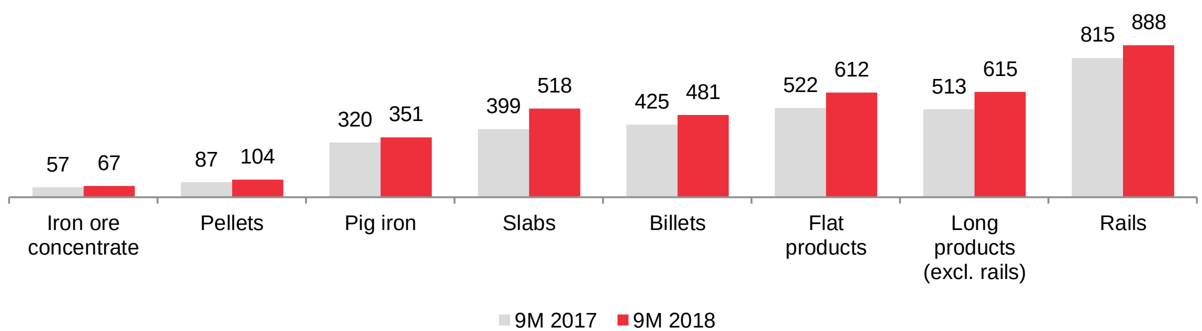

## Mining sales by region

*US$ mn*




## Price dynamics, FCA basis

*US$/t*

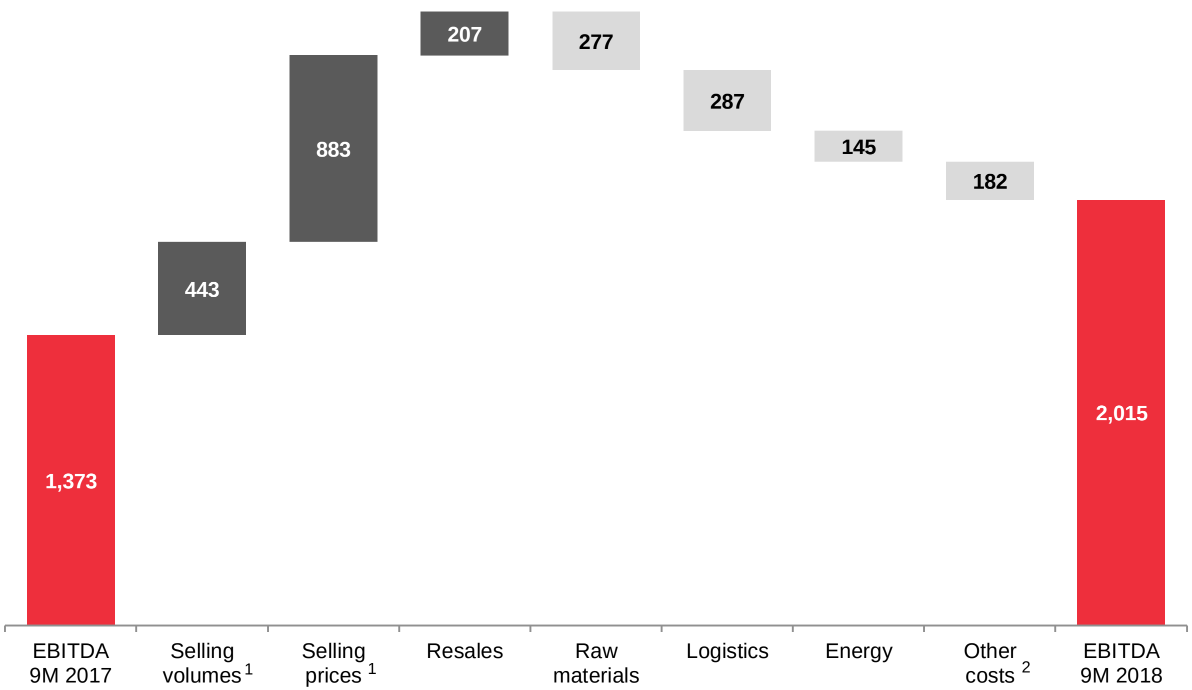


# EBITDA

- Total EBITDA soared by US$642 mn y-o-y to US$2,015 mn, driven by:
  - higher average selling prices
  - greater sales volumes of in-house pig iron, slabs, flat products, coke and pellets
  - higher earnings on resales due to increased prices and volumes
- Cost pressure on EBITDA primarily amid increased production and sales volumes, as well as higher market prices of raw materials, energy and transportation tariffs:
  - greater consumption of purchased coking coal amid a 15% y-o-y rise in coke output
  - higher purchases of billets as feedstock to roll at Promet Steel
  - higher market prices of ferroalloys and scrap
  - more spending on energy, due to higher natural gas prices (+21% y-o-y) and Ukrainian electricity tariffs (+15% y-o-y), as well as greater consumption of natural gas amid a 8% y-o-y increase in hot metal output
  - increased shipment volumes of raw materials, finished goods and resales, as well as higher freight and railway tariffs

**EBITDA drivers**

*US$ mn*



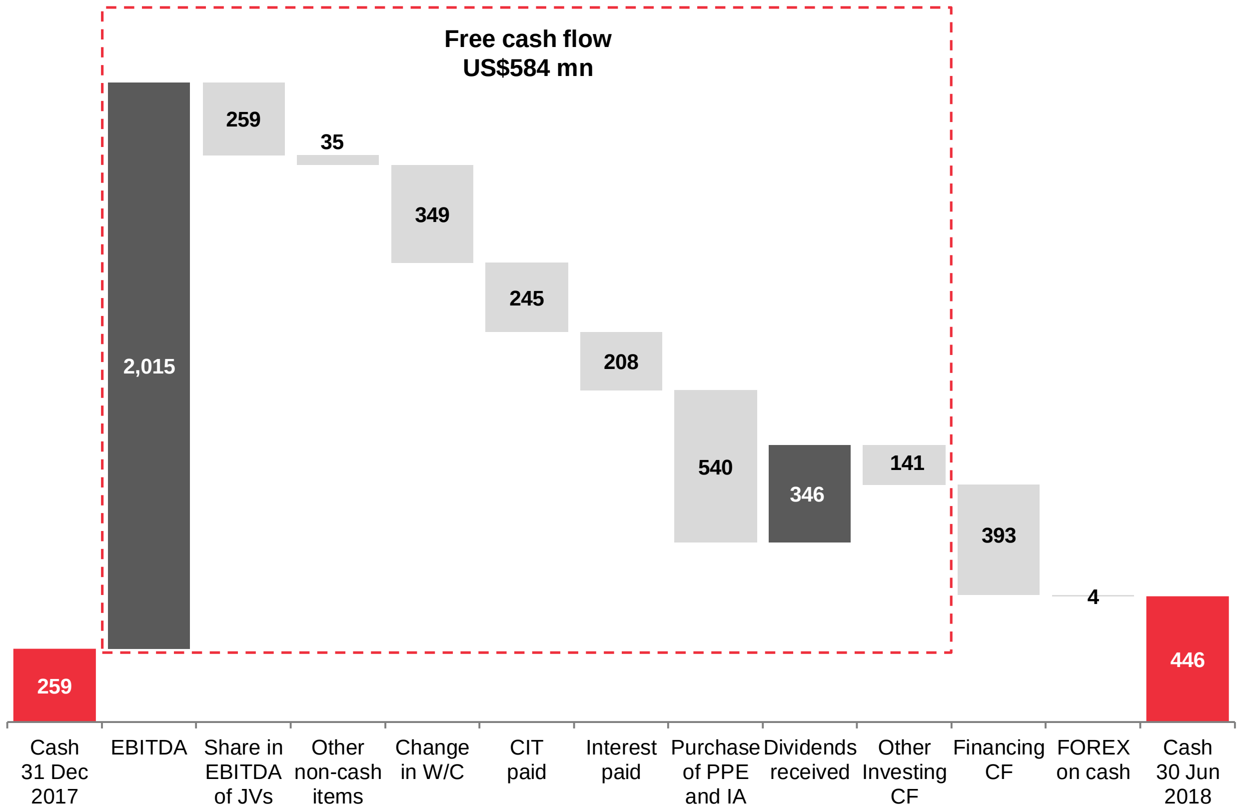

1. Net of resales
2. Other costs include fixed costs, change in work in progress and finished goods, impairment of seized inventories, forex, share in EBITDA of joint ventures and other expenses; net of resales

# Cash flow

- Strong free cash flow[1] of US$584 mn amid robust EBITDA and dividends received from Southern GOK JV
- Working capital outflow totaled US$349 mn, primarily due to:
  - an increase in accounts receivable amid higher sales
  - coal stock accumulation (+517 kt) for winter period
  - Working capital as a percentage of LTM revenues decreased by 2 pp y-t-d to 16%
- Corporate income tax paid reached US$245 mn, tripling y-o-y, mainly due to improved profitability of each business segment
- US$100 mn paid for the acquisition of c.25% in coking coal business in Ukraine (Pokrovska Coal)
- Financing cash outflow was primarily due to repayments under several debt instruments (both voluntary and as per the agreed schedule) as part of the Group's commitment to deleveraging

**Cash flow in 9M 2018**

*US$ mn*



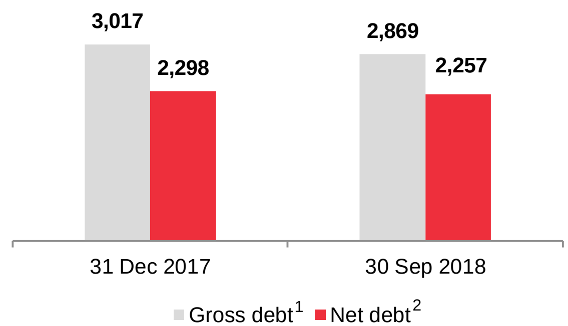

1. Free cash flow is calculated as net cash from operating activities less net cash used in investing activities

# Debt profile

- Sustainable maturity profile amid no significant repayments until 2023
- 2018-2019 maturities include US$92 mn payable for the acquisition of c.25% stake in Pokrovska Coal
- US$63 mn of equipment financing secured y-t-d, including a EUR43mn 7-year ECA-covered facility for capex at Ilyich Steel
- As of 30 September 2018:
  - net debt was US$2,257 mn (-2% y-t-d)
  - net debt to LTM EBITDA decreased to 0.8x (-0.3x y-t-d)
  - 94% of gross debt is USD-denominated – debt service is hedged by revenues in hard currencies

## Gross and net debt

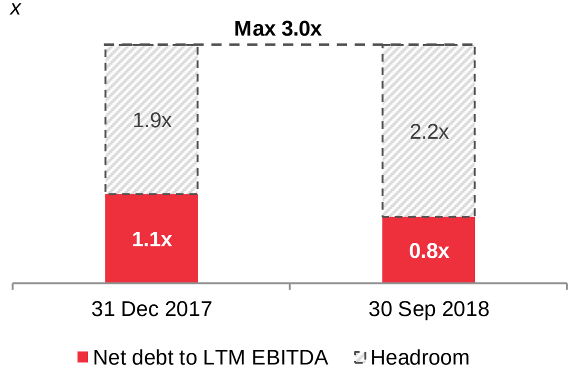
*US$ mn*




1. Gross debt is calculated as the sum of bank loans, bonds, trade finance, finance lease, seller notes and subordinated shareholder loans
2. Net debt is calculated as gross debt less cash and cash equivalents and less subordinated shareholder loans

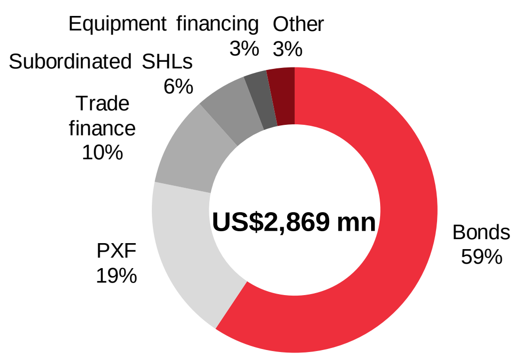
## Net debt to LTM EBITDA

*x*



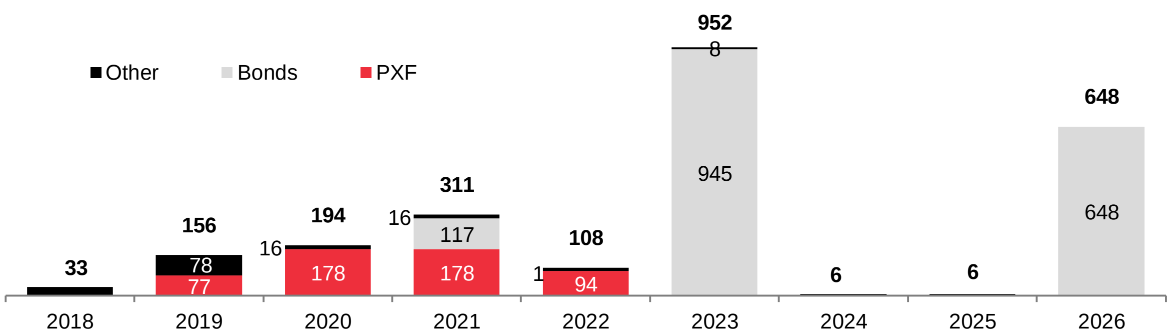

## Gross debt structure as of 30 Sep 2018

*US$ mn*




## Corporate debt maturity as of 30 Sep 2018[3]

*US$ mn*




3. Notes:
- PXF after voluntary repayment in July 2018
- Other includes seller notes for Pokrovska Coal acquisition (25%), ECA facilities, finance lease and other facilities
- Trade finance lines are mainly rollovers, therefore are excluded from the maturity profile chart
- Subordinated shareholder loans (Subordinated SHLs) may be serviced only as part of the dividend basket, therefore are excluded from the maturity profile chart

# Refinancing overview

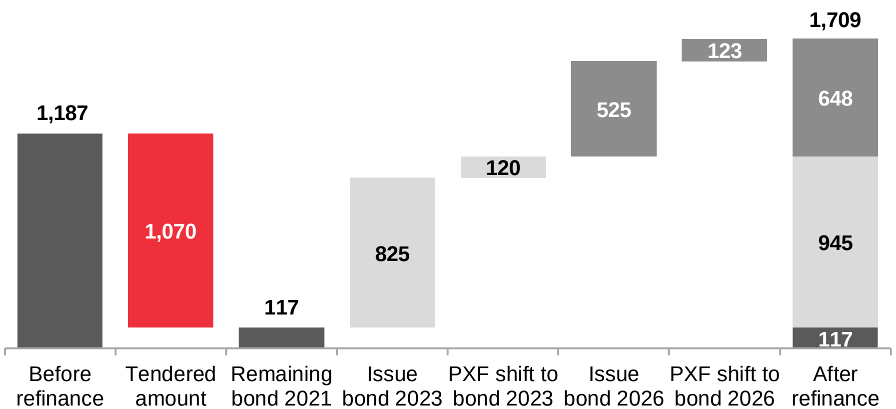
- In April 2018, bond and PXF refinancing was successfully completed to:
  - decrease total funding costs
  - smooth and extend the maturity profile
  - untie bonds and PXF facility by removing the intercreditor agreement
  - lower refinancing risks
  - align bond terms with standard market terms for similarly rated issuers
  - release certain covenants

**Bonds and PXF key parameters**

| | Bond 2021 | Bond 2023 | Bond 2026 | PXF |
|---|---|---|---|---|
| **Amount** | US$$117 mn | US$945 mn | US$648 mn | US$528 mn |
| **Interest rate** | 7.50% | 7.75% | 8.50% | LIBOR + 4.75% |
| **Repayment schedule** | Bullet | Bullet | Bullet | Equal monthly instalments |
| **Final maturity** | 31 Dec 2021 | 23 Apr 2023 | 23 Apr 2026 | 18 Oct 2022 |

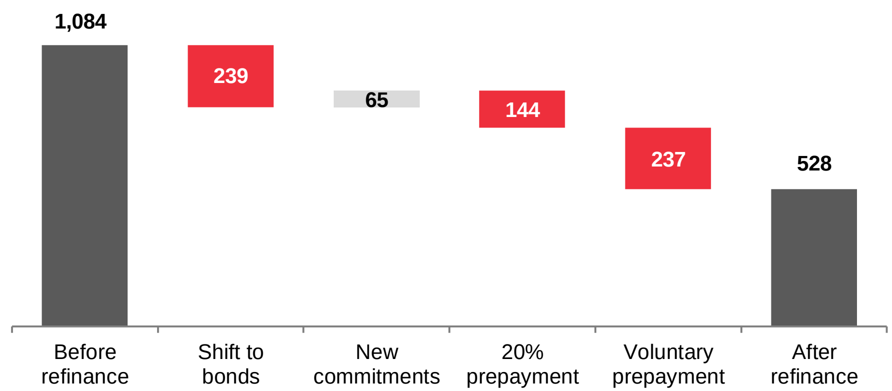
**Bond evolution**

*US$ mn*




**PXF evolution**

*US$ mn*



# Credit rating

- Following the successful refinancing, Metinvest’s credit rating are as follows:
  - **Fitch: ‘B’ (‘positive’ outlook)** – one notch higher than Ukraine’s country ceiling
  - **S&P: ‘B-’ (‘positive’ outlook)** – in line with Ukraine’s sovereign rating
  - **Moody’s: ‘B3’ (‘stable’ outlook)** – one notch higher than Ukraine’s sovereign rating, capped by Ukraine’s country ceiling
- Applying Moody’s indicated rating methodology for the steel industry implies a rating of Baa3[1]

| Steel Industry Grid | Aaa | Aa | A | Baa | Ba | B | Caa |
|---|---|---|---|---|---|---|---|
| **Factor 1: Scale (20%)** | | | | | | | |
| a) Revenue (US$ bn) | | | | **US$10.7 bn** | | | |
| **Factor 2: Business Profile (20%)** | | | | | | | |
| a) Business Profile | | | | | **Ba** | | |
| **Factor 3: Profitability (15%)** | | | | | | | |
| a) EBIT Margin | | | | **11.5%** | | | |
| b) Return on Tangible Assets (EBIT / Tangible Assets) | | | **11.6%** | | | | |
| **Factor 4: Leverage and Coverage (35%)** | | | | | | | |
| a) Debt / EBITDA | | | **1.9x** | | | | |
| b) Debt / Book Capitalisation | | | **38.1%** | | | | |
| c) (CFO – Div) / Debt | | | | **31.3%** | | | |
| d) EBIT / Interest Expense | | | | **4.2x** | | | |
| **Factor 5: Financial Policy (10%)** | | | | | | | |
| a) Financial Policy | | | | | **Ba** | | |
| **Rating:** | | | | | | | |
| a) **Indicated Rating from Grid** | | | | **Baa3** | | | |
| b) Actual Rating Assigned | | | | | | **B3** | |

1. Moody's 12-18 Month Forward View as of December 2018. Source: Moody’s Investors Service, Credit Opinion : Metinvest B.V., 28 December 2018

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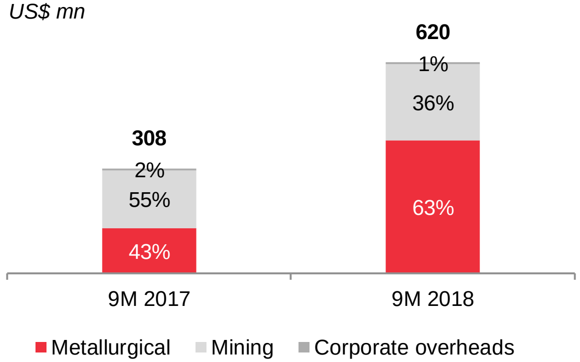
# Capital expenditure

- In 9M 2018:
  - CAPEX doubled y-o-y to US$620 mn
  - Metallurgical segment accounted for 63% of total investments (+20 pp y-o-y)
  - Share of expansion projects reached 39% (+28 pp y-o-y)
- Technological Strategy 2030 focuses on:
  - Enhance operational safety and reduce environmental footprint
  - Steel
    - increase steel production capacity at Azovstal and Ilyich Steel to 11 mt/y by implementing numerous projects, including major overhauls of BFs and construction of new CCMs
    - focus on downstream to increase share of HVA products (mainly flat, sections and rails)
    - improve production cost efficiency
  - Iron ore
    - pursue quality over quantity strategy
    - increase Fe content and enhance key mechanical and chemical characteristics of iron ore products to penetrate premium markets
    - maintain low-cost position
- Key ongoing strategic projects are on slide 13

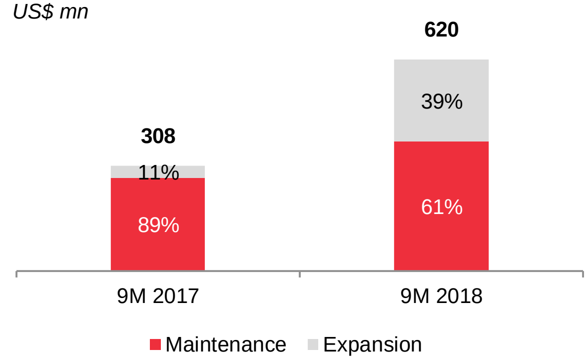
### CAPEX by segment

*US$ mn*



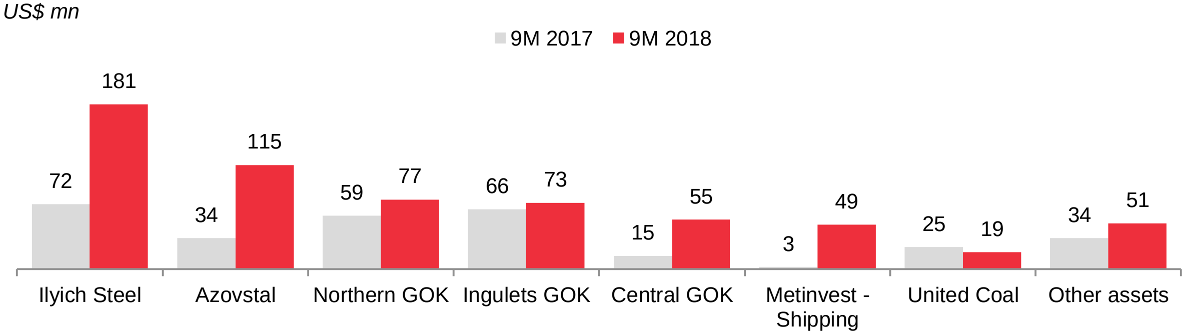

### CAPEX by purpose

*US$ mn*




### CAPEX by key asset

*US$ mn*



# Key strategic CAPEX projects in 2018

| No | Project | Asset | Description | Status |
|---|---|---|---|---|
| 1 | Construction of pulverised coal injection (PCI) facilities | Azovstal | Minimise the need for natural gas in the production process and use coke more efficiently | BF nos. 2 and 4 are operating using PCI technology. Construction at BF no. 3 is ongoing: PCI injection is postponed to 1Q 2019 to align with the major overhaul schedule |
| 2 | Major overhaul of blast furnace (BF) no. 3 | Azovstal | Increase hot metal production capacity by 0.5-0.8 mt/y to 1.3-1.6 mt/y; and reduce production cost by decreasing consumption of coke and coke nuts | Final investment decision was made in July 2017, and the active construction stage has started. Launch is postponed to 1Q 2019 due to delays with engineering and a lack of personnel of contractors |
| 3 | Construction of continuous casting machine (CCM) no. 4 | Ilyich Steel | Boost slab casting capacity by 1.5 mt/y to around 4 mt/y, improve product quality, decrease costs and reduce environmental impact | Active construction stage started in September 2016 and launch is expected in 4Q 2018 |
| 4 | Reconstruction of 1700 hot strip mill | Ilyich Steel | Increase hot strip mill capacity, improve the quality of steel surface and reduce the process waste during slab rolling | Basic engineering development started in 3Q 2017. Detailed engineering and documentation are ready. Commissioning is expected in 2Q 2019 |
| 5 | Sinter plant reconstruction | Ilyich Steel | Comply with environmental requirements | New gas cleaning filters were installed in sintering zones of sintering machines (SM) nos. 1-10 and cooling zones of SMs nos. 7-9. Remaining cyclones are to be replaced by mid-2019. Desulphurization complexes at SMs nos. 7-9 are being tested, while their construction at other SMs is ongoing. |
| 6 | Construction of crusher and conveyor system at Pervomaisky quarry | Northern GOK | Reduce operational and capital expenditure in iron ore mining and maintain production volumes | The first facility for iron ore transportation was launched in July 2016. The launch of the second facility for rock transportation is postponed to 2020 |
| 7 | Replacement of gas cleaning unit on Lurgi 552-B pelletising machine | Northern GOK | Comply with the maximum permissible concentrations of pollutants in the air and improve conditions in the workplace | Currently, 4 of 5 filters have been replaced. The replacement of the last one, no. 5, is expected to be completed in 2H 2018 |
| 8 | Construction of crusher and conveyor system | Ingulets GOK | Reduce operational and capital expenditure in iron ore mining and maintain production volumes | Construction is ongoing on the Vostochny conveyor line |
| 9 | Purchase of 1,800 open rail wagons | Metinvest-Shipping | Purchase rail wagons to deliver raw materials and dispatch finished products to curtail negative effect from rolling stock shortage in Ukraine | All wagons have been purchased on time and in line with the budget |

# ESG

| | Environment | Social | Governance |
|---|---|---|---|
| **Goals** | ▪ Reduce environmental footprint<br>▪ Introduce more efficient energy-saving technology<br>▪ Meet European standards in this area<br>▪ Respond rapidly to any critical issues | ▪ Work in partnership with the communities where Metinvest operates to achieve long-term improvements in social conditions<br>▪ Maintain close dialogue with local stakeholders | ▪ Corporate governance system to be among the most transparent international companies and serve interests of all stakeholders as thoroughly as possible |
| **Initiatives** | ▪ Continually examine and enhance environmental standards within the framework of the Technological Strategy<br>▪ Require all newly built and reconstructed assets to meet EU environmental standards<br>▪ Regularly review the environmental action plan to target efforts more effectively | ▪ Implement social partnership programmes with local authorities<br>▪ Empower local communities<br>▪ Foster the development of green and ecological initiatives<br>▪ Enhance the sustainable development of regions | ▪ Supervisory Board consists of 10 members: 7 representing SCM and 3 – SMART<br>▪ Supervisory Board includes three independent non-executive members: Stewart Pettifor, Christiaan Norval and Johan Bastin<br>▪ Supervisory Board is assisted by four Committees: Audit and Finance, Strategy and Investments, HSE, Appointments and Compensations |
| **Results 9M 2018** | ▪ Around US$196 mn was spent on environmental safety[1]<br>▪ Progress on key environmental projects:<br>○ reconstruction of gas cleaning system of sinter plant at Ilyich Steel<br>○ major overhaul of gas-cleaning equipment of secondary steel treatment facilities at Azovstal<br>○ building of gas-cleaning system for new CCM no. 4 at Ilyich Steel<br>○ reconstruction of gas-cleaning equipment for foundry at Mariupol Machining and Repair Plant<br>○ extensive maintenance of oven chambers at Avdiivka Coke and Zaporizhia Coke | ▪ Invested US$13 mn to support communities in cities where Metinvest operates<br>▪ Selected 17 projects of the “We Improve the City” initiative in Mariupol<br>▪ Selected 29 projects of the “#ClassMetinvest2018” initiative in Kryvyi Rih<br>▪ Selected 73 projects of the “We are the city” initiative in Zaporizhia<br>▪ Continued cooperation with the Mariupol Development Fund – 19 projects have been completed and 9 are being implemented<br>▪ “Zaporizhia. Joint Action Platform” has been officially launched<br>▪ Held around 850 environmental events as part of “Green Centre” in Mariupol and Kryvyi Rih | ▪ Supervisory Board’s expertise has been strengthened in the area of external financing and human resources following the appointments of professionals with extensive experience in international debt capital markets, leading European financial institutions and global consulting companies<br>▪ Executive Team has been strengthened by introducing two new positions: one to implement the integrated business management system and the other one – to implement the Technological Strategy 2030 |

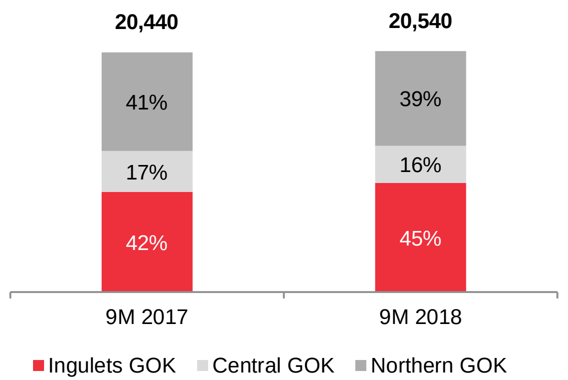
1. Including both capital and operational improvements

# Segmental review

# Mining operations

## Iron ore concentrate production

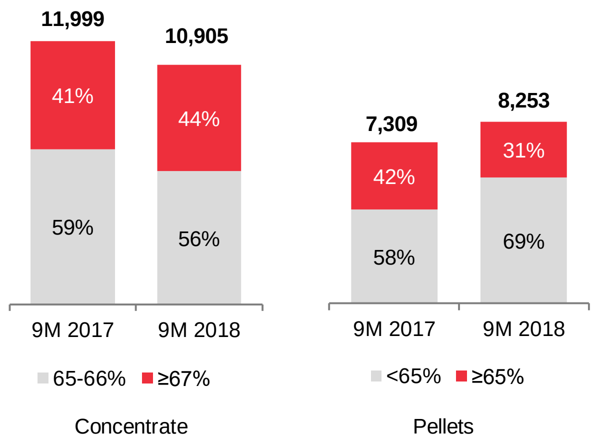
*kt*




- Overall iron ore concentrate production remained flat y-o-y amid greater output at Ingulets GOK (+9% y-o-y) following off-highway truck fleet expansion
- Iron ore self-sufficiency was 267%[1] in 9M 2018
- Metinvest used 41%[2] of total iron ore concentrate internally and allocated 59%[2] for third-party sales

## Output of iron ore products[3] by Fe %

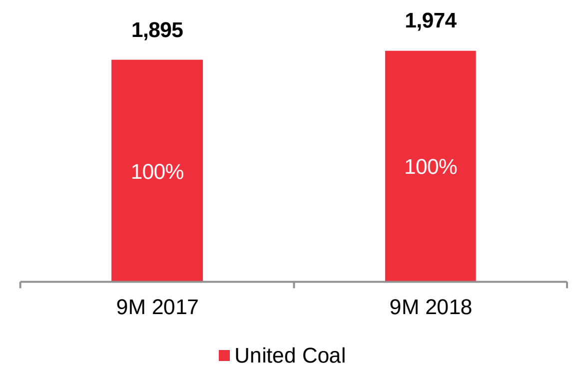
*kt*




- Metinvest's strategy is to produce premium products (with greater Fe content and better mechanical and chemical characteristics) to penetrate premium markets
    - share of high grade concentrate (Fe ≥67%) increased by 3 pp y-o-y to 44%
    - share of high grade pellets (Fe ≥65%) stood at 31%
    - pellet output increased by 13% y-o-y as this product offered higher margins than iron ore concentrate

## Coking coal production[4]

*kt*




- Coking coal concentrate production grew by 4% y-o-y following the commissioning of new mining areas and upgrades of key equipment
- High-quality US coking coal is delivered to Metinvest's Ukrainian coke production facilities to cover around 37%[5] of intragroup needs
- Other coal volumes required for coke production are delivered by international and local suppliers
- Additional long-term supplies have been secured after acquiring up to 24.99% in coking coal assets in Ukraine, the most significant of which are Pokrovske Colliery and Svyato-Varvarinskaya Enrichment Plant

1. Iron ore self-sufficiency is calculated as actual iron ore concentrate production divided by actual consumption of iron ore products to produce hot metal in the Metallurgical segment
2. In iron ore concentrate equivalent
3. Including production for intragroup consumption
4. Figures for 2017 have been updated to exclude production at assets, control over which has been lost since March 2017
5. Coal self-sufficiency is calculated as actual coal concentrate production divided by actual consumption of coal concentrate to produce coke required for production of hot metal in the Metallurgical segment. Coal consumption for PCI is included in the calculation

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# Mining segment financials

- Sales
  - External revenues increased by 19% y-o-y, driven by greater sales of pellets, which offer higher margins than iron ore concentrate
  - Pellets accounted for 50% of the iron ore sales mix and merchant concentrate for another 50% in 9M 2018 (39% and 61% in 9M 2017 respectively)
  - Top five iron ore customers accounted for 67% of segmental sales
  - 82% of iron ore volumes are sold under annual contracts (73% in 9M 2017) and 18% on spot (27% in 9M 2017)
- EBITDA
  - Segment's EBITDA and EBITDA margin decreased y-o-y due to (i) lower coal prices, (ii) higher energy, logistics and labour costs for the Group's iron ore producers, and (iii) a drop in the contribution from Southern GOK JV
- Segment's CAPEX increased by 31% y-o-y to US$224 mn, primarily due to higher investments at Central GOK and Northern GOK

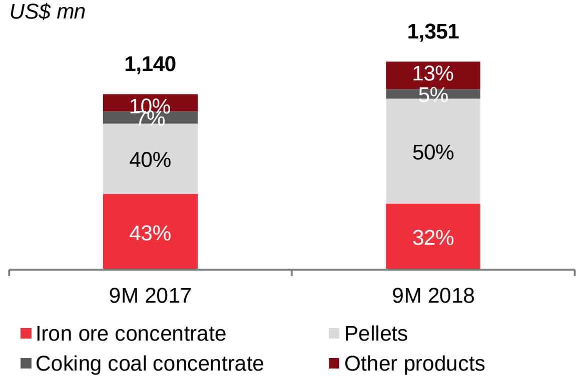
1. The contribution is to the gross EBITDA, before adjusting for corporate overheads

## Segment financials

| US$ mn | 9M 2018 | 9M 2017 | Change |
|---|---|---|---|
| **Sales (total)** | **2,836** | **2,657** | **7%** |
| **Sales (external)** | **1,351** | **1,140** | **19%** |
| *% of Group total* | *15%* | *18%* | *-3 pp* |
| **EBITDA** | **946** | **1,092** | **-13%** |
| *% of Group total[1]* | *46%* | *74%* | *-29 pp* |
| *margin* | *33%* | *41%* | *-8 pp* |
| **CAPEX** | **224** | **170** | **31%** |

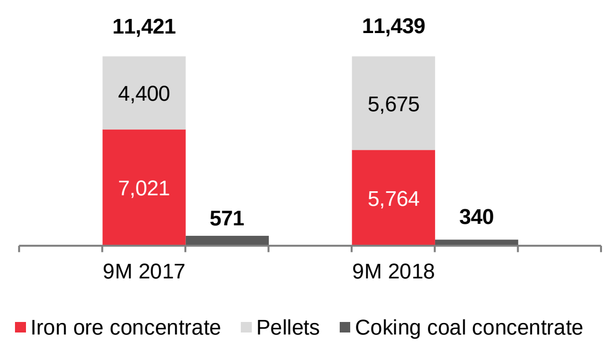
## Sales by product

*US$ mn*




## Sales by product

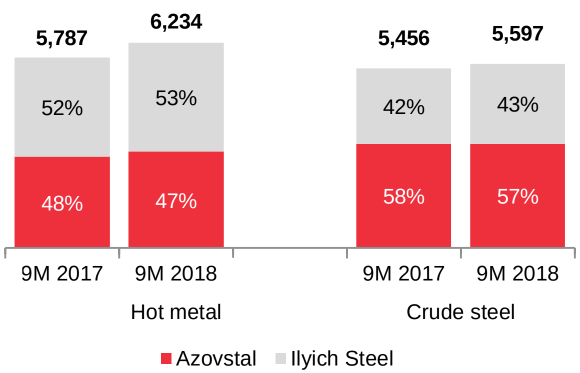
*kt*



# Metallurgical operations

## Hot metal and crude steel production[1]

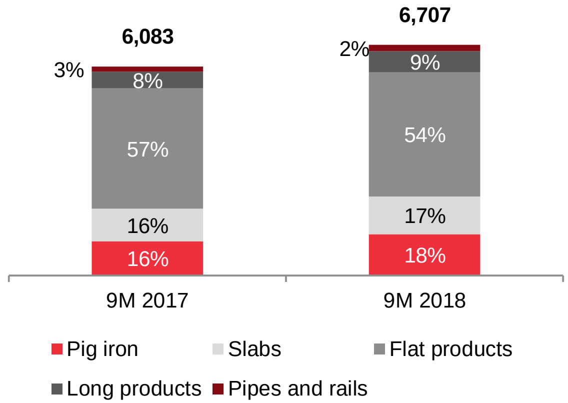
*kt*




- Total hot metal production rose by 8% y-o-y, due to a 10% y-o-y increase at Ilyich Steel and a 6% y-o-y growth at Azovstal amid stable raw material supplies (irregular in 9M 2017), thus driving output of steel (+3% y-o-y) and pig iron (+21% y-o-y)

## Output of merchant steel products[1]

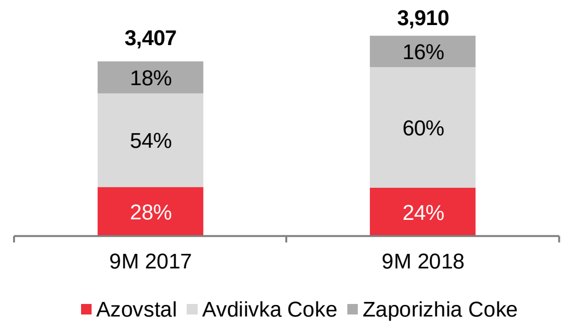
*kt*




- Steel product mix changed y-o-y:
  - shares of pig iron and slabs reached 18% and 17% respectively, amid higher output following a favourable market trend
  - flat product share remained above 50%, primarily due to greater output of plates at Ilyich Steel (+265 kt) given strong demand
  - share of long products rose to 9% due to higher production at Promet Steel, as stable supplies of square billets were secured

## Coke production

*kt*




- Coke[2] output increased by 15% y-o-y, driven by a rise in output of 523 kt at Avdiivka Coke, as all eight coke oven batteries have been in operation since May 2017
- Metinvest covered 139%[3] of its coke needs with own production in 9M 2018

1. Figures for 2017 have been updated to exclude production at assets, control over which was lost in March 2017
2. Dry blast furnace coke output
3. Coke self-sufficiency is calculated as actual coke production divided by actual consumption of coke to produce hot metal in the Metallurgical segment.

# Metallurgical segment financials

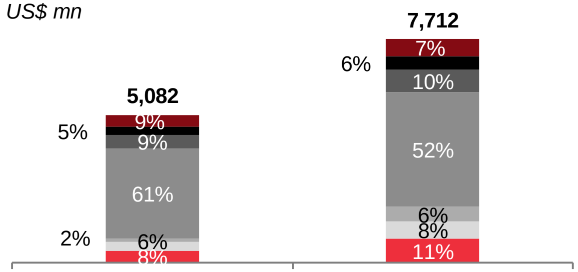
- Sales
  - External sales rose by 52% y-o-y, mainly due to higher selling prices, increased sales volumes of products manufactured at Metinvest's facilities, as well as greater resales
  - Share of HVA products[1] in steel sales mix excluding resales was 50% in 9M 2018
  - Top five steel customers accounted for 15% of segment's revenues
  - Almost all steel volumes are sold on spot
- EBITDA
  - EBITDA tripled y-o-y, mainly due to higher prices and sales volumes
  - Contribution to the gross EBITDA[2] increased by 29 pp y-o-y to 54%
  - EBITDA margin rose by 8 pp y-o-y, primarily due to strong realised prices
- Segment's CAPEX tripled y-o-y to US$390 mn, mainly amid greater investments at Mariupol steelmakers

**Segment financials**

| US$ mn | 9M 2018 | 9M 2017 | Change |
|---|---|---|---|
| **Sales (total)** | **7,764** | **5,123** | **52%** |
| **Sales (external)** | **7,712** | **5,082** | **52%** |
| *% of Group total* | *85%* | *82%* | *+3 pp* |
| **EBITDA** | **1,126** | **377** | **>100%** |
| *% of Group total[1]* | *54%* | *26%* | *+29 pp* |
| *margin* | *15%* | *7%* | *+8 pp* |
| **CAPEX** | **390** | **133** | **>100%** |

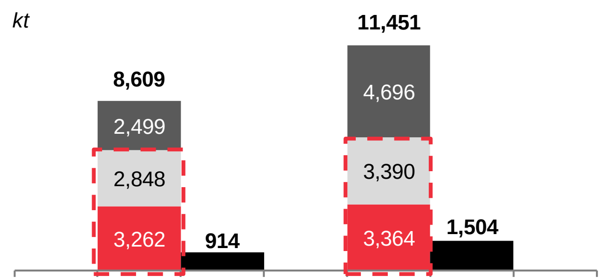
**Sales by product**

*US$ mn*




**Sales by product**

*kt*




1. HVA products include thick plates, cold-rolled flat products, hot-dip galvanised sheets and coils, structural sections, rails and pipes
2. The contribution is to the gross EBITDA, before adjusting for corporate overheads

# Industry overview

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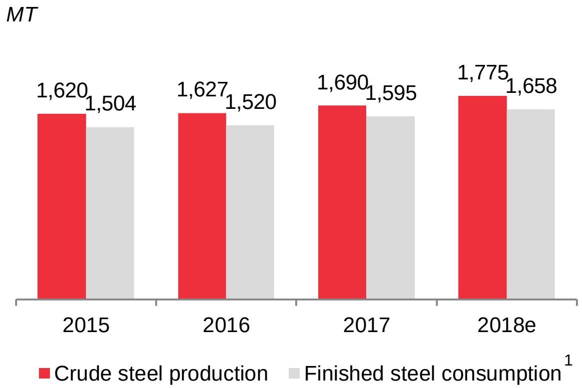
# Global steel, iron ore and coking coal markets

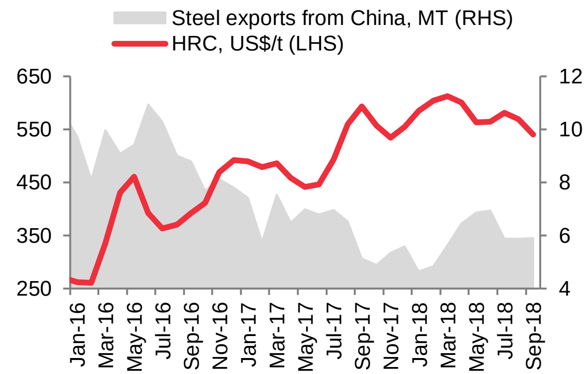
- In 2018, global steel production and consumption are expected to increase by 5.0% and 3.9% y-o-y respectively
- Global steel prices rose y-o-y in 9M 2018, mainly driven by:
  - strong demand in all regions
  - fall in steel exports from China
  - rising worldwide protectionism
  - high prices of coking coal and scrap
- In 9M 2018, HRC FOB Black Sea trended in line with global steel benchmarks, increasing to an average of US$580/t (+17% y-o-y), peaking at US$613/t in March 2018
- In 9M 2018, 62% Fe iron ore price averaged US$69/t, down 6% y-o-y, mainly due to supply from planned projects increasing at higher pace than demand growth amid a rising share of electric arc furnace output in steel production
- Premiums for Fe content and pellets soared y-o-y amid supportive demand for high grade ores and an efficiency drive among steel producers:
  - premium for 65% Fe content to 62% Fe content jumped by 40% y-o-y to US$21/t
  - Atlantic basin premium for pellets in Europe increased by 30% y-o-y to US$58/t
- In 9M 2018, average spot hard coking coal price increased by 10% y-o-y to US$204/t, while it decreased by 17% q-o-q to US$190/t in 2Q amid seasonally higher supplies and remained relatively stable in 3Q

## Global steel industry



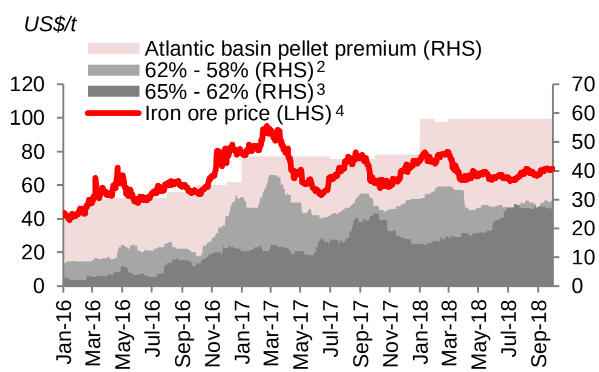

Source: World Steel Association, Metinvest estimates

## Steel product prices vs exports from China



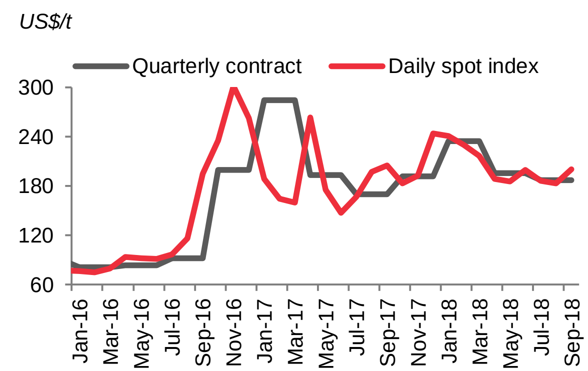

Source: Bloomberg, Metal Expert

## Iron ore price




Source: Bloomberg, Platts

## Hard coking coal price[5]




Source: Bloomberg, Platts

1. Apparent consumption of finished steel products
2. 58% to 62% Fe iron ore fines discount, CFR China
3. 65% vs 62% Fe iron ore fines premium, CFR China
4. 62% Fe iron ore fines, CFR China
5. FOB Australia

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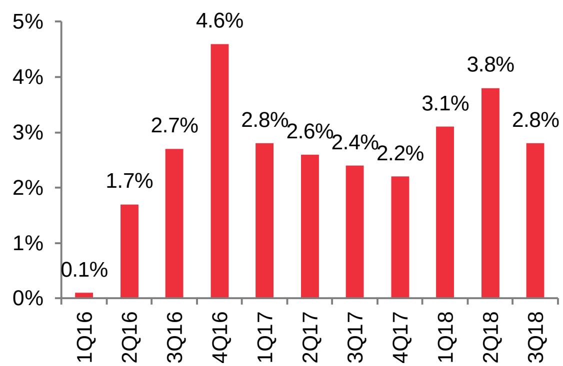
# Macro and steel industry in Ukraine

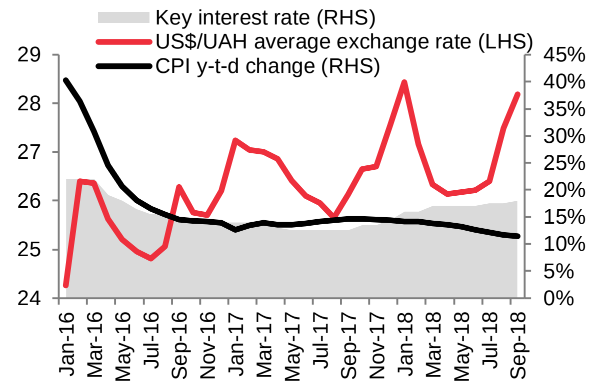
- Ukrainian economy continued to show solid growth for the 11th quarter in a row, driven by structural economic reforms, higher consumer spending due to an increase in real wages, favourable export market environment and stronger macroeconomic fundamentals
- Real GDP growth was 3.1% y-o-y in 1Q 2018, 3.8% in 2Q 2018 and 2.8% in 3Q 2018
- National Bank of Ukraine conducts interest rate policy consistent with inflation targets and keeps the local currency floating
  - CPI slowed to 11.4% y-t-d in 9M 2018, from 14.4% in 2017
  - In 2018, hryvnia exchange rate against the US dollar seasonally strengthened from 28.43 in January to 26.14 in April and weakened to 28.19 in September, bringing the y-t-d average to 26.96, depreciation by 1.8% y-o-y
  - key interest rate has been increased 6 times over the last 12 months: to 18.0% since 7 September 2018
- In 9M 2018, apparent steel consumption continued to grow (+4.4% y-o-y), driven by:
  - industrial construction (+11.7% y-o-y)
  - railcar manufacturing (+53.7% y-o-y) amid strong domestic demand
- In 9M 2018, total steel output rose by 6.0% y-o-y

## Real GDP dynamics (y-o-y)




Source: State Statistics Service of Ukraine

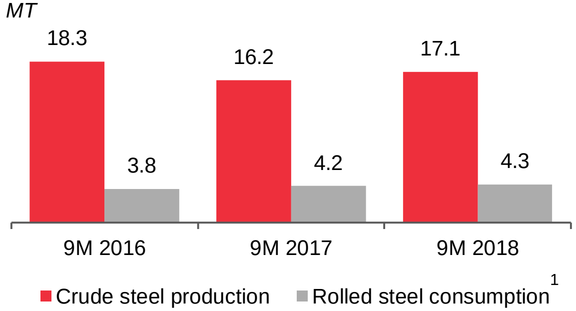
## Inflation targeting policy in place




Source: National Bank of Ukraine, State Statistics Service of Ukraine

## Steel industry

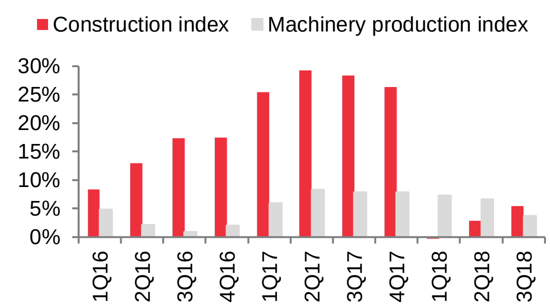
*MT*




Source: Metal Expert

1. Consumption in Ukraine includes flat, long and certain semi-finished products but excludes pipes

## Key steel-consuming sectors[2]




Source: State Statistics Service of Ukraine, Metal Expert

2. All indexes represent the cumulative index from the beginning of the respective year, y-o-y change

# Appendix

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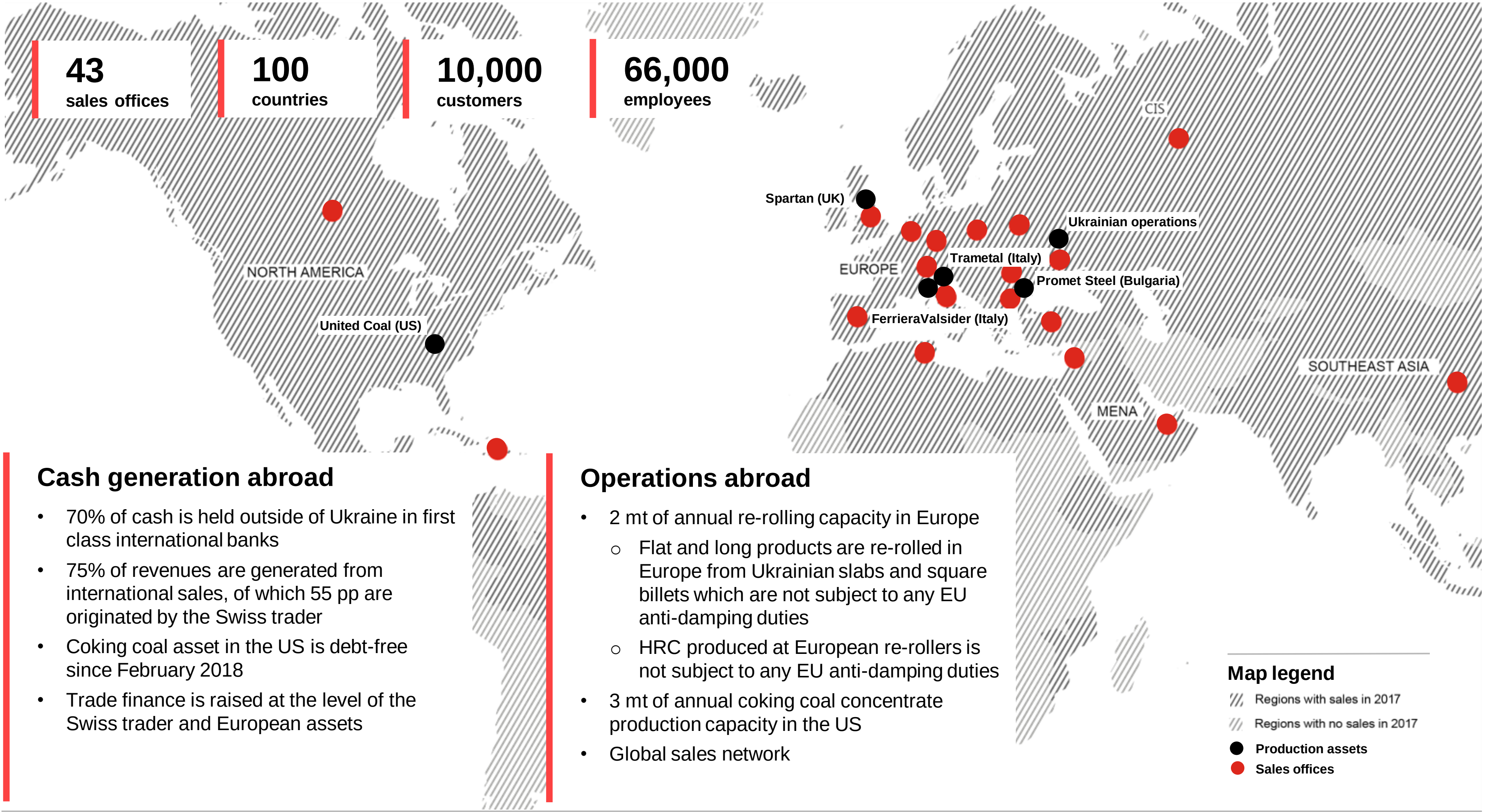
# Global operations

**43** sales offices | **100** countries | **10,000** customers | **66,000** employees




## Cash generation abroad

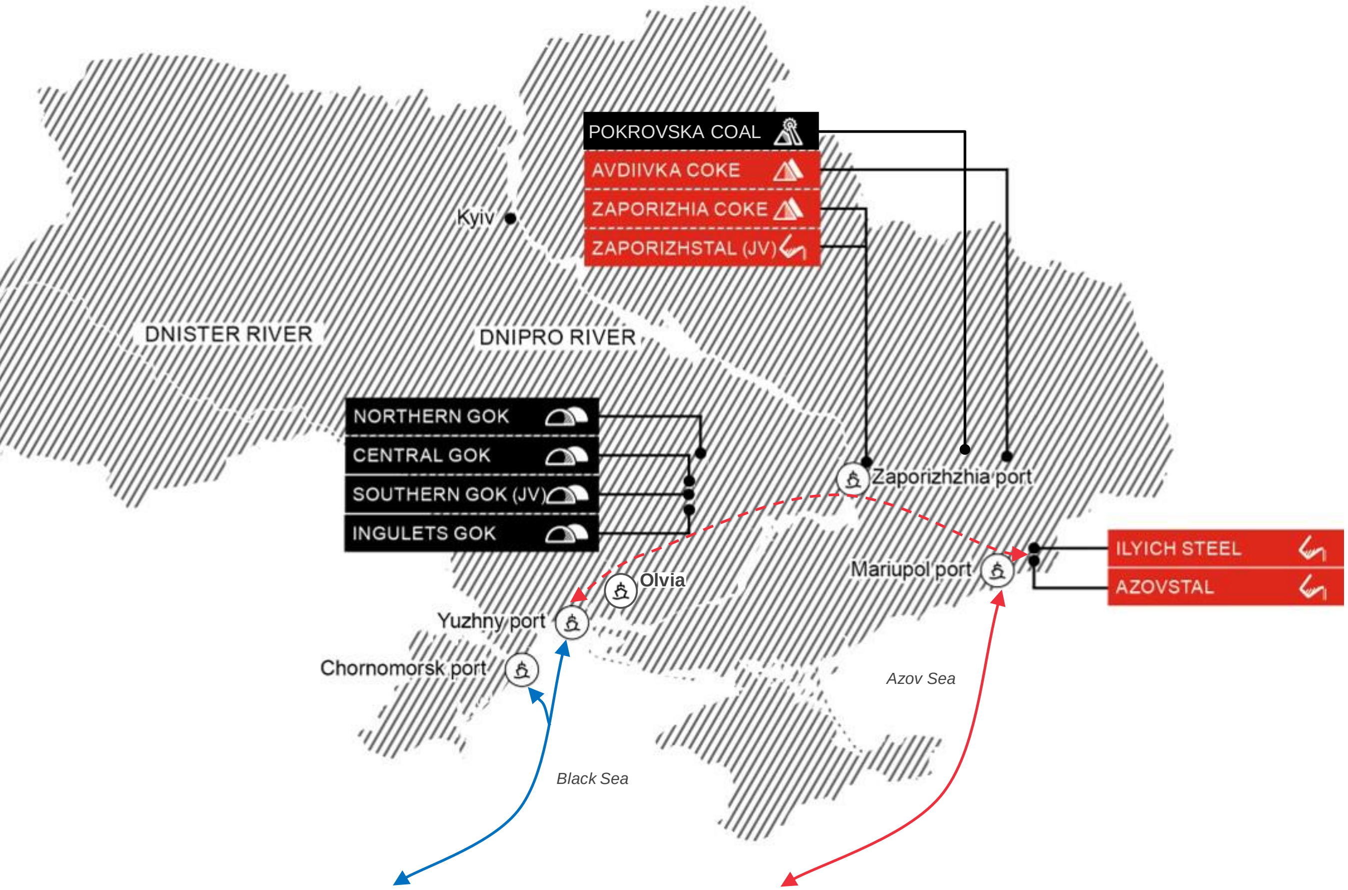
- 70% of cash is held outside of Ukraine in first class international banks
- 75% of revenues are generated from international sales, of which 55 pp are originated by the Swiss trader
- Coking coal asset in the US is debt-free since February 2018
- Trade finance is raised at the level of the Swiss trader and European assets

## Operations abroad

- 2 mt of annual re-rolling capacity in Europe
  - Flat and long products are re-rolled in Europe from Ukrainian slabs and square billets which are not subject to any EU anti-damping duties
  - HRC produced at European re-rollers is not subject to any EU anti-damping duties
- 3 mt of annual coking coal concentrate production capacity in the US
- Global sales network

# Operations in Ukraine

- Stable operations of all assets in Ukraine
- No major logistic disruptions since March 2017
- Kerch Strait update
  - c.50% (4 mt/y) of steel goods produced by Azovstal and Ilyich Steel are transported by sea to international customers
  - Contingency strategy is to ship goods by rail to Black Sea ports
  - Capacities of railways and Black Sea ports are sufficient to transport additional steel volumes
  - Key ports to ship Mariupol contingent volumes are:
    - Chornomorsk (spare capacity – up to 4.3 mt/y or 72%)
    - Olvia (spare capacity – up to 3.0 mt/y or 85%)




**Legend**

- Metallurgical
- Mining
- Affected
- Logistic routes
- Contingency routes
- Iron ore
- Integrated steel
- Coke
- Pipes

# Thank you!

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