

# ON THE **RIGHT TRACK**

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### **We are Metinvest**

Metinvest is a vertically integrated group of steel and mining companies that manages every link of the value chain, from mining and processing iron ore and coal to making and selling semi-finished and finished steel products. It has vast iron ore reserves, coal mines and steelmaking assets in Ukraine, Europe and the US, as well as a dedicated sales network covering all key global markets.

## **ON THE RIGHT TRACK**

In 2018, Metinvest delivered its best performance in the last four years, confirming that it has now turned a crucial corner. With a proven agile business model and clear strategic vision in place, the Group is on the right track to achieving its long-term objectives. In addition to reporting strong operational and financial results, the Group reinvigorated its large-scale CAPEX programme, completed a transformational debt refinancing and carried out select M&A transactions, all aimed at reinforcing the future sustainability of the business.

## 2018 HIGHLIGHTS

# A COMMENDABLE PERFORMANCE

In 2018, Metinvest reported some of its most impressive results in the last four years. Major financial, investment and corporate accomplishments marked significant progress towards fulfilling the strategic priorities for 2030.



### RESULTS

Through proactive management, Metinvest demonstrated its agility in every respect in 2018, delivering strategic achievements, commendable operational results and a robust financial performance.

## OPERATIONS

### CRUDE STEEL PRODUCTION

# 7,323KT

The Group's combined crude steel output at its Mariupol steelmakers was largely unchanged year-on-year in 2018, as stable raw material supplies ensured a solid performance at Ilyich Steel, while major overhauls of several blast and basic oxygen furnaces took place at Azovstal.

### IRON ORE CONCENTRATE PRODUCTION

# 27,353KT

Metinvest's overall output of iron ore concentrate was flat year-on-year in 2018 as the Group is conducting an extensive heavy truck fleet upgrade to improve volumes and production efficiency. The first result of these efforts was a 7% year-on-year rise in production at Ingulets GOK.

### COKING COAL CONCENTRATE PRODUCTION

# 2,683KT

Compared with 2017, the Group produced 9% more coking coal concentrate at its US mines following the commissioning of new mining areas and upgrades of key equipment. The majority of coal mined in-house was consumed internally.

### STEEL PRODUCTION CAPACITY

# 9.6MT

The Group recently increased overall steel production capacity at its Mariupol steelmakers to 9.6 million tonnes a year, up 14%, after Ilyich Steel commissioned the new continuous casting machine no. 4, eliminating a bottleneck there.

### SHARE OF PELLETS

# 48%

The share of pellets in the iron ore sales mix reached 48% in 2018, up nine percentage points year-on-year, following a 30% year-on-year increase in output, as the product offered higher margins than iron ore concentrate.

### COKE PRODUCTION

# 5,269KT

The Group's coke output jumped by 11% year-on-year in 2018. Following the installation of a new electricity transmission line on government-controlled territories, Avdiivka Coke has been operating using eight coke oven batteries.

## CAPEX

Guided by the Technological Strategy 2030 as a roadmap for achieving strategic priorities, Metinvest has reactivated its ambitious modernisation programme. In the reporting period, the Group allocated CAPEX of almost US\$900 million in its drive to make its enterprises among the most efficient, safe and environmentally friendly in the industry.

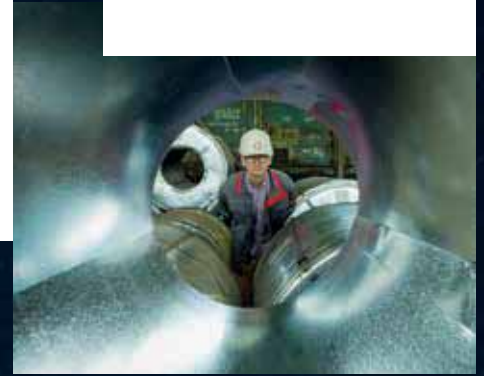


## DEBT MANAGEMENT

In 2018, Metinvest completed a refinancing of its debt of US\$2.3 billion, marking a major turning point in its recent history. Through this, the Group normalised its debt portfolio to achieve a sustainable maturity profile, significantly improving its investment case.

## M&A

In another crucial achievement in 2018, Metinvest completed three sizeable M&A transactions aimed at reinforcing key parts of the vertically integrated business model: two involving minority stakes to secure long-term raw material supplies and one a full acquisition to enhance the steel product portfolio.



## FINANCES

### REVENUES

# US\$11,880M

The Group boosted its top line by 33% year-on-year in 2018, capitalising on higher product prices and greater sales volumes of in-house and third-party goods.

### EBITDA

# US\$2,513M

Compared with 2017, Metinvest's EBITDA rose by 23% in 2018, marking three consecutive years of growth. The latest rise was due to improved profitability in the Metallurgical segment, whose contribution to the Group's result surged by 13 percentage points to 50%.

### NET DEBT

# US\$2,463M

Net debt totalled US\$2,463 million at the end of 2018, taking into account the US\$273 million syndicated loan repayment using proceeds from the refinancing and the Group's own cash flows.

### FREE CASH FLOW

# US\$673M

In 2018, the Group generated US\$673 million of free cash flow, calculated as operating cash flow less investing cash flow, up nearly five-fold year-on-year, driven by the strong EBITDA and dividends from a mining joint venture.

### EBITDA MARGIN

# 21%

Compared with 2017, the Group's consolidated EBITDA margin nudged down by 2 percentage points in 2018, reflecting mainly the effect of higher operating expenses incurred in the year.

### NET DEBT TO EBITDA

# 1.0X

The ratio of net debt to EBITDA improved further to 1.0x in 2018, as Metinvest continued to demonstrate rigorous financial discipline amid robust EBITDA generation.

## Strategic Report

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# PROGRESSING

## MARKET FOCUS: UKRAINE

Home to the core asset base, Ukraine is also one of Metinvest's most important markets. The Group sells the full range of its products in the country, from iron ore products to high-quality finished steel goods. In 2018, Ukraine accounted for 42% of the Mining and 26% of the Metallurgical segment revenues.

Overall sales to the country totalled US\$3,340 million in the reporting period, up 35% year-on-year, as the economy continued to expand for the third year in a row. Amid improved apparent consumption of steel products in Ukraine, Metinvest's local flat and long product sales grew solidly, supported by strong selling prices. In addition, there was particular demand from other Ukrainian steelmakers for iron ore concentrate (volumes were up 10% compared with 2017) and pellets (up 58%), as well as coke (up 41%).



# DECISIVELY

## METALLURGICAL SALES IN 2018

# 4,102KT

The Metallurgical segment increased its sales volumes in Ukraine by 31% year-on-year in 2018. Metinvest sold 2,093 thousand tonnes of steel products to the construction, transportation and machine-building sectors, as well as 2,009 thousand tonnes of coke to domestic steelmaking peers.

## MINING SALES IN 2018

# 5,934KT

Driven by demand from Ukrainian steel mills, the Mining segment's local deliveries climbed by 22% year-on-year in the reporting period, as the Group sold 5,569 thousand tonnes of iron ore products and 365 thousand tonnes of coking coal concentrate.



In 2018, Metinvest excelled on numerous fronts, providing strong validation that it has created the right roadmap for a sustainable future. Focusing on quality in everything it does, the Group forged ahead with large-scale asset upgrades, while the improved debt portfolio allowed it to ramp up its most capital-intensive plans. Metinvest also seized several acquisition opportunities that are an ideal fit with the business model.

## ON THE RIGHT TRACK

### STRATEGY IN ACTION

From an executive perspective, it is a pleasure to see that our strategy is being implemented effectively. In 2017, Metinvest underwent tremendous efforts to conduct a 360-degree review of its Strategic Priorities 2030, which are based on the long-established corporate strategy, to make the business even more agile, successful and sustainable over the long term.

Our strategic priorities that we believe will help us to achieve our goals include: increasing our production capacity through organic growth; enhancing our low-cost position; expanding the product portfolio to strengthen our position in key strategic markets; focusing on the needs of our customers; increasing efficiency; and pursuing selective acquisition opportunities. While the principles underpinning these remain the same, we sharpened our focus on them even further and made strong progress with each in 2018.

Given the symbiotic relationships among our people, planet and business, the Group's overriding long-term priorities are health, safety and the environment. In 2018, we implemented even more measures to improve operational safety and reduce the environmental impact of our operations.

The results of 2018 confirm that we have not only the right plans in place, but also the right people to fully realise these priorities. It fills me with great pride to say that the accomplishments of our executives, managers and employees are extremely encouraging in this regard.

### COMMITTED TO SUSTAINABILITY

Currently, Metinvest has various policies and measures in place that govern the environmental, social and governance (ESG) practices of its assets. We are in the process of overhauling these policies and practices to address possible gaps and integrate them into a single, comprehensive ESG framework that conforms with international standards and meets the expectations of our employees, customers and investors, as well as of the communities in which we operate.

We recognise that the mining and steel industry has a particular responsibility in ensuring the sustainability of its activities and that Metinvest needs to be part of the global response to climate change.

Metinvest is therefore formulating a comprehensive Group-wide approach and setting integrated targets to lower the overall carbon intensity of its operations as measured in emissions relative to output. This involves defining specific and measurable ESG targets for each operating asset and establishing a corporate governance structure to oversee and ensure their implementation.

With this initiative, Metinvest hopes to play a role in proactively addressing climate change concerns and contributing to the accommodation of Ukraine's carbon budget within the framework of Nationally Determined Contributions under the Paris Agreement (COP 21).



## A SHOW OF STRENGTH

In 2018, the Group delivered a sound operational performance and its strongest financial results in four years. This tremendous achievement is a clear indication that the crucible of 2014-17 has forged a truly resilient business and that Metinvest is following a prudent course.

Among the operational highlights of the reporting period, compared with 2017: hot metal output increased by 3%; total merchant metal production by 5%; coke output by 11%; and coking coal concentrate production by 9%; while iron ore concentrate output remained steady.

Amid major dynamic developments in the steel market, the Group once more demonstrated the fundamental strength of its business model. Steel prices expanded again on a year-on-year basis, despite significant intra-year fluctuations. In addition, when several major countries and regions increased their protectionist measures, which have long been impacting the markets, Metinvest took advantage of its geographically diverse sales network, redistributing volumes depending on the pricing environment to capture the best margin.

As for iron ore, our long-term focus on quality over quantity in this segment bore fruit in 2018, when premiums for high-grade ores and pellets increased further. The differential between the prices for 65% Fe content iron ore and 62% Fe content shipped 'cost and freight' to China surged by 30% year-on-year. The Atlantic Basin premium for pellets in Europe, a high value-added product, rose consistently, jumping by 31% year-on-year overall. Through our efforts to improve the Fe content of our iron ore products, mechanical characteristics of pellets along with the greater share of pellets in the iron ore sales mix, which reached 48%, up from 39% in 2017, we significantly enhanced our presence on the premium market of Europe, whose share increased to 51%.

Metinvest also fared well in Ukraine, where real GDP growth accelerated to 3.3% year-on-year in 2018, the strongest in the last three years. The continued economic upswing is driving a recovery in demand for steel: apparent steel consumption rose by 4.0% in 2018, fuelled by expanding construction and machine building activity. At the same time, such growth was lower than expected. Ukraine still has much infrastructure that needs updating, as the majority of it was built 30-40 years ago, and this could drive an increase in per capita steel consumption to a level closer to those of immediate neighbours. Ukraine remains our priority market and we believe in its potential.

As proven by the 2018 results, the Group has what it takes to deliver in the fastest-paced of environments. The headline financial numbers were solid: in the reporting period, revenues

surged by 33% year-on-year and EBITDA rose by 23% despite cost pressure. Net profit jumped by 93%, pushing the net profit margin up by three percentage points to 10%. Net debt to EBITDA improved further to 1.0x by the end of the year. This is a remarkable show of strength, as we prepare to take advantage of future market opportunities.

## FULL STEAM AHEAD

In 2018, guided by the Technological Strategy 2030, Metinvest moved full steam ahead to invest in the business at levels not seen for years, disbursing some US\$900 million in CAPEX overall. Following the liquidity crunch of 2014-16, we restored the maintenance allocation and ramped up modernisation spending, as we switched back into upgrade mode.

This renewed vigour enabled the Group to reach some major milestones in its long-term strategic plans in 2018. At Ilyich Steel, we commissioned a new continuous casting machine, one of our showcase projects, which debottlenecked the plant's casting capacity and effectively increased its crude steel production capacity by 40%. We also progressed with the large-scale upgrade of the enterprise's sinter plant, commissioning the first-phase facility of new, more environmentally friendly gas cleaning equipment. In addition, Metinvest has several projects to upgrade its iron ore and pellet production facilities, targeting production of concentrate with Fe content above 70.5% and DRI-quality pellets with Fe content of 67.5% to meet both internal and customer-demand for top-quality ore and penetrate premium markets.

These and our many other expansion CAPEX initiatives represent investments in not only our business, but also our communities, as they are aimed at improving health, safety and the environment, as well as upgrading infrastructure that contributes to economic growth. With the recent past behind, I am confident that, from here, the Group will continue working towards the key objectives that it has committed to achieving in 2030.

## ON FIRMER FINANCIAL FOOTING

Metinvest's crowning achievement in 2018 was the market-driven refinancing of more than US\$2 billion dollars in debt, which marked the successful conclusion of almost four years of work with its creditors.

The overall transaction represented a number of superlatives, as the largest bond with the lowest coupon and the longest maturity in Metinvest's history, not to mention the most sizeable corporate bond placement in Ukraine. It also received strong support from top European financial institutions and the broader international investment community, as well as recognition in the form of prestigious international awards.

In addition, the deal resulted in several encouraging accomplishments. With a sustainable debt capital structure, reduced overall funding costs and a smoother debt maturity profile with no major repayments in the next four years, the Group is perfectly placed to implement the most capital-intensive part of its strategic development programme aimed at securing its long-term future.

## PROGRESS ON TWO KEY FRONTS

Metinvest seeks M&A opportunities that will reinforce the vertically integrated business model along the production chain, particularly in terms of inputs and market access, and it is making progress on these two key fronts. First, we are building up self-sufficiency in key raw materials to secure long-term supplies for our production facilities. Second, we are enhancing our positions in areas offering growth opportunities.

In 2018, the Group acquired interest in the largest coking coal businesses in Ukraine. In early 2019, after the reporting date, Metinvest bought a stake in a local coke producer. Both of these acquisitions help to ensure raw material supplies for steelmaking. We also acquired a Ukrainian galvanised steel producer, which we believe will bolster our position in a promising market segment.

## OUTLOOK

As we move into 2019, the global environment for Metinvest's key products, steel and iron ore goods, remains supportive yet clouded with uncertainty. As the events of recent years show, we are built to withstand every type of situation, and I am confident that we will overcome future challenges by adapting our operations promptly, prudently and professionally whatever the shift in trends.

For the immediate term, we have identified three critical areas of strategic focus – HSE, operational efficiency and investment – all of which are considerable tasks. They will require us to invest in obtaining, training and retaining the best workforce possible, as well as further improving the quality of life in our communities.

As the tremendous accomplishments of 2018 indicate, Metinvest is very much on the right track. I look forward to continuing to progress with confidence towards our long-term strategic goals and delivering value to all stakeholders, all of whom I would like to thank for their ongoing belief in our story.

**Yuriy Ryzhenkov**  
Chief Executive Officer

## BUSINESS MODEL

### KEY INPUTS

#### Raw material resources



IRON ORE  
MINING  
**64.2MT**  
**>250%<sup>1</sup>**



RAW COAL  
EXTRACTION  
**7.0MT**  
**~40%<sup>1</sup>**

#### Energy resources



NATURAL GAS  
**1,132MCM**



ELECTRICITY  
**7,648GW**

#### Human resources



EMPLOYEE  
HEADCOUNT  
**66,000**



CUSTOMERS  
AND SUPPLIERS  
**>10,000**

#### Natural resources



AIR AND WATER



SOIL AND LAND

#### Financial resources

TOTAL ASSETS  
**US\$11,178M**

TOTAL DEBT  
**US\$2,743M**

CAPEX  
**US\$898M**

## RESOURCES AND CAPITAL

# GOAL: SUSTAINABLE GROWTH OF VALUE

### CORE PRINCIPLES

#### Adherence to strategic goals

Sustain competitive advantages in steelmaking through vertical integration

Strengthen positions in strategic markets

Achieve business excellence through best practices

### OPERATING MODEL



Mining of  
raw materials



Processing of  
raw materials



Production  
of steel



### KEY INSTRUMENTS

#### Identifying opportunities

- Continuous improvement system
- Investment process
- Benchmarking
- External experts

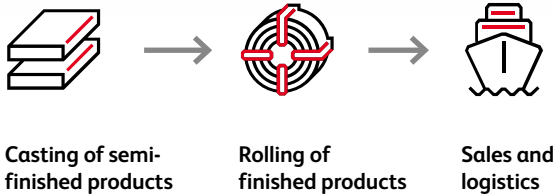
#### Planning

- Long-term planning
- S&OP process
- Investment programmes

<sup>1</sup> Self-sufficiency.

**Adherence to governance principles**

Specialisation	Global best practices
Vertical integration	Tradition and innovation
Unified strategic management	Commitment to leadership
Centralisation	Personal commitment
Growth and investments	



**Execution**

- Implementation of plans, investment projects and business system development projects

**Control**

- Goals tree
- KPIs
- Credit ratings

**REVENUES: US\$11,880M**

**KEY OUTPUTS**

Sales and resales



**STEEL PRODUCTS  
15.0MT**



**COKE  
2.0MT**



**IRON ORE CONCENTRATE  
8.0MT**



**PELLETS  
7.5MT**

Human capital



**MANAGEMENT  
TRAININGS  
14,497**



**LOST-TIME INJURY  
FREQUENCY RATE  
0.802**



**LABOUR  
COSTS  
US\$719M**



**HEALTH & SAFETY  
SPENDING  
US\$95M**

Natural capital



**ENVIRONMENTAL  
SPENDING  
US\$263M**



**ISO 14001  
CERTIFICATION  
10 ASSETS**

Financial capital

**EBITDA  
US\$2,513M**

**FREE CASH FLOW  
US\$673M**

**INTEREST PAID  
US\$288M**

**TAXES PAID  
US\$700M**

## STRATEGIC GOALS

## STRATEGIC OBJECTIVES

## STRATEGIC PRIORITIES 2030

### SUSTAIN COMPETITIVE ADVANTAGES IN STEELMAKING THROUGH VERTICAL INTEGRATION

- Increase operational efficiency and achieve best practices in steelmaking through focused investments in advanced technologies
- Continue improving Metinvest's self-sufficiency in key raw materials
- Increase production capacity by growing organically and by pursuing selective acquisition opportunities
- Establish and sustain a continuous improvement culture
- Increase personnel productivity

### STRENGTHEN POSITIONS IN STRATEGIC MARKETS

- Increase focus on finished products
- Improve the product portfolio mix
- Increase sales of steel products in the Ukrainian and regional markets
- Build long-term customer relationships and deliver high-quality customer service worldwide

### ACHIEVE BUSINESS EXCELLENCE THROUGH BEST PRACTICES

- Further develop the operating model
- Strengthen the unified corporate culture and maximise employees' commitment
- Enhance unified and efficient business processes
- Maintain transparency of operations and corporate responsibility

### ENHANCE SUSTAINABILITY

### ENHANCE LOW-COST STEEL PRODUCER POSITION

### INCREASE PRODUCTION CAPACITY BY GROWING ORGANICALLY

### ENHANCE PRODUCT PORTFOLIO TO STRENGTHEN POSITION IN KEY STRATEGIC MARKETS

### FOCUS ON CUSTOMER NEEDS

### INCREASE EFFICIENCY

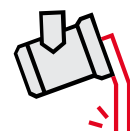
### PURSUE SELECTIVE ACQUISITION OPPORTUNITIES

## SELECT ACHIEVEMENTS IN 2018

The Group increased its spending on sustainability improvements to US\$358 million, up 17% year-on-year. A key sustainability project was commissioning the first-phase facility of the new gas cleaning equipment in the sinter plant at Ilyich Steel. Other ESG initiatives included the replacement of all gas-cleaning filters on the Lurgi 552-B pelletising machine at Northern GOK.



Despite upward pressure on costs driven mainly by market factors worldwide and increases in hryvnia-denominated expenses in Ukraine, Metinvest implemented various measures to optimise spending. Examples include making shipments to and from Mariupol more efficient and introducing several SAP initiatives, including an optimisation model for coal, coke and hot metal planning. In addition, numerous CAPEX projects are designed to improve cost efficiency, such as the installation of pulverised coal injection technology at Azovstal's blast furnace no. 3, which progressed this year.



As part of the Technological Strategy 2030, Metinvest's organic growth projects include the completion of continuous casting machine no. 4 at Ilyich Steel, which increased the plant's steel production capacity by around 40% a year. The major overhaul of Azovstal's blast furnace no. 3, which will increase the plant's annual hot metal capacity by some 10-15%, also advanced during the year.



In the Metallurgical segment, the Group made further progress in implementing its steel distribution strategy in Europe. It also acquired Unisteel, a Ukrainian producer of galvanised coils. This improved the share of high value-added products in its steel portfolio, which amounted to 51% of sales (excluding re-sales) in 2018. As for the Mining segment, Metinvest boosted the shares of Ukraine and Europe in revenues and increased the proportion of higher-margin pellets in the iron ore sales mix. It also sold 82% of iron ore under long-term contracts, compared with 72% in 2017.



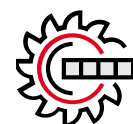
The Group completed various projects to improve customer service in 2018. It launched accounts for customers, accessible through the new website, introduced more trade finance tools for customers and developed forwarding and agent functions in Italy. It also worked to enhance product quality and technical support.



In 2018, Metinvest implemented several initiatives to strengthen its S&OP system, one of which was a planning model for the 'iron ore-sinter-hot metal' chain that optimises the loading of the sintering and blast furnace production stages. Other operational improvements, which had a total positive effect on EBITDA of more than US\$20 million, included projects to increase the use of sinter in the charge, as well as to reduce the consumption of coke and pulverised coal by adjusting the hot blast temperature.



The Group purchased a 24.99% stake in the Pokrovske coal business in Ukraine. This targeted acquisition will help to secure raw material supplies and improve long-term self-sufficiency to strengthen vertical integration.



## IN FOCUS RESULTS

In 2018, Metinvest reported some of its best results in four years, demonstrating that it is indeed moving forward with conviction. Key performance indicators were solid across the board, in terms of both operations and finances, representing a show of strength.

# RESULTS: A SHOW OF STRENGTH

### OPERATIONS

By any measure, the period from 2014 to 2017 was a testing one, as the Group worked to maintain operations amid force majeure developments in Eastern Ukraine, market uncertainty and liquidity constraints. The events in Eastern Ukraine culminated in the loss of control over certain production assets<sup>1</sup> in the temporarily non-government controlled territory, which employed 20,000 people. Despite such conditions, however, Metinvest prevailed, emerging to post some of its strongest operational and financial results in the reporting period, a testament to the dedication of its executives and employees.

In response to the events in Eastern Ukraine, Metinvest made several adjustments to its operating model, which has allowed it to progress further.

The Group increased output at the Mariupol facilities, secured more stable raw material supplies and intensified its investment programme, which, among other objectives, envisages greater production at those steel plants. In 2018, the Mariupol steelmakers poured 8,205 thousand tonnes of hot metal, up 11% compared with 2014, and produced 7,323 thousand tonnes of crude steel, 3% higher than four years ago. While the latter increase could have been greater, there was a bottleneck in Ilyich Steel's slab casting capacity. Now that the plant has launched its new continuous casting machine, it expects almost all hot metal to be used in steel production and further downstream.

#### REVENUE GROWTH

**+US\$1,315M**

over the last four years

#### HVA IN STEEL SALES IN 2018

**51%**

in-house products only

#### IRON ORE SALES VOLUMES TO EUROPE

**+3.5X**

over the last four years

Meanwhile, Metinvest diverted almost all coking coal from its US mines to its Ukrainian coke producers. In 2018, United Coal produced 2,683 thousand tonnes of coking coal concentrate, up 4% compared with 2014. In addition, the Group diversified third-party seaborne coal supplies from the US, Canada and Australia, as well as purchased a stake in a Ukrainian high-quality coking coal producer.

A new electricity transmission line has been installed to Avdiivka Coke from government-controlled territories, allowing the plant to operate eight coke oven batteries since May 2017. In the reporting period, Metinvest produced 5,269 thousand tonnes of coke, 15% higher than four years ago.

In addition, the Group arranged sustainable square billet supplies for its Bulgarian re-roller. As a result, in 2018, Promet Steel increased its long product output to 459 thousand tonnes, up 34% compared with 2014.

## FINANCES

While the conjuncture on the global steel market undoubtedly improved in the last two years, volatility nonetheless remained high amid rising concern about global economic growth, trade tensions between key global players and rapidly moving prices for raw materials and energy. In such an environment, the Group put on a commendable operational display, reconfirming its ability to respond proactively to sudden changes in external conditions, supported by its global sales network.

Regarding steel sales over the period from 2014 to 2018, the share of such priority markets as Ukraine, Europe and MENA remained steadily above 70%, while the mix among other regions shifted from the CIS towards North America and Southeast Asia.

As for iron ore sales, Metinvest continued to optimise its product-market mix in response to changing demand and premiums, again underscoring the flexibility of its vertically integrated model. In the iron ore sales mix, the share of pellets reached 48% in 2018, compared with 38% in 2014. At the same time, there were significant changes in the breakdown of markets. Although Ukraine remained the home market for iron ore sales, the Group managed to increase sales volumes to Europe by 3.5 times over the last four years due to its focus on quality, which pushed the share of Europe to above 50%.

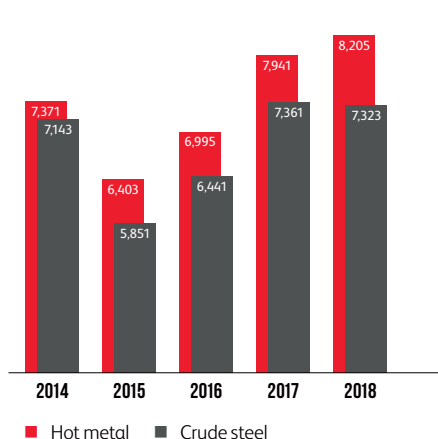
This operational strength fed into equally solid financial results in 2018. Revenues climbed to US\$11,880 million, up 12% compared with 2014. EBITDA<sup>2</sup> reached US\$2,513 million, very close to the level seen four years ago. The contributions to EBITDA from the Mining and Metallurgical segments fluctuated, from a respective 61% and 39% in 2014 to 50% each in 2018 (before adjusting for corporate overheads), proving the benefits of vertical integration.

In addition to stronger results from the business, the Group rebuilt its financial position in 2018. Over the reporting period, its cash balance varied between US\$250 million and US\$600 million, compared with US\$114 million at the end of 2014.

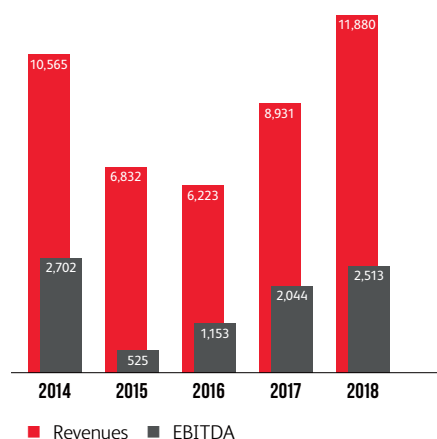
1. Production figures for 2016 and 2017 were updated to exclude production at assets, control over which has been lost since March 2017.
2. EBITDA is calculated as profit before income tax before finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign exchange gains and losses (starting from 1 January 2015), the share of results of associates and other expenses that the management considers non-core plus the share in EBITDA of joint ventures.

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

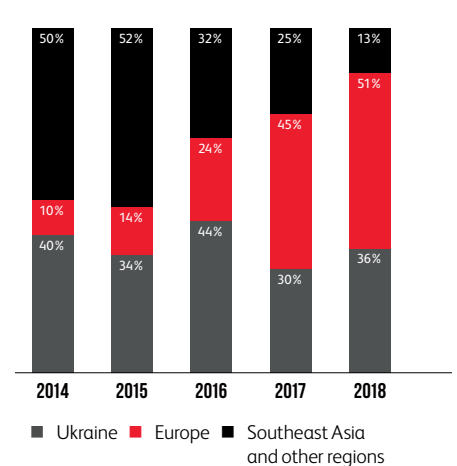
Hot metal and crude steel production (KT)



Revenues and EBITDA (US\$M)



Iron ore sales by market (KT)



Having updated the Technological Strategy 2030, the roadmap for the next 12 years, Metinvest moved full steam ahead with its asset modernisation plans in 2018, allocating around US\$900 million in CAPEX. After largely conducting essential maintenance during the challenges of recent years, the Group switched back into upgrade mode, refocusing its efforts on projects to introduce cutting-edge technology, reduce environmental footprint and increase operational efficiency.

# CAPEX: FULL STEAM AHEAD

In 2017, Metinvest completed a comprehensive review of the Technological Strategy 2030 to ensure that it will be the most appropriate blueprint for the long term. The Group then embarked on the course charted, guided by the strategy's three key objectives: to enhance operational and environmental standards; to boost steel production capacity to 11 million tonnes a year, improving cost efficiency while focusing on the downstream; and to penetrate premium segments in the iron ore market by pursuing a quality-over-quantity strategy while keeping expenses low.

Following the period of force majeure underinvestment in 2015-16, Metinvest signalled a decisive return to its long-term asset transformation programme in 2018. CAPEX totalled US\$898 million, up 66% year-on-year, of which 57% went to the Metallurgical segment (51% in 2017), 41% to the Mining segment (48% in 2017) and 2% on corporate overheads (unchanged).

Notably, US\$613 million was spent on maintenance at the steelmakers, re-rollers and coke, coal and iron ore producers, up 36% year-on-year. In the Mining segment, maintenance includes the replacement and repair of open-pit mine machinery, such as drilling rigs, excavators, dump trucks and bulldozers, as well as upkeep work on open pits, mines, tailing stocks and pelletising machines. In the Metallurgical segment, maintenance includes the reconstruction of overhead cranes, as well as repairs and upgrades of other equipment.

Importantly, US\$285 million was spent on expansion, which represents a three-fold increase year-on-year and 32% of overall CAPEX. This underscores that the Group is back on track with its plans to make its production facilities among the most efficient in the industry. In 2018, as part of the Technological Strategy, Metinvest launched 12 strategic investment projects and made further progress on numerous ongoing ones, meeting several milestones.

**TOTAL CAPEX IN 2018**

**US\$898M**

**CAPEX GROWTH YEAR-ON-YEAR**

**66%**

**SHARE OF EXPANSION CAPEX IN 2018**

**32%**



By far the landmark achievement was the completion of continuous casting machine no. 4 at Ilyich Steel, which represents the largest industrial construction project of its kind in Ukraine since independence, involving investments of around US\$150 million. The new two-strand facility: features state-of-the-art dust removal, water recycling and gas cleaning technology; has the design capacity to cast 2.5 million tonnes of slabs a year for re-rolling; and effectively increases the enterprise's annual crude steel production capacity to 4.3 million tonnes, up 40%. As such, it will contribute to environmental improvements in Mariupol and increase Ilyich Steel's output of value-added slabs and hot-rolled coils, while cutting costs by reducing metal losses and energy consumption.

The next stage of Ilyich Steel's development is the upgrade of its downstream facilities. The reconstruction of the 1700 hot strip mill, which is expected in the second half of 2019, will increase the mill's capacity, significantly improve steel surface quality, considerably reduce process waste during slab rolling and expand the plant's portfolio to include heavier coils. This project is to be followed by the reconstruction of the plant's cold rolling mill to increase its capacity and improve product quality.

Meanwhile, Azovstal moved closer to concluding the major overhaul of blast furnace no. 3, which is expected to be launched in mid-2019. It is designed to increase the blast furnace's annual hot metal capacity by 0.5-0.8 million tonnes to 1.3-1.6 million tonnes and reduce production costs by decreasing consumption of coke and coke nuts. The project budget increased to more than US\$145 million as the scope and costs were reviewed. Construction

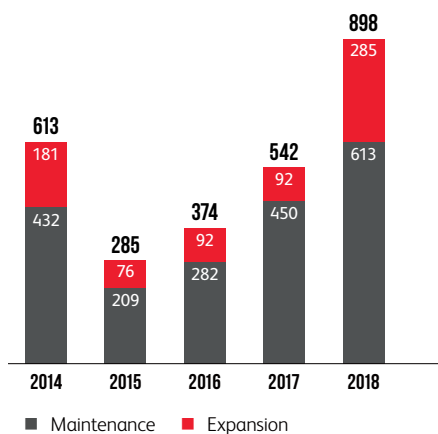
of a pulverised coal injection (PCI) unit at the blast furnace is advancing in parallel with its major overhaul. The Group also started preparations for the major overhaul of blast furnace no. 6, which will involve the installation of a PCI unit as well. Once completed, all of the plant's blast furnaces will be equipped with this technology, which minimises the need for natural gas in the production process and uses coke more efficiently.

Another crucial capital investment related to logistics. For some time now, the lack of rolling stock in Ukraine has caused intermittent bottlenecks in the national rail system. To mitigate the impact of this, the Group allocated US\$70 million to buy 1,800 rail wagons, which were delivered in the first half of 2018.

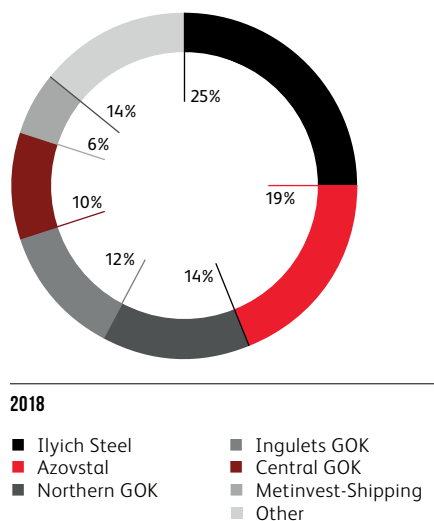
In addition, Metinvest continued to implement several expansion projects at its iron ore producers. These include the construction of crusher and conveyor systems at Northern GOK and Ingulets GOK, which are designed to move bulk materials to the surface for further processing and enable capacity and production volumes to be maintained at current levels while reducing costs. The Group also worked on upgrading the pelletising machines at Northern GOK, namely the OK-306 and Lurgi 278-A, to improve the mechanical properties of their pellets and capture additional margin. At Central GOK, the main focus was the re-equipment of beneficiation facilities to produce concentrate with Fe content above 70.5% and DRI-quality pellets with Fe content of 67.5%.

Several environmental projects are under way as well. In the reporting period, Ilyich Steel made progress on reconstructing its sinter plant, commissioning the first-phase facility of new gas cleaning equipment in April. The remaining work – which will involve installing cyclones and desulphurisation equipment in cooling and sintering zones – is expected to be completed by 2020, taking overall spending to around US\$150 million. Other projects included the major overhaul of gas-cleaning equipment at Azovstal's secondary steel treatment facilities, extensive maintenance of the oven chambers at Avdiivka Coke and Zaporizhia Coke, and the replacement of the pelletising machine gas-cleaning units at Northern GOK and Central GOK.

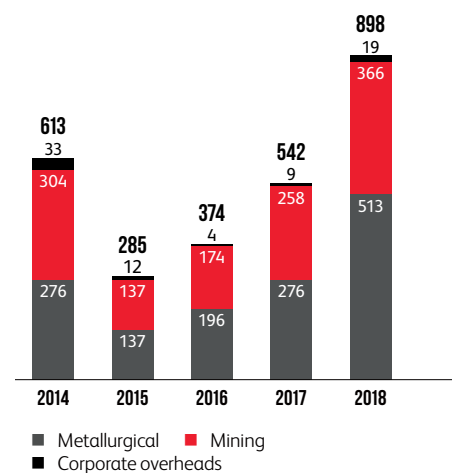
CAPEX by purpose (US\$M)



CAPEX by asset (US\$M)



CAPEX by segment (US\$M)



If one event in 2018 demonstrated that Metinvest has embarked on a new path to greater success, it was the completion of the refinancing arrangement. By successfully concluding a series of interdependent, multi-instrument transactions with creditors, the Group has placed itself on firmer financial footing for the future.

# DEBT MANAGEMENT: ON FIRMER FINANCIAL FOOTING

## **REFINANCING OVERVIEW**

A new chapter in Metinvest's financial history began in April 2018, when the Group successfully completed the market-driven refinancing of its debt of US\$2,271 million. This marked the culmination of a liability management drive that began in the second half of 2014, when Metinvest first began to feel the effects of the conflict in Eastern Ukraine and a deterioration in commodity market conditions.

In 2018, the Group conducted three simultaneous interdependent transactions: a tender offer with concurrent consent solicitation for the bonds due in 2021; the issuance of new bonds; and the amendment and restatement of the pre-export finance (PXF) facility.

As a result, Metinvest issued two new bond tranches totalling US\$1,592 million and secured an updated PXF facility of US\$765 million. The deal received strong support from the investor community worldwide, including top European financial institutions.

The combined transaction also generated additional liquidity of some US\$205 million, which the Group primarily used, together with own cash flow, to repay part of the PXF facility ahead of schedule. This allowed certain PXF agreement restrictions to be eased, including regarding some restricted payments.

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### **FITCH CREDIT RATING**

**B+** STABLE

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### **S&P CREDIT RATING**

**B-** POSITIVE

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### **MOODY'S CREDIT RATING**

**B3** STABLE

## ACHIEVEMENTS

In concluding the deal, the Group fulfilled several objectives.

First, it effectively extended and smoothed its debt maturity profile. Second, it took advantage of favourable conditions to refinance bonds to decrease total funding costs and create a sustainable capital structure by untying the bonds and PXF facility, which significantly lowered refinancing risks. Finally, it aligned the contractual terms of the bond financing with standard market terms for comparably rated issuers.

The refinancing marked the attainment of new heights in more than one respect. For Metinvest, the bond was its largest to date, with its lowest ever coupon and longest maturity. The placement was the most sizeable by a Ukrainian corporate sector yet.

## IFR AWARD

In December, the transaction received major external acclaim, when the International Financing Review (IFR) magazine named the transaction Emerging EMEA Bond of 2018 in its annual awards, which are among the most prestigious in the industry worldwide.

## TECHNICAL DETAILS

On 4 April 2018, following sufficient support from existing bondholders, the Group successfully priced a US\$1,350 million bond offering across two tranches:

- A US\$825 million, five-year tranche at 7.75% per annum due in April 2023;
- A US\$525 million, eight-year tranche at 8.50% per annum due in April 2026.

As certain PXF holders agreed to shift a total of US\$239 million to the new bonds, the final new issuance amounted to US\$1,592 million, consisting of:

- A US\$945 million, five-year tranche;
- A US\$648 million, eight-year tranche.

The terms of the 2021 bond were aligned with those of the new issues, while the coupon rate decreased to 7.50% per annum. The maturity of the updated PXF facility was extended to October 2022, payable in monthly instalments starting July 2019.

## CAPEX FINANCING

The absence of major repayments until 2023 allows the Group to concentrate on the implementation of its Technological Strategy 2030. Metinvest's financing strategy envisages using ECA-backed facilities offering long-term funding for investment projects.

In 2018, US\$63 million was secured for equipment financing through several facilities. The largest was a seven-year repayment buyer credit facility of around EUR43.2 million for the construction of continuous casting machine no. 4 at Ilyich Steel, equalling around one-third

of the project cost. It is covered by an Austrian export guarantee issued by Oesterreichische Kontrollbank Aktiengesellschaft (OeKB), while Raiffeisen Bank International AG acted as the sole lender. The facility is the first ECA-covered one since 2012.

Other, smaller facilities include bilateral, five-year instruments (financial lease and term loans) for financing or refinancing purchase costs related to capital expenditures, including railcars, with a view to mitigate the impact on the Group from the shortage of rolling stock in Ukraine.

## TRADE FINANCING

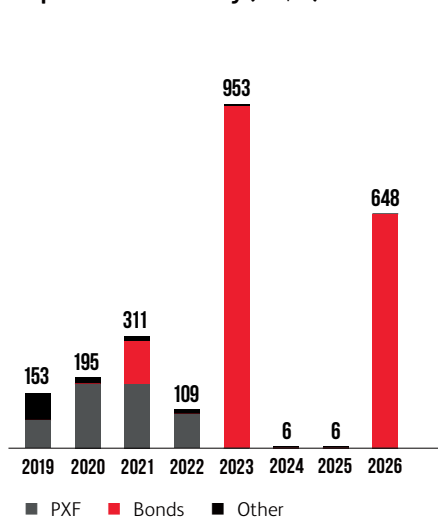
The Group has reduced its reliance on short-term trade finance to fund its working capital needs, although it maintains a solid and diversified trade finance portfolio. The amount totalled US\$363 million as of 31 December 2018, compared with US\$911 million as of 31 December 2013.

At the same time, over the last three years, Metinvest has managed to substantially increase its available credit limits, which are around double the current utilisation level and therefore offer significant additional capacity.

## CREDIT RATINGS

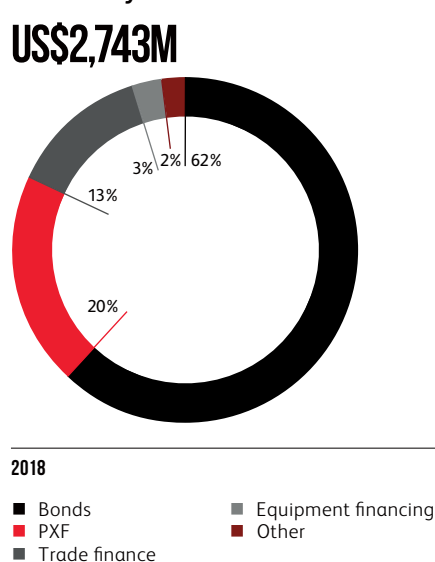
In 2018, the Group secured credit ratings from key international rating agencies, although they are constrained by Ukraine's Sovereign level.

Corporate debt maturity (US\$M)<sup>1</sup>



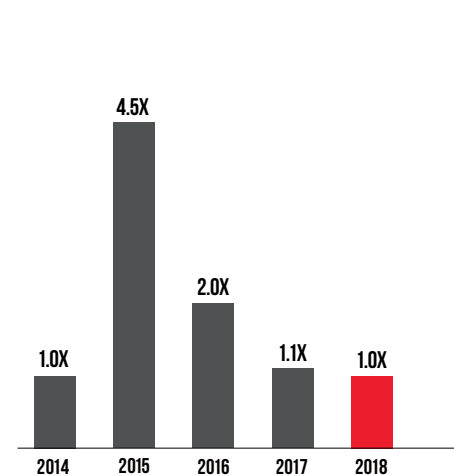
1. As of 31 December 2018.

Total debt by instrument



2018

Net debt to EBITDA<sup>2</sup>



2. Excluding shareholder loans.

Metinvest added further weight to its core in 2018 and early 2019, making three key acquisitions. Two of them helped to secure long-term self-sufficiency in key raw materials, while one enhanced the steel product portfolio, thereby reinforcing both the upstream and the downstream parts of the business model.

Among other factors, the long-term viability of any vertically integrated business depends on strength across all links of the value chain. Recognising this, Metinvest regularly evaluates opportunities to acquire assets that secure needed raw materials, unlock synergies from its iron ore reserves to semi-finished steel products, enhance the steel portfolio and drive sales. Following a period of relatively lower M&A activity, the Group renewed its efforts in the area in 2018, buying stakes in two assets and taking full ownership of a third one, all of which complement the business strongly.

#### SECURING RAW MATERIALS

In July, Metinvest acquired a 24.99% stake in the Pokrovske coal business in Ukraine, thereby securing additional long-term raw material supplies close to its core production base. The acquisition targets include several extraction, enrichment and sale entities that together represent the largest coking coal extraction and production business in the country. The most significant are the Pokrovske colliery and the Sviato-Varvarynska coal enrichment factory, which are located on the border of the Dnipropetrovsk and Donetsk regions, near the Group's coke producers. The Pokrovske coal business is strategically important for Metinvest, as it has traditionally been a supplier, and covered more than 20% of the Group's coking coal needs in the reporting period.

M&A:

# ADVANCING ON TWO KEY FRONTS

POKROVSKE'S COKING COAL  
CONCENTRATE OUTPUT IN 2018

**2.3**MT

SOUTHERN COKE'S  
PRODUCTION CAPACITY

**600**KT

UNISTEEL'S ANNUAL GALVANISED  
STEEL PRODUCTION CAPACITY

**100**KT

The total consideration for the stake was around US\$190 million. In addition, Metinvest obtained an option to purchase the remaining 75.01% from the other co-investors within 10 years. This is conditional on all relevant governmental and other consents, as well as proper management of their debt liabilities.

The assets' sale products mostly consist of high-quality K-grade coal (hard coking coal whose quality characteristics largely correspond with the Platts requirements for the Premium Low Vol HCC benchmark), which is used in coke production. As at 31 December 2017, the assets' long-life proven and probable coal reserves amounted to 81 million tonnes, as calculated according to JORC methodology as at 1 January 2013 and adjusted for actual production in 2013-17.

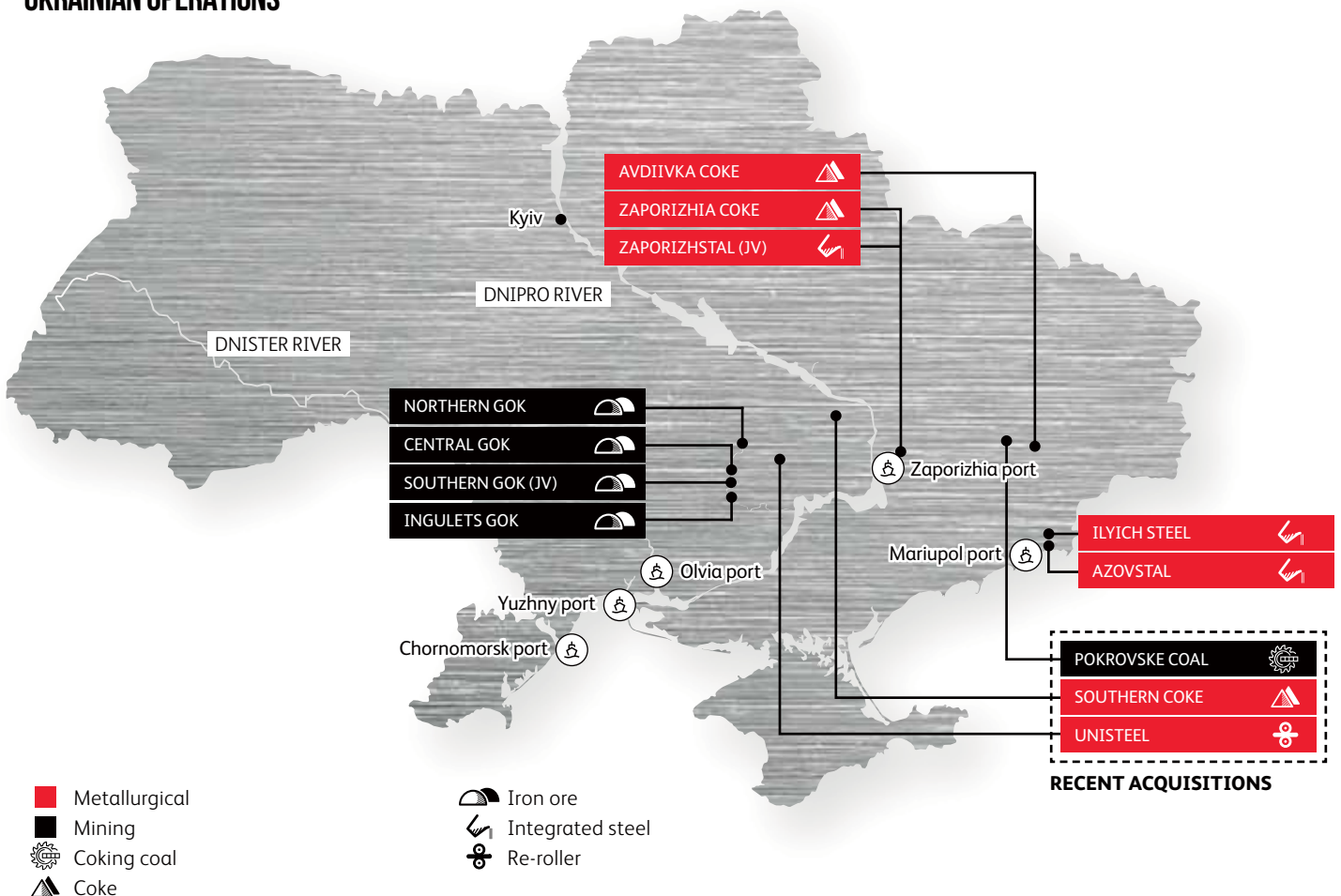
In 2018, the assets mined 4.0 million tonnes of raw coal and produced 2.3 million tonnes of coking coal concentrate.

Another similar transaction was the acquisition of 23.71% in Southern Coke, a Ukrainian producer of metallurgical coke, for US\$30 million, after the reporting date. The asset, which is located in Kamyanske, near the city of Dnipro, has annual coke production capacity of around 600 thousand tonnes. The deal is also consistent with the Group's strategic priority of diversifying raw material supplies and improving long-term self-sufficiency to strengthen vertical integration, particularly given the planned capacity increase at Metinvest's steelmakers.

**SECURING MARKETS**

In the reporting period, the Group also bought 100% of Unisteel, a Ukrainian producer of zinc-coated hot-dip galvanised (HDG) coils. Located in Kryvyi Rih, Unisteel has a galvanising line with a production capacity of up to 100 thousand tonnes a year. The strategic acquisition was aimed at further strengthening Metinvest's steel portfolio and improving the share of high value-added products. Moreover, galvanised steel has good prospects in Ukraine, which imported 129 thousand tonnes of such products in 2018.

**UKRAINIAN OPERATIONS**





# MODERNISING

## MARKET FOCUS: EUROPE

Another core market for Metinvest is Europe, which generated 32% of the Metallurgical and 44% of the Mining segment revenues in 2018. Metinvest has a natural logistical advantage in supplying iron ore and steel products to the market, reinforced by its European steel-processing assets with annual re-rolling capacity of around 2 million tonnes. The Group has two re-rollers in Italy, one in Bulgaria and one in the UK, which manufacture flat and long products using Ukrainian slabs and square billets, correspondingly.

Over the reporting period, Metinvest's sales to the region reached US\$3,991 million, up 24% year-on-year, amid higher selling prices of steel and iron ore products, in addition to greater volumes of semi-finished and long products, as well as iron ore goods.

# STEADILY

## METALLURGICAL SALES IN 2018

**5,125KT**

Amid stronger demand and higher prices, the Metallurgical segment boosted its shipments to Europe by 9% year-on-year in 2018. The best performing good was long products, whose volumes soared by 50% amid greater re-sales and production at the Group's Bulgarian re-roller, as stable supplies of square billets were secured. In addition, volumes of semi-finished products rose by 25%.

## MINING SALES IN 2018

**7,857KT**

In the reporting period, Metinvest boosted its sales volumes of iron ore concentrate and pellets to Europe by 10% and 21% year-on-year, respectively, by signing long-term agreements with local customers. This allowed the Group to capitalise on strong quality premiums for iron ore products in Europe.

# FORGING ONWARD

Having set sights on new horizons in 2017, as the situation in Eastern Ukraine largely stabilised, Metinvest forged ahead with its operations in 2018. The Group is committed to pursuing quality in every aspect of its mining and metallurgical activities: from maintaining efficient operations to providing an integrated tailored solution for each customer.

### STRENGTHENING FOUNDATIONS

The reporting period marked a new chapter in Metinvest's development, as the Group drew a line under the events of the last four years and progressed decisively in its drive to become one of Europe's leading vertically integrated steelmakers. Certainly, 2018 was not devoid of challenges, including protectionist moves in the global steelmaking industry. Through considered, coordinated and rapid responses from the various business units, however, Metinvest maximised its returns from the present while strengthening its foundations for the future.

One example of the Group's approach to overcoming operational challenges is the ongoing efforts to address logistical constraints, primarily in Ukraine's rail network. The state operator has a monopoly on locomotives on main rail lines and controls a significant part of rolling stock in the country. Much of it is old, while there have also been bottlenecks in allocations. To mitigate the overall impact of the situation, Metinvest decided to invest around US\$70 million in buying 1,800 open rail wagons for transporting raw materials and finished goods.

Another demonstration of the Group's proactive responses to changes in the external environment related to the construction of a bridge across the Kerch strait, which limited the height and draught of vessels passing into the Sea of Azov. Metinvest swiftly adjusted its fleet and redirected some cargo shipments by rail from Mariupol to the Black Sea ports in Odesa Region.

Overall, the Group's policy of distributing cargo flows through various seaborne routes enables Metinvest to redirect shipments to Black Sea ports quickly, minimising disruption. As a result, the sudden developments of November 2018, when access to and from the Sea of Azov became limited temporarily, did not materially affect the Group's operations.

### IMPROVING EFFICIENCY

One key area maintaining Metinvest's long-term competitiveness is the culture of continuous improvement and lean manufacturing. The Group strives to promote a value mindset among employees and fully engage them in delivering initiatives to increase productivity, reduce operating costs, minimise non-production costs, use machinery and equipment efficiently, improve energy efficiency and enhance safety.

In 2018, Metinvest conducted extensive work to evaluate the overall potential for reducing costs using zero-based budgeting as well as internal and external benchmarking across its enterprises. This helped to identify the main areas for improvement and pursue numerous cost-saving measures. The Group also began to build a system to transform workshops and departments progressively – on a long-term, bottom-up basis – by focusing on developing employees and changing the work culture.

In the reporting period, Metinvest achieved overall operating cost savings of more than US\$20 million. The main measures included reducing the coke rate by adjusting the temperature of hot blast and reducing the consumption rate of raw materials when producing sinter by minimising irrecoverable losses.

### MINING SEGMENT

#### IRON ORE

Metinvest is one of the top 10 iron ore producers in the world and the second largest<sup>1</sup> in Eastern Europe.

The Group's main iron ore extraction and processing enterprises are Ingulets GOK, Northern GOK and Central GOK. Ingulets GOK produces concentrate with a Fe content from 65% to 68.5%. Northern GOK makes concentrate with an average Fe content of 65.7% and pellets with a Fe content from 62.7% to 64.8%. Central GOK produces concentrate with an Fe content from 67.9% to 68.4% and pellets with an Fe content from 62.0% to 67.1%. As at 31 December 2018, the combined long-life proven and probable iron ore reserves of the three assets in Ukraine were 1,190 million tonnes<sup>2</sup>.

In addition, in July 2014, Metinvest acquired 45.9% of Southern GOK, which produces concentrate and sinter and is classified as a joint venture.

All of the Group's iron ore facilities are located in the city of Kryvyi Rih, which is around 450 kilometres away from its Mariupol steelmakers. This helps to ensure the long-term security of iron ore supplies for them.

The Mining segment maintains a quality management system at the iron ore enterprises. It is certified by Bureau Veritas and Ukrainian state authorities as meeting the standards required for producers of merchant iron ore concentrate and pellets. The system is also certified in accordance with the ISO 9001 international standard.

Metinvest currently mines iron ore from open pits at various enterprises (two at Northern GOK, one at Ingulets GOK and three at Central GOK) and one underground operation at Central GOK, drilling, blasting and removing overburden to external dumps. After shipment to onsite crushing, beneficiation and flotation facilities, as well as pelletising plants, the raw material is processed further.

<sup>1</sup> Metinvest's estimate based on companies' public production information for 2018.

<sup>2</sup> According to JORC methodologies, as at 1 January 2010 and adjusted for production of 676 million tonnes of reserves between 1 January 2010 and 31 December 2018. Ore reserves refer to the economically mineable part of mineral resources.



Waste water from the production process, known as 'tails', is sent to the tailing dump at each enterprise. All of the Group's three dumps have capacity sufficient for many years of operations. Strict controls are in place to monitor them. Employees check their dams twice a day, a special commission visits them once a year. To retain the necessary licences, Metinvest meets all regulatory requirements.

In 2018, the Group mined 64,246 thousand tonnes of iron ore. Its output of overall concentrate totalled 27,353 tonnes, almost unchanged compared with 2017. Production at Ingulets GOK rose by 7% year-on-year, as the enterprise increased its capabilities by buying new equipment, including 10 new Caterpillar 785C off-highway trucks.

From the iron ore concentrate, the Group produced 10,751 thousand tonnes of pellets<sup>3</sup> in 2018, up 11% year-on-year, keeping the remaining 14,171 thousand tonnes as concentrate. Metinvest increased its output of pellets, as they offered higher margins than concentrate. At the same time, the share of high-grade pellets (more than 65% Fe content) in its output stood at 28% in 2018, while the share of high-grade concentrate (more than 67% Fe content) reached 45%, 5 percentage points higher than in 2017.

The Group can more than cover its own iron ore requirements: in 2018, its self-sufficiency ratio for the raw material was above 250%<sup>4</sup>. Metinvest used some 40% of the overall concentrate produced for internal needs and sold 60% to third parties.

Given the shift in favour of pellets and greater intragroup consumption of concentrate, the breakdown of external sales of iron ore products also changed. In the reporting period, Metinvest increased output of merchant pellets by 30% year-on-year to 7,484 thousand tonnes and decreased that of iron ore concentrate by 17% year-on-year to 7,734 thousand tonnes.

As for Southern GOK, the joint venture produced 12,247 thousand tonnes of overall iron ore concentrate in 2018, largely unchanged year-on-year. Production of merchant concentrate also remained flat year-on-year at 10,832 thousand tonnes, while output of sinter declined by 6% year-on-year to 1,746 thousand tonnes.

#### COKING COAL

Metinvest's only coking coal asset is United Coal, a high-quality producer in the US. As at 31 December 2018, its unaudited total coal reserves amounted to 126 million tonnes, and it had coking coal concentrate production capacity of around 3 million tonnes a year.

In 2018, United Coal extracted 7,019 thousand tonnes of raw coal using both underground and surface mining techniques, up 20% year-on-year. Meanwhile, its production of coking coal concentrate equalled 2,683, 9% higher than in 2017, as it commissioned new deposits and upgraded key equipment.

Almost all of United Coal's coking coal goes to the Group's coke production facilities in Ukraine. In the reporting period, Metinvest's coal self-sufficiency ratio was around 40%<sup>5</sup>. Additional coal volumes required for coke production were sourced from Ukrainian and international suppliers, including seaborne coal from the US and Canada. The Group continues to pursue its strategy of improving its coking coal self-sufficiency, including through select M&A transactions. In 2018, Metinvest bolstered this by acquiring a 24.99% stake in the Pokrovske coal business, Ukraine's largest coking coal operation.

#### METALLURGICAL SEGMENT

##### COKE AND CHEMICALS

Metinvest's coking assets consist of Avdiivka Coke, Zaporizhia Coke and the facilities at Azovstal, as well as Inkor Chemicals, which makes chemical products. All are located in Ukraine. The Group's overall coke production capacity is around 7 million tonnes a year.

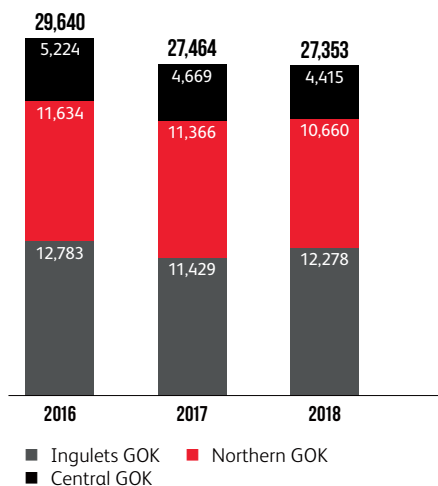
<sup>3</sup> Including production for intragroup consumption.

<sup>4</sup> Iron ore self-sufficiency is calculated as actual concentrate production divided by actual consumption of iron ore products to make hot metal in the Metallurgical segment.

<sup>5</sup> 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.

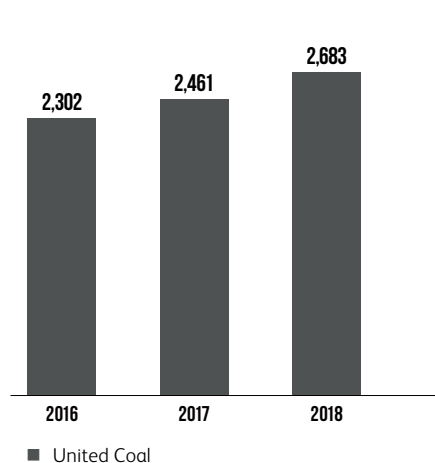
#### Iron ore concentrate production

**27,353**KT  
0%



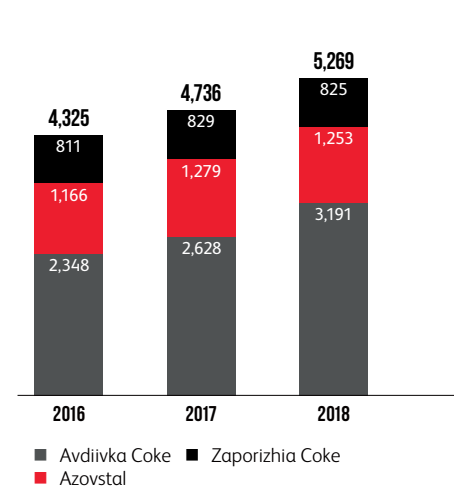
#### Coking coal production

**2,683**KT  
+9%



#### Coke production

**5,269**KT  
+11%



## OPERATIONAL REPORT CONTINUED

In 2018, Metinvest produced 5,269 thousand tonnes of coke, up 11% year-on-year. The main driver was greater production at Avdiivka Coke, which has been operating eight of its coke-oven batteries since May 2017.

In the reporting period, the Group's self-sufficiency ratio for coke was above 100%<sup>6</sup>. In addition, after the reporting date, Metinvest acquired a 23.71% stake in Southern Coke, a Ukrainian metallurgical coke producer, to improve long-term coke availability.

### STEEL

The Group is the 42nd largest steelmaker in the world and the fourth in Eastern Europe<sup>7</sup>.

Metinvest's main steelmaking assets are Azovstal and Ilyich Steel, both integrated producers located in Mariupol, Ukraine, near the Sea of Azov. The Group recently increased its overall steel production capacity to 9.6 million tonnes, up 14%, by commissioning the continuous casting machine no. 4 at Ilyich Steel, eliminating a bottleneck there.

In addition, Metinvest has a 49.9% stake in Zaporizhstal, one of the country's largest steelmakers, with annual production capacity of around 4 million tonnes of crude steel, which is classified as a joint venture. The partners have been creating considerable synergies: Zaporizhstal is also one of the Group's top purchasers of iron ore, meaning that additional margin can be captured through Metinvest's share of its steelmaking capacity, while Zaporizhstal's product mix is complementary to Metinvest's. The enterprise is located in Zaporizhia, in southeastern Ukraine, close to

the Group's iron ore facilities in Kryvyi Rih, which is home to Metinvest's Zaporizhia Coke, and on the banks of the Dnipro River, a strategic transportation route.

The Group also has four rolling mills in Europe – Ferreria Valsider and Metinvest Trameal in Italy, Promet Steel in Bulgaria and Spartan in the UK. The flat producers in Italy and the UK use slabs produced by its Ukrainian steel mills to re-roll them into plates and coils closer to local customers, while the Bulgarian long producer re-rolls third-party square billets into rebar, wire rod and other long goods. Metinvest's total re-rolling capacity in Europe is around 2 million tonnes a year.

In addition, in 2018, the Group acquired Unisteel, a producer of zinc-coated hot-dip galvanised coils located in Kryvyi Rih, Ukraine. It can produce up to 100 thousand tonnes of such coils a year.

In 2018, Metinvest's hot metal output totalled 8,205 thousand tonnes, up 3% year-on-year. Amid more stable raw material supplies than in the previous year, Ilyich Steel boosted production by 334 thousand tonnes, up 8% compared with 2017, which more than compensated a decline of 70 thousand tonnes at Azovstal, down 2%.

Meanwhile, the Group's crude steel production amounted to 7,323 thousand tonnes, down 1% year-on-year. Azovstal's output fell by 183 thousand tonnes, down 4% compared with 2017, due to scheduled maintenance work, while Ilyich Steel's production rose by 145 thousand tonnes, up 5%.

Total merchant metal product output amounted to 8,795 thousand tonnes, up 5% year-on-year. Output of semi-finished products rose by 10% year-on-year amid a favourable market trend, while that of finished products increased by 3% year-on-year, driven by two factors: 2% growth in flat product output, due to greater hot-rolled plate volumes at Ilyich Steel in response to recovering demand; and a 14% rise in long product output, as stable supplies of square billets were secured for re-rolling at Promet Steel. All told, finished products accounted for 66% of the steel mix in 2018.

In response to greater requirements from the market and customers, Metinvest launched 39 new steel products at Azovstal and Ilyich Steel in the reporting period. Most were additional types of hot-rolled plates, hot-rolled coils and galvanised and colour-coated rolled products. In addition, the Group has now fully transformed its technical service offerings to adapt products to customers' needs, including in terms of chemical composition and mechanical characteristics, and helps customers to set up their equipment to work best with its products.

In 2018, Zaporizhstal produced 4,105 thousand tonnes of crude steel, up 5% year-on-year. Finished steel goods – which include coils, plates, joist web, strip and tin – accounted for 81% of the product mix and merchant pig iron for the remaining 19%.

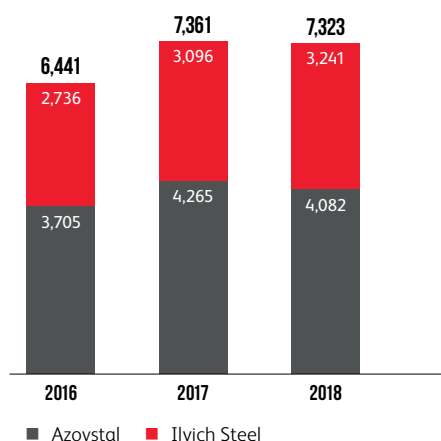
### OUTLOOK

In 2019 and beyond, the Group's top priority will remain health, safety and the environment, where the same strict compliance is required for everyone, from the CEO to line workers and contractors. Another area of focus will be to continue to improve operating efficiency with the aim of reducing costs, including by automating equipment and process management.

In addition, Metinvest will continue its asset upgrade programme under the Technological Strategy 2030, including maintenance to improve operational performance and the expansion of certain facilities. At the heart of this long-term modernisation drive lies the key objective of reducing environmental footprint.

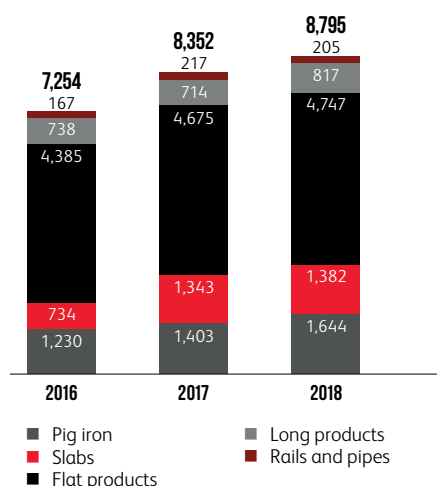
### Crude steel production

**7,323KT**  
-1%



### Metal product mix

**8,795KT**  
+5%



<sup>6</sup> Coke self-sufficiency is calculated as actual coke production divided by actual consumption of coke to produce hot metal in the Metallurgical segment.

<sup>7</sup> World Steel Association ranking for 2018, based on tonnage produced and geographical location of assets.

# DIGITALISATION: TAKING THE BUSINESS TO THE NEXT LEVEL

Recognising the value of digitalisation, Metinvest has created a unified information framework, enhancing its vertical integration, seamlessly combining IT and operations, and establishing a platform for taking the business to the next level. In 2018, the Group made a strategic decision to set up IT company Metinvest Digital to ensure that digital transformation will help to meet its corporate targets as efficiently as possible.

## BUILDING A DIGITAL BUSINESS

To remain competitive in today's global marketplace, manufacturing companies must integrate and utilise all of the data involved in value creation. This can be achieved through digitalisation, which entails the transition from analogue business operations to digital ones and, in turn, uses technology to enhance them.

The main reason for digitalisation is straightforward: the Group has a vast trove of data that needs processing to identify ways to optimise the business. As part of this, a paradigm change is required to see IT not as a discreet business function, but as a partner that can help to use resources more efficiently, identify non-value-adding activities and prevent production outages. Most importantly, this provides management with new digital solutions to generate additional value and provide strategic information for making decisions.

Metinvest has long made digitalisation central to its strategy and development plans, implementing SAP solutions across enterprises and sales offices, automating key business processes and ensuring network security. The first migration to an SAP enterprise resource planning (ERP) platform was in 2013. Since then, the Group has worked towards migrating all core Ukrainian production assets to SAP ERP, adding Azovstal in the first quarter of 2019. Metinvest uses 21 SAP systems, which automate its business processes in practically all areas of operations.

The Group has received an SAP Advanced Customer Centre of Excellence Certificate, which recognises its centre's high-quality services and compliance with the best practices and standards in IT system development. Metinvest was the first company in Ukraine to obtain the certificate and has been ranked in the top 50 holders worldwide.

## FROM EXTRACTING ORE TO MINING DATA

Metinvest's operating model is built on close vertical integration of mining, steel production, logistics and sales offices across the value chain. To centralise their management, the Group has created an integrated information network designed to capture and utilise all of the data generated across its activities to improve business processes and provide greater insight.

At Metinvest, digitalisation has been an evolutionary rather than a revolutionary process. The primary aim is to build on existing competitive advantages, not change the proven business model. The single information space allows the Group to manage the vast data generated and react to changing conditions in raw material and end markets. Most importantly, it serves the core objective of streamlining processes to deliver products for customers with maximum efficiency.

## METINVEST DIGITAL

In September 2018, to spearhead the business' digital transformation, the Group created Metinvest Digital as a standalone entity. It is responsible for overseeing the IT function and all IT processes, as well as improving the quality of services provided. In addition to supporting IT users in the Group, Metinvest Digital will work to identify the best digital practices and solutions to increasing value. The rationale for making it a separate unit is to build strong, customer-focused relationships with all customers. This approach is also meant to foster the entrepreneurial approach needed to manage projects and deliver novel IT solutions for internal customers cost-effectively.

## SAP HANA CLOUD

In January 2019, after the reporting period, Metinvest completed the migration of its SAP system to a cloud platform, becoming the first

SAP HANA Enterprise Cloud (SAP HEC) user in Ukraine. The migration was the largest conducted in Central and Eastern Europe to date. The Group now has around 140 systems and more than 18,000 users working in the cloud. The new SAP landscape creates a solid platform for growth and continuous improvement across the business while cutting operating costs.

The migration was a monumental initiative. Implemented in 18 months, SAP HEC represents a disruptive business technology for Metinvest's IT function. It significantly reduces IT costs by eliminating in-house servers and providing necessary resources on demand to respond to innovation. It also enhances cyber security.

In 2018, SAP awarded Metinvest its IT Maturity rating, ranking it number one in Ukraine and among the top 10 global metals and mining companies. The Group continues to deploy new digital technologies across assets, testing RFID (Internet of Things) and mobile plant maintenance at Ilyich Steel and deploying drones at iron ore facilities to monitor operations, to name just a few. Along with efficiency gains, these innovations are already making working conditions safer and enhancing environmental monitoring.

## FOUNDATIONS FOR THE FUTURE

Digitalisation remains an ongoing process for the Group, as the global technology landscape continues to develop new opportunities and solutions. Today, Metinvest is paying particular attention to four key building blocks for its future digital transformation: artificial intelligence (AI), blockchain, digital twins and mixed reality. In addition, like any digital leader, it is closely tracking new developments in the global IT sector.

The Group is already engaging AI in its business and sees enormous potential for such processes as predictive analytics and failure recognition. Blockchain is a distributed ledger system allowing secure, automated interactions with third parties such as suppliers. Digital twins are representations of real-world systems that provide valuable information about how systems work and products are used. Mixed reality provides a combination of real-world and virtual representation that can transform everything: from training to managing complex assets.

Metinvest is a proud leader of digitalisation in Ukraine and the global mining and metals industry. The ongoing transition will unlock the potential of its existing business model over the coming years and decades. At the same time, it can help to make the entire industry safer and more efficient, benefiting everyone. The process of unlocking this historic potential has only begun.



## Financial Report

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# PERFORMING

## MARKET FOCUS: MENA

In recent years, Metinvest has made considerable inroads into the Middle East and North Africa (MENA), which accounted for 22% of the Metallurgical segment revenues in 2018, up by 2 percentage points compared with 2017. As a fast-growing market, MENA is a strategic destination for steel sales, and the Group's distribution network includes offices in Turkey, Tunisia, Lebanon and the United Arab Emirates.

Overall sales to MENA jumped to US\$2,195 million in the reporting period, up 49% year-on-year, buoyed by soaring demand for select steel products and higher prices across the board. In 2018, there was a notable rise in shipments of semi-finished products (up 71% compared with 2017) and flat goods (up 12%).

# IMPRESSIVELY

## METALLURGICAL SALES IN 2018

# 3,820KT

In 2018, the Metallurgical segment increased its sales volumes in MENA by 30% year-on-year, or 889 thousand tonnes, driven primarily by greater volumes of pig iron (up 168 thousand tonnes), square billets (up 479 thousand tonnes) and flat products (up 226 thousand tonnes).

# MOVING ADEPTLY AMID VOLATILITY

In 2018, while average global steel prices demonstrated year-on-year growth amid strong demand in all regions in the first half, intensified trade disputes between the largest global players and concerns about international economic slowdown created downward pressure in the second half. Iron ore and coking coal prices were relatively high amid supply constraints, while demand for high-grade ores supported strong premiums for Fe content and pellets.

### GLOBAL STEEL MARKET

According to the World Steel Association's global steel market data for 2018, crude steel production rose by 4.5% to 1,808 million tonnes and apparent consumption of finished steel products increased by 4.9% to 1,712 million tonnes. The average steel capacity utilisation rate climbed by 3.7 percentage points to 80.9%<sup>1</sup>.

China continued to set the tone for the global steel market in 2018, accounting for around 50% of production and consumption worldwide. Despite continued measures to cut pollution emissions and retire inefficient steelmaking capacities, the country's crude steel production grew by 6.6% to 928 million tonnes in response to strong demand from the construction and manufacturing sectors, fuelled by credit stimulus measures and new infrastructure projects. As such, China's finished steel consumption rose by 7.9% to 835 million tonnes. In addition, steel production was spurred by the jump in global steel prices in 2017-18, which helped Chinese steelmakers to generate their highest profits in nine years.

At the same time, Chinese steel product exports decreased by 8.0% year-on-year to 70 million tonnes in 2018 – the lowest level since 2013 – amid lower demand from the South Korean market, as well as the further intensification of trade tensions among major economic powers, including the US, EU and China. Governments enacted even stronger protectionist measures to shield domestic steelmakers from lower-cost producers. The US introduced 25% steel tariffs on all imports of steel products into the country. Meanwhile, the EU introduced import quotas on certain steel products to preserve the status quo in the region, in addition to anti-dumping tariffs imposed earlier on some 60% of hot-rolled coil imports.

These and other events caused global steel prices to fluctuate over 2018. In the first half of the year, they peaked amid strong demand in all regions, falling steel exports from China, rising worldwide protectionism and high prices for coking coal and scrap. In the second half, they came under pressure amid heightened concerns about global economic growth, greater trade tensions and lower raw material prices.

According to information from Metal Expert, the average annual growth in the benchmark price for hot-rolled coil from the CIS region (HRC, FOB Black Sea) was 10% in 2018, based on an average price of US\$560 per tonne for the year. Despite the continued year-on-year growth in average annual terms, in line with global benchmarks, the HRC FOB Black Sea price retreated from a peak of US\$613 per tonne in March to US\$469 per tonne in December.

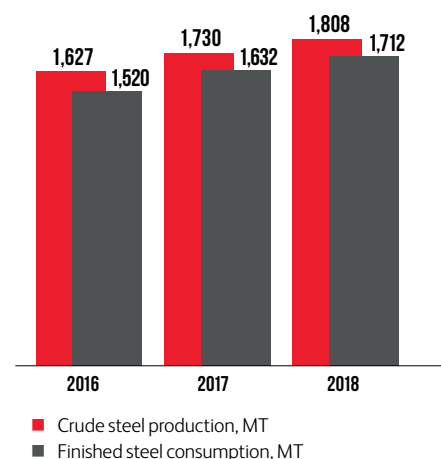
### GLOBAL IRON ORE MARKET

The key driver for the global iron ore market remains the steel sector in China, which purchases some 70% of the world's seaborne iron ore supplies. While the country expanded its steel production year-on-year in 2018, its seaborne iron ore demand remained relatively flat at 1,065 million tonnes, as its increased needs were covered with additional domestic iron ore production.

As such, exports from the world's two largest iron ore suppliers, Australia and Brazil, which accounted for around 80% of global seaborne iron ore supplies in the year, were roughly flat at 1,223 million tonnes in 2018. While this is a new record high, the addition of 10 million tonnes represents an increase of just 0.8% year-on-year, the slowest growth seen in the last decade, primarily because certain producers cut output due to accidents and others closed inefficient operations, which constrained supply.

<sup>1</sup> Calculated based on figures from the World Steel Association (crude steel production) and OECD (steelmaking capacity).

### Global steel industry



Source: World Steel Association

Consequently, iron ore prices were higher than expected. The benchmark price (62% Fe iron ore fines, CFR China) averaged US\$69 per dry tonne in 2018, compared with US\$71 per dry tonne a year earlier.

Amid supportive demand for high-grade ores and an efficiency drive among steel producers in 2018, the market continued to offer strong premiums for Fe content and pellets. The premium for 65% Fe content to 62% Fe content surged by a further 30% year-on-year to an average of US\$21 per dry tonne despite intra-year fluctuations in the 62% and 65% benchmarks driven by the market environment. Meanwhile, the Atlantic Basin premium for pellets in Europe rose consistently, climbing by 31% year-on-year to an average of US\$59 per tonne in 2018.

In late January 2019, after the reporting date, a tailing dam collapsed in Brazil, causing catastrophic damage to the nearby community. These tragic events led to an operational closure of that mine. More importantly, it prompted Brazilian authorities to review safety requirements to all tailing dam operations in the country. The long-term implications of these developments on the global iron ore concentrate and pellet markets remain to be seen. The immediate market reaction to the events was a 20% jump in iron ore prices to around US\$90 per dry tonne in mid-February 2019, amid a shift to a short- and medium-term supply deficit, a situation that prevails at the time of writing.

### GLOBAL COKING COAL MARKET

Coking coal supply conditions remained relatively tight in 2018 due to slow coal production growth in China, as well as continuing port and rail limitations in Australia.

While ongoing supply-side constraints made spot hard coking coal one of the most volatile commodities, the price fluctuations in 2018 were relatively lower than in 2017. After fluctuating from a high of US\$241 per tonne in January to a low of US\$183 in August, the spot price rebounded to US\$228 in December, compared with US\$244 in December 2017. This compares with the peak of US\$305 per tonne in March 2017 and the low of US\$141 per tonne in June 2017. Such price dynamics further strengthened the global trend of switching from contracts to spot pricing.

Overall, the average spot hard coking coal price (HCC, daily spot, FOB Australia) grew by 9% year-on-year to US\$208 per tonne in 2018.

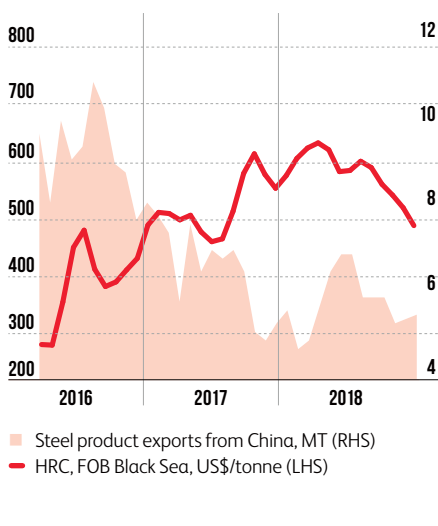
### OUTLOOK

World steel prices are an ongoing source of uncertainty, while trade tensions and concerns about a potential global economic slowdown are creating price pressure. For 2019, the World Bank forecasts global growth to slow to 2.9%, compared with 3.0% in 2018. At the same time, the World Steel Association forecasts a 1.3% increase in global steel demand in 2019, amid Chinese government plans to introduce new fiscal stimulus measures to buoy consumption and maintain the pace of economic growth, as well as infrastructural and residential construction projects in India and member countries of the Association of Southeast Asian Nations.

Meanwhile, it remains to be seen how quickly and to what extent the iron ore market will respond to the events in Brazil in early 2019.

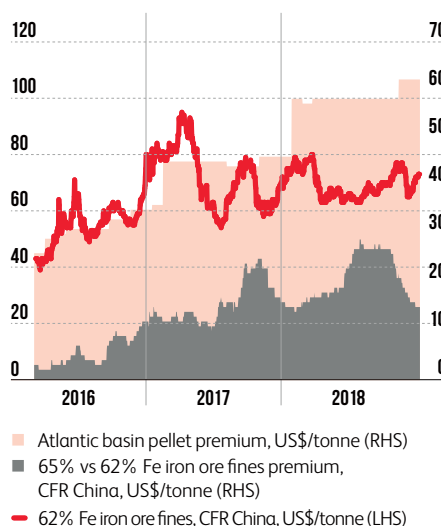
As for coking coal, an environment of seasonally tight supply is expected to persist on the market through the first half of 2019, while that easing during the second half could soften prices.

Steel product prices vs exports from China



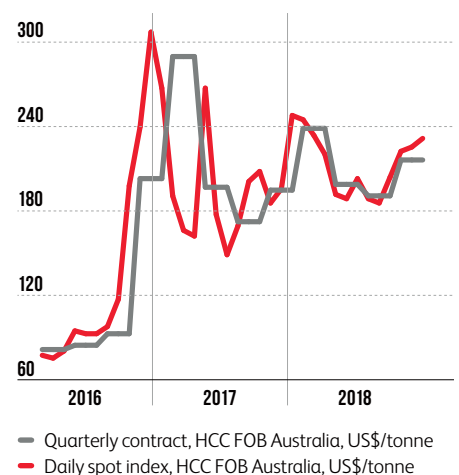
Source: Bloomberg, Metal Expert

Iron ore price and premiums



Source: Bloomberg, Platts

Hard coking coal (HCC) price



Source: Bloomberg, Platts

# A THIRD YEAR OF GROWTH

In 2018, the Ukrainian economy expanded for the third year in a row, as real GDP increased by 3.3% compared with 2017, its strongest growth in recent years. Buoyed by structural reforms, favourable export markets and various stronger macroeconomic indicators, the country appears to be on a path of continued economic growth.

### ON THE GROWTH PATH

In 2018, Ukraine continued to recover, driven by several factors such as the ongoing and unprecedented structural reforms, a record agricultural harvest, favourable export markets, more solid macroeconomic fundamentals and relatively greater stability in the temporarily non-government controlled territory. Additional support came from improvements in consumer spending and higher real wages, which rose by 12.5% year-on-year in 2018, bringing the cumulative growth over the past three years to 46%.

Overall, real GDP growth accelerated to 3.3% year-on-year in 2018, building on the momentum that developed over 2016 (up 2.4%) and 2017 (up 2.5%).

In 2018, the National Bank of Ukraine (NBU) continued its monetary policy of inflation targeting, to which it had effectively switched in early 2016. The main policy instrument, and the operational target, in such a framework is the interest rate.

As part of its ongoing efforts to combat inflation, the NBU increased its key interest rate – the discount rate – on four separate occasions in 2018: by 350 basis points year-to-date to 18% as of 7 September 2018. As a result of these efforts, the consumer price index (CPI) decelerated to 9.8% in December 2018, down from 13.7% in December 2017, although this exceeded the NBU target range of 4-8%.

At the same time, the NBU maintained a floating exchange rate for the hryvnia. During the year, the exchange rate for the local currency against the US dollar seasonally strengthened from 28.43 in January to 26.14 in April, weakened to 28.19 in September and gained again to 27.69 at the year-end. This brought the average to 27.22 for 2018, compared with 26.60 for 2017, equalling depreciation of 2.3% year-on-year. Such exchange rate fluctuations were due to several factors, including remittances from migrant workers (which reached a new record of US\$11 billion in 2018), the seasonality of the agricultural business and foreign participation in the local government bond market.

Since 2016, the NBU has made certain steps to ease the currency control restrictions introduced in 2014-15. In particular, it has gradually reduced the required share of foreign currency proceeds subject to mandatory sale on the interbank market: from 75% to 30% from 1 March 2019. Additionally, the settlement period for import-export transactions in foreign currency has steadily increased from 90 to 180 days on 26 May 2017. Also, on 3 March 2018, the NBU increased the amount of dividend payments allowed from Ukrainian companies to non-residents to US\$7 million a month. This was eased further to EUR7 million on 7 February 2019.

International financial support remained highly important for Ukraine, given the sizeable external debt repayments in 2018 and peak

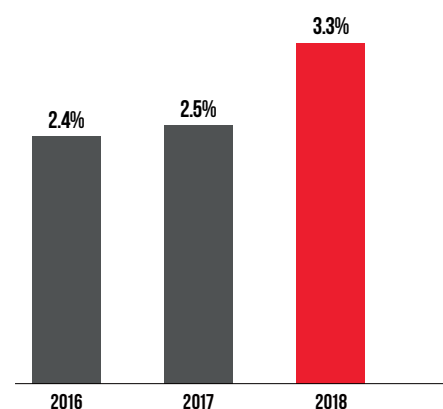
amortisations in 2019-20. Several measures, including those listed below, helped the NBU to increase its foreign exchange reserves to US\$20.8 billion by the end of 2018, their highest since September 2013.

In December 2018, the International Monetary Fund (IMF) approved a new 14-month Stand-By Arrangement (SBA) of US\$3.9 billion after certain milestones were reached. It replaced the previous Extended Fund Facility Programme, under which the country received four tranches totalling US\$8.7 billion in 2015-17. The first tranche of US\$1.4 billion under the SBA was received in December 2018. Ongoing cooperation with the IMF is viewed as a key driver of positive change in the country, while further disbursements depend on Ukraine's success in fulfilling the terms of the Memorandum on Economic and Financial Policies.

Ukraine also further strengthened its relationship with its largest trading partner, the European Union, with which its Association Agreement is now in full force. As part of the bloc's ongoing support, it approved a EUR1 billion macro-financial assistance to the country in late 2018.

To refinance its upcoming short-term maturities, Ukraine returned to the international debt markets in October 2018. The government raised US\$2 billion in a dual-tranche Sovereign Eurobond offering, including a 5.25-year Eurobond at 8.994% per annum and a 10-year Eurobond at 9.750% per annum. Several Ukrainian corporates also placed Eurobonds to refinance their debt, including Metinvest, which in April 2018 conducted the largest corporate placement in Ukraine to date.

### Real GDP growth



Source: State Statistics Service of Ukraine



Sovereign credit ratings encompass a wide range of risks associated with investing in a country, while a country ceiling reflects the risk of capital and exchange controls being imposed that would reduce the ability to service foreign-currency debt. As such they affect the cost of financing for not only the country, but also domestic corporate borrowers, and they are monitored closely by all parties concerned. In 2018, both Standard & Poor's and Fitch affirmed their ratings for Ukraine at 'B-', the outlook 'stable'. Meanwhile, Moody's upgraded its Sovereign rating to 'Caa1', the outlook 'stable', and its country ceiling to 'B3'. Among other factors, this was a result of the agreement of the new SBA with the IMF, gradual reform progress and greater resilience regarding the situation in the east of the country.

Additional confirmation of the recent progress was a further gain in the World Bank's Ease of Doing Business index, in which Ukraine rose to 71 among 190 economies, up from 76 in 2017.

#### INFRASTRUCTURE CYCLE TO DRIVE STEEL DEMAND

Buoyed by the resurgent economy, steel-consuming industries are driving demand for steel products in Ukraine.

In 2018, apparent steel consumption grew by another 4.0% year-on-year to 5.7 million tonnes, driven primarily by an 8.5% rise in construction. The sector is the largest steel user in Ukraine, accounting for around 70% of the total consumed in 2018. Its main drivers were non-residential (up 5.7% year-on-year) and infrastructure construction (up 13.6%). The latter stemmed from the urgent need to upgrade infrastructure, most of which dates from

30-40 years ago, including building and repairing roads. In addition, domestic steel consumption was supported by a 32.3% year-on-year surge in railcar manufacturing amid strong local demand.

Overall, Ukraine has vast potential in this regard. According to the WSA, apparent steel consumption per capita was 106 kilogrammes in Ukraine, compared with 391 kilogrammes in Poland and 288 kilogrammes in Hungary.

Ukraine produced 23.1 million tonnes of crude steel in 2018, up 3.6% year-on-year. The country's steel industry is export-oriented. Metal Expert has reported that overseas sales of rolled steel products, excluding pipes, accounted for 79% of overall output in the year, totalling 16.5 million tonnes.

Nevertheless, the country traditionally imports certain types of steel products that are either not made locally or produced in insufficient quantities or the price-quality ratio better meets customer needs, such as polymer-coated, galvanised and other goods. In 2018, according to Metal Expert, Ukraine imported 1.4 million tonnes of such products. This represents further potential for the Group to expand in the market.

Metinvest estimates that in 2018, Ukraine's merchant iron ore product consumption rose by 15.8% year-on-year to 36.9 million tonnes, driven by greater steel output. Amid this demand, the Group boosted its local sales of iron ore products by around 1.1 million tonnes year-on-year. At the same time, the country's merchant iron ore product output remained flat year-on-year at 68.7 million tonnes.

As for coking coal, production in Ukraine has been falling for the last decade, latterly due to the situation in Eastern Ukraine. In 2018, Metinvest estimates that the country's raw coking coal output dropped by another 18% year-on-year to 5.8 million tonnes, forcing local coke producers to increase imports, which are often costlier. As such, the share of coking coal imports in national consumption reached a record 82% in 2018, up 5 percentage points compared with 2017.

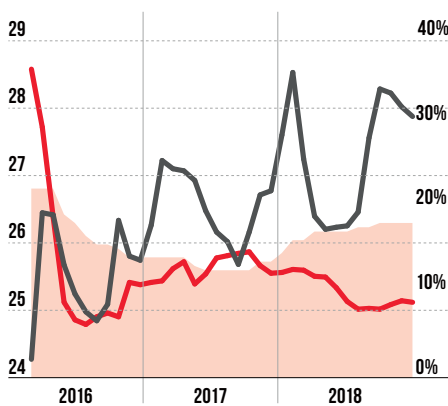
All told, the Group's overall sales in Ukraine surged by 35% year-on-year in 2018, bringing the country's share in its consolidated revenues to 28%.

#### OUTLOOK

In 2019, developments in Ukraine are likely to be influenced by the new presidency and the parliamentary elections in October. There is a common belief that whatever the political direction that the country takes, it will have to continue to implement important structural reforms to secure the international financial support, primarily from the IMF, needed to meet the peak external debt repayments of 2019-20.

While several other factors could also create fresh challenges to the Ukrainian economy, the nearer-term economic outlook remains positive: as of April 2019, the IMF forecasts GDP growth of 2.7% year-on-year in 2019 and 3.0% year-on-year in 2020. This and the need to renovate vital infrastructure are expected to fuel steel demand.

#### Monetary policy

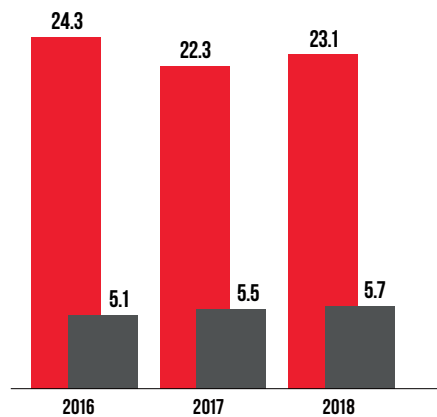


■ Key interest rate, % (RHS)  
 — Average exchange rate, UAH/US\$ (LHS)  
 — Consumer price index, % (RHS)<sup>1</sup>

1 For CPI, the year-on-year change is for the relevant month.

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

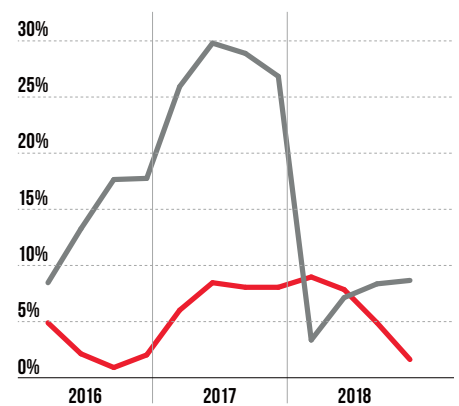
#### Steel industry in Ukraine



■ Crude steel production, MT  
 ■ Rolled steel consumption, MT

Source: Metal Expert

#### Key steel consuming sectors in Ukraine<sup>2</sup>



— Construction index  
 — Machinery production index

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

Source: State Statistics Service of Ukraine, Metal Expert

# STRENGTH IN NUMBERS

In 2018, Metinvest delivered its best financial performance since 2014, proving that the Group has indeed turned a corner through proactive operational, financial and strategic management. Underpinning the results were favourable steel and iron ore prices worldwide and ongoing economic growth in Ukraine.

### REVENUES

In 2018, Metinvest's consolidated revenues increased by 33% year-on-year to US\$11,880 million due to several factors. First, steel selling prices rose year-on-year in line with global benchmarks, while iron ore realised prices grew amid higher premiums for quality and a focus on priority markets. Second, stronger demand spurred greater sales volumes of in-house products. Third, the volume of goods resold surged.

### METALLURGICAL SEGMENT

In 2018, the Metallurgical segment's revenues increased by 36% year-on-year to US\$10,064 million, driven by higher steel selling prices, stronger demand for Metinvest's products and greater resales. Sales of semi-finished products grew by 73%, finished products by 25%, coke by 38% and other products and services by 35%. In 2018, the segment accounted for 85% of external sales (83% in 2017).

### PIG IRON

In 2018, sales of pig iron soared by 77% year-on-year to US\$1,071 million, primarily driven by a 61% hike in sales volumes. Volumes rose by 1,028 thousand tonnes year-on-year to 2,717 thousand tonnes, amid strong market demand for the Group's pig iron (up 297 thousand tonnes) and greater resales (up 731 thousand tonnes). Consequently, the share of resales in total sales volumes reached 38% in 2018, compared with 18% in 2017. Greater orders from existing and new customers boosted sales primarily to North America (up 684 thousand tonnes),

MENA (up 168 thousand tonnes) and Europe (up 90 thousand tonnes). An increased average selling price also contributed to higher sales.

### SLABS

In 2018, sales of slabs advanced by 39% year-on-year to US\$724 million, of which 24 percentage points was attributable to a higher average selling price and 15 percentage points to greater sales volumes. Volumes grew by 174 thousand tonnes year-on-year to 1,320 thousand tonnes, spurred by demand and supported by greater production, as well as inventory growth from lower sales in 2017. The share of Europe in slab sales volumes reached 71% (up 1 percentage point year-on-year), following an expansion of 139 thousand tonnes in sales to the region amid greater orders from customers in Italy and sales to new customers in France and the UK. The average selling price followed the 16% year-on-year upturn in the benchmark for slabs (FOB Black Sea).

### SQUARE BILLETS

In 2018, sales of square billets more than doubled year-on-year to US\$701 million due to comparable growth in sales volumes and a higher average selling price. Volumes rose by 699 thousand tonnes year-on-year to 1,356 thousand tonnes as a result of higher resales and were primarily sold in MENA and Southeast Asia, which accounted for 76% and 17% of sales, respectively. The average selling price followed the trends of the square billet FOB Black Sea benchmark, which climbed by 12% year-on-year.

### FLAT PRODUCTS

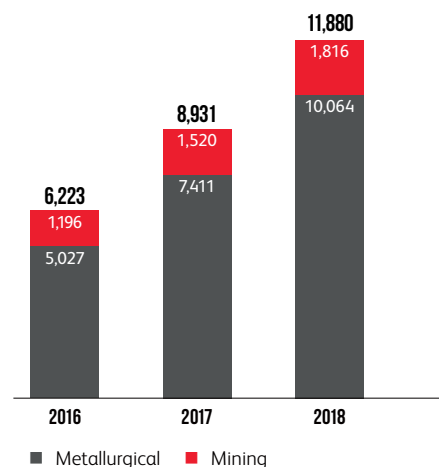
In 2018, sales of flat products surged by 23% year-on-year to US\$5,173 million, of which 14 percentage points was attributable to a higher average selling price and 9 percentage points to greater sales volumes. Volumes increased by 653 thousand tonnes year-on-year to 7,981 thousand tonnes, while resales of Zaporizhstal's goods expanded by 462 thousand tonnes year-on-year to 3,221 thousand tonnes, helping to boost their share in total sales volumes by 2 percentage points year-on-year to 40%. Sales to Ukraine were up 264 thousand tonnes amid greater demand from the construction, transportation and machine-building sectors. Sales to Europe dropped by 76 thousand tonnes due to the redirection of hot-rolled coil (HRC) to MENA and Southeast Asia, which was partly compensated by greater sales of hot-rolled plates and galvanised flat products. Other sales volumes were redistributed between regions based on market conditions. The average selling price was in line with the HRC FOB Black Sea benchmark, which rose by 10% year-on-year.

### LONG PRODUCTS

In 2018, sales of long products jumped by 38% year-on-year to US\$973 million, of which 23 percentage points was attributable to greater sales volumes and 14 percentage points to higher selling prices. Volumes grew by 284 thousand tonnes year-on-year to 1,493 thousand tonnes following the launch of resales since the third quarter of 2017 and greater production at the Group's Bulgarian re-roller, as stable supplies of square billets were secured. At the same time, the positive year-on-year price trend on all markets for long products was due to stronger billet quotations, as the billet FOB Black Sea benchmark advanced by 12% year-on-year.

### Revenues by segment

**US\$11,880M**  
**+33%**



### TUBULAR PRODUCTS

In 2018, sales of tubular products increased by 9% year-on-year to US\$92 million following a higher average selling price. This was partly offset by slightly lower sales volumes, which dropped by 1% year-on-year to 142 thousand tonnes, given weaker demand in the CIS region.

### COKE

In 2018, sales of coke surged by 38% year-on-year to US\$635 million, following a 41% jump in sales volumes (or 582 thousand tonnes) to 2,009 thousand tonnes, driven by greater orders in Ukraine. At the same time, the average effective realised price edged down to US\$316 per tonne in 2018, compared with US\$323 per tonne a year earlier.

### MINING SEGMENT

In 2018, the Mining segment's revenues climbed by 19% year-on-year to US\$1,816 million, driven by greater sales volumes of pellets, which offer higher margins than iron ore concentrate. In addition, average realised prices of iron ore products grew year-on-year amid strong quality premiums and greater sales to higher-margin markets. As a result, external sales of pellets increased by US\$285 million, while sales of iron ore concentrate decreased by US\$42 million. At the same time, sales of coking coal concentrate fell by US\$12 million due to higher intragroup consumption. Sales of other products and services rose by US\$64 million. In 2018, the Mining segment accounted for 15% of external sales (17% in 2017).

### IRON ORE CONCENTRATE

In 2018, sales of merchant iron ore concentrate decreased by 6% year-on-year to US\$603 million, following a 13% decline in sales volumes. Volumes dropped by 1,157 thousand tonnes year-on-year to 7,988 thousand tonnes amid lower merchant product output and higher intragroup consumption. Given the premiums and demand in Ukraine and Europe, sales to these markets increased by 308 and 363 thousand tonnes year-on-year, respectively. Sales to other markets expanded by 152 thousand tonnes, while shipments to Southeast Asia decreased by 1,979 thousand tonnes.

At the same time, the average selling price was lifted year-on-year by higher premiums for Fe content globally, while the 62% Fe iron ore fines CFR China benchmark fell by 3% year-on-year.

### PELLETS

In 2018, sales of pellets rose by 46% year-on-year to US\$905 million, of which 26 percentage points was attributable to greater sales volumes and 20 percentage points to a higher average selling price. Volumes soared by 1,543 thousand tonnes year-on-year to 7,446 thousand tonnes amid stronger demand in strategic markets. In particular, sales to Ukraine and Europe increased by 744 and 662 thousand tonnes year-on-year, respectively. In addition, sales to Southeast Asia, an opportunistic market for this product, were up 137 thousand tonnes year-on-year. The average selling price on all markets grew year-on-year due to a stronger pellet premium.

### COKING COAL CONCENTRATE

In 2018, sales of coking coal concentrate declined by 12% year-on-year to US\$84 million, driven by a 37% drop in volumes to 432 thousand tonnes amid higher internal consumption, which affected sales in North America. This was partly offset by a higher average selling price.

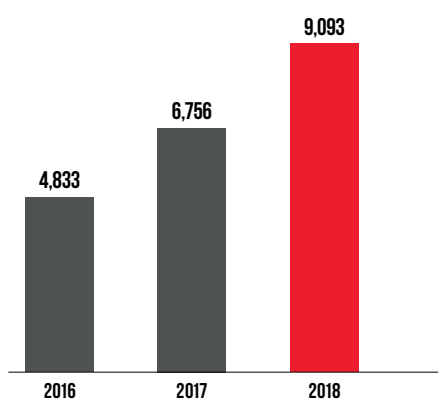
### COST OF SALES

In 2018, Metinvest's cost of sales rose by 35% year-on-year to US\$9,093 million, primarily attributable to:

- higher cost of goods and services for resale (US\$1,339 million), mainly pig iron and steel products;
- higher cost of raw materials (US\$311 million), primarily due to: greater consumption of purchased billets (used as feedstock to roll at Promet Steel) and purchased coking coal (driven by an 11% year-on-year rise in coke output); higher market prices of ferroalloys and scrap; and higher consumption of third-party sinter ore and sinter;
- greater energy materials expenses (US\$175 million) due to higher natural gas prices (up 22% year-on-year) and electricity tariffs for Ukrainian assets (up 15% year-on-year), as well as increased consumption of natural gas and fuel;
- higher labour costs (US\$166 million) due to salary hikes for production related workers (twice in both 2017 and 2018 following the performance appraisal) and corresponding social security expenses; and
- greater raw material transportation expenses (US\$87 million), mainly amid an increase in railway costs in the US related to internal coal supplies, higher railcar usage fees in Ukraine and greater rail shipments.

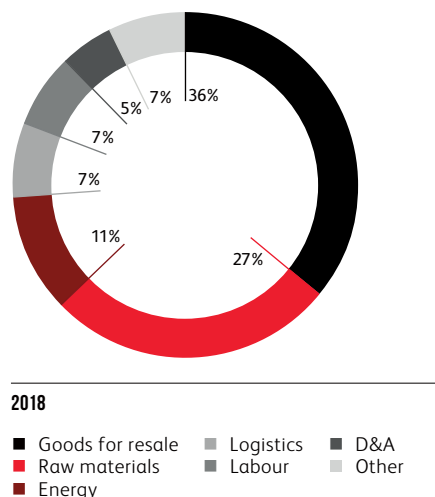
### Cost of sales

**US\$9,093M**  
+35%



### Operating expenses by nature

**US\$10,204M**  
+33%



As a percentage of consolidated revenues, cost of sales grew by 1 percentage point year-on-year to 77% in 2018.

# FINANCIAL REVIEW CONTINUED

## SALES OFFICES

42

## WAREHOUSES

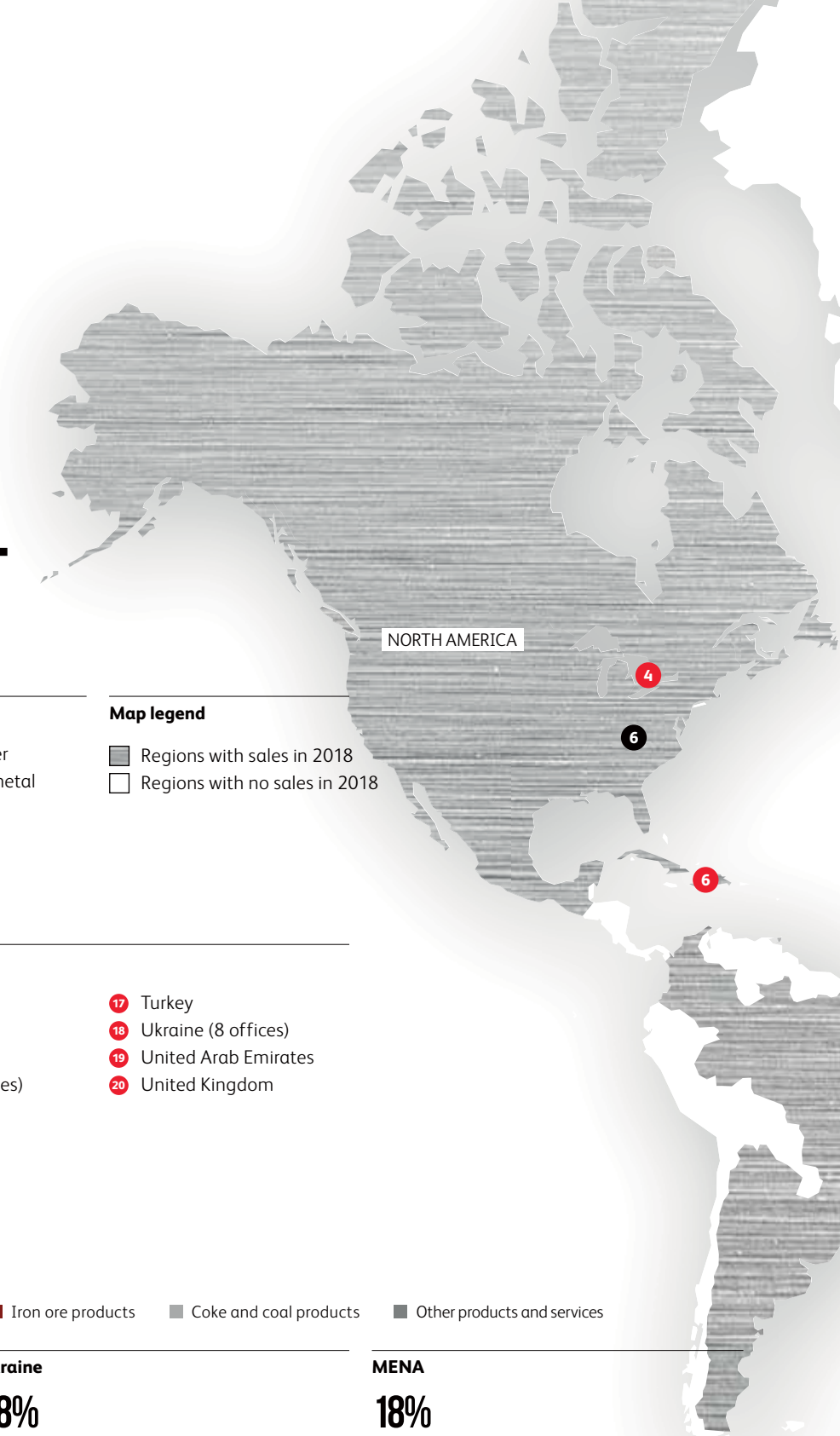
37

## COUNTRIES

100

## CUSTOMERS

10,000+



### Metinvest's operations

- 1 Ukraine's key operations (Azovstal, Ilyich Steel, Avdiivka Coke, Zaporizhia Coke, Northern GOK, Central GOK, Ingulets GOK)
- 2 Ferriera Valsider
- 3 Metinvest Trametel
- 4 Promet Steel
- 5 Spartan UK
- 6 United Coal

### Map legend

- Regions with sales in 2018
- Regions with no sales in 2018

### Metinvest's sales offices

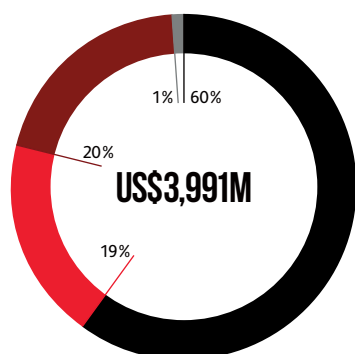
- 1 Belarus
- 2 Belgium
- 3 Bulgaria (3 offices)
- 4 Canada
- 5 China
- 6 Dominican Republic
- 7 Germany (2 offices)
- 8 Italy (3 offices)
- 9 Lebanon
- 10 Poland
- 11 Romania
- 12 Russia (11 offices)
- 13 Singapore
- 14 Spain
- 15 Switzerland
- 16 Tunisia
- 17 Turkey
- 18 Ukraine (8 offices)
- 19 United Arab Emirates
- 20 United Kingdom

### REVENUES BY REGION IN 2018\*

■ Finished products ■ Semi-finished products ■ Iron ore products ■ Coke and coal products ■ Other products and services

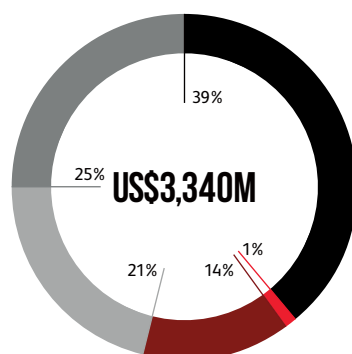
#### Europe

34%



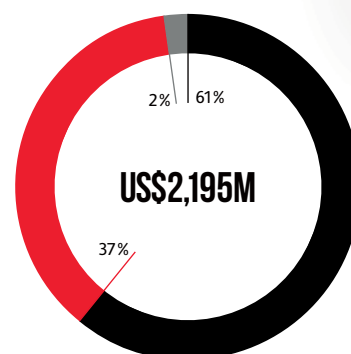
#### Ukraine

28%



#### MENA

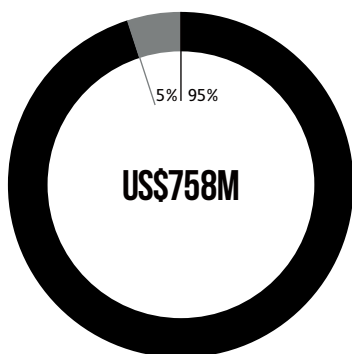
18%



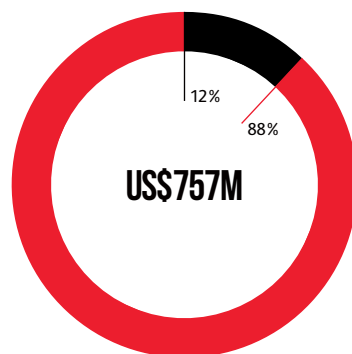
\* The share of each regional market in the Group's consolidated revenues in 2018 is expressed as a percentage. Sales to all other regions totalled US\$138 million, or 2% of total revenues in 2018.



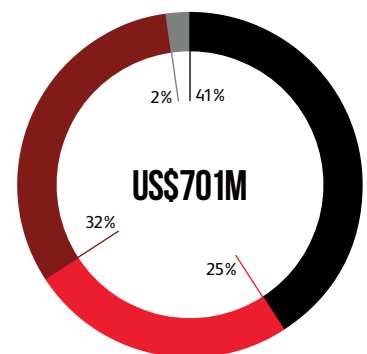
CIS  
6%



North America  
6%



Southeast Asia  
6%



## FINANCIAL REVIEW CONTINUED

### DISTRIBUTION COSTS

In 2018, distribution costs climbed by 23% year-on-year to US\$885 million, primarily due to higher expenses for transportation services. Railway costs rose by US\$54 million following higher railcar usage fees in Ukraine on the back of greater iron ore and steel distribution by rail. Freight costs were up US\$52 million amid a 27% uptick in steel sales volumes to Europe, MENA, Southeast Asia, North America and other regions, as well as higher freight tariffs following a 31% year-on-year surge in crude oil prices, which was partly offset by a 50% drop in iron ore sales to China. Other transportation expenses for loading, unloading and storage expanded by US\$54 million due to greater pig iron sales to North America, as well as flat product and square billets sales to MENA and Southeast Asia, which was partly offset by lower iron ore sales to China.

As a share of consolidated revenues, distribution costs decreased by 1 percentage point year-on-year to 7% in 2018.

### GENERAL AND ADMINISTRATIVE COSTS

In 2018, general and administrative costs increased by 17% year-on-year to US\$226 million, primarily amid higher expenses for wages, salaries and service fees.

As a share of consolidated revenues, general and administrative costs remained flat year-on-year at 2% in 2018.

### OTHER OPERATING INCOME/EXPENSES

In 2018, other operating expenses amounted to US\$120 million, compared with US\$39 million of other operating income a year earlier.

This was primarily attributable to operating foreign-exchange losses of US\$70 million due to the revaluation of trade receivables in 2018, compared with operating foreign-exchange gains of US\$66 million in 2017. In addition, impairment of trade and other accounts receivable grew by US\$66 million, mainly due to recoverable VAT impairment of the seized assets (US\$46 million). At the same time, charity and expenses for social activities increased by US\$6 million following greater contributions to the cities of presence. This was partly compensated by higher other income (US\$14 million) and write-off of certain accounts payable (US\$33 million).

As a share of consolidated revenues, other operating expenses amounted to 1% in 2018 (0% in 2017).

### OPERATING PROFIT

In 2018, operating profit climbed by 20% year-on-year to US\$1,556 million amid higher revenues (US\$2,949 million), which was partly offset by greater operating expenses (US\$2,693 million).

At the same time, the operating margin declined by 2 percentage points year-on-year to 13% in 2018.

### EBITDA

In 2018, the Group's EBITDA rose by 23% year-on-year to US\$2,513 million, primarily driven by an improvement of US\$483 million in the Metallurgical segment's contribution. At the same time, the Mining segment's EBITDA dropped by US\$112 million, while corporate overheads and eliminations decreased by US\$98 million.

In 2018, the consolidated EBITDA margin edged down by 2 percentage points year-on-year to 21%. The Mining segment's EBITDA margin fell by 6 percentage points year-on-year to 34% in 2018, while the Metallurgical segment's rose by 2 percentage points year-on-year to 13%.

### FINANCE INCOME

In 2018, Metinvest's finance income doubled year-on-year to US\$68 million amid US\$23 million of net foreign-exchange gain from financing activities, which mainly originated on the payable balances of intragroup dividends (there was no such income in 2017). In addition, imputed interest on other financial instruments and other finance income rose to US\$16 million, mainly due to the amortisation of the guarantee issued and a gain on initial recognition related to long-term payables.

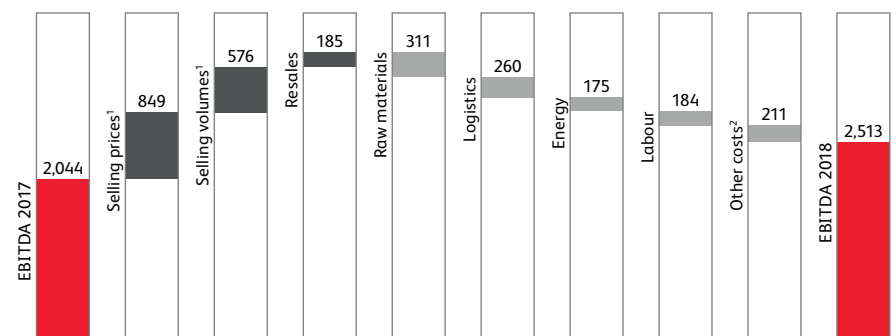
As a percentage of consolidated revenues, finance income amounted to 1% in 2018, up 1 percentage point year-on-year.

### FINANCE COSTS

In 2018, finance costs dropped by 5% year-on-year to US\$334 million, mainly due to there being no net foreign-exchange loss from financing activities (compared with US\$50 million in 2017). Interest expense dropped by US\$36 million following the reduction of the principal outstanding under the PFX facility, as well as the repayment of shareholder loans and seller notes for United Coal's acquisition. This was partly offset by US\$77 million of expenses related to the refinancing transaction and a loss on modification.

### EBITDA drivers

**US\$2,513M**  
**+US\$469M**

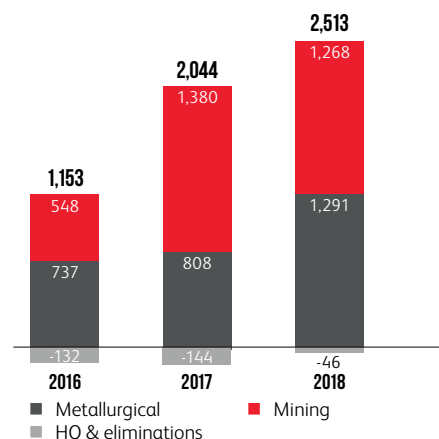


1 Net of resales.

2 Other costs include fixed costs (excluding labour costs), change in work in progress and finished goods, impairment of seized inventories and accounts receivable, the effect of change in exchange rate of Hryvnia against US dollar on other costs, share in EBITDA of joint ventures and other expenses; net of resales.

### EBITDA by segment

**US\$2,513M**  
**+23%**



As a percentage of consolidated revenues, finance costs decreased by 1 percentage point year-on-year to 3% in 2018.

### SHARE OF RESULT OF ASSOCIATES AND JOINT VENTURES

In 2018, the share of net income from associates and joint ventures fell by 9% year-on-year to US\$173 million due to the lower contribution from the Southern GOK JV, as well as the share in the loss from the Pokrovske coal business' operations after the acquisition of the 24.99% stake. These factors were partly compensated by a greater contribution from the Zaporizhstal JV and other associates.

### INCOME TAX EXPENSE

In 2018, the income tax expense increased by 23% year-on-year to US\$275 million due to a higher current tax expense, which grew by US\$65 million, mainly amid the improved profitability of the Group's steelmakers. At the same time, the change in deferred tax assets was US\$14 million greater, as a significant amount of the seized enterprises' deferred tax assets arising on tax losses carried forward was written off in 2017.

The effective tax rate, calculated as total income tax divided by profit before tax, was 19% in 2018, flat year-on-year as adjusted by the effects of the loss of seized assets.

### NET PROFIT

In 2018, net profit soared by 93% year-on-year to US\$1,188 million, primarily due to a 33% increase in revenues (US\$2,949 million) and the lack of the provision for the loss of control over the seized assets (US\$329 million). In addition, finance income rose by US\$39 million, while

finance costs declined by US\$16 million. These factors were partly offset by a hike in operating expenses (US\$2,693 million), greater income tax expense (US\$51 million) and a reduced share of the results of associates and JVs (US\$18 million).

The net margin amounted to 10% in 2018, up 3 percentage points year-on-year.

### LIQUIDITY AND CAPITAL RESOURCES NET CASH FROM OPERATING ACTIVITIES

In 2018, Metinvest's net cash flow from operating activities surged by 85% year-on-year to US\$1,103 million, driven by a rise in profit before income tax. It was affected by an outflow of working capital (US\$500 million), although the average working capital as a percentage of annual revenues remained flat year-to-date at 15%. The key drivers of working capital additions were: an increase in trade and other accounts receivable amid higher sales, while receivables turnover remained flat year-to-date at 4.6x; and a rise in inventories (primarily coal and iron ore), while inventory turnover improved to 7.0x (from 6.2x at the end of 2017).

At the same time, income tax paid and interest paid more than doubled year-on-year to US\$315 million and US\$288 million, respectively.

### NET CASH USED IN INVESTING ACTIVITIES

In 2018, Metinvest used US\$430 million in investing activities, down 4% year-on-year. Total cash used to purchase property, plant and equipment and intangible assets soared by 66% year-on-year to US\$770 million. In addition, US\$30 million was spent on the acquisition of the stake in Southern Coke,

US\$46 million on loans issued and US\$20 million on other payments (there were no such payments a year earlier). At the same time, Metinvest received US\$418 million of dividends from the Southern GOK JV (nil in 2017) and US\$18 million of interest on loans issued and deposits (up 20% year-on-year).

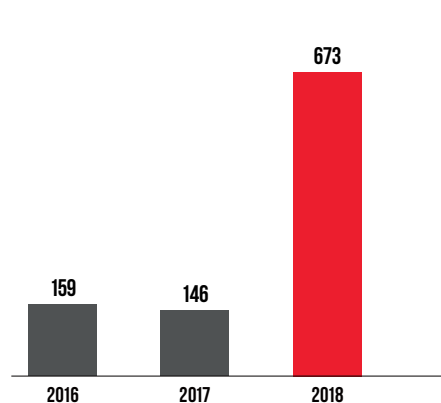
### NET CASH USED IN FINANCING ACTIVITIES

In 2018, net cash used in financing activities reached US\$643 million (US\$110 million in 2017). While the Group raised US\$1,460 million of gross new proceeds from the refinancing, several minor bank term loans and finance leases, it used US\$1,975 million to reduce its liabilities, both voluntarily and as per the agreed schedules under several debt instruments (such as bonds, bank and non-bank loans and borrowings, seller notes, deferred consideration and finance leases). This compares with US\$6 million of new proceeds raised and US\$175 million of loans, borrowings and seller notes repaid in 2017. Payments for loan commissions doubled year-on-year to US\$79 million, primarily due to a premium paid to bondholders for tendering bonds due in 2021 and other expenses related to refinancing. Net proceeds received from trade finance facilities totalled US\$79 million in 2018 (US\$117 million in 2017). In addition, dividends paid amounted to US\$58 million in 2018, while payments for acquisition of non-controlling interest in subsidiaries totalled US\$50 million (including the squeeze-out procedure and 30% stake in Ferriera Valsider). Other finance costs remained largely flat year-on-year at US\$20 million.

At the end of 2018, gross debt was down 9% year-to-date to US\$2,743 million, primarily due to the full repayment of shareholder loans and partial repayment of the PXF facility. As of 31 December 2018, the cash balance was US\$280 million (up 8% year-to-date). As a result, the Group finished the year with net debt of US\$2,463 million.

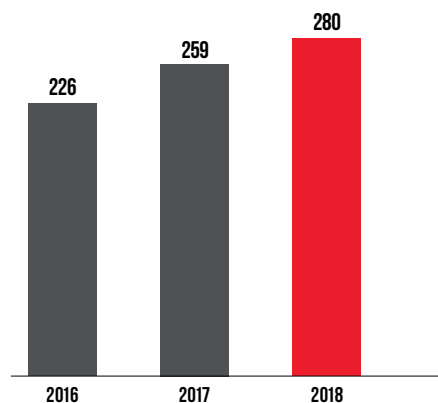
#### Free cash flow

**US\$673M**  
**4.6X**



#### Year-end cash balance

**US\$280M**  
**+8%**



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# ACTING

## MARKET FOCUS: NORTH AMERICA

Another well established destination for Metinvest's sales is North America, which generated 7% of the Metallurgical and less than 1% of the Mining segment revenues in 2018. The Group primarily supplies inputs for steelmaking on the market, namely pig iron. While Metinvest has coking coal mines in the Central Appalachian region of the US, it consumes almost all of its coal internally.

The Group's sales to the region soared to US\$757 million over the reporting period, up 73% year-on-year. The main catalysts of this were stronger demand and prices for pig iron.



# RESPONSIBLY

## METALLURGICAL SALES IN 2018

**1,804KT**

The Metallurgical segment's North American sales volumes spiked by 67% year-on-year in 2018, almost exclusively due to orders for pig iron.

## MINING SALES IN 2018

**68KT**

In the reporting period, the Mining segment minimised coal shipments to North America, which fell by 81% compared with 2017, as Metinvest used more raw materials to drive its own coke production.



In 2018, Metinvest delivered a robust operational and financial performance, posting results that set a new benchmark compared with recent years. Alongside this, the Group strengthened the expertise of its Supervisory Board and Executive Committee, focused even more on attracting and retaining talent, and made strong additional environmental, social and governance achievements.

## A CLEAR ROUTE AHEAD

In 2018, it was an honour to be elected Chairman of the Supervisory Board of Metinvest, after serving as a Board member since 2014. I am also pleased to report that the year was an exciting one for the Group and saw important breakthroughs for the business. We posted strong growth in profits; concluded a debt refinancing agreement that ensured access to global financial markets; and made our first acquisitions since 2014: stakes in Ukrainian coal and coke producers, as well as a domestic manufacturer of galvanised steel. In addition, Metinvest disbursed capital expenditure of almost US\$900 million, making production facilities across the Group cleaner and more efficient. We also pressed ahead with key environmental, social and governance (ESG) initiatives.

Effective governance has long been crucial to ensuring the Group's success and delivering on its ambitious ESG agenda, alongside sustainable social investment and progress on reducing environmental footprint. Over more than a decade, Metinvest has worked to build strong corporate governance institutions appropriate for the most transparent international

companies, as a clear system of checks and balances delivers stronger results and helps to ensure the trust of all stakeholder groups.

### ADDING FRESH EXPERTISE

Last year, the Supervisory Board was strengthened with two appointments. As both Chairman and a member of the Appointments and Compensation Committee, I am pleased to welcome Johan Bastin and Natalia Izosimova. As an independent member, Johan brings deep, international experience gained in international debt capital markets and leading European financial institutions by overseeing investor relations and investment strategy. Natalia, also an independent member, is a seasoned senior executive with diverse experience, including at a top global consulting company, overseeing HR questions. These appointments enhance the Supervisory Board's expert capacity for strategic decision-making and add expertise on the committee level.

I would like to thank Igor Syry, the former Chairman of the Supervisory Board and the first Chief Executive Officer of the Group, and Amir Aisatov, a former member of the Supervisory

Board, for their service to Metinvest and all of its stakeholders. The Group has benefited tremendously from their expertise, which helped it to navigate both unprecedented market and geopolitical challenges and take advantage of new opportunities in the global steel and iron ore markets. We will build on the foundations that they helped to create.

In 2018, Metinvest made important appointments to the Executive Committee. The changes represent valuable additions to our core, experienced team, which has demonstrated a track record of exceptional leadership over the past several years.

Following the comprehensive review of the Technological Strategy, we understood that we need a new position to oversee its implementation. In that light, I am pleased to announce the appointment of Andriy Yemchenko as Chief Technology Officer in March 2018. He will primarily be responsible for accelerating the implementation of strategic technology projects, including fast-tracking the design and documentation stages.

In addition, as part of the drive to ensure the Group's long-term sustainability and generate even greater value for all stakeholders, the Supervisory Board set the task of implementing a business value management system. As part of this, Metinvest created a new Directorate for Economics and Business System Development and named Olga Ovchinnikova, former Logistics and Procurement Director, as its head. Her responsibilities will include focusing on the efficiency of the sales and operations planning process, investments and continuous improvements. Aleksey Gromakov has been appointed as the new Logistics and Procurement Director.

### INVESTING IN PEOPLE

An important challenge last year was sustaining sufficient human resources, and this is expected to remain a primary concern over the short to medium term. The main issue is a shortage of skilled workers, as many thousands of Ukrainians have relocated to neighbouring European countries since 2017. These challenges are facing all large industrial Ukrainian employers, as well as Group subcontractors.

In 2018, Metinvest continued to take decisive steps to retain existing personnel and recruit talented employees. For the third year in a row, the Group increased salaries well above Ukraine's inflation rate to attract and retain talented workers, while continuing to offer an attractive benefits package. Equally, we believe that non-material incentives play a crucial role in attracting and retaining talent at all levels. As a result, we have invested significantly in improving working conditions at our facilities. The Group is committed to being an employer of choice, in not only Ukraine, but also surrounding markets. We provide continuing training and education and, for the right people, practically unlimited career growth potential. As a result of this approach, we have been able to maintain our employee headcount and retain core staff.

Health and safety remain absolute business and moral priorities for Metinvest, which has achieved long-term and steady declines in workplace incidents as measured by the lost-time incident frequency rates for the Group and individual enterprises. This has been achieved through technological improvements, as well as relentless training and occupational health programmes, all designed to create a safety-focused culture.

The reporting period saw fresh challenges, linked to the tight labour market and the intensive investment programme. While the overall accident rate continued to decline in 2018, the number of fatal incidents rose. This regrettable factor is primarily attributable to incidents involving subcontractors, whose numbers

at Metinvest facilities jumped amid the resurgence in modernisation projects.

The Group considers any regression in health and safety to be unacceptable, and addressing this spike in incidents is an absolute priority for all levels of management. As part of this, Metinvest is examining training programmes and rules for both internal and external workers, alongside successful existing training approaches that have delivered a progressive overall decline in total injuries, while also helping employees to address health concerns that could pose a future safety hazard for themselves and others. In 2018, the Group spent around US\$95 million, while doubling its efforts on safety of buildings, facilities and transportation.

### SUSTAINABLE COMMUNITIES

As one of Ukraine's largest companies and the owner of a global business, Metinvest's greatest contribution to local communities is providing 66,000 jobs worldwide. It is also a major taxpayer, paying around US\$700 million in taxes in 2018, including US\$315 million in corporate income tax. In this way, the Group's success is shared with national and local stakeholders.

Through the Technological Strategy, Metinvest is also addressing a long legacy of environmental issues in local communities. Several major environmental projects continued to make progress in 2018, including the rebuilding of the sinter plant at Ilyich Steel. Overall, Metinvest allocated some US\$263 million for environmental operating and capital expenditure, which is the highest level in four years. Importantly, environmental CAPEX reached US\$92 million, the most since 2011, as the Group follows the roadmap of projects outlined in its Technological Strategy 2030. Over the long term, these will bring significant positive environmental effects. In addition, they will ensure that the facilities meet ever-stricter international standards in the area and that all markets remain open for the Group's products.

In 2018, Metinvest also invested around US\$13 million directly in communities, up more than 50% compared with 2017. The Group continued to work with an array of reputable local and international partners through the city development fund pioneered in Mariupol, while extending the model to Zaporizhia and Kryvyi Rih. Metinvest and its partners are able to deliver transformative change to communities by ensuring that all projects are rigorously planned and have the support of all stakeholders.

### OUTLOOK

The outlook for the coming year is promising, as the Group is poised to benefit from a supportive pricing environment for its products, although there could also be fresh challenges from an

uncertain global situation. Understanding and mitigating risk remains a strategic priority challenge in the areas where we do business.

For the Supervisory Board, as the representative of all stakeholders, the ESG agenda remains central, as it continues to oversee the sustainable growth of the business. As Metinvest has built a corporate governance system in line with global best practices, it must continue to rise to the challenge and meet the rapidly increasing requirements for ESG performance and reporting. This will be a priority in 2019.

On behalf of the Supervisory Board, I would like to thank our employees, customers, investors, shareholders, partners and other stakeholders for their continued loyalty, belief and support.

### Oleg Popov

Chairman of the Supervisory Board

# RETAINING TALENT IS KEY

In 2018, Metinvest focused on retaining its core workforce and attracting new talent in the face of major changes caused by the opening of neighbouring labour markets to Ukrainians. The Group addressed this by implementing a differentiated remuneration policy, improving working conditions, developing career and growth opportunities, and tailoring its social programmes.

### ADAPTING TO LABOUR MARKET TRENDS

The negative trend in migration remained an issue in Ukraine in 2018, as professionals and skilled workers continued to go abroad in search of new job opportunities in European Union countries, likely due to the relaxation of visa requirements for Ukrainians working there. This negative trend is exacerbated by the ageing population and general disinterest in manual labour among young people. Ukrainian companies have been forced to adapt to this new reality to compete for workers. As one of the largest employers in Ukraine, Metinvest cannot avoid the impact of these factors and has had to accept the challenge.

From an HR perspective, one of the Group's highest priorities has been to manage the situation to ensure that it had enough qualified and experienced staff for all critical production stages to avoid unplanned stoppages. As evidenced by the Group's flat year-on-year total headcount of 66,000 employees, Metinvest effectively managed to retain key personnel and quickly fill vacant positions.

One aspect of Metinvest's solution was to implement a differentiated remuneration policy that varies depending on qualification, experience and the amount of training required to fulfil a given role.

As such, Metinvest increased wages and salaries at its Ukrainian assets twice in 2018 following the performance appraisal, after having already done so in 2017 (the average pay raises for production staff were 25% in April 2018, 10% in October 2018 and 5% in October 2017, in addition to an average raise of 15% to all employees in June 2017). Consequently, the average monthly salary climbed by 23% year-on-year to US\$720 per month in 2018, compared with US\$584 a year earlier. Importantly, by using this differentiated approach, the Group was able to hike the salaries of its key engineering staff by 47%.

### IMPROVING THE VALUE PROPOSITION

In 2018, the Group updated its approach to non-material motivation to restrain the outflow of employees and attract new talent. This included optimising working conditions, developing career and growth opportunities, and tailoring its social programmes.

Metinvest continuously studies the needs and opinions of its employees using personnel engagement surveys, which it has been conducting since 2012. These help the management to identify areas for improvement. Based on such findings, in 2018, Metinvest enhanced the social benefits package that it offers without substantially increasing the overall amount of social expenses incurred. The Group now provides individual benefits packages within which employees can choose

the various components that matter most to them, in line with global trends in non-monetary remuneration.

In addition, Metinvest changed the medical insurance package that it offers its staff, expanding the list of services they can receive at private health facilities and providing access to a greater choice of medicines.

Overall, the Group increased the CAPEX programme for workers' amenities four-fold to US\$7 million in the reporting period. This included capital investments into around 240 facilities, such as dining rooms, canteens, changing rooms, meeting rooms and other amenities.

Another initiative is focused on modernising the remaining health resorts and other recreational facilities that Metinvest maintains, and the Group is analysing feedback from employees to advance further in this area. Notably, the capacity utilisation of these amenities has reached around 90%, making more efficient use of these assets.

In 2018, Metinvest also introduced a new policy to support personnel rotation, which is aimed at enabling its people to grow and share their knowledge and expertise. It is expected that this experience will help in retention.

### STRIVING FOR BEST-IN-CLASS HR PRACTICES

To bolster Metinvest's safety initiatives, the HR function offers training in risk assessment and first-aid delivery in the workplace. In addition, as corporate citizens, the Group provides first-aid training to family members of its employees and students in the regions where it operates.

Metinvest is modernising and digitalising several business processes, which make the HR function more efficient and help to share data across the Group. During the reporting period, Metinvest Digital helped to introduce digitalised performance appraisal and goal-setting at the management company and two Mariupol steelmakers. Besides this, administrative processes for staff appointments and determining compensation and benefits were automated. The HR function expects this process to continue in line with the Group's overall digitalisation strategy.

In 2018, Metinvest created a shared HR service, which applies unified standards to provide services to employees of all its enterprises and improves the productivity of HR personnel. This initiative aims to significantly reduce the average amount of time that it takes to provide various HR services, including obtaining personal data, documents and advice related to personnel administration, compensation, benefits and organisational planning, in addition to offering

some cost savings. By the end of 2021, the HR function plans to have the shared service cover all the Group's Ukrainian assets.

Metinvest Group provides equal opportunities to all employees, regardless of gender, age and other social factors. Introducing robotic and automated technologies to production processes and reducing the physical burden on staff have made it possible for women to do jobs that were previously considered too physically demanding. For example, in the past, only men were hired to operate dump trucks because of the physical strength required to steer them. The modern heavy-duty vehicles that Metinvest is purchasing for its mining assets as part of the investment programme do not require such physical exertion to steer, which is helping the Group to eliminate the gender barrier in the field. The benefits of increasing the number of female professionals in the steel and mining industries are underestimated and Metinvest will work further to effect positive change in this area.

### CONTINUOUS LEARNING

Continuous learning is a core element of Metinvest's HR efforts. For all levels of workers, for example, the Group organises various training programmes depending on their position: using machines and simulations to teach new hires how to use equipment safely, and developing floor supervisors' managerial skills, among others. As a result of these efforts, a total of 90,278 professional training sessions and courses were delivered to the Group's employees in 2018, up 18% from 76,667 in 2017. More than 14,000 of these training sessions were conducted for managers, including such traditional programmes as 'Management DNA'. New offerings have also been introduced, such as 'Change management', 'Emotional leadership and stress management', 'Creating effective teams using the Adizes Methodology', 'Developing successors for general directors' and 'Public presentations – Leader's influence tools'.

Training for members of top management focuses on innovation and change management, which includes tailored coursework with top international experts on the topics. This approach to continuous learning provides senior managers with the opportunity to explore and find novel solutions for complex business goals.

### SECURING THE FUTURE

In order to meet the future demand for new employees, the HR function is also working to make Metinvest even more attractive to young people, including by implementing a cooperation programme with higher education institutions, in line with a long history of working closely with top institutions for the steel industry, engineering and business, both in Ukraine and internationally.

The Group collaborates with educational institutions of various levels in the cities where it operates. For younger children, it organises activity groups at summer camps to teach about metals and mining using games, as well as visits to its facilities. For those in grades 9-11, Metinvest offers support programmes aimed at helping students to identify their preferred educational institution, profession and position within the Group.

For those at university, Metinvest provides work placements, offering the most talented performers the opportunity of paid employment on graduation. In 2018, around 27% of the 3,269 students who completed internships at the Group's enterprises received jobs at Metinvest, compared with 16% of the 3,741 students in 2017.

Metinvest also initiates and assists the state in revising educational standards to meet modern production requirements. Since 2015, the educational standards for the 41 most popular professions have been revised, six of which were developed during 2017-18.

### OUTLOOK

The HR function aims to further improve the employee value proposition, as Metinvest believes that the better employees feel, the better they perform. As part of these efforts, the Group continues to review salaries in 2019 and is revising its approach to remuneration for each blue-collar profession.

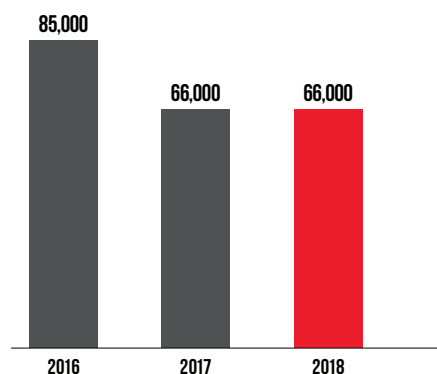
The plan is to equalise the salary levels of workers with the same level of qualification and experience within each profession. In cases where an employee currently receives less than the average salary designated for their profession, their base salary will be increased to the new average level. To further motivate working personnel throughout the year, monthly additions to the base salary will be introduced. The size of this incentive may reach up to 25% of monthly salary, depending on the results of the previous year's annual performance appraisal. This approach seeks to make the remuneration system for these professions more transparent and straightforward.

Retaining existing skilled employees and attracting young people to join Metinvest will remain vitally important to the Group. In addition to its remuneration efforts, Metinvest is rethinking its training and development approach to cover all employee levels, across the whole hierarchy, to solve most technical challenges using its own resources. Technical training and development will help the Group to implement its Technological Strategy 2030, as well as to optimise its operations, including by improving the productivity of maintenance and repair personnel.

Lastly, the Group will also implement a new motivation and incentive system to support its safety culture and will conduct new training sessions on risk assessment and first-aid delivery.

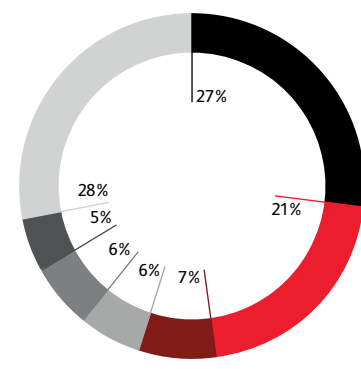
### Employee headcount

**66,000** EMPLOYEES  
0%



### Management trainings

**14,497** TRAININGS



2018

- Management DNA
- Welcome to Metinvest
- Public presentation
- Art of communication
- HR management
- Thinking outside the box
- Other

# SHARPENING FOCUS ON THE ULTIMATE GOAL

Metinvest is reviewing its safety practices to ensure that it is on track to achieve its ultimate goal of zero incidents among workers at its facilities. This includes improving near-miss reporting and integrating safety into engineering processes, as well as taking a more hands-on approach to contractors.

### SAFETY CULTURE

Metinvest's overriding priority is to safeguard all of those working in the business, with the ultimate goal of achieving zero incidents at its facilities. To ensure that it is on track in this regard, the Group is reviewing how it invests in modern equipment in this area and implements global best practices in management and training, as well as taking a more hands-on approach to working with contractors.

HSE policies, their implementation and performance are overseen at the highest level of Metinvest's corporate governance. The Supervisory Board has a dedicated Health, Safety and Environmental Committee that oversees systems in this area and ensures compliance with local regulations and, where possible, global standards. The CEO is informed within two hours of any fatal incident and within 24 hours of any lost-time incident. If an unsafe working condition is identified or an injury occurs, the Group's policy is to conduct a root-cause analysis to establish the reason and prevent any repeat in the future.

Metinvest has introduced a safety-first culture covering every type of activity at every facility, as part of its 'one workforce' approach encompassing employees and contractors. At the end of 2018, 10 of its key plants were certified as compliant with the OHSAS 18001 international occupational health and safety

standards. In September 2018, Metinvest Holding became the first business in Ukraine to certify its safety systems as compliant with the ISO 45001:2018 international occupational health and safety standard, which replaces the previous OHSAS 18001 certification. In addition, the Group is working on a new five-year HSE plan to improve the practices already in place, following the achievements of the previous programme approved in 2014, which has been fully implemented.

Based on leading international guidelines, Metinvest has instituted best practices with 15 corporate health and safety standards and constantly seeks to develop the relevant competencies of its people. It maintains a Group-wide training system for corporate standards, including instruction by former employees who have since retired and become internal trainers.

Metinvest has also set up a mandatory risk-assessment system covering all aspects of the business, from production processes to investment projects. Across the Group, it has introduced globally recognised standards, including hazard identification (HAZID), environmental impact identifier (ENVID) and hazard and operability studies (HAZOP), job safety and work safety analysis procedures, and lock-out, tag-out (LOTO) and permit-to-work methods<sup>1</sup>.

Metinvest also maintains an internal safety audit system. This includes regular inspections to evaluate the effectiveness of the safety management systems at each facility, making initial assessments and recommendations for improvement. Moreover, in order to highlight the importance of adherence to these guidelines, every year, each member of the Executive Committee visits at least two subsidiaries to check compliance with health and safety internal standards and regulations.

Each Group enterprise has a fully staffed health and safety department, which provides advice on relevant issues and ensures compliance with corporate standards and all applicable laws and regulations.

### RESULTS IN 2018

In line with international best practices, Metinvest tracks its progress in improving health and safety conditions using the lost-time injury frequency rate (LTIFR)<sup>2</sup> and fatality frequency rate (FFR)<sup>3</sup>, which are measured in terms of incidents per million man-hours worked. In 2018, the LTIFR decreased to 0.802. Unfortunately, the ramp-up of the CAPEX programme and related activities, coupled with a relatively high employee turnover and a contractor shortage, resulted in an increase in the FFR to 0.099.

To ensure that it is adequately addressing workplace safety, the Group is reviewing its practices to check that the systems in place are working as intended. It is focusing especially on improving near-miss reporting and integrating the relevant concerns into engineering processes to help prevent incidents.

Strategic initiatives in this area are aimed at: developing a system for assessing production risks; engaging personnel at all levels in HSE-related questions; improving safety standards for equipment, buildings and structures; and developing a safety management system for contractors.

In 2018, Metinvest developed eight modules of a software system for HSE corporate requirements. They cover registration and investigation of incidents, inspections, safety audits, risk assessments and fulfilment of management actions. The plan is to implement them at Group enterprises in 2019.

Every CAPEX project undergoes risk assessments at all design stages and during construction. As an initiative progresses, the focus changes to account for scope and nature of work. This enables the optimal technology for implementation to be selected, in terms of both production efficiency and compliance with modern requirements in this area.

For example, for the project to construct continuous casting machine no. 4 at Ilyich Steel, all design stages involved four risk assessments and 74 corrective measures were implemented. Virtually all of the risks related to key technology issues and HSE were mitigated. The assessments helped to gauge that the project would fulfil current and future environmental requirements, meet health and safety rules, and have sufficient means and measures in place to deal with any emergency situation.

In 2018, Metinvest increased its investments in enhancing operational safety, which reached around US\$95 million, up 17% year-on-year. The main item remained occupational health, accounting for 75% of the amount. At the same time, the Group doubled its spending on safety for buildings, facilities and transportation, which boosted their share of the total to 11%, up 6 percentage points year-on-year. Other areas included workplace safety (share of 6%), emergencies and fire safety (5%) and medical and other expenses (3%).

The management is committed to prioritising safety training and technology. In 2018, more than 6,000 employees received health and safety training according to corporate standards, while over 110,000 safety audits were conducted at Metinvest enterprises to identify areas bearing the greatest risk to its people.

During the reporting period, the Group completed 62 HAZID-based risk assessments at all Ukrainian assets, resulting in over 800 recommendations to reduce risks to an acceptable level. In addition, Metinvest began

conducting periodical HAZID reviews of previously identified risks to achieve its workplace safety targets. Overall, 31 HAZID chairpersons attended regular advanced training. Also in the year, four HAZOPs were carried out, 15 risk assessment chairpersons were trained in the method and 38 employees of enterprises were trained in creating and reading P&ID.

In 2018, the internal safety audit system conducted more than 100 audits, detecting over 1,100 non-conformities and developing more than 1,200 risk-mitigation actions.

#### HEALTHCARE DEVELOPMENT

Metinvest's healthcare development strategy is designed to improve employee health, provide effective first aid and prevent occupational incidents related to personal medical issues.

In the reporting period, the Group prioritised its efforts to prevent cardiovascular disease, which helped to reduce the rate of incidence to 3-4 per 100 employees. Metinvest's healthcare initiatives have also contributed to reducing the number of sudden deaths in the workplace significantly.

The Group also made other notable achievements in 2018, implementing projects to reduce the occurrence of frequent and long-term illnesses, improve training regarding pre-doctor care and prevent non-occupational injuries. Metinvest also revised its guidelines for providing first aid and emergency care, as well as introduced a standard for first aid kits across all enterprises.

#### OUTLOOK

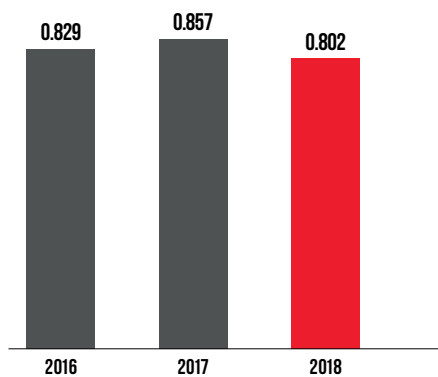
To address the shortcomings evidenced by the number of incidents in 2018, Metinvest is working to improve engagement in safety from the top levels of management through to the shop floor. The Group is taking a renewed look at its existing standards to increase their effectiveness and ensure strict adherence to them. It also intends to change its approach toward hiring contractors with the aim of engaging them for longer periods and thereby helping them to absorb Metinvest's HSE priorities.

Key efforts in this area in 2019 will include a critical risk management programme focused on working at height, energy isolation, structural integrity and contractor safety management. The Group will also launch several additional initiatives to foster meaningful change in its safety culture.

- 1 HAZID (Hazard Identification), ENVID (Environmental Hazard Identification) and HAZOP (Hazard and Operability Study) are procedures for assessing the safety and environmental effect of both new projects and existing processes. LOTO (lock out, tag out) is a safety procedure to ensure that potentially dangerous equipment has been shut down correctly to prevent hazardous releases during maintenance, repair or cleaning activities.
- 2 The lost-time injury frequency rate is the number of lost-time incidents per 1 million man-hours.
- 3 The fatality frequency rate is the number of job-related fatalities per 1 million man-hours.

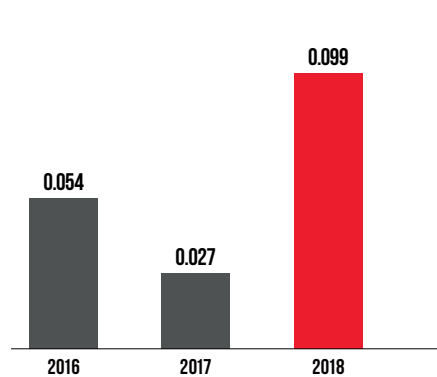
#### Lost-time injury frequency rate

0.802



#### Fatality frequency rate

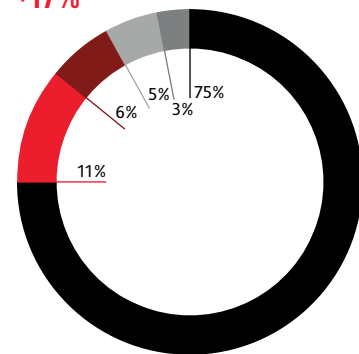
0.099



#### Spending on health and safety

US\$95M

+17%



2018

- Occupational health
- Safety of buildings, facilities and transportation
- Safety in the workplace
- Emergencies and fire safety
- Medical and other expenses

# ENHANCING SUSTAINABILITY

Metinvest has long recognised its symbiotic relationship with the environment and local communities: their wellbeing is a key contributor to the long-term sustainability of the business. In 2018, with a clear CAPEX pipeline and a proven local development model, the Group boosted its environmental and community spending, and continued to promote city development funds as the most effective form of social partnership.

### ENVIRONMENTAL EFFORTS REDOUBLED

As a significant number of Metinvest's operating facilities were commissioned in an era before there were any environmental standards, as they are understood today, the Group understands that it still has a significant amount of work ahead to improve its environmental footprint. To address this, it is pursuing a comprehensive asset modernisation programme with two interrelated aims: to mitigate the environmental impact of its operations and to ensure compliance with the most exacting requirements in the area where possible.

A central part of the Technological Strategy 2030, the programme involves upgrading all gas-cleaning, dust-trapping and wastewater processing equipment at major production units, including beneficiation and pelletising facilities, sinter plants, blast furnaces, basic oxygen furnaces and re-rolling mills. Metinvest is aiming to conduct most of the work in the next five to six years by harnessing the latest environmental expertise and technology in Europe and worldwide. Alongside this, in the communities where it operates in Ukraine, Europe and the US, the Group has committed to pursuing environmental improvement initiatives over the long term.

In 2018, Metinvest allocated some US\$263 million for environmental operating and capital expenditure, up 17% year-on-year and the highest level in four years. Importantly, environmental CAPEX reached US\$92 million, the most since 2011, as the Group follows the roadmap of projects outlined in its Technological Strategy 2030.

Several environmental projects were ongoing in 2018. By far the most significant of them is the reconstruction of the sinter plant at Ilyich Steel, for which Metinvest has earmarked spending of around US\$150 million. The work, which represents the largest environmental undertaking in the history of independent Ukraine, began in 2012 and is due to be completed in 2020. One particular milestone in the initiative came during the reporting period, when the Group launched the first phase of new gas-cleaning equipment in April.

A second major environmental project is the replacement of the gas-cleaning units on the Lurgi 552-B pelletising machine at Northern GOK to comply with air pollution limits and improve workplace conditions. Having installed four new filters over 2014-17, Metinvest finished adding the fifth and final one in December 2018, marking the effective completion of the work. Work was also undertaken to replace the gas cleaning units on pelletising machines at Central GOK.

Other environmental accomplishments at metallurgical assets in 2018 included: overhauling the gas-cleaning equipment of the secondary steel treatment facilities at Azovstal's basic oxygen furnace shop; commissioning a new gas-cleaning system on continuous casting machine no. 4 at Ilyich Steel; reconstructing the gas-cleaning equipment in the foundry at Mariupol Machining and Repair Plant; and completing extensive maintenance on the oven chambers at Avdiivka Coke and Zaporizhia Coke.

As at the end of the reporting period, the Group had 10 entities certified as compliant with the ISO 14001 environmental standard. Metinvest is undertaking steps to obtain certification for the remaining enterprises and expects to complete this process in the next few years.

### SOCIAL PARTNERSHIPS INCREASED

The Group recognises that being a prominent player in the global steelmaking industry involves a responsibility to demonstrate leadership as a corporate citizen in both Ukraine and all countries where it operates. To this end, it intends to focus on improving the environmental and social conditions in local communities by implementing initiatives that will have the maximum positive effect.

Throughout the 12 years of its existence, the Group has worked to develop the residential areas around its enterprises, including by modernising urban infrastructure, healthcare and educational facilities. To underpin such projects, it has engaged with international donors and introduced modern formats of partnership with local residents, small and medium-sized businesses and authorities. In times of acute need, such as emergency situations, it has also provided prompt and effective humanitarian support.

Metinvest views its social initiatives as strategic, long-term investments intended to ensure the sustainable development of the towns, cities and regions where it is present. One key reason for this is that its enterprises are often the main employer and economic anchor in their communities, which creates a close, symbiotic relationship.

In 2018, the Group spent around US\$13 million on community projects, up 53% year-on-year, working with stakeholders to target initiatives that will bring meaningful benefit to local residents and their families.

One key focus in the year was expanding the social partnership programme by increasing cooperation with city development funds that act as non-government urban development agencies. This approach to community work represents an important breakthrough, as it allows various strategic partners – such as the municipal administration, US Agency for



International Development, UNICEF, the European Bank of Reconstruction and Development and other prominent organisations – to engage jointly in funding larger, longer-term projects. Building on the success of the infrastructure modernisation and social support efforts with the Mariupol Development Fund, the Group strived to promote such funds as the most effective form of social partnership in Zaporizhia and Kryvyi Rih.

In 2018, Metinvest's continued cooperation with the Mariupol Development Fund saw the completion of 34 projects, including rehabilitating public spaces, building and modernising academic facilities, and providing modern new equipment for medical centres.

Together with the Joint Action Platform in Zaporizhia from September, the Group plans to improve municipal infrastructure, reform educational programmes, develop public institutions, sponsor cultural and sport events, and support healthcare initiatives. Metinvest also began a partnership with the Foundation of the Future agency in Kryvyi Rih in November, creating a fairly extensive list of potential initiatives.

In addition, the Group continued to develop other forms of cooperation with communities to engage residents in identifying the most useful social initiatives. Examples of longstanding community programmes that Metinvest devised are the 'We Improve the City' contest in Mariupol and 'We are the City' in Zaporizhia, which are held each year. In 2018, Metinvest sponsored and helped to implement 11 projects in Mariupol and 73 in Zaporizhia. In Kryvyi Rih, the new

'FestMetinvest' competition was also developed and launched, large-scale sporting and educational events were held; and another new programme for the 'ClassMetinvest' schools was implemented, supporting 29 projects in the city and the Shyrokiivsky district of Dnipropetrovsk Region in 2018.

In Avdiivka, the Group helped to renovate the infectious disease ward in the central municipal hospital, repair local schools and preschools, and purchase a municipal bus. In Novhorodske, a project aimed at providing the town with independent energy sources and an improved municipal heating system was completed, as a result of which some 200 apartments and six social facilities were connected to individual heating systems.

Another important aspect of Metinvest's community development drive is 'Green Centre'. Initially established to unite the Group and local residents in several Ukrainian cities in projects to landscape and remove waste from urban spaces, the initiative has since expanded into other areas of environmental and community development. In 2018, Metinvest held around 1,000 environmental events as part of the 'Green Centre' initiative in Mariupol and Kryvyi Rih, and expanded this campaign to Zaporizhia.

Alongside this, the Group continued to roll out an educational initiative called 'Green Plant' in Mariupol, which aims to raise environmental awareness through its centres using bespoke study material. Elsewhere, Metinvest piloted a project to organise the collection of separated waste at schools in the city.

## OUTLOOK

Having committed to environmental improvement measures over the long term, Metinvest will continue to prioritise work in this vital area in 2019, through the next decade and beyond. Environmental initiatives planned for the year include replacing the remaining cyclones in sintering and cooling zones of Ilyich Steel's sinter plant, as well as testing and commissioning the gas-cleaning unit on Northern GOK's Lurgi 552-B pelletising machine now that all filters have been replaced. The Group will also continue to renovate existing gas-cleaning systems and install new ones at its blast furnaces at the Mariupol steelmakers and with partners at the Zaporizhstal joint venture.

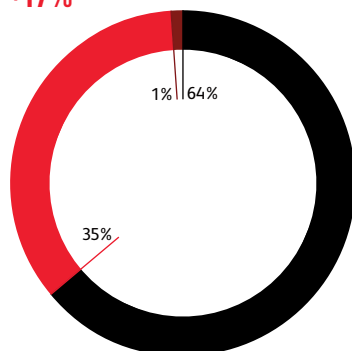
Metinvest has proven its community development model for strategic cooperation with communities, local authorities and non-governmental organisations via city development funds and will press ahead with its work in this area, bringing together all stakeholders to jointly implement larger projects in Mariupol, Zaporizhia and Kryvyi Rih. The Group will also continue other social partnership programmes to make a lasting positive impact in its communities.

In 2019, Metinvest plans to publish its regular Corporate Social Responsibility Report for 2017-18, prepared in accordance with the international Sustainability Reporting Guidelines of the Global Reporting Initiative and the principles of the UN Global Compact, as part of its general commitment to transparency and accountability to stakeholders.

### Spending on environment

US\$263M

+17%



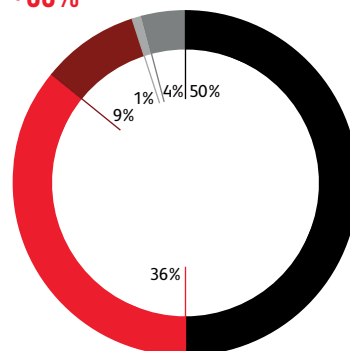
2018

- Operating expenses
- CAPEX
- Environmental measures

### Spending on communities

US\$13M

+53%



2018

- Social partnership programme
- Mariupol Development Fund
- Green Centre
- Development of children and youth football
- Benevolence

IN THIS SECTION:

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52 Supervisory Board

54 Executive Committee

# OVERSEEING

## MARKET FOCUS: SOUTHEAST ASIA

An opportunistic market for Metinvest's steel and iron ore sales, Southeast Asia accounted for 5% of the Metallurgical and 13% of the Mining segment revenues in 2018. While the region is further from the Group's assets, it has great potential, as it is expected to remain the key driver of global economic growth.

In the reporting period, overall sales to Southeast Asia amounted to US\$701 million, up 39% year-on-year, amid higher steel and iron ore prices, as well as spikes in demand for select steel goods. The highest-selling products in 2018 were flat goods and square billets, whose sales volumes both more than doubled year-on-year.

# EFFECTIVELY

## METALLURGICAL SALES IN 2018

**846KT**

In 2018, the Metallurgical segment doubled its sales in Southeast Asia year-on-year, as Metinvest capitalised on greater requirements for steel goods, mainly flat products in India, Thailand and Nepal, as well as square billets in Indonesia and Sri Lanka.

## MINING SALES IN 2018

**1,855KT**

Compared with 2017, the Mining segment decreased its iron ore shipments to China by 50% in the reporting period, as the Group primarily satisfied demand from its Ukrainian and European markets.

# ENSURING EFFECTIVE STEWARDSHIP

As a business with global operations, Metinvest seeks to observe international best practice in corporate governance, recognising that this contributes to transparency, accountability and value for all stakeholders.

### SYSTEM

Metinvest has established a corporate governance system designed to ensure effective stewardship and is committed to improving it continuously. By focusing on oversight, disclosure and engagement, the Group aims to serve the interests of all stakeholders and further strengthen its reputation in the global investor community.

While being a privately held business, Metinvest recognises the importance of adhering to the highest standards of corporate governance. As such, it strives to work towards implementing best practice in the area.

### SHAREHOLDERS

As of 31 December 2018, Metinvest B.V. is owned 71.24% by SCM and 23.76% by SMART. The remaining 5% interest in the form of Class C shares has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after the receipt of respective governmental approvals, if such will be necessary), and in such a manner that the ultimate interest of SCM in Metinvest B.V. shall be 75% minus 1 share, and the ultimate interest of SMART in Metinvest B.V. shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

### CORPORATE GOVERNANCE STRUCTURE

Metinvest B.V.'s corporate governance structure comprises the General Meeting of Shareholders, Supervisory Board and Management Board. On the Group level, the Executive Committee monitors operations.

### GOVERNANCE PRINCIPLES

Metinvest's vertically integrated structure lends itself to clear lines of governance. The Group conducts oversight based on a clear set of core principles that are aligned with its strategic approach. They are:

**Specialisation.** The Group focuses on the strategic management of mining and steel businesses and strives to excel in doing so. This increases efficiency while enhancing shareholder value and investment attractiveness.

**Vertical integration.** Metinvest controls all links of the metals and mining supply chain, from extracting coal and iron ore to selling steel products worldwide. This reduces its exposure to market volatility and thus provides greater stability.

**Unified strategic management.** The Group applies consistent strategic planning and management across all enterprises. This helps to maximise synergies among its businesses and enhances shareholder value.

**Centralisation.** Metinvest continues to streamline its centralised organisational structure and reduce layers of management. This helps to optimise management costs, unifies business processes and technology and enhances overall efficiency.

**Growth and investments.** The Group is constantly looking for opportunities that will reinforce the business and its position worldwide.

**Global best practices.** Metinvest studies best practices in international business, carefully selecting the most effective management, operational and IT approaches for its operations. This helps to maximise returns on investment and compete in the global marketplace.

**Tradition and innovation.** The Group maintains the best traditions in steelmaking and mining, while seeking to complement them with cutting-edge knowledge and technologies. This helps to improve product quality as much as possible.

**Commitment to leadership.** Metinvest aims for excellence and fosters leadership among its people. This stimulates long-term growth and maintains a pool of talented leaders.

**Personal commitment.** The Group promotes a corporate culture based on personal commitment to work. This makes employees responsible for their actions and care for others.

## GENERAL MEETING OF SHAREHOLDERS

Under Dutch law and the Articles of Association of Metinvest B.V., the General Meeting of Shareholders is authorised to resolve the following matters, among others: to issue shares; to exclude or limit pre-emptive rights; to acquire shares and to transfer shares in the capital of Metinvest B.V. held by Metinvest B.V.; to reduce the share capital; to determine the remuneration of the Management Board; to adopt the annual accounts; to allocate profits; to amend the Articles of Association; and to dissolve, merge or demerge Metinvest B.V.

## SUPERVISORY BOARD

**Members: 10 including:  
7 representing SCM (Class A members)  
3 representing SMART (Class B members)**

Decisions relating to the following matters, among others, must be approved or ratified by a resolution of the Supervisory Board: the Group's strategic goals; the Group's investment programme for each calendar year; the Group's annual business plan; appointments at the level of top management, approval of their compensation system and key performance indicators (KPIs), and decisions on

The Supervisory Board's duty is to supervise the activity of the Management Board and the general course of affairs in Metinvest B.V., the Group and the business connected therewith. The Supervisory Board assists the Management Board by giving advice. Four committees assist the Supervisory Board in its work. The Supervisory Board includes four independent members: Stewart Pettifor, Christiaan Norval, Johan Bastin and Natalia Izosimova.

annual bonuses; recommendations to the shareholders relating to the appointment or re-appointment of external auditors, approval of the Group's annual reports and financial statements, and all mergers and acquisitions to be undertaken by the Group; approval of investment projects with budgets over US\$20 million (up to US\$500 million), material transactions of over US\$100 million

(up to US\$500 million), external financing of over US\$30 million, if included in the annual financing programme approved by the Supervisory Board, and any financing transaction regardless of the amount if they are not included; and approval of the annual plan for the Supervisory Board and committees.

### STRATEGY AND INVESTMENTS COMMITTEE

Members: 8

The Committee's main responsibility is to conduct reviews and provide recommendations to the Supervisory Board regarding the Group's strategic objectives, including existing and new businesses, investments, mergers and acquisitions. It is assisted by the Technology Sub-committee, which advises and assists the executive management in developing and implementing the Technological Strategy.

### AUDIT AND FINANCE COMMITTEE

Members: 4

The Committee is tasked to ensure the ongoing supervision of all aspects of the Group's financial and audit activities in the interests of the shareholders and on behalf of the Supervisory Board. Its main responsibilities include overseeing the budget, financial reporting, risk management, internal controls, the internal audit function and assessment of the external auditor. It is assisted by the Internal Audit Directorate.

### HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

Members: 3

The Committee's remit is to support the Executive Committee in implementing and maintaining the highest standards of health, labour and environmental safety culture throughout the Group.

### APPOINTMENTS AND COMPENSATIONS COMMITTEE

Members: 3

The Committee is responsible for making recommendations to the Supervisory Board on dismissals and new appointments for senior positions within the Group; and on KPIs and annual bonuses for senior management, as well as on the Group's motivation, assessment and reward systems.

## MANAGEMENT BOARD

The Management Board consists of two Directors: Director A and the Chief Executive Officer (CEO), who is appointed by SCM, and Director B, who is appointed by SMART. Under Dutch law, the Management Board is responsible for the management of Metinvest B.V. Under the Articles of Association of Metinvest B.V., Metinvest B.V. may only be represented by the entire Management Board.

Director A and the CEO is Yuri Ryzhenkov, while Director B is ITPS, which is registered in the Netherlands.

## EXECUTIVE COMMITTEE

The Executive Committee is responsible for overseeing the day-to-day activities of Metinvest, as well as for implementing the strategic decisions of the Supervisory Board and its committees.

## SUPERVISORY BOARD

Metinvest's Supervisory Board comprises seasoned professionals in industry, business and management whose expertise and oversight help the Group in its drive to uphold the highest standards of international best practice throughout its activities.



**Oleg Popov**

**Chairman and Class A Member of the Supervisory Board**

Oleg Popov was appointed as a Class A Member of the Supervisory Board on 14 July 2014 and became Chairman on 11 August 2018. He is a member of the Strategy and Investments Committee and the Appointments and Compensation Committee. He has been the CEO of System Capital Management since 2006 and is also the Chairman of the supervisory boards of DTEK Energy, DTEK Oil and Gas, DTEK Renewables and FUIB. He served as Chief Operating Officer of System Capital Management from 2001 to 2006. Before that, he worked at various state establishments and enterprises for eight years.

Oleg graduated from Donetsk Polytechnic Institute in 1990 and from Donetsk State University (Ukraine) in 1996.



**Alexey Pertin**

**Deputy Chairman and Class B Member of the Supervisory Board**

Alexey Pertin was appointed as a Class B Member of the Supervisory Board on 14 July 2014. He is responsible for the following areas: strategic development, production efficiency, sales and management of investment projects. He is also Chairman of the Strategy and Investments Committee and a member of the Appointments and Compensation Committee. Since October 2015, he has been Chief Operating Officer of Smart Holding. Before that, he was the Chairman of the Supervisory Board of Smart Holding from 2014 to 2015 and served as its CEO from 2008 to 2014. His career started in 1995 at Cherepovets Iron and Steel Works. He later continued working at Severstal Group in different positions, including General Director of Izhora Pipe Plant and Deputy General Director of the Group.

Alexey graduated from Cherepovets State University in 1994 and from St Petersburg State Technical University with a qualification in financial management in 2001. He has an MBA from Northumbria University (UK) and is a member of the Association of Chartered Certified Accountants (ACCA).



**Stewart Pettifor**

**Class A Member of the Supervisory Board**

Stewart Pettifor was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He is also Chairman of the Health, Safety and Environmental Committee and a member of the Strategy and Investments Committee. He began his career in the UK steel industry in 1963 and progressed through a variety of operational management positions. In 1997, he was appointed as CEO and President of Avesta Sheffield, a Swedish stainless steel company based in Stockholm. In 2000, following its merger with Outokumpu, he became Deputy CEO of Avesta Polarit. In 2001, he returned to the UK to run the flat products business of Corus and also joined the board. He became the Chief Operating Officer in 2003 until his retirement in 2005.

Stewart has a first-class BSc honours degree in Metallurgy from Nottingham University (UK). He is a Fellow of the Institute of Mining, Metallurgy and Minerals and a Companion of the Institute of Management.



**Natalia Izosimova**

**Class A Member of the Supervisory Board**

Natalia Izosimova was appointed as a Class A Member of the Supervisory Board on 1 August 2018. She is also the Chairman of the Appointments and Compensation Committee and a member of the Health, Safety and Environmental Committee. She currently sits on the boards of several major companies and acts as a consultant to top business executives. From 2007 to 2013, she headed the Foundation for Effective Governance, a charity founded by Rinat Akhmetov, and was a member of the supervisory boards of numerous SCM group companies. After beginning her career at McKinsey in 1994, she moved to SCM in 2005, working as a Director of Human Resources and then Corporate Transformation.

Natalia holds a master's degree from Moscow Pedagogical University, where she specialised in English and German.



### Damir Akhmetov

#### Class A Member of the Supervisory Board

Damir Akhmetov was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees the following areas: strategy, corporate development, governance and production efficiency. He is also Chairman at SCM Advisors (UK) Limited and has been a member of the supervisory boards of several companies in DTEK Group since 2011.

Damir graduated from Cass Business School (City, University of London, UK) with an MSc in Finance.



### Christiaan Norval

#### Class A Member of the Supervisory Board

Christiaan Norval was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees issues connected with his industrial expertise, the implementation of best practices in management and production, and international affairs. He is Chairman of the Audit and Finance Committee and a member of the Strategy and Investments Committee. Christiaan spent a significant part of his career building what is today known as BHP Billiton as head of corporate finance. He oversaw most of the transactions to create BHP Billiton, including the IPO of Billiton Plc in 1997. He also served as CEO and President of Sual International Group, a producer of aluminium and alumina.

Christiaan holds a BCom (Hons) from the Rand Afrikaans University, Johannesburg (South Africa), and is a Chartered Accountant. He is a member of the South African Institute of Chartered Accountants, as well as the Institute of Chartered Accountants in England and Wales.



### Yaroslav Simonov

#### Class A Member of the Supervisory Board

Yaroslav Simonov was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees legal matters, compliance and corporate governance. He is also a member of the Audit and Finance Committee. He previously worked at The Silecky Firm (affiliated with Squire Sanders and Dempsey) and Renaissance Capital Ukraine. From 2008 to 2017, he was Deputy Director of Voropaev and Partners Law Firm. In August 2017, he was appointed Director, Legal Affairs at System Capital Management (SCM).

Yaroslav graduated from the Law department of Kyiv National Taras Shevchenko University (Ukraine) and holds an LLM in International Business Law from the Central European University in Budapest (Hungary).



### Johan Bastin

#### Class A Member of the Supervisory Board

Johan Bastin was appointed as a Class A Member of the Supervisory Board on 1 August 2018. He oversees investor relations and investment strategy and is a member of the Audit and Finance Committee and the Strategy and Investments Committee. He is also Managing Partner at Iveaghhouse Capital Investment Advisors and a supervisory board member at several DTEK entities, as well as at Private Infrastructure Development Group. Previous positions include CEO of CapAsia, Managing Director at Darby Private Equity (a Franklin Templeton Investments subsidiary) and several senior roles with the European Bank for Reconstruction and Development (EBRD) in London (UK).

Johan holds a master's in Urban Planning from Eindhoven University of Technology (the Netherlands) and a PhD in Regional Planning from Université de Montréal (Canada), and attended McGill University's MBA programme in Montreal (Canada).



### Gregory Mason

#### Class B Member of the Supervisory Board

Gregory Mason was appointed as a Class B Member of the Supervisory Board on 14 July 2014. He contributes his expertise in strategic and operations management, technological innovation and the implementation of continuous improvement practices. He is also a member of the Strategy and Investments Committee and the Health, Safety and Environmental Committee. He was a member of the Board of Directors of Severstal and the Supervisory Board of Smart Holding. He previously served as CEO of Severstal International, managing North American and European operations. Prior to Severstal, he held various positions in steel companies and consulting firms, from engineering and operations management to senior executive roles.

Gregory is a registered professional engineer in the US. He received his master's degree in Electrical Engineering from the Naval University of St Petersburg (Russia) in 1975.



### Mikhail Novinskii

#### Class B Member of the Supervisory Board

Mikhail Novinskii was appointed as a Class B Member of the Supervisory Board on 29 September 2017. He is also a member of the Strategy and Investments Committee and the Audit and Finance Committee. He has been Adviser to the CEO of Smart Holding since October 2015. He joined the organisation as Head of Production Projects and Programmes in the Business Control and Information Department at Smart Holding in 2013. He then progressed to other positions, including Head of Project Management and Member of the Supervisory Board.

Mikhail graduated from St Petersburg State University (Russia) with a degree in Business Management in 2008. He also holds an MSc in Finance and Management from the University of St Andrews (UK).

## EXECUTIVE COMMITTEE

Metinvest's Executive Committee comprises professionals of the highest calibre with the right combination of skills and expertise to guide the business on a prudent course.



### **Yuriy Ryzhenkov**

#### **Chief Executive Officer, Director A of the Management Board**

Yuriy Ryzhenkov was appointed Chief Executive Officer in December 2013. Before that, he held senior positions at DTEK (also part of SCM): namely, Chief Operating Officer and Director from 2010 and Chief Financial Officer from 2007. Prior to DTEK, he worked as Chief Financial Officer of International Steel and Tube Industries Limited (ISTIL, Donetsk and London), in the finance business units of Mini Steel Mill ISTIL (Ukraine) and at Donetsk Iron and Steel Works.

Yuriy has degrees in Economics from Donetsk State Technical University and in Business Management from King's College (UK). He also holds an MBA from London Business School (UK).



### **Alexander Pogozev**

#### **Chief Operations Officer**

Alexander Pogozev has been Chief Operations Officer since September 2016, when a new, single directorate was established to streamline the Group's production activities. Prior to that, he had been Director of the Metallurgical division since October 2011 and interim Director of the Mining division since March 2016. Previously, he was the Director of the Steel and Rolled Products division from October 2010. He has extensive professional experience at large enterprises in the metals industry. He served as Chief Operations Director of Severstal International (US) from 2008 to 2010 and worked at Severstal from 1991 to 2008, where he held several executive positions, including Chief Operating Officer.

Alexander holds a degree in Financial Management from the Moscow State Academy of Management (Russia) and an MBA from the Business School of Northumbria University (UK).



### **Alexey Gromakov**

#### **Logistics and Procurement Director**

Alexey Gromakov has been Logistics and Procurement Director since April 2018. Prior to that, he served as Director for Corporate Strategy and Regional Development at Beeline from 2015 to 2018. From 2009 to 2015, he was Director of Purchasing and Logistics at Aeroflot.

Alexey is a graduate of the State University of Management (Russia) and holds a degree in Project Management from George Washington University (US). He also has an MBA from Kingston University (UK) and a diploma in Strategy and Innovation from Oxford University's Saïd Business School (UK).



### **Andriy Yemchenko**

#### **Chief Technology Officer**

Andriy Yemchenko has been Chief Technology Officer since March 2018. Before joining the Group, he worked at Donetssteel, including as Deputy CEO for Strategic Development from 2007 to 2018 and as Director for Corporate Planning from 2004 to 2007. He worked at Consortium Energo in the role of Deputy CEO from 1993 to 2004.

Andriy holds both a diploma and a PhD in Metal Treatment Under Pressure from Donetsk Polytechnic University (Ukraine).





### Olga Ovchinnikova

#### Economics and Business System Director

Olga Ovchinnikova has been Economics and Business System Director since April 2018. Prior to that, she served as Logistics and Procurement Director from 2014 and Logistics Director since February 2013, having been Logistics Director of the Supply Chain Management directorate from 2012 to 2013. Before joining the Group, from 2006 to 2012, she headed the logistics department of Severstal Resource, the raw materials division of the Russian steelmaker. From 2002 to 2006, she headed the operations department at Alyanstransoil, part of Alliance Oil.

Olga has master's degrees in Economics and Transportation Management from Moscow State University of Railway Engineering (Russia) and in Logistics and Supply Chain Management from the Higher School of Economics in Moscow (Russia).



### Dmitry Nikolayenko

#### Sales Director

Dmitry Nikolayenko became Sales Director in October 2011, having previously headed the same function in the Steel and Rolled Products division since 2010. Before that, he was a Director at Metinvest-SMC, a sales unit, from 2007 to 2010, SM Leman, its predecessor, from 2003 to 2007, and Energostal from 1996 to 2003.

Dmitry holds a degree in Economics from the Kyiv-Mohyla Academy and an MBA from the International Management Institute (Kyiv, Ukraine).



### Yuliya Dankova

#### Chief Financial Officer

Yuliya Dankova became Chief Financial Officer in July 2016, having been the interim Chief Financial Officer since March of the year. Before that, she was the Director of the Control department in the Finance directorate from 2015, and the Financial Control Director of the Mining division from 2010. From 2006 to 2010, Yuliya headed the Finance department at the Group's iron ore mining and enrichment assets in Kryvyi Rih. From 2001 to 2003, she worked in the Bank Card department in the Kyiv branch of UkrSibbank, and from 2000 to 2001, she was an Economist in the Sales and External Economic Relations department at Southern GOK.

Yuliya holds an MBA from the LINK International Institute of Management (Russia) and a diploma with honours in Foreign Trade Management from Kryvyi Rih Technical University (Ukraine).



### Svetlana Romanova

#### Chief Legal Officer

Svetlana Romanova joined Metinvest in 2012. Before that, she was a Partner in the Kyiv office of Baker and McKenzie CIS Limited, the global law firm's regional business, from 2008 to 2012, having previously served as a lawyer there from 2000. Svetlana also covered CIS issues at Cargill in the US from 1998 to 2000.

Svetlana has a master's degree in International Law and Translation (English) from the Kyiv Taras Shevchenko National University (Ukraine), as well as an LLM in International and Comparative Law from the University of Iowa's College of Law (US). She has also completed coursework in International Management at the University of St Thomas Graduate School of Business (St Paul, Minnesota, US).



### Aleksey Komlyk

#### PR and Regional Development Director

Aleksey Komlyk has been PR and Regional Development Director of Metinvest since November 2013. Before that, from 2011 to 2013, he served as Managing PR Director at AFK Sistema (Russia). From 2008 to 2011, he was Managing Partner at Mosso Communication Agency (Austria). He previously worked at Uralkali (Russia), serving as Vice President of PR from 2006 to 2008 and as Head of the Media Relations Office from 2003 to 2006.

Aleksey holds an executive MBA from the Institute for Management Development (Lausanne, Switzerland) and a degree in English and German from Irkutsk State Pedagogical University (Russia). He is a member of the Russian PR Association.



### Sergiy Detyuk

#### Chief Information Officer

Sergiy Detyuk was appointed as Chief Information Officer in March 2016. Before that, he worked at DTEK as Chief Information Officer from 2009 to 2016 and Deputy Finance Director for IT from 2007 to 2009. Prior to DTEK, he headed the Information Technology department at Dniprospeetsstal from 2006 to 2007 and at ISTIL from 2004 to 2006. From 2000 to 2004, he was Deputy Manager of a project to create a corporate information system at Ukrpidshypryk.

Sergiy has completed a corporate MBA programme at the London School of Business (UK, Ukraine) and has an MBA from Kyiv-Mohyla Business School (Ukraine). He also holds a master's in Computer Programming and a diploma in Financial Economics, both from Donetsk State Technical University (Ukraine).

## Financial Statements

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# REPORTING

## MARKET FOCUS: CIS

As a regional neighbour, the Commonwealth of Independent States (CIS) is a longstanding market for Metinvest, generating 8% of the Metallurgical segment revenues in 2018.

Group sales to the CIS totalled US\$758 million in the reporting period, down 2% year-on-year. The primary reason for this was a decline in sales of finished goods.

# TRANSPARENTLY

## METALLURGICAL SALES IN 2018

1,119KT

In 2018, the Metallurgical segment reduced its shipments to the CIS region by 8% year-on-year. At the same time, flat products accounted for 77% of the sales mix to this market, up 5 percentage points year-on-year.

**METINVEST B.V.**  
**SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2018**

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## INDEPENDENT AUDITOR'S REPORT

To: the management board of Metinvest B.V.

### REPORT ON THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS 2018

#### OUR OPINION

In our opinion the accompanying summary IFRS consolidated financial statements 2018 of Metinvest B.V. ('the Company') are consistent in all material respects with the audited statutory financial statements, in accordance with the basis described in Note 1.

#### THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS

The Company's summary IFRS consolidated financial statements, derived from the audited statutory financial statements for the year ended 31 December 2018, comprise:

- the summary consolidated balance sheet as at 31 December 2018;
- the summary consolidated income statement for the year then ended;
- the summary consolidated statement of comprehensive income for the year then ended;
- the summary consolidated statement of changes in equity for the year then ended;
- the summary consolidated statement of cash flows for the year then ended; and
- the related notes to the summary IFRS consolidated financial statements.

The summary IFRS consolidated financial statements do not contain all of the disclosures required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary IFRS consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited statutory financial statements of Metinvest B.V. and the auditor's report thereon.

The audited statutory financial statements and the summary IFRS consolidated financial statements do not reflect the events that occurred subsequent to the date of our report on the audited statutory financial statements.

#### THE AUDITED STATUTORY FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

We expressed an unmodified audit opinion on the audited statutory financial statements in our report dated 20 February 2019. The report also includes:

- The communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the statutory financial statements of the current period.

#### RESPONSIBILITIES OF MANAGEMENT FOR THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the summary IFRS consolidated financial statements in accordance with the basis described in Note 1.

#### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary IFRS consolidated financial statements are consistent, in all material respects, with the audited statutory financial statements based on our procedures, which we conducted in accordance with Dutch Law, including the Dutch Standard 810 'Engagements to report on summary financial statements'.

Amsterdam, 20 February 2019  
PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.G.J. Gerritsen RA

Metinvest B.V. – FS76EEHFHYEW-1459853321-39

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## SUMMARY CONSOLIDATED BALANCE SHEET

### ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	31 December 2018	31 December 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	9	594	603
Other intangible assets	10	119	120
Property, plant and equipment	11	4,490	4,132
Investments in associates and joint ventures	12	1,066	1,085
Deferred tax asset	28	80	109
Income tax prepaid		–	8
Trade and other receivables	14	405	181
<b>Total non-current assets</b>		<b>6,754</b>	<b>6,238</b>
<b>Current assets</b>			
Inventories	13	1,347	1,235
Income tax prepaid		7	9
Trade and other receivables	14	2,790	2,342
Cash and cash equivalents	15	280	259
<b>Total current assets</b>		<b>4,424</b>	<b>3,845</b>
<b>TOTAL ASSETS</b>		<b>11,178</b>	<b>10,083</b>
<b>EQUITY</b>			
Share capital	16	0	0
Share premium	16	6,225	6,225
Other reserves	17	(9,144)	(8,934)
Retained earnings		8,264	6,894
<b>Equity attributable to the owners of the Company</b>		<b>5,345</b>	<b>4,185</b>
<b>Non-controlling interest</b>	18	58	123
<b>TOTAL EQUITY</b>		<b>5,403</b>	<b>4,308</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	19	2,194	2,739
Retirement benefit obligations	21	411	369
Deferred tax liability	28	240	300
Other non-current liabilities	22	196	80
<b>Total non-current liabilities</b>		<b>3,041</b>	<b>3,488</b>
<b>Current liabilities</b>			
Loans and borrowings	19	489	271
Deferred consideration and seller's notes	20	60	7
Income tax payable		59	78
Trade and other payables	23	2,126	1,931
<b>Total current liabilities</b>		<b>2,734</b>	<b>2,287</b>
<b>TOTAL LIABILITIES</b>		<b>5,775</b>	<b>5,775</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>11,178</b>	<b>10,083</b>

Signed and authorised for release on behalf of Metinvest B.V. on 20 February 2019:

Originally signed by Managing Director A, Yuriy Ryzhenkov.

Originally signed by Managing Director B, ITPS (the Netherlands) B.V.

The accompanying notes form an integral part of these summary consolidated financial statements.

## SUMMARY CONSOLIDATED INCOME STATEMENT

### ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	7	11,880	8,931
Cost of sales	24	(9,093)	(6,756)
<b>Gross profit</b>		<b>2,787</b>	<b>2,175</b>
Distribution costs	24	(885)	(721)
General and administrative expenses	24	(226)	(193)
Other operating income/(expenses), net	25	(120)	39
<b>Operating profit</b>		<b>1,556</b>	<b>1,300</b>
Results of the loss of control over the assets located on temporarily non-controlled territory	8	–	(329)
Finance income	26	68	29
Finance costs	27	(334)	(350)
Share of result of associates and joint ventures	12	173	191
<b>Profit before income tax</b>		<b>1,463</b>	<b>841</b>
Income tax expense	28	(275)	(224)
<b>Profit for the year</b>		<b>1,188</b>	<b>617</b>
<b>Profit is attributable to:</b>			
Owners of the Company		1,145	603
Non-controlling interests		43	14
<b>Profit for the year</b>		<b>1,188</b>	<b>617</b>

The accompanying notes form an integral part of these summary consolidated financial statements.

## SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2018	Year ended 31 December 2017
<b>Profit for the year</b>		<b>1,188</b>	<b>617</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of retirement benefit obligation	21	(11)	(102)
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	11	(5)	(228)
Share in other comprehensive income/(loss) of joint ventures and associates		25	39
Income tax related to items that will not be reclassified subsequently to profit or loss		1	56
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		30	(82)
<b>Total other comprehensive income/(loss)</b>		<b>40</b>	<b>(317)</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>1,228</b>	<b>300</b>
<b>Total comprehensive income/(loss) attributable to:</b>			
Owners of the Company		1,185	295
Non-controlling interests		43	5
<b>Total comprehensive income/(loss) for the period</b>		<b>1,228</b>	<b>300</b>

The accompanying notes form an integral part of these summary consolidated financial statements.



## SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

### ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2018	Year ended 31 December 2017
<b>Cash flows from operating activities</b>			
Profit before income tax		1,463	841
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortisation of intangible assets	24	550	525
Impairment of property, plant and equipment and intangible assets	8, 24	5	284
Impairment of associates and joint ventures	12	–	7
Gain on disposal of property, plant and equipment and intangible assets	25	(10)	(7)
Finance income	26	(68)	(29)
Finance costs	27	334	350
Foreign exchange losses less gains/(gains less losses), net	25	70	(66)
Net change in retirement benefit obligations, except for interest costs, remeasurements and currency translation	21	(17)	(90)
Impairment of trade and other accounts receivable	25	73	7
Share of result of associates and joint ventures	12	(173)	(191)
Write-down/(Reversal of write-down) of inventories, net	13	9	96
Write-off of trade and other payables	25	(33)	–
Other non-cash operating income, net		3	7
<b>Operating cash flows before working capital changes</b>		<b>2,206</b>	<b>1,734</b>
Increase in inventories		(130)	(358)
Increase in trade and other accounts receivable		(547)	(830)
Increase in trade and other accounts payable		177	338
<b>Cash generated from operations</b>		<b>1,706</b>	<b>884</b>
Income taxes received/(paid)		(315)	(154)
Interest paid		(288)	(135)
<b>Net cash from operating activities</b>		<b>1,103</b>	<b>595</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(770)	(465)
Proceeds from sale of property, plant and equipment		–	1
Acquisition of associates		(30)	–
Loans issued	14	(46)	–
Interest received		18	15
Dividends received		418	–
Other payments		(20)	–
<b>Net cash used in investing activities</b>		<b>(430)</b>	<b>(449)</b>
<b>Cash flows from financing activities</b>			
Repayment of seller's notes and deferred consideration	19	(137)	(85)
Payments for loans commission		(79)	(36)
Proceeds from loans and borrowings	19	1,460	6
Repayment of loans and borrowings	19	(1,838)	(90)
Net trade financing proceeds/(repayment)	19	79	117
Acquisition of non-controlling interest		(50)	(1)
Dividends paid	29	(58)	–
Other finance costs		(20)	(21)
<b>Net cash used in financing activities</b>		<b>(643)</b>	<b>(110)</b>
Effect of exchange rate changes on cash and cash equivalents		(9)	(3)
<b>Net increase in cash and cash equivalents</b>		<b>21</b>	<b>33</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>259</b>	<b>226</b>
<b>Cash and cash equivalents at the end of the year</b>	15	<b>280</b>	<b>259</b>

The accompanying notes form an integral part of these summary consolidated financial statements.

## SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Attributable to owners of the Company				Total	Non-controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings			
<b>Balance at 1 January 2017</b>	<b>0</b>	<b>6,225</b>	<b>(8,442)</b>	<b>6,107</b>	<b>3,890</b>	<b>138</b>	<b>4,028</b>
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	–	–	(217)	–	(217)	(11)	(228)
Share in other comprehensive income of joint venture and associates (Note 12)	–	–	56	(17)	39	–	39
Remeasurement of retirement benefit obligation (Note 21)	–	–	–	(99)	(99)	(3)	(102)
Income tax relating to components of other comprehensive income (Note 28)	–	–	36	17	53	3	56
Currency translation differences	–	–	(84)	–	(84)	2	(82)
<b>Other comprehensive loss for the period</b>	<b>–</b>	<b>–</b>	<b>(209)</b>	<b>(99)</b>	<b>(308)</b>	<b>(9)</b>	<b>(317)</b>
Profit for the period	–	–	–	603	603	14	617
<b>Total comprehensive income/(loss) for the period</b>	<b>–</b>	<b>–</b>	<b>(209)</b>	<b>504</b>	<b>295</b>	<b>5</b>	<b>300</b>
Realised revaluation reserve, net of tax	–	–	(283)	283	–	–	–
Dividends declared by non-wholly-owned subsidiaries	–	–	–	–	–	(20)	(20)
<b>Balance at 31 December 2017</b>	<b>0</b>	<b>6,225</b>	<b>(8,934)</b>	<b>6,894</b>	<b>4,185</b>	<b>123</b>	<b>4,308</b>
Change in accounting policy (Note 5)	–	–	–	(75)	(75)	–	(75)
<b>Adjusted total equity at the beginning of the financial year</b>	<b>0</b>	<b>6,225</b>	<b>(8,934)</b>	<b>6,819</b>	<b>4,110</b>	<b>123</b>	<b>4,233</b>
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	–	–	(5)	–	(5)	–	(5)
Share in other comprehensive income of joint venture and associates (Note 12)	–	–	25	–	25	–	25
Remeasurement of retirement benefit obligation (Note 21)	–	–	–	(11)	(11)	–	(11)
Income tax relating to components of other comprehensive income (Note 28)	–	–	1	–	1	–	1
Currency translation differences	–	–	30	–	30	–	30
<b>Other comprehensive income/(loss) for the period</b>	<b>–</b>	<b>–</b>	<b>51</b>	<b>(11)</b>	<b>40</b>	<b>–</b>	<b>40</b>
Profit for the period	–	–	–	1,145	1,145	43	1,188
<b>Total comprehensive income/(loss) for the period</b>	<b>–</b>	<b>–</b>	<b>51</b>	<b>1,134</b>	<b>1,185</b>	<b>43</b>	<b>1,228</b>
Acquisition of non-controlling interest in subsidiaries	–	–	–	50	50	(106)	(56)
Realised revaluation reserve, net of tax	–	–	(261)	261	–	–	–
Dividends declared by non-wholly-owned subsidiaries	–	–	–	–	–	(2)	(2)
<b>Balance at 31 December 2018</b>	<b>0</b>	<b>6,225</b>	<b>(9,144)</b>	<b>8,264</b>	<b>5,345</b>	<b>58</b>	<b>5,403</b>

The accompanying notes form an integral part of these summary consolidated financial statements.

## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018

### 1 METINVEST B.V. AND ITS OPERATIONS

Metinvest B.V. (the 'Company' or 'Metinvest'), is a private limited liability company registered in the Netherlands, The Company is beneficially owned by Mr Rinat Akhmetov, through various entities commonly referred to as System Capital Management ('SCM'), and Mr Vadim Novinsky, through various entities commonly referred to as 'SMART' or 'Smart Group'.

The Company and its subsidiaries (together referred to as the 'Group' or 'Metinvest Group') are an integrated steel producer, owning assets in each link of the production chain – from iron ore mining, coking coal mining and coke production, through to semi-finished and finished steel production. The steel products, iron ore and coke and coal are sold on both the Ukrainian and export markets.

As of 31 December 2018 and throughout the periods presented in these consolidated financial statements, Metinvest B.V. is owned 71.24% by SCM Limited (Cyprus) and 23.76% by companies of the Smart Group. The remaining 5% interest in the Company in the form of Class C shares has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after receipt of respective governmental approvals, if such will be necessary), and in such manner that the ultimate interest of SCM in the Company shall be 75% minus 1 share, and the ultimate interest of SMART in the Company shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

The principal subsidiaries of Metinvest B.V. are presented below:

Name	Effective % interest as at 31 December		Segment	Country of incorporation
	2018	2017		
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
Metinvest Management B.V.	100.0%	100.0%	Corporate	The Netherlands
PrJSC Azovstal Iron and Steel Works	100.0%	96.7%	Metallurgical	Ukraine
PrJSC Yenakieve Iron and Steel Works	92.2%	92.2%	Metallurgical	Ukraine
JV Metalen LLC	100.0%	100.0%	Metallurgical	Ukraine
PrJSC Khartsyzsk Pipe Plant	98.5%	98.5%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	100.0%	70.0%	Metallurgical	Italy
Metinvest Trametel S.p.A.	100.0%	100.0%	Metallurgical	Italy
Spartan UK Limited	100.0%	100.0%	Metallurgical	UK
Metinvest International SA	100.0%	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	100.0%	100.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	100.0%	100.0%	Metallurgical	Ukraine
JSC Promet Steel	100.0%	100.0%	Metallurgical	Bulgaria
PrJSC Makiivka Iron and Steel Works	90.2%	90.2%	Metallurgical	Ukraine
PrJSC Ilyich Iron and Steel Works	100.0%	99.3%	Metallurgical	Ukraine
PrJSC Avdiivka Coke Plant	100.0%	94.7%	Metallurgical	Ukraine
PrJSC Zaporozhcoke	56.9%	52.4%	Metallurgical	Ukraine
PrJSC Donetskoce	93.8%	93.8%	Metallurgical	Ukraine
PrJSC Northern Iron Ore Enrichment Works	96.8%	96.4%	Mining	Ukraine
PrJSC Central Iron Ore Enrichment Works	100.0%	99.8%	Mining	Ukraine
PrJSC Ingulets Iron Ore Enrichment Works	100.0%	99.8%	Mining	Ukraine
PrJSC Komsomolske Flux Plant	99.7%	99.7%	Mining	Ukraine
United Coal Company LLC ('UCC')	100.0%	100.0%	Mining	US
PrJSC Krasnodon Coal Company	99.9%	94.7%	Mining	Ukraine

As at 31 December 2018, the Group employed approximately 66 thousand people (31 December 2017: 66 thousand).

The Company's registered address is Nassaulaan 2A, 2514 JS, The Hague. The Company is registered with the commercial trade register under the number 24321697. The principal places of production facilities of the Group are in Ukraine, Italy, UK and the US.

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Supervisory Board on 19 February 2019.

For better understanding of Metinvest's financial position and the results of operations, these summary IFRS consolidated financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2018, which include all disclosures required by International Financial Reporting Standards as adopted by European Union and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code.

### 2 OPERATING ENVIRONMENT OF THE GROUP

Since 2016 the Ukrainian economy has demonstrated recovery amid overall macroeconomics stabilisation supported by structural reforms, a rise in domestic investment, revival in household consumption, increase in industrial production, construction activity and improved environment on external markets. GDP continued to grow at 3.3% (as compared to 2.1% growth in 2017).

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## 2 OPERATING ENVIRONMENT OF THE GROUP CONTINUED

In addition there was further progress in monetary policy. The National Bank of Ukraine ('NBU') conducts interest rate policy consistent with inflation targets and keeps the hryvnia floating. The inflation rate in Ukraine slowed to 9.8% in 2018 (as compared to 13.7% in 2017). As of the date of this report the official NBU exchange rate of Hryvnia against US dollar was UAH27.17 per US\$1, compared to UAH27.69 per US\$1 as at 31 December 2018 and UAH28.07 per US\$1 as at 31 December 2017.

Starting from 2016, the NBU has made certain steps to ease the currency control restrictions introduced in 2014-2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased from 75% to 50% starting from 5 April 2017 and to 30% starting from 1 March 2019. Additionally, the settlement period for export-import transactions in foreign currency was steadily increased from 90 to 180 days starting from 26 May 2017. Also starting from 3 March 2018, the NBU increased the amount of the dividends payments allowed to Ukrainian companies to non-residents to US\$7 million per month. This restriction has been eased to EUR7 million since 7 February 2019. As of 31 December 2018, the amount of undistributed retained earnings of the Group's Ukrainian subsidiaries was approximately US\$2,811 million.

In December 2018, the IMF Board of Directors approved 14-month Stand-By Arrangement (SBA) for Ukraine, totalling US\$3.9 billion which replaced Extended Fund Facility Programme. The first tranche amounting to US\$1.4 billion was received in December while further disbursements will be considered in May and November 2019, depending on Ukraine's success in fulfilling the terms of the Memorandum on Economic and Financial Policies.

Ukraine returned to international debt capital markets, having issued a record US\$3 billion 15-year Eurobond at 7.375% in September 2017, which has smoothed external debt maturity profile of Ukraine. In October 2018, Ukraine placed US\$2 billion dual-tranche Eurobonds (US\$750 million 5.25-year at 9.000% and US\$1.25 billion 10-year at 9.750%), which further smoothed external debt maturity profile of Ukraine.

On 1 September 2017, the Association Agreement between the European Union and Ukraine finally came fully into force that enhanced liberalisation of trade, improvement of quality standards and integration of Ukrainian economy with the European Union.

The conflict in Eastern Ukraine had impacted the Group's steel, coke and coal operations since 2014. Two of the Group's largest steel plants, PrJSC Ilyich Iron and Steel Works and PrJSC Azovstal Iron and Steel Works, are located near the conflict area in the Donetsk region. Iron ore production assets are located in the central part of Ukraine and have not been affected by the conflict. The conflict started in spring of 2014 and has not been resolved to date.

In March of 2017, the Group determined that it had lost control over the operations of entities located on the temporarily non-controlled territory. The effect of loss of control on the Group financial statements is disclosed in Note 8.

Since March 2017, all of the Metinvest Group's assets are operating without physical disruption. The Metinvest Group does not operate any assets on the temporarily non-controlled territory.

After the overall decline during 2014-2015, the prices of steel, coking coal and iron ore have started to recover in 2016. An increasing trend has continued into both, 2017 and 2018. The average benchmark price for hot-rolled coil (Metal Expert HRC CIS export FOB Black Sea) increased by 46% in the period from 2016 to 2018. The average benchmark iron ore price (Platts 62% Fe CFR China) increased from US\$58 per dry tonne in 2016 to US\$71 per dry tonne in 2017 before slightly decreasing to US\$69 per dry tonne in 2018. Average coking coal price (HCC LV, FOB Australia) nearly doubled in the period from 2016 to 2018, from US\$114 per tonne in 2016 to US\$209 per tonne in 2018.

## 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation and statement of compliance.** These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by European Union and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code. The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. New and revised standards and interpretations adopted by the Group are disclosed in Note 5.

These consolidated financial statements are presented in millions of US dollars and all values are rounded off to the nearest million except where otherwise indicated.

**Critical accounting estimates and judgements in applying accounting policies.** The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 4.

**Principles of consolidation.** Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. Where a business combination is achieved in stages, the previously held interest in an acquired business is included into the cost of business combination at fair value as of the acquisition date with resulting gains recognised in consolidated income statement.

### 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Costs directly related to acquisition of subsidiaries are recognised in the consolidated income statement in the period in which they incurred and the services are received.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('negative goodwill') is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Non-controlling interest ('NCI') is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of equity.

**Purchases of subsidiaries from parties under common control and merger reserve in equity.** Purchases of subsidiaries from parties under common control are accounted under the predecessor values method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's book values. The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. This is recorded as a merger reserve. No additional goodwill is created by such purchases.

**Transactions with non-controlling interests.** The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Non-controlling interest is measured on proportionate basis of net assets.

**Investments in associates and joint ventures.** Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint ventures.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates and joint ventures includes goodwill identified on acquisition, and is reduced for accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates and joint ventures is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate, including any other unsecured accounts receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and their associates and joint ventures are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**Segment reporting.** Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Group that makes strategic decisions.

Company reports separately information about an operating segment that meets any of the following quantitative thresholds unless aggregation criteria are met:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss; and (ii) the combined reported loss of all operating segments that reported a loss.
- (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

**Foreign currency translation.** The functional currency of each of consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is either Ukrainian hryvnia ('UAH') or US dollar ('US\$').

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in the consolidated income statement.

The principal rate of exchange used for translating foreign currency balances is as follows:

	31 December 2018	31 December 2017
US\$/UAH	27.69	28.07
EUR/UAH	31.71	33.50

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Translation at year end does not apply to non-monetary items.

**Translation from functional to presentation currency.** The Group has selected the 'US\$' as the presentation currency. The US\$ has been selected as the presentation currency for the Group as: (a) management of the Group manages business risks and exposures, and measures the performance of its businesses in the US\$; (b) the US\$ is widely used as a presentation currency of companies engaged primarily in metallurgy; and (c) the US\$ is the most convenient presentation currency for non-Ukrainian users of these IFRS consolidated financial statements.

The results and financial position of each consolidated entity are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised through comprehensive income and they accumulate as a separate component of equity. All the components of consolidated equity at each balance sheet date are translated at the historical rate. The balancing figure goes to cumulative currency translation reserve in other reserves in equity. All the elements within equity are presented at the rates prevailing at the dates of such movements (or an average rate for the period when this approximates the transaction date exchange rate).

As follows from policy on transaction from functional to presentation currency revaluation results and reclassification from revaluation reserve to retained earnings are translated into US\$ using the exchange rates prevailing at the dates of transaction. Because of lower strength of UAH as compared to US\$ (and consequent depreciation against US\$ since the last revaluations dates), the revaluation reserve in presentation currency is carried at rates lower than the closing UAH/US\$ rate, thus, differs from the revaluation balances recognised in the Group's property, plant and equipment. Upon disposal, sale or liquidation of assets or liabilities related to these equity components these differences are reclassified to retained earnings.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and at each balance sheet date are translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the currency translation differences deferred in equity are reclassified to the consolidated income statement.

Current exchange restrictions in Ukraine are explained in Note 2. At present, the UAH is not a freely convertible currency outside of Ukraine.

**Property, plant and equipment.** Property, plant and equipment are stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Initial acquisitions and subsequent additions to property, plant and equipment are recognised at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and accumulated in the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases that offset previous increases in the carrying amount of the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that have different useful lives.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense when incurred.

### 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement.

Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs or revalued amounts of individual assets to their residual value over the estimated remaining useful lives. Depreciation commences at the moment when assets is ready for use. The estimated useful lives are as follows:

	Useful lives in years
Buildings and structures	from 2 to 60
Plant and machinery	from 2 to 35
Furniture, fittings and equipment	from 2 to 10

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and machinery, with annual reassessments. Changes in estimates are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents prepayments for property, plant and equipment, and the cost of property, plant and equipment, construction of which has not yet been completed. No depreciation is charged on such assets until they are ready for use.

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

**Asset retirement obligations.** According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents of Ukraine and the US, the Group is responsible for site restoration and soil rehabilitation upon abandoning its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate are recognised as an adjustment to the cost of the respective asset through the income statement or other reserves in equity to the extent of any revaluation balance existence in respect of the related asset. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in these consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates and are specific to a liability.

**Goodwill.** Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. It is carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity or business unit include the carrying amount of goodwill relating to the entity or business unit disposed of.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination.

**Other intangible assets.** All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software and licences, mining licences, mining permits and coal reserves. Acquired computer software and other licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal. Cost of SAP ERP system is amortised on a straight-line basis over estimated useful life of 10 years. Licences and coal reserves are amortised using the units-of-production method over all estimated proven and probable reserve assigned to the mines. Proven and probable reserves exclude non-recoverable coal and ore reserves and estimated processing losses. Amortisation rates are updated when revisions to coal reserve estimates are made.

**Impairment of non-financial assets.** Goodwill is tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Initial recognition of financial instruments. At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus transaction costs that are directly attributable to the acquisition of the financial instruments if financial asset or financial liability are not accounted at fair value through profit or loss ('FVPL'). Transaction costs of financial assets or financial liabilities carried at FVPL are expensed in profit and loss in the consolidated income statement.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the transaction price and the fair value, which can be evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets.

**Classification and subsequent measurement of financial assets.** The Group classifies its financial assets in the following measurement categories:

- those to be subsequently measured at fair value (either through other comprehensive income ('FVOCI'), or through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ('hold to collect contractual cash flows'), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ('hold to collect contractual cash flows and sell') or, if neither of (i) or (ii) is applicable, the financial assets are classified as part of 'other' business model and measured at FVPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ('SPPI'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Three measurement categories into which the Group classifies its debt financial assets are as follows:

- 1) Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other operating income/(expenses). Impairment losses are presented in other operating income/(expenses) or as a separate line item in the consolidated income statement, if material.
- 2) Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Impairment expenses are presented in other operating income/(expenses) or as a separate line item in the consolidated income statement, if material.
- 3) Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other operating income/(expenses) in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Management has elected to present fair value gains and losses on equity investments in other comprehensive income, as such there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other operating income/(expenses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Financial assets are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

**Financial assets impairment – expected credit loss allowance.** After the initial recognition, an expected credit loss allowance ('ECL') is recognised for financial assets measured at amortised cost and at FVOCI, resulting in an immediate accounting loss in the consolidated income statement.

The measurement of expected credit losses reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Financial instruments measured at amortised cost and contract assets are presented in the consolidated balance sheet net of the allowance for expected credit losses.



### 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Generally the impairment methodology is a three stage model applied dependent on whether there has been a significant increase in credit risk of a financial instrument since the initial recognition.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses (Stage 1 of ECL model) considering that the maximum period of credit risk exposure cannot exceed financial instrument term to maturity. At each reporting date, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition (Stage 2 of ECL model). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised at the time of the initial recognition of the receivables (Stage 2 of ECL model). For loans issued and bank accounts the Group applies general model for impairment based on changes in credit quality since initial recognition is applied. For loans that are repayable on demand, expected credit losses is equal to the effect of discounting the amount due on the loan.

As at reporting date the Group has three types of financial assets that are subject to expected credit loss model:

- cash and cash equivalents;
- trade receivables for sales of goods and services; and
- loans issued.

The Group uses different approaches for analysis of expected credit losses arisen on the financial assets from related parties, significant customers and other customers.

For all significant debtors and related parties, the calculation of expected credit losses is carried out on an individual basis taking into account agreement terms, expected repayment period, internally assessed credit risks for significant debtors based on the financial performance and taking into account external credit rating, if available. ECL rate is calculated based on credit spread implicit in the average yield on bonds of similar credit risk companies and adjusted for maturity, risk-free rate and liquidity premium.

For individually insignificant debtors the Group calculates expected credit losses using a provision matrix by grouping customers by country of location. This matrix is based on the Group's historical default rates over the expected life of the financial receivables and is adjusted for forward-looking estimates.

The Group does not recognise the expected credit loss allowance on cash and cash equivalents if it was determined that the effect of such loss allowance is not material as at the reporting date.

**Reclassification of financial assets.** Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

**Modification and derecognition of financial assets.** The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in contractual terms that substantially affects the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of modification is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether significant increase in credit risk has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

The Group derecognises financial assets when: (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group enters into transactions in the normal course of business by which it transfers financial assets to third parties. Depending on the circumstances, these transfers may either result in these financial assets being derecognised or continuing to be recognised.

## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

### 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Full derecognition occurs when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, foreign currency, prepayment and other price risks.

Derecognition does not occur when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but either:

- retains substantially all of the risks and rewards of ownership of the transferred asset; or
- neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control of the financial asset. In this situation, the financial assets are recognised on the balance sheet to the extent of Group's continuing involvement.

The write-off of financial asset also represents a derecognition event. Financial assets are written-off, in whole or in part, when the Group has no reasonable expectations of recovering these assets.

**Classification and subsequent measurement of financial liabilities.** All the financial liabilities are classified as subsequently measured at amortised cost, except for: (i) derivatives, financial liabilities held for trading, contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition, which are measured at FVPL and (ii) financial guarantee contracts and loan commitments at a below-market interest rate.

**Modification and derecognition of financial liabilities.** Upon modification of financial liabilities the Group adjusts the amortised cost of a financial liability to reflect revised estimated contractual cash flows. For these purposes the Group recalculates the amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate. Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

**Financial guarantees.** Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of: (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an expected credit loss allowance is recognised for fees receivable that are recognised in the consolidated balance sheet as an asset.

**Income taxes.** The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge is recognised in the consolidated income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

### 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

**Inventories.** Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average principle. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

**Prepayments.** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

**Cash and cash equivalents.** Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly-liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date are included in other non-current assets.

**Share capital.** Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

**Dividends.** Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue. If settlement of a dividend liability exceeds twelve months from the balance sheet date it is included within long-term liabilities and measured at the present value of the future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

**Loans and borrowings.** Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Cash flows related to receipt and repayment of trade finance borrowings are presented within the statement of cash flows on a net basis.

Transaction fees paid related to debt restructuring (such as legal and consulting expenses) are presented within the financing activities of the consolidated statement of cash flows.

**Trade and other financial payables.** Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

**Prepayments received.** Prepayments are carried at amounts originally received, net of VAT.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small if it is probable that some outflow of resources will be needed to settle the class of obligations as a whole.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**Contingent assets and liabilities.** A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. When the realisation of income is virtually certain, then the related asset is not a contingent asset and the Group recognises such assets.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

**Employee benefits. Defined benefit plan.** Certain Ukrainian entities within the Group participate in a mandatory State-defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. Certain Ukrainian entities also provide lump sum benefits upon retirement subject to certain conditions, as well as some other long-term employee benefits. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by professional actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (if there is no deep market for high-quality corporate bonds) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Past service costs are recognised immediately in profit or loss.

**Revenue recognition.** Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when (or as) the Group satisfies a performance obligation by transferring a promised good or service to a customer and the customer obtains ability to direct the use of and substantially all of the remaining benefits from the asset. For each performance obligation identified, the Group determines at contract inception whether it satisfies the performance obligation over time or at a point in time.

For each performance obligation satisfied over time, the Group recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation proportionally to the services provision period. If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time at which a customer obtains control of a promised asset.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (acting as a principal) or to arrange for those goods or services to be provided by the other party (acting as an agent). When the Group satisfies a performance obligation as a principal, revenue is recognised in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred, when as an agent – the Group recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

### (a) Sale of goods, by-products and merchandise

The Group manufactures and sells a range of steel products to large, medium and small size customers. By-products and merchandise are sold to the same range of customers. Revenues from sales of goods, by-products and merchandise are recognised at the point of transfer of control over the goods, normally when the goods are shipped. The Group normally uses standardised Incoterms such as cost-and-freight (CFR), free-carrier (FCA), cost-insurance-freight (CIF), free-on-board (FOB) and ex-works (EXW) which define the point of control transfer. Revenue is recorded on an accrual basis as earned.

Sales are recorded based on the price indicated in the specifications to the sales contracts. The sales price is established separately for each specification.

The Group also engages in sale and purchase transactions the objective of which is to manage cash flows and/or to sell the products of its joint ventures through the Group's sales channels and where the Group acts as an agent. Such transactions are not revenue-generating to the Group and, accordingly, such sales and purchases are presented on a net basis with any gain or loss presented in revenue. Accounts receivable and payable from such transactions are presented gross.

### (b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

### (c) Sale of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

The Group provides freight services to the customers as part of standard products sales contract. Management considers that freight services should be treated as separate performance obligations and should be recognised over the transportation period.

### (d) Dividend income

Dividend income is recognised when the right to receive payment is established.

### (e) Commission income

The Group acts as an agent for sales transactions on behalf of the third parties. The commission income received by the Group as a fee for facilitating such transactions is recognised at the point of transfer of risks and rewards of ownership of the goods to the customers of the third parties. Such income is reported as part of revenue.

### 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

**Value added tax.** VAT in Ukraine where the majority of the Group operations are concentrated is levied at two rates: 20% on domestic sales and imports of goods, works and services and 0% on export of goods. Export of services is exempt from VAT. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and for domestic operations arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer; for export operations arises on the date of customs clearance of exported goods. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. For domestic and export operations rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT assets recoverable in cash from the State are included into Group's assets. All other VAT assets and liabilities are netted only within the individual companies of the Group.

**Recognition of expenses.** Expenses are accounted for on an accrual basis. Cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

**Finance income and costs.** Finance income and costs comprise interest expense on borrowings, pension obligations, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments and foreign exchange gains and losses.

**Changes in presentation.** Where necessary, corresponding figures have been adjusted to conform to changes in the presentation in the current year.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the IFRS consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment of property, plant and equipment, goodwill and other intangible assets.** The Group assesses whether goodwill is impaired annually. The most recent detailed calculations for Metallurgical and Mining segments were performed as of 30 November 2016, as disclosed in Note 9. Management has carried forward these calculations in 2018, having considered that since then:

- (a) the assets and liabilities making up these segments have not changed significantly. As disclosed in Note 8, the assets of Metallurgical segment located on the temporarily non-controlled territory were fully impaired in 2017; however, as concluded by management, this had no significant impact on the segment's recoverable amount as of 31 December 2018;
- (b) the recoverable amount calculations performed in 2016 resulted in the amounts that exceeded the carrying amounts of both segments by substantial margins; and
- (c) the likelihood that a current recoverable amount determination as of 31 December 2018 would be less than the current carrying amount of the unit is remote, based on the management's analysis of events that have occurred and circumstances that have changed, including:
  - increased production and sales volumes of steel products as compared to the estimates made in 2016 impairment test; and
  - increased gross margins in 2018 as compared to the estimates made in 2016 impairment test, mainly due to increase in steel and iron ore prices, as disclosed in Note 2, based on which the expected gross margins for 2019 and further periods have improved from the estimates made in impairment test for 2016.

**Revaluation of property, plant and equipment.** On an annual basis management of the Group carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property plant and equipment differ materially from the carrying amounts, further revaluation is performed involving independent valuers.

As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2). For some assets the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices since the last revaluation date impacting the replacement cost used in measurement of depreciated replacement cost (Level 3).

The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of structures, plant and machinery was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of Ukrainian and international markets for similar property, plant and equipment. Various market data was collected from published information, catalogues, statistical data etc., and industry experts and suppliers.

## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

When performing valuation using these methods, the key estimates and judgements applied by the independent valuers, in discussion with the Group's internal valuation team and technicians, are as follows:

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc.);
- determination of similar items for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
- selection of market data when determining market value where it is available as well as corresponding adjustments required to take into account differences in technical characteristics and the condition of new and existing equipment;
- determination of applicable cumulative price indices which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts;
- use of directories of per-unit replacement cost for buildings and constructions, assuming that all buildings and constructions of similar type and nature within industry have similar replacement costs; and
- liquidation value for items, which are expected to be realised, less cost to sell.

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for goodwill impairment testing (Note 9), except for discount rates which are specific to each of the Group's subsidiaries and are pre-tax.

Changes in the above estimates and judgements could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued.

**Remaining useful lives of property, plant and equipment.** The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the technical characteristics, physical conditions, management's expectations on use of the respective assets and other factors. This affects depreciation charge and revaluation results.

#### **Impairment of trade and other accounts receivable.**

During 2015 and 2016, the Group recognised full impairment of trade receivables from some of its key customers in the total amount of US\$534 million. Factors taken into consideration by management when estimating the future cash flow included an ageing analysis of trade and other accounts receivable, and the financial position and performance of and collection history with the customer. In the current environment there is significant judgement in estimating whether the impaired trade and other receivables and any related penalty interest will be collected. During 2017, the Group commenced sales of iron ore, coke and coal products for the use by one of these customers. All the metal produce of this customer is purchased by the Group and resold externally. All the transactions are performed at an arms-lengths basis. These are not linked to the existing old impaired debt due to the Group thus impairment was not reversed.

Additionally, the estimates used to assess the impairment of trade and other accounts receivable from certain Ukrainian customers are impacted by the uncertainty caused by events in Eastern Ukraine.

**Related party transactions.** In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market terms, where there is no active market for such transactions, and also in estimating the timing of settlement of the balances due from related parties, where there is a history of prolongations. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Further, estimation of timing of settlement and recoverability of balances due from related parties requires judgement. Ability of shareholders and parties under their control to repay the amounts due to the Group is dependent to large extent on cash flows from the Group. Such cash flows in the current circumstances may be limited (Note 19). The expected credit loss allowance was recognised in respect of balances due from related parties as disclosed in Note 14 of these consolidated financial statements.

**Post-employment and other long-term employee benefits obligations.** Management assesses post-employment and other long-term employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State of Ukraine, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from state-funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and future salary and benefits increase rate. Any changes in these assumptions will impact the carrying amount of pension obligations as disclosed in sensitivity analysis in Note 21.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 21.

**Tax legislation.** Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 28).

**Functional currency.** Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, the US and other countries. The functional currency of Metinvest B.V. was determined on the basis that: (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US dollars. Management therefore determined the US dollar as the functional currency of Metinvest B.V.

##### **Loss of control over the assets located on the temporarily non-controlled territory**

As explained in Note 8, the Group lost control over the assets located on the temporarily non-controlled territory. The Group accounted for this event as impairment of related property, plant, and equipment and inventories, and, accordingly, recognised the impairment through other comprehensive income to the extent of existing revaluation reserve and recognised further impairment loss through the profit and loss. Also, the Group has determined that the operations located on the temporarily non-controlled territories over which control was lost do not represent a disposal of foreign operations.

Operations of the entities located on the non-controlled territory is not a major line of business and not a separate geographical segment, therefore, the management believes that these activities do not represent discontinued operations.

**(i) Control over the legal entities whose operations on the temporarily non-controlled territory were lost.** The Group retains a legal ownership over the entities whose physical assets and production activities are located on the temporarily non-controlled territories. Management determined that it retains control over these entities as they are registered on the controlled territory of Ukraine and the Group continues to perform transactions in accordance with Ukrainian legislation. Thus, the Group continues to consolidate the remaining assets (largely trade and other receivables) and liabilities of those entities and accounted for the loss of control of tangible assets as their impairment.

Would the position be adopted that control over the legal entities is lost as at 15 March 2017, the net assets of the entities in the amount of US\$13 million (before the impairment disclosed in Note 8) would be deconsolidated and the fair value of accounts payable due to the entities and accounts receivable due from the entities would be recognised. Additionally, a reclassification of US\$601 million of accumulated net negative Currency Translation Reserve ('CTR') from other comprehensive income to profit and loss in the income statement would have been required.

**(ii) Currency translation reserve related to entities located on the temporarily non-controlled territory.** The lost operations have not been consolidated directly but only together with the remaining operations of each of the legal entity, which continue to exist and be controlled by the Group. Operations and management were structured in such a way that each legal entity in its entirety was considered to be one entity and, therefore, the lost part of an entity does not represent a branch or a business. Thus the management determined that these operations do not represent a disposal of foreign operations and therefore no accumulated CTR on those entities is reclassified to profit and loss (which would be the case if it is determined that operations lost represent a disposal of foreign operations).

If all the net assets of the entities located on the temporarily non-controlled territory were derecognised, the negative charge of CTR in income statement would have been US\$601 million, as stated above; the exact amount of the charge would depend on whether only part or all the assets and liabilities of these entities were derecognised.

**(iii) Impairment of property, plant and equipment located on the temporarily non-controlled territory.** The Group still holds the legal title over assets located on the temporarily non-controlled territory as their seizure is illegal and might be temporary. Moreover, the Group may still be able to claim some compensation for the assets through international courts. Therefore, management has determined that the loss of control over the physical assets does not require the derecognition of these assets.

As such, management of the Group has performed an impairment assessment of the respective property, plant and equipment and determined that the recoverable amount of these assets is zero, thus recognising US\$205 million as decrease of previously recognised revaluation in other comprehensive income and US\$228 million as impairment charge in profit and loss. Would the judgement be made that the assets are derecognised, the whole amount of US\$433 million of decrease of carrying value of property, plant and equipment would need to be charged as loss on disposal in profit and loss (Note 8). Additionally, the remaining revaluation reserve related to these assets in the amount of US\$330 million (remained upon translation to presentation currency) would need to be transferred to retained earnings.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

#### ADOPTION OF IFRS 9 'FINANCIAL INSTRUMENTS'

The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised the adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of the initial application of the standard, 1 January 2018. Consequently, the revised requirements relating to disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 35.

#### CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table reconciles the carrying amounts of each class of financial instrument as previously measured in accordance with IAS 39 and the amounts determined upon adoption of IFRS 9 on 1 January 2018.

Balance sheet (extract)	Measurement category		31 December 2017	Effect of adoption	1 January 2018
	IAS 39	IFRS 9			
<b>Non-current assets</b>					
Trade and other receivables	Amortised cost	Amortised cost	181	(5)	176
<b>Current assets</b>					
Trade and other receivables	Amortised cost	Amortised cost	2,304	(23)	2,281
Trade and other receivables subject to factoring	Amortised cost	FVPL	38	–	38
Cash and cash equivalents	Amortised cost	Amortised cost	259	–	259
<b>Non-current liabilities</b>					
Loans and borrowings	Amortised cost	Amortised cost	2,739	51	2,790
<b>Current liabilities</b>					
Loans and borrowings	Amortised cost	Amortised cost	271	–	271
Seller's notes	Amortised cost	Amortised cost	7	–	7
Trade and other payables	Amortised cost	Amortised cost	1,931	–	1,931

Reclassification. The following debt instruments have been classified to new categories with no changes to their measurement basis:

- Trade and other receivables – previously classified as 'Loans and receivables' and currently classified as measured at 'Amortised costs'; and
- Cash and cash equivalents – previously classified as 'Loans and receivables' and currently classified as measured at 'Amortised costs'.

As at 1 January 2018 and in 2018, the Group's financial assets measured at fair value through profit or loss are represented mainly by trade receivables subject to factoring, as based on the business model assessment, the Group holds those primarily for sale.

The Group elected to present in the other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale. At the reporting date such investment was held by the Group's associate.

The Group did not reclassify any of financial assets other than described above when the new standard became effective, because all are held for collection and solely payments of principal and interest.

At 31 December 2017, all of the Group's financial liabilities were carried at amortised cost. There were no changes to the classification and measurement basis of financial liabilities.

#### EXPECTED CREDIT LOSS ALLOWANCE

The loss allowance for financial assets as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 as follows:

	Loans issued	Trade receivables	Other financial receivables
At 31 December 2017 – calculated under IAS 39	–	552	40
Amounts adjusted through opening retained earnings	5	23	–
<b>Opening loss allowance as at 1 January 2018 – calculated under IFRS 9</b>	<b>5</b>	<b>575</b>	<b>40</b>

The details of changes in the credit loss allowance for trade and other receivables between beginning and the end of the annual period are disclosed in the Note 14.

The Group concluded that the identified impairment loss for cash and cash equivalents was immaterial.

#### MODIFICATION OF FINANCIAL LIABILITIES

As of 1 January 2018, US\$51 million of loss on modification of borrowings which took place in March 2017 were debited to retained earnings.



## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

#### ADOPTION OF IFRS 9 'FINANCIAL INSTRUMENTS'. CONTINUED

Upon determination of whether modification or an extinguishment have occurred the Group performs analysis in order to determine if there was a substantial modification of the terms quantitative in nature of an existing financial liability or a part of it. The quantitative analysis represents performance of a 10 per cent test. No qualitative factors were considered.

#### ADOPTION OF IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'.

The adoption of IFRS 15 Revenue from Contracts with Customers from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group applied the new rules using a modified retrospective approach from 1 January 2018, which means that the cumulative impact of the adoption was recognised in retained earnings as of 1 January 2018 and that comparatives were not restated.

Particular requirements of the new standard which have an impact on the Group's financial information are described below.

The Group provides freight services to the customers as part of the standard products sales contract. Management considers that according to IFRS 15 freight services should be treated as separate performance obligations and should be recognised over the transportation period. The effect of this change has led to recognition of the contract asset and liability as at 1 January 2018, with revenue and related distribution costs in amount of US\$11 million being deferred to 2018.

Management has analysed the requirements of IFRS 15 upon determination of whether the nature of its promise to provide goods or services to the customers is a performance obligation itself or the Group is a party involved in arrangement on provision of these goods or services. Thus, approach to accounting of revenue associated with provision of transportation services was changed leading to recognition of revenue only in the amount of fees to which the Group expects to be entitled in exchange for arranging the provision of the other party's services (gross amount of such revenue amounted to US\$246 million and US\$124 million during 2018 and 2017, respectively; the fees presented in revenue during 2018 and 2017 amounted to US\$17 million and US\$13 million, respectively).

The Group is involved in resale of metallurgical and mining goods of other entities. Management considers that the approach applied in prior years is consistent with the requirements of new standard and continues to recognise gross revenue on resales of products where the Group retains inventory risk and the margins earned may fluctuate upon change of transportation costs or other factors. For revenue from resale of third parties' goods and services where the Group retains no inventory risk and acts as an agent, the Group recognises revenue in the amount of the commission to which it expects to be entitled in exchange for arranging for the specified goods and services to be provided by the other party. Starting from 2018, the Group presents this net revenue as part of revenue, not other operating income. Net amount of such revenue amounted to US\$18 million and US\$11 million during 2018 and 2017, respectively.

#### CUMULATIVE IMPACT ON THE FINANCIAL STATEMENTS

As a result of the changes in the Group's accounting policies, the following adjustments were recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	31 December 2017	IFRS 9 effect	IFRS 15 effect	1 January 2018
<b>Balance sheet (extract)</b>				
<b>Non-current assets</b>				
Trade and other receivables	181	(5)	–	176
Deferred tax asset	109	4	–	113
<b>Current assets</b>				
Trade and other receivables	2,342	(23)	11	2,330
<b>EQUITY</b>				
Retained earnings	6,894	(75)	–	6,819
<b>Non-current liabilities</b>				
Loans and borrowings	2,739	51	–	2,790
<b>Current liabilities</b>				
Trade and other payables	1,931	–	11	1,942

### 6 NEW ACCOUNTING PRONOUNCEMENTS

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2018:

- **IFRS 9 Financial Instruments.** Impact of adoption of this standard is disclosed in Note 5;
- **IFRS 15 Revenue from Contracts with Customers.** Impact of adoption of this standard is disclosed in Note 5;
- **Amendments to IFRS 1 and IAS 28.** IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after serving their intended purpose. The amendments to IAS 28 clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The above amendment did not have any significant impact on the Group's financial statements; and
- **IFRIC 22 – Foreign Currency Transactions and Advance Consideration.** The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. The above amendment did not have any significant impact on the Group's financial statements.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## 6 NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

The following new standards, which are relevant to the Group's financial statements, have been issued, but have not been endorsed by the European Union:

- **Annual Improvements to IFRS Standards 2015-2017 Cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- **Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 Plan Amendment, Curtailment or Settlement** (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019);
- **Amendments to the Conceptual Framework for Financial Reporting** (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020);
- **Definition of a business – Amendments to IFRS 3** (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020); and
- **Definition of materiality – Amendments to IAS 1 and IAS 8** (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

The following new standards which are relevant to the Group's consolidated financial statements and have been adopted by the European Union are effective for financial periods beginning on or after 1 January 2019, and have not been early adopted by the Group:

- **IFRS 16 Leases** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will require the Group to recognise in the balance sheet assets taken in an operating lease and the related lease liabilities. Management has initiated an exercise to calculate the impact of this new standard. Based on preliminary calculation the Group will recognise right-of-use assets and respective Lease liability approximating to US\$56 million as at 1 January 2019. Management intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to the adoption.

Other new or revised standards or interpretations that became effective for annual periods starting on or after 1 January 2019:

- **IFRIC 23 Uncertainty over Income Tax Treatments** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019); and
- **Prepayment Features with Negative Compensation – Amendments to IFRS 9** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

These have no material impact on the Group.

Other new or revised standards or interpretations that will become effective for annual periods starting on or after 1 January 2019 will likely have no material impact to the Group.

## 7 SEGMENT INFORMATION

The Group's business is organised on the basis of the following main reportable segments:

- Metallurgical – comprising the production and sale of coke, semi-finished and finished steel products; and
- Mining – comprising the production, enrichment and sale of iron ore and coal by the Group's Ukrainian operations and UCC, the Group's US coal operations. Output of the Group's mining business covers iron ore and coking coal needs of the Group's steelmaking business with surplus of iron ore sold to third parties. While management reviews financial information of UCC separately from other mining operations, UCC operating segment has been aggregated with the Group's Ukrainian mining operations into the Mining reportable segment. The two operating segments were aggregated into one reportable segment as they have similar nature of products (mineral commodities used in metallurgy) and production processes (underground and open-pit mining with further enrichment), and sell products to customers in metallurgical industry and commodity traders. Prices for their products depend on global benchmark prices for hard coking coal and iron ore; as such their margins and growth rates show comparable dynamics over the longer term.

As the Group entities are present in various jurisdictions, there are some differences in regulatory environment; however, they have no significant impact on segments' operating and financing activities. Segmentation presented in these consolidated financial statements is consistent with the structure of financial information regularly reviewed by the Group's management, including chief operating decision maker (CODM).

Operating segments' performance is assessed based on a measure of adjusted EBITDA. This measurement basis excludes dividend income, impairment of goodwill, other intangible assets and property, plant and equipment, the effects of non-recurring expenditures from the operating segments and foreign exchange gains/losses. Revenues and expenses for internal reporting purposes have been accounted for using IFRS principles. Certain adjustments are applied by management to contractual prices for intersegment sales.

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 7 SEGMENT INFORMATION CONTINUED

Segment information for the year ended 31 December 2018 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
<b>2018</b>					
Sales – external	10,064	1,816	–	–	<b>11,880</b>
Sales to other segments	70	1,931	–	(2,001)	–
<b>Total of the reportable segments' revenue</b>	<b>10,134</b>	<b>3,747</b>	<b>–</b>	<b>(2,001)</b>	<b>11,880</b>
<b>Timing of revenue recognition</b>					
At a point in time	9,411	1,623	–	–	<b>11,034</b>
Over time	653	193	–	–	<b>846</b>
<b>Total of the reportable segments' external revenue</b>	<b>10,064</b>	<b>1,816</b>	<b>–</b>	<b>–</b>	<b>11,880</b>
<b>Adjusted EBITDA</b>	<b>1,135</b>	<b>1,091</b>	<b>(96)</b>	<b>50</b>	<b>2,180</b>
Share in EBITDA of joint ventures	156	177	–	–	<b>333</b>
<b>Adjusted EBITDA including share in EBITDA of joint ventures</b>	<b>1,291</b>	<b>1,268</b>	<b>(96)</b>	<b>50</b>	<b>2,513</b>
<i>Reconciling items:</i>					
Depreciation and amortisation	(292)	(250)	(8)	–	<b>(550)</b>
Impairment of PPE and other intangible assets	(3)	(2)	–	–	<b>(5)</b>
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					<b>(160)</b>
Finance income					<b>68</b>
Finance costs					<b>(334)</b>
Foreign exchange gains less losses, net					<b>(70)</b>
Other					<b>1</b>
<b>Profit before income tax</b>					<b>1,463</b>

	Metallurgical	Mining	Corporate	Total
Capital expenditure	513	366	19	<b>898</b>
<b>Significant non-cash items included into adjusted EBITDA:</b>				
– impairment of trade and other receivables	61	10	2	<b>73</b>
– write-off of trade and other payables	(33)	–	–	<b>(33)</b>

Segment information for the year ended 31 December 2017 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
<b>2017</b>					
Sales – external	7,411	1,520	–	–	<b>8,931</b>
Sales to other segments	53	1,940	–	(1,993)	–
<b>Total of the reportable segments' revenue</b>	<b>7,464</b>	<b>3,460</b>	<b>–</b>	<b>(1,993)</b>	<b>8,931</b>
<b>Adjusted EBITDA</b>	<b>673</b>	<b>1,190</b>	<b>(79)</b>	<b>(65)</b>	<b>1,719</b>
Share in EBITDA of joint ventures	135	190	–	–	<b>325</b>
<b>Adjusted EBITDA including share in EBITDA of joint ventures</b>	<b>808</b>	<b>1,380</b>	<b>(79)</b>	<b>(65)</b>	<b>2,044</b>
<i>Reconciling items:</i>					
Depreciation and amortisation	(285)	(226)	(14)	–	<b>(525)</b>
Impairment and revaluation of PPE and other intangible assets	(226)	(58)	–	–	<b>(284)</b>
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					<b>(134)</b>
Finance income					<b>29</b>
Finance costs					<b>(350)</b>
Foreign exchange gains less losses, net					<b>66</b>
Impairment of associate					<b>(7)</b>
Other					<b>2</b>
<b>Profit before income tax</b>					<b>841</b>

	Metallurgical	Mining	Corporate	Total
Capital expenditure	275	258	9	<b>542</b>
<b>Significant non-cash items included into adjusted EBITDA:</b>				
– impairment of inventories recognised as a result of loss of control over the assets located on the temporarily non-controlled territory	81	11	–	<b>92</b>

**NOTES TO THE SUMMARY CONSOLIDATED  
FINANCIAL STATEMENTS – 31 DECEMBER 2018** CONTINUED  
**ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS**

**7 SEGMENT INFORMATION** CONTINUED

Analysis of revenue by category:

	Metallurgical	Mining	Total
<b>2018</b>			
<b>Sales of own products</b>	<b>6,222</b>	<b>1,601</b>	<b>7,823</b>
– Steel products	5,331	–	5,331
– Iron ore products	–	1,508	1,508
– Coal and coke	653	84	737
– Other	238	9	247
<b>Resale of purchased goods</b>	<b>3,842</b>	<b>215</b>	<b>4,057</b>
– Steel products	3,475	–	3,475
– Coal and coke	174	196	370
– Other	193	19	212
<b>Total</b>	<b>10,064</b>	<b>1,816</b>	<b>11,880</b>

Analysis of revenue by category:

	Metallurgical	Mining	Total
<b>2017</b>			
<b>Sales of own products</b>	<b>5,028</b>	<b>1,367</b>	<b>6,395</b>
– Steel products	4,433	–	4,433
– Iron ore products	–	1,264	1,264
– Coal and coke	445	96	541
– Other	150	7	157
<b>Resale of purchased goods</b>	<b>2,383</b>	<b>153</b>	<b>2,536</b>
– Steel products	2,076	–	2,076
– Coal and coke	125	119	244
– Other	182	34	216
<b>Total</b>	<b>7,411</b>	<b>1,520</b>	<b>8,931</b>

The Group's two business segments operate in six main geographical areas. Revenue by location of customers is presented below:

	Metallurgical	Mining	Total
<b>2018</b>			
Ukraine	2,570	770	<b>3,340</b>
Rest of Europe	3,200	791	<b>3,991</b>
Middle East and Northern Africa	2,195	–	<b>2,195</b>
South Eastern Asia	465	236	<b>701</b>
Commonwealth of Independent States ('CIS')	758	–	<b>758</b>
North America	754	3	<b>757</b>
Other countries	122	16	<b>138</b>
<b>Total</b>	<b>10,064</b>	<b>1,816</b>	<b>11,880</b>
	Metallurgical	Mining	Total
<b>2017</b>			
Ukraine	1,889	578	<b>2,467</b>
Rest of Europe	2,605	614	<b>3,219</b>
Middle East and Northern Africa	1,469	–	<b>1,469</b>
South Eastern Asia	197	308	<b>505</b>
Commonwealth of Independent States ('CIS')	775	–	<b>775</b>
North America	416	20	<b>436</b>
Other countries	60	–	<b>60</b>
<b>Total</b>	<b>7,411</b>	<b>1,520</b>	<b>8,931</b>

As at 31 December 2018 and 31 December 2017, 92% of the Group's non-current assets, other than financial instruments and deferred tax assets, were located in Ukraine.

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 8 LOSS OF CONTROL OVER THE ASSETS LOCATED ON THE TEMPORARILY NON-CONTROLLED TERRITORY

In February 2017, the self-proclaimed authorities on the temporarily non-controlled territory announced their intention to seize businesses located on the temporarily non-controlled territory and to require them to comply with local fiscal, regulatory and other requirements, which contradict Ukrainian legislation. On 15 March 2017, the Group determined that it had lost control over the operations of entities located on the temporarily non-controlled territory, including: PrJSC Yenakieve Iron and Steel Works; JV Metalen LLC; PrJSC Makiivka Iron and Steel Works; PrJCS Krasnodon Coal Company; PrJSC Khartsyzsk Pipe Plant; PrJSC Komsomolske Flux Plant; and PrJSC Donetskcoke.

During 2018 there were no changes with respect to the assets remained on the non-controlled territory of Ukraine.

Combined Income Statement and Statement of Comprehensive Income of these subsidiaries is presented below:

	2018	2017
Revenue	–	137
Cost of sales	–	(122)
<b>Gross profit</b>	<b>–</b>	<b>15</b>
Distribution costs	–	(7)
General and administrative expenses	–	(4)
Other operating income/(expenses), net	(12)	13
<b>Operating profit/(loss)</b>	<b>(12)</b>	<b>17</b>
Results of the loss of control over the assets located on temporarily non-controlled territory	–	(293)
Finance income	–	–
Finance costs	(38)	(49)
<b>Loss before income tax</b>	<b>(50)</b>	<b>(325)</b>
Income tax (expense)/credit	(23)	(27)
<b>Loss for the period</b>	<b>(73)</b>	<b>(352)</b>
<b>Loss attributable to:</b>		
Owners of the Company	(69)	(327)
Non-controlling interests	(4)	(25)
<b>Loss for the period</b>	<b>(73)</b>	<b>(352)</b>
<b>Other comprehensive income/(loss):</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	(6)	8
<i>Items that will not be reclassified to profit or loss:</i>		
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	–	(205)
Remeasurement of retirement benefit obligations	–	4
Income tax related to items that will not be reclassified subsequently to profit or loss	–	35
<b>Total other comprehensive loss</b>	<b>(6)</b>	<b>(158)</b>
<b>Total comprehensive loss for the period</b>	<b>(79)</b>	<b>(510)</b>
<b>Total comprehensive loss attributable to:</b>		
Owners of the Company	(74)	(479)
Non-controlling interest	(5)	(31)
<b>Total comprehensive loss for the period</b>	<b>(79)</b>	<b>(510)</b>

With respect to figures included within the disclosure above, trading operations presented until 15 March 2017, the moment when control was lost.

As of 15 March 2017, these subsidiaries' aggregate consolidated tangible assets located on the temporarily non-controlled territory amounted to US\$515 million (5% of the Group's total consolidated assets). Due to losing control over the assets located on the temporarily non-controlled territory in March 2017, management of the Group performed an impairment assessment of property, plant and equipment and determined that the recoverable amount of these assets is zero. Also, other assets (inventories and certain intangible assets) of these subsidiaries were fully impaired.

This resulted in the recognition of property, plant and equipment impairment amounting to US\$433 million and impairment of inventory and replaceable equipment amounting to US\$82 million.

Management derecognises financial liabilities from the balance sheet when, and only when, the obligation specified in the contract is discharged or cancelled or expires. The amounts below derecognised represent management's assessment based on its analysis and evidence obtained to date. This accounting estimate may change in the future.

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FINANCIAL STATEMENTS – 31 DECEMBER 2018** CONTINUED  
**ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS**

**8 LOSS OF CONTROL OVER THE ASSETS LOCATED ON THE TEMPORARILY NON-CONTROLLED TERRITORY CONTINUED**

As a consequence of the loss of control over the operations of entities located on the temporarily non-controlled territory and the resultant dismissal of employees of these subsidiaries, management remeasured the retirement benefit obligation. The decrease in the obligation was primarily a result of applying an assumption that employees dismissed during 2015-17 continue to work on the temporarily non-controlled territory and thus are unable to gain required experience to be entitled for preferential retirement under Ukrainian legislation. In addition, it was assumed that only a part of pensioners eligible for early pension will register on Ukrainian territory and claim for their pensions. The resulting US\$18 million gain from the change of the above assumptions were recorded in other comprehensive income.

Further, the obligations under collective bargaining agreements were decreased to reflect the loss of control over the operations producing such coal/ domestic fuel for settlement of these.

Due to uncertainty of these entities' future taxable income, the Group reassessed the realisability of deferred tax assets attributable to reporting period losses as well as tax losses carried forward as at 31 December 2016. Thus, the Group did not recognise deferred tax asset of US\$63 million relating to 2017 losses and wrote-down deferred tax arisen on accumulated tax losses of prior periods in the amount of US\$20 million.

The above events have also affected subsidiaries whose operations are physically located on the controlled territory. As such, the Group charged impairment provision on tangible assets located on the temporarily non-controlled territory, but belonging to the subsidiaries whose operations are physically located on the controlled territory, as a result of the inability to access such assets. This resulted in recognition of an additional property, plant and equipment impairment of US\$19 million and impairment of inventory and replaceable equipment of US\$10 million.

Total result of loss of control over the operations of these subsidiaries charged to the 2017 consolidated statement of comprehensive income of the Group is as follows:

	Recognised in profit and loss	Recognised in other comprehensive income	Total
<b>Result of loss of control over the assets of subsidiaries whose operations are located on the temporarily non-controlled territory:</b>			
Property plant and equipment (Notes 4 ,11)	228	205	<b>433</b>
Inventory	82	–	<b>82</b>
Intangible assets	2	–	<b>2</b>
Retirement benefit obligations	(15)	(18)	<b>(33)</b>
Other non-current liabilities	(4)	–	<b>(4)</b>
<b>Total loss attributable to the assets of subsidiaries located on the temporarily non-controlled territory:</b>	<b>293</b>	<b>187</b>	<b>480</b>
<b>Result of loss of control over certain assets of subsidiaries whose operations are located on the controlled territory, but certain assets were temporarily located on the temporarily non-controlled territory:</b>			
Property plant and equipment	19	–	<b>19</b>
Inventory	10	–	<b>10</b>
Investment in associate	7	–	<b>7</b>
<b>Total loss attributable to the assets of subsidiaries located on the controlled territory:</b>	<b>36</b>	<b>–</b>	<b>36</b>
<b>Total loss</b>	<b>329</b>	<b>187</b>	<b>516</b>

In 2017, the Group also recognised impairment of JSC Yenakievskiy Koksohimprom of US\$7 million as operations of this associate are also located on the temporarily non-controlled territory.

Management have sought to actively manage and limit the impact of these events on the Group's operations by adopting a number of contingency arrangements.

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 9 GOODWILL

The movements of goodwill were as follows:

	2018	2017
<b>As at 1 January</b>		
Original amount	1,315	1,222
Accumulated impairment	(712)	(679)
<b>Net carrying amount</b>	<b>603</b>	<b>543</b>
Acquisition	16	–
Currency translation differences	(25)	60
<b>As at 31 December</b>		
Original amount	1,284	1,315
Accumulated impairment	(690)	(712)
<b>Net carrying amount</b>	<b>594</b>	<b>603</b>

Management allocates and monitors goodwill at the following groups of cash-generating units ('CGUs') which represent operating segments:

	31 December 2018	31 December 2017
Metallurgical	546	556
Mining	48	47
<b>Total</b>	<b>594</b>	<b>603</b>

During the year ended 31 December 2018 the Group has acquired 100% interest in Unisteel LLC.

As described in Note 4, management has analysed the events that have occurred and circumstances that have changed since the last time goodwill impairment testing performed, including the areas of discount rate, gross margins earned and lost assets as disclosed in Note 8, and concluded that the likelihood that a current recoverable amount determination as of 31 December 2017 and 31 December 2018 would be less than the current carrying amount of the unit is remote. As such, the relevant goodwill impairment testing details has been carried forward from the preceding period.

The recoverable amount has been determined based on fair value less cost to sell estimations.

To ensure that the impairment testing model fully reflects the anticipated long-term changes in cash flows, for the impairment test the Group used cash flow projections for 10 years which are consistent with the Group's strategy approved by senior management; the first year of forecast is based on the Group's approved business plan for the year.

The valuation method used for determination of each CGU fair value is mostly based on unobservable market data, which is within Level 3 of the fair value hierarchy.

The following table and further paragraphs summarise key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill:

	2016
<b>Metallurgical</b>	
Post-tax discount rate (US\$)	11.67%
EBITDA margins (based on FCA prices)	2018: 20%, 2019: 20%, further – from 14% to 20%
Growth rate in perpetual period	3%
<b>Mining</b>	
Post-tax discount rate (US\$)	12.07%
EBITDA margins (based on FCA prices)	2018: 29%, 2019: 20%, further – from 27% to 35%
Growth rate in perpetual period	3%

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Discount rate reflects the current market assessment of the time value of money and risks specific to the Group. The discount rate has been determined using the Capital Asset Pricing Model based on observable inputs, inputs from third party financial analysts and Group-specific inputs.

Forecasted benchmark iron ore prices for Fe 62% fines (CFR North China) are US\$48 per tonne in 2018, US\$52 per tonne in 2019 and recover at 4% p.a. to US\$64 per tonne in 2026. Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, pelletising premiums, applicable transportation costs and historic discounts or premiums usual for those markets.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 9 GOODWILL CONTINUED

Forecasted coal prices used in the impairment test for all CGUs for low volatile hard coking coal (FOB Queensland) start from US\$124 per tonne in 2018, US\$128 per tonne in 2019 and grow at 2.25% p.a. on average thereafter. Forecasted prices for other types of coal and prices at other markets were determined based on respective historic discounts for differences in quality of each particular coal type and estimated transportation costs.

Forecasted prices for hot-rolled coils at Ukrainian ports used in the impairment test were estimated based on the benchmark (Metal Expert HRC CIS export FOB Black Sea). Forecasted prices are expected to reach US\$476 per tonne in 2026 from year-end levels. Forecasted prices for other steel products are based on historic discounts or premiums to prices for hot-rolled coils.

Forecasts from industry experts and other external reputable sources, as well as internal analysis were used by management to determine price levels used in the impairment test.

An exchange rate of 27 UAH for 1 US\$ in 2017 with gradual increase to 31.7 UAH for 1 US\$ in 2026 was used in the impairment test for all CGUs as of 31 December 2016.

**Metallurgical segment.** As at 31 December 2016, the Metallurgical segment's recoverable amount is US\$5,283 million and exceeds its total carrying amount by US\$1,096 million. The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill (and subsequently to property, plant and equipment and intangible assets) related to the Metallurgical segment:

	31 December 2016
<b>Volumes of production/sales</b>	
Decrease in all the periods by 5.2%	–
Decrease in all the periods by 7.4%	Recoverable amount equals carrying amount
Decrease in all the periods by 9.0%	Impairment of US\$229 million required
<b>Steel prices</b>	
Decrease in all the periods by 1.4%	–
Decrease in all the periods by 1.8%	Recoverable amount equals carrying amount
Decrease in all the periods by 2.6%	Impairment of US\$462 million required
Decrease in all the periods by 4.0%	Impairment of US\$1,302 million required
<b>Iron ore prices</b>	
Increase in all the periods by 7.5%	–
Increase in all the periods by 10.0%	–
Increase in all the periods by 14.6%	Recoverable amount equals carrying amount
Increase in all the periods by 17.0%	Impairment of US\$183 million required
<b>Coal prices</b>	
Increase in all the periods by 9.0%	–
Increase in all the periods by 11.1%	Recoverable amount equals carrying amount
Increase in all the periods by 15.0%	Impairment of US\$382 million required
<b>31 December 2016</b>	
<b>UAH/USD exchange rates</b>	
Increase in all the periods by UAH 1	Recoverable amount increases by US\$423 million
<b>Discount rates</b>	
Increase in all the periods by 2.1 pp	–
Increase in all the periods by 2.3 pp	–
Increase in all the periods by 5.3 pp	Recoverable amount equals carrying amount
Increase in all the periods by 7.0 pp	Impairment of US\$308 million required
<b>Growth rate in perpetual period</b>	No reasonable changes would lead to impairment



## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 9 GOODWILL CONTINUED

**Mining segment.** As at 31 December 2016, the recoverable amount of the Mining segment is US\$2,036 million and exceeds its total carrying amount by US\$453 million. The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to this group of CGUs:

	31 December 2016
<b>Iron ore prices</b>	
Decrease in all the periods by 0.8%	–
Decrease in all the periods by 3.3%	Recoverable amount equals carrying amount
Decrease in all the periods by 5.0%	Impairment of US\$231 million required
Decrease in all the periods by 10.0%	Impairment of US\$915 million required
<b>UAH/US\$ exchange rates</b>	
Increase in all the periods by UAH 1	Recoverable amount increases by US\$129 million
<b>Discount rates</b>	
Increase in all the periods by 0.5 pp	–
Increase in all the periods by 1.7 pp	–
Increase in all the periods by 2.2 pp	Recoverable amount equals carrying amount
Increase in all the periods by 5.0 pp	Impairment of US\$291 million required
<b>Growth rate in perpetual period</b>	No reasonable changes would lead to impairment

**UCC.** The table summarising the impact of changes in main assumptions to the impairment of property, plant and equipment of UCC group of CGUs is disclosed in Note 11.

### 10 OTHER INTANGIBLE ASSETS

The movements of other intangible assets were as follows:

	Coal reserves	Licenses and mining permits	Other intangible assets	Total
<b>As at 1 January 2017</b>				
Cost	418	213	208	839
Accumulated amortisation and impairment	(418)	(120)	(176)	(714)
<b>Net carrying amount</b>	–	93	32	125
Impairment (Note 9)	–	(4)	(2)	(6)
Additions	–	14	9	23
Currency translation differences	–	(3)	–	(3)
Amortisation	–	(12)	(7)	(19)
<b>As at 31 December 2017</b>				
Cost	418	220	215	853
Accumulated amortisation and impairment	(418)	(132)	(183)	(733)
<b>Net carrying amount</b>	–	88	32	120
Impairment (Note 9)	–	–	–	–
Additions	–	–	13	13
Currency translation differences	–	2	–	2
Amortisation	–	(5)	(11)	(16)
<b>As at 31 December 2018</b>				
Cost	418	223	228	869
Accumulated amortisation and impairment	(418)	(138)	(194)	(750)
<b>Net carrying amount</b>	–	85	34	119

The iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 17 years.

The coal reserves were acquired as part of the acquisition of UCC in 2009. As at 31 December 2018 and 31 December 2017, these reserves were fully impaired.

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**ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS**

**11 PROPERTY, PLANT AND EQUIPMENT**

The movements of property, plant and equipment were as follows:

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
<b>Cost or valuation</b>						
<b>As at 1 January 2017</b>	<b>48</b>	<b>1,783</b>	<b>3,092</b>	<b>51</b>	<b>569</b>	<b>5,543</b>
Additions					519	519
Transfers	1	104	299	12	(416)	–
Disposals	–	(4)	(18)	(2)	(1)	(25)
Reclassification to inventory	–	–	–	–	(6)	(6)
Currency translation differences	6	(46)	(71)	(1)	(17)	(129)
<b>As at 31 December 2017</b>	<b>55</b>	<b>1,837</b>	<b>3,302</b>	<b>60</b>	<b>648</b>	<b>5,902</b>
Acquisition of subsidiaries	–	2	8	–	–	10
Additions	–	–	–	–	885	885
Transfers	2	56	446	23	(527)	–
Disposals	–	(6)	(41)	(2)	(1)	(50)
Reclassification to inventory	–	–	–	–	(21)	(21)
Currency translation differences	(1)	15	26	3	2	45
<b>As at 31 December 2018</b>	<b>56</b>	<b>1,904</b>	<b>3,741</b>	<b>84</b>	<b>986</b>	<b>6,771</b>
<b>Accumulated depreciation and impairment</b>						
<b>As at 1 January 2017</b>	<b>–</b>	<b>(237)</b>	<b>(522)</b>	<b>(26)</b>	<b>(34)</b>	<b>(819)</b>
Charge for the year	–	(131)	(373)	(7)	–	(511)
Disposals	–	4	17	–	1	22
Transfers	–	–	–	–	–	–
Elimination against gross carrying amount upon revaluation	–	–	–	–	–	–
Impairment	–	(218)	(196)	(8)	(84)	(506)
Currency translation differences	–	17	20	1	6	44
<b>As at 31 December 2017</b>	<b>–</b>	<b>(565)</b>	<b>(1,054)</b>	<b>(40)</b>	<b>(111)</b>	<b>(1,770)</b>
Charge for the year	–	(135)	(395)	(10)	–	(540)
Disposals	–	5	40	2	1	48
Transfers	–	9	(10)	1	–	–
Elimination against gross carrying amount upon revaluation	–	–	–	–	–	–
Impairment	–	(1)	(5)	(2)	(2)	(10)
Currency translation differences	–	(1)	(2)	(2)	(4)	(9)
<b>As at 31 December 2018</b>	<b>–</b>	<b>(688)</b>	<b>(1,426)</b>	<b>(51)</b>	<b>(116)</b>	<b>(2,281)</b>
<b>Net book value as at</b>						
<b>31 December 2017</b>	<b>55</b>	<b>1,272</b>	<b>2,248</b>	<b>20</b>	<b>537</b>	<b>4,132</b>
<b>31 December 2018</b>	<b>56</b>	<b>1,216</b>	<b>2,315</b>	<b>33</b>	<b>870</b>	<b>4,490</b>

As at 31 December 2018 and 2017, construction in progress balance includes prepayments for property, plant and equipment of US\$84 million and US\$79 million, respectively.

Management concluded that the carrying value of property, plant and equipment is not materially different from its fair value as at 31 December 2018 and 2017. Substantially all the property, plant and equipment was either revalued or tested for impairment (whenever impairment indicators existed) during both 2018 and 2017.

**UCC.** As at 31 December 2018, the recoverable amount of UCC is US\$144 million (31 December 2017: US\$140 million). The recoverable amount has been determined based on fair value less cost to sell estimations.

As at 31 December 2017, management performed assessment of the UCC impairment as a result of which additional impairment of two mines in the amount of US\$51 million and reversal of impairment of the third mine in the amount of US\$20 million were recognised. Out of the aggregate impairment of US\$31 million, US\$27 million were recorded against property, plant and equipment and US\$4 million against mining permits (Note 10). The impairment losses of two mines mainly resulted from the increased cash costs due to poor geology of some sites. Additionally, the reversal of the impairment for the third mine mainly relates to decided seizure of operations of high cost site and development of the new site with better geology and cash costs.

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 11 PROPERTY, PLANT AND EQUIPMENT CONTINUED

No additional net impairment or reversal of previous impairment was recognised in 2018. The recoverable amount of UCC increased mainly due to improvement of coking coal selling price forecasts. This increase was partially offset by the increase in cash costs, CAPEX and decrease in volume of production.

The discount rate used for the impairment testing of UCC was 10.58% (31 December 2017: 10%).

The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of property, plant and equipment of UCC:

	31 December 2018	31 December 2017
<b>Coal prices</b>		
Decrease in all the periods by 5.0%	Impairment of US\$182 million required	Impairment of US\$128 million required
<b>Cash costs</b>		
Increase in all the periods by 5.0%	Impairment of US\$159 million required	Impairment of US\$128 million required
<b>Discount rates</b>		
Increase in all the periods by 1 pp	Impairment of US\$6 million required	Impairment of US\$7 million required

The impairment as at and for the year ended 31 December 2017 is recorded as follows:

	Recognised in profit and loss	Recognised in other comprehensive income	Total
Property plant and equipment due to loss of control over the assets of subsidiaries located on the temporarily non-controlled territory (Note 8)	228	205	433
Property plant and equipment due to loss of control over the assets of subsidiaries located on the controlled territory (Note 8)	19	–	19
UCC property, plant and equipment	27	–	27
Property, plant and equipment due to physical impairment during the period	4	23	27
<b>Total property, plant and equipment</b>	<b>278</b>	<b>228</b>	<b>506</b>

During 2018, US\$26 million of borrowing costs were capitalised as part of property, plant and equipment, capitalisation rate was 9% (2017: US\$22 million, capitalisation rate was 10%).

As at 31 December 2018, US\$37 million of property, plant and equipment were pledged as collateral for loans and borrowings (as at 31 December 2017: US\$543 million).

### 12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investment in joint ventures and associates were as follows as at 31 December 2018 and 2017:

Name	Type of relationship	Segment	2018		2017	
			% of ownership	Carrying value	% of ownership	Carrying value
Zaporizhstal Group	Joint venture	Metallurgical	49.9%	672	49.9%	569
PJSC Southern Iron Ore Enrichment Works	Joint venture	Mining	45.9%	199	45.9%	503
Pokrovske coal business	Associate	Mining	25.0%	153	–	–
IMU	Associate	Metallurgical	49.9%	37	49.9%	11
PrJSC Zaporizhvohnetryv	Associate	Metallurgical	45.4%	5	45.4%	2
Other	Associate	Mining	n/a	–	n/a	0
<b>Total</b>				<b>1,066</b>		<b>1,085</b>

All Group's associates and joint ventures are accounted for using the equity method.

None of the joint ventures and associates are traded on active markets and there are no reliable market prices available.

#### PJSC SOUTHERN IRON ORE ENRICHMENT WORKS

PJSC Southern Iron Ore Enrichment Works is a large Ukrainian iron ore mining plant which produces iron ore concentrate and sinter. Its products are used by the Group's integrated steel plants and are also sold to the third parties (mostly in China, Ukraine and Europe) primarily through the Group's trading companies.

During the year ended 31 December 2018, PJSC Southern Iron Ore Enrichment Works has declared dividends of US\$413 million attributable to the Group.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

#### ZAPORIZHSTAL GROUP

The investment in the Zaporizhstal Group is represented by the number of interests in the steel and mining businesses, the most significant being:

- 49.9% effective interest in JSC Zaporizhstal Integrated Iron & Steel Works ('Zaporizhstal'), a large Ukrainian integrated steel plant which sources majority of its iron ore and coke consumption from the Group and sells majority of its finished products through the Group's trading companies;
- 24% effective interest in PJSC Zaporizhya Iron Ore Plant, large iron ore mining enterprise in Ukraine which sells part of its iron ore output to Zaporizhstal; and
- 42.8% effective interest in PJSC Zaporozhcoke and a 49.2% effective interest in PJSC Zaporizhvohnetryv which are Group's subsidiary and associate, respectively.

As at 31 December 2018 and 2017, Metinvest's investments in Zaporizhstal Group and PJSC Southern Iron Ore Enrichment Works were classified as joint ventures due to the fact that decisions on the key relevant activities require participation of and unanimous consents both from Metinvest and from the other shareholders of the Zaporizhstal Group and PJSC Southern Iron Ore Enrichment Works.

#### POKROVSKE COAL BUSINESS

In July 2018, the Group has acquired 24.99% of the effective interest in several entities, the most significant of which are PJSC 'Colliery Pokrovske' and 'Enrichment Factory 'Svyato-Varvarinskaya' LLC (the 'Pokrovske coal business'). The acquired entities form a business of extraction of raw coal, its further enrichment and sale of coal concentrate. As of the date of acquisition, the investment was classified as an associate.

Purchase price of the stake acquired by Metinvest amounted to US\$190 million, payable in instalments over the maximum period of 1.5 years together with relevant interest.

Identifiable assets and liabilities acquired are measured at their fair values at the acquisition date. The valuation of property, plant and equipment and identifiable intangible assets (mining license) was performed by an independent professional appraiser.

As most of the Pokrovske coal business property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2). For some assets the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices impacting the replacement cost used in measurement of depreciated replacement cost (Level 3).

The valuation of mining license acquired was performed based on the discounted cash flow model (Level 3).

The following table summarises key assumptions on which management has based its cash flow projections to undertake the valuation of intangible assets.

	2018
Post-tax discount rate (US\$)	13.96%
EBITDA margins	64% in 2019, 58%-65% in 2020-24, 45%-57% starting from 2025
Growth rate in perpetual period	1.90%
Coal prices forecast for 2018-24	US\$191 per tonne in 2019, US\$160-169 in 2020-24, starting from 2025 prices are adjusted for the level of inflation in the US

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Discount rate reflects the current market assessment of the time value of money and risks specific to the Pokrovske coal business. The discount rate has been determined using the Capital Asset Pricing Model based on observable inputs, inputs from third-party financial analysts and Pokrovske coal business-specific inputs.

#### OPTION

In addition, the Group has obtained an option to purchase the remaining 75.01% from the other co-investors conditional on obtaining all relevant governmental and other consents. Given that no applications were submitted to the antimonopoly bodies and no consents received by 31 December 2018, management believes that this option does not represent a substantial voting right which may indicate the presence of control of Metinvest over the business.

The Group has assessed the fair value of the option of US\$130 million through Black-Scholes-Merton option pricing model (Level 3) and recognised it within other non-current assets.

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

#### POKROVSKE COAL BUSINESS CONTINUED

When performing valuation using this method, the key estimates and judgements applied by the management, were as follows:

	31 December 2018	31 July 2018
Volatility of share prices	40%	43%
Time for execution of the option	2.6 years	3 years
Risk-free rate	2.46%	2.77%
Fair value of the stake	614	570

The sensitivity of the option fair value to changes in the principal assumptions is presented below:

	31 December 2018	31 July 2018
Volatility increase/decrease by 1 pp	4/(4)	4/(4)
Fair value of the stake increase/decrease by US\$10 million	6/(5)	6/(5)
Time to expiration increase/decrease by 1 month	3/(3)	3/(3)
Risk-free rate increase/decrease by 1 pp	6/(5)	6/(5)

The above sensitivity analysis is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2018 is as follows:

	Option
<b>Fair value at 1 January 2018</b>	–
Purchases	130
Gains or losses recognised in profit or loss for the year	–
<b>Fair value at 31 December 2018</b>	<b>130</b>

#### GUARANTEE

In exchange for the option obtained, Metinvest guaranteed settlement of acquisition related obligations and took responsibility of timely payment to the sellers of US\$570 million with an interest of 8% per annum.

The fair value of financial guarantee issued at the origination date was considered to be equal to the fair value of option received in exchange for it. As at 31 December 2018, the management has concluded, that there has been no worsening of financial position of the co-investors.

The amount of guarantee is amortised on a straight-line basis over the life of the guarantee.

The guarantee issued was recorded in the Group's balance sheet within the trade and other accounts payable and other non-current liabilities.

Movements in the carrying amount of the Group investments in associates and joint ventures are presented below:

	2018	2017
<b>Carrying amount at 1 January</b>	<b>1,085</b>	<b>908</b>
Share of after tax results of joint ventures and associates	173	191
Share of other comprehensive income of joint ventures and associates	25	39
Acquisition of significant influence in the Pokrovske coal business	190	–
Impairment of PrJSC Yenakievskiy Koksohimprom (Note 8)	–	(7)
Dividends declared	(413)	(6)
Currency translation difference	6	(40)
<b>Carrying amount at 31 December</b>	<b>1,066</b>	<b>1,085</b>

As of 31 December 2017, Zaporizhstal engaged independent appraiser to perform a revaluation of its property, plant and equipment as the assets' fair value was expected to be higher than their carrying amounts. The revaluation result of property, plant and equipment of US\$56 million was included within the 'Share of other comprehensive income of joint ventures' line above.

The nature of the activities of the Group's associates, the Group's relationships with its associates and their key financial information is as follows:

- PrJSC Yenakievskiy Koksohimprom, Ukrainian producer of coke. Operations and assets of this entity are located on the temporarily non-controlled territory. Due to events described in Note 8, the Group recognised impairment of this investment amounting to US\$7 million in 2017.
- PrJSC Zaporizhvohnetriyv, Ukrainian producer of refractories, with revenue of US\$88 million and net profit of US\$4 million in 2018 (2017: revenue of US\$63 million and net profit of US\$2 million, respectively) and total assets of US\$60 million as at 31 December 2018 (31 December 2017: US\$35 million);

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**12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES** CONTINUED

**POKROVSKE COAL BUSINESS** CONTINUED

– Industrial-Metallurgical Union ('IMU'), entity which owns 4.5% interest in ArcelorMittal Kryvyi Rih, the largest integrated steel plant in Ukraine.

The summarised financial information of the Group's joint ventures and associates is presented below. Current and non-current liabilities of Pokrovske coal business are provisional as terms and conditions of liabilities are being finalised.

	Zaporizhstal Group		PJSC Southern Iron Ore Enrichment Works		Pokrovske coal business
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018
<b>Balance sheet:</b>					
<b>Non-current assets</b>	<b>947</b>	<b>933</b>	<b>419</b>	<b>357</b>	<b>1,712</b>
Cash and cash equivalents	17	18	8	176	22
Other current assets	1,597	1,311	228	684	309
<b>Total current assets</b>	<b>1,614</b>	<b>1,329</b>	<b>236</b>	<b>860</b>	<b>331</b>
Other non-current liabilities	101	103	65	42	301
Other non-current financial liabilities	13	25	–	–	4
<b>Total non-current liabilities</b>	<b>114</b>	<b>128</b>	<b>65</b>	<b>42</b>	<b>305</b>
Trade and other payables and provisions	1,160	1,055	157	76	92
Other current financial liabilities	110	108	–	–	1,423
<b>Total current liabilities</b>	<b>1,270</b>	<b>1,163</b>	<b>157</b>	<b>76</b>	<b>1,515</b>
<b>Net assets</b>	<b>1,177</b>	<b>971</b>	<b>433</b>	<b>1,099</b>	<b>223</b>

As at 31 December 2018, the temporary differences associated with investments in associates and interests in joint ventures for which deferred tax liabilities have not been recognised amounted to US\$18 million (2017: US\$12 million).

	Zaporizhstal Group		PJSC Southern Iron Ore Enrichment Works		Pokrovske coal business
	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ended 31 December 2017	For the 5 months ended 31 December 2018
<b>Profit or loss for the year ended (selected items):</b>					
Revenue	2,200	1,775	778	749	169
Depreciation and amortisation	(78)	(73)	(40)	(24)	(73)
Interest income	4	1	2	1	4
Interest expense	(24)	(16)	(5)	(4)	(122)
Income tax expense	(37)	(29)	(88)	(80)	3
Profit or loss	198	170	217	325	(124)
<b>Statement of comprehensive income for the year ended:</b>					
Other comprehensive income	8	106	17	(18)	(13)
Total comprehensive income	206	276	234	307	(137)
<b>Dividends received by the Group during the year ended</b>	<b>–</b>	<b>–</b>	<b>413</b>	<b>6</b>	<b>–</b>

The information above reflects the amounts presented in the financial statements of the joint ventures and associates and the impact of fair value adjustments made on acquisition of these joint ventures and associates, if any.

As at 31 December 2018, Zaporizhstal had no contingent liabilities (31 December 2017: US\$30 million). Contingent liability as at 31 December 2017 represented default interest on a loan taken by a Zaporizhstal's subsidiary (deconsolidated by Zaporizhstal in 2015) which defaulted on this loan. The loan was guaranteed by Zaporizhstal. The financial guarantee was recognised in full by Zaporizhstal, but the default interest was not accrued as there was uncertainty as to this amount.

As at 31 December 2018, 44.16% of shares of PJSC 'Colliery Pokrovske' were pledged as a collateral for amounts to be paid for acquisition of Pokrovske coal business. PJSC 'Colliery Pokrovske' further owns 55% of shares of 'Enrichment Factory 'Svyato-Varvarinskaya' LLC.

Management performed a preliminary notional purchase price allocation of acquired share in net assets of Pokrovske coal business and recognised US\$100 million goodwill as part of the carrying value of the investment in associate based on the difference between the Group's share in the fair value of net assets acquired and cost of the acquisition. The notional purchase price allocation is provisional as management is finalising the analysis of information about the agreed terms of repayment of loans, borrowings and trade and other payables of the acquired business, which is expected to be finalised within one year since the acquisition date.

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### 12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

#### POKROVSKE COAL BUSINESS CONTINUED

The reconciliation of the net assets of the Group's principal joint ventures and associate presented above to the carrying amounts of the respective investments is presented below:

	Zaporizhstal Group		PJSC Southern Iron Ore Enrichment Works		Pokrovske coal business
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018
<b>Net assets</b>	<b>1,177</b>	<b>971</b>	<b>433</b>	<b>1,099</b>	<b>223</b>
Group's ownership, %	49.9%	49.9%	45.9%	45.9%	24.99%
Group's interest in net assets	587	485	199	503	56
Goodwill	85	84	–	–	97
<b>Carrying value</b>	<b>672</b>	<b>569</b>	<b>199</b>	<b>503</b>	<b>153</b>

### 13 INVENTORIES

	31 December 2018	31 December 2017
Finished goods and work in progress	612	563
Raw materials	465	460
Ancillary materials, spare parts and consumables	177	120
Goods for resale	93	92
<b>Total inventories</b>	<b>1,347</b>	<b>1,235</b>

In 2017, the Group recognised impairment of inventories which were located on the temporarily non-controlled territory amounting to US\$92 million (Note 8). In 2018, write-downs of inventories to net realisable value amounted to US\$9 million (2017: US\$4 million).

As at 31 December 2018, inventories totalling US\$112 million (31 December 2017: US\$35 million) have been pledged as collateral for borrowings (Note 19).

### 14 TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
<b>Non-current assets</b>		
Trade receivables	128	35
Loans issued to SCM (USD-denominated, 7% effective interest rate)	42	41
Loans issued to SMART (USD-denominated, 9% effective interest rate)	88	87
Option for acquisition of interest in Pokrovske coal business (Note 12)	130	–
Other non-current financial assets	6	5
Other non-current non-financial assets	11	13
<b>Total non-current assets</b>	<b>405</b>	<b>181</b>
<b>Current financial assets</b>		
Trade receivables and receivables on commission sales	2,056	1,728
Loans issued to SCM and SMART (UAH-denominated)	46	–
Loans issued to joint venture (USD-denominated, 11% effective interest rate, mature in 2019, renegotiated in 2018)	98	98
Other receivables	70	57
<b>Total current financial assets</b>	<b>2,270</b>	<b>1,883</b>
<b>Current non-financial assets</b>		
Recoverable value added tax	240	261
Prepayments made	153	107
Covered letters of credit related to inventory purchases	17	19
Prepaid expenses and other non-financial receivables	110	72
<b>Total current non-financial assets</b>	<b>520</b>	<b>459</b>
<b>Total current assets</b>	<b>2,790</b>	<b>2,342</b>
<b>Total trade and other receivables (including non-current assets)</b>	<b>3,195</b>	<b>2,523</b>

Recoverable VAT mainly relates to Ukrainian subsidiaries of the Group. During 2018, VAT refunds of US\$623 million were received by the Group (2017: US\$547 million). VAT assets in the full amount of US\$46 million for subsidiaries whose operations were located on the temporarily non-controlled territory were impaired due to uncertainty caused by timing and probability of recoverability.

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**14 TRADE AND OTHER RECEIVABLES** CONTINUED

The Group has legal right to request settlement of the current loans issued to related parties within a twelve-month period after the reporting date. The decision on whether to call for repayment or extend the term of the loan is subject to future developments and yet to be done.

In addition, the Group has extended the settlement dates for some of its customers for the period less than one year with no material losses recognised on the renegotiated terms.

During 2018, trade accounts receivable in the amount of US\$1,547 million have been sold to a third party (2017: US\$1,054 million). As at 31 December 2018, amount of such receivables which were still unsettled to a third party was US\$242 million (31 December 2017: US\$138 million). The carrying amount of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets is US\$3 million (31 December 2017: US\$3 million). The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets approximates the carrying value. The maximum exposure to loss from such receivables relates to customer default only and is pre-agreed with the third party purchasing the receivables as the percentage of their nominal amount sold. Such percentage is determined with reference to the historical loss ratio and the statistical model of the respective markets of the Group.

Analysis by credit quality of financial trade and other receivables and expected credit loss allowance as at 31 December 2018 is as follows:

	Loss rate	Gross carrying amount	Lifetime ECL	Carrying amount	Basis
Loans issue to related parties	5.3%	281	(7)	274	Adjusted yield to maturity on corporate bonds
<b>Total loans issued</b>		<b>281</b>	<b>(7)</b>	<b>274</b>	
Trade and other receivables from key customers	3-6.5%	617	(16)	601	Adjusted yield to maturity on corporate bonds
Trade and other receivables from key customers – credit impaired	100%	541	(541)	–	
Trade and other receivables from related parties	5.3%	1,086	(16)	1,070	Adjusted yield to maturity on corporate bonds
Trade and other receivables from related parties – credit impaired	100%	15	(15)	–	
<b>Total trade and other receivables for which individual approach for ECL is used</b>		<b>2,259</b>	<b>(588)</b>	<b>1,671</b>	
Ukraine – less than 30 days overdue	0.50%	44	–	44	Historical payment discipline
Ukraine – overdue more than 30 days	13%	4	–	4	Historical payment discipline
Ukraine – credit impaired	100%	42	(42)	–	
Other countries – less than 30 days overdue	0.09%	537	–	537	Historical payment discipline
Other countries – overdue more than 30 days	8%	4	–	4	Historical payment discipline
Other countries – credit impaired	100%	11	(11)	–	
<b>Total trade and other receivables for which provision matrix is used</b>		<b>642</b>	<b>(53)</b>	<b>589</b>	
<b>Total</b>		<b>3,182</b>	<b>(648)</b>	<b>2,534</b>	

The loss rates presented in the table above are 12-month loss rates which are adjusted to reflect the maturity of individual balances.



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### 14 TRADE AND OTHER RECEIVABLES CONTINUED

Analysis by credit quality of financial trade and other receivables as at 31 December 2017 is as follows:

	Trade receivables and receivables on commission sales	Other financial receivables
Key customers	72	–
SCM and other related companies, including associates and joint ventures	81	118
Balances covered by bank letters of credit	201	–
Balances insured	202	–
Balances subject to factoring	36	2
Existing and new counterparties with no history of default	138	23
Balances renegotiated with SCM and other related companies, including associates and joint ventures	729	43
Balances renegotiated with key customers	112	–
<b>Total fully performing (not past due)</b>	<b>1,571</b>	<b>186</b>
<i>Past due:</i>		
– less than 30 days overdue	110	1
– 30 to 90 days overdue	43	3
– 90 to 180 days overdue	10	7
– 180 to 360 days overdue	11	4
– over 360 days overdue	18	87
<b>Total past due, but not impaired</b>	<b>192</b>	<b>102</b>
<b>Total individually impaired</b>	<b>552</b>	<b>40</b>
<b>Less impairment provision</b>	<b>(552)</b>	<b>(40)</b>
<b>Total</b>	<b>1,763</b>	<b>288</b>

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

	Trade and other receivables	Loans issued	Total
<b>Balance at 1 January 2018 (adjusted)</b>	<b>615</b>	<b>5</b>	<b>620</b>
Net new originated/(derecognised) during the period	19	1	20
Changes in estimates and assumptions	6	1	7
Write-offs	(5)	–	(5)
FX movements	6	–	6
<b>Balance at 31 December 2018</b>	<b>641</b>	<b>7</b>	<b>648</b>

Movements in the impairment provision for trade and other receivables during 2017 were as follows:

	Trade receivables	Other financial receivables
<b>Provision for impairment at 1 January</b>	<b>549</b>	<b>45</b>
Net impairment during the year	7	–
Currency translation differences	(4)	(5)
<b>Provision for impairment at 31 December</b>	<b>552</b>	<b>40</b>

As at 31 December 2018, trade and other receivables totalling US\$224 million (31 December 2017: US\$241 million) have been pledged as collateral for borrowings (Note 19).

As at 31 December 2018, the Group's deposit amounting to US\$10 million was pledged for obligation of the Group's related party (31 December 2017: US\$9 million).

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**15 CASH AND CASH EQUIVALENTS**

	31 December 2018	31 December 2017
Current accounts	215	207
Cash in transit	46	43
Bank deposits up to 3 months	19	9
<b>Total cash and cash equivalents</b>	<b>280</b>	<b>259</b>

The bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2018	31 December 2017
<i>As rated by Moody's:</i>		
– Aa2	7	13
– A1	59	92
– A2	–	–
– A3	35	35
– Baa1	14	2
– Baa2	–	4
– Baa3	3	–
– Ba2	–	4
– B2	2	–
– Caa1	1	–
Not rated – FUIB	85	39
Not rated – US and European banks	11	18
Not rated – Other Ukrainian banks	17	9
Cash in transit (in various banks)	46	43
<b>Total cash and cash equivalents</b>	<b>280</b>	<b>259</b>

As at 31 December 2018 and 2017, amounts in category 'Not rated – FUIB' relate to First Ukrainian International Bank (a related party which is under common control of SCM).

As at 31 December 2018, included in B2 rating are US\$2 million (2017: included in Ba2 rating are US\$4 million) related to balance in Switzerland subsidiary of international bank, which does not have own credit rating and for which rating was based on its parents' rating.

As at 31 December 2018, cash and cash equivalents totalling US\$12 million (31 December 2017: US\$16 million) have been pledged as collateral for borrowings (Note 19).

**16 SHARE CAPITAL AND SHARE PREMIUM**

	Number of outstanding shares			Total par value of shares	Share premium	Total
	Class A	Class B	Class C			
<b>At 31 December 2017</b>	<b>6,750</b>	<b>2,251</b>	<b>474</b>	<b>0</b>	<b>6,225</b>	<b>6,225</b>
<b>At 31 December 2018</b>	<b>6,750</b>	<b>2,251</b>	<b>474</b>	<b>0</b>	<b>6,225</b>	<b>6,225</b>

As at 31 December 2018 and 2017, the issued share capital comprised 6,750 ordinary Class A shares, 2,251 ordinary Class B shares and 474 ordinary Class C shares with a par value of EUR10. Each ordinary share carries one vote and is fully paid.

In 2014, the Company changed its Articles of Association and created three classes of shares (A, B and C). Ownership interests of SCM Limited were transferred to new Class A shares. Ownership interests of SMART were transferred to new Class B shares. Ownership interests of the previous Class B shares were transferred to new Class C shares. Additional rights of these new classes of shares were established, the most significant of which were:

- Class C shareholders have the right to a portion of net assets of the Company and are represented at shareholders' meetings;
- the establishment of a Supervisory Board of ten members, where seven are appointed by the majority of Class A and Class C shareholders and three are appointed by the Class B shareholder;
- a number of decisions with respect to acquisitions and financing decisions above a specified amount require effectively consent of Class A and B shareholder; and
- Class C shares are not entitled to receive dividends.

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### 17 OTHER RESERVES

	Share in other comprehensive income of joint venture and associates	Revaluation of property, plant and equipment and share in revaluation reserve of PPE of the JV and associates	Merger reserve	Cumulative currency translation reserve	Total
<b>Balance as at 1 January 2017</b>	<b>(9)</b>	<b>5,095</b>	<b>(3,038)</b>	<b>(10,490)</b>	<b>(8,442)</b>
Total comprehensive income/(loss) for the period	–	(125)	–	(84)	<b>(209)</b>
Depreciation transfer, net of tax	–	(283)	–	–	<b>(283)</b>
<b>Balance as at 31 December 2017</b>	<b>(9)</b>	<b>4,687</b>	<b>(3,038)</b>	<b>(10,574)</b>	<b>(8,934)</b>
Total comprehensive income/(loss) for the period	26	(5)	–	30	<b>51</b>
Depreciation transfer, net of tax	–	(261)	–	–	<b>(261)</b>
<b>Balance as at 31 December 2018</b>	<b>17</b>	<b>4,421</b>	<b>(3,038)</b>	<b>(10,544)</b>	<b>(9,144)</b>

Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. The Group's subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP or IFRS as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however, this legislation and other statutory laws and regulations are open to legal interpretation. There are particular temporary restrictions for Ukrainian entities to pay dividends abroad (Note 2).

The ability of the Group to pay dividends has been limited by the terms and conditions of the Group's agreements with its lenders and bondholders related to the debt refinance transaction (Note 19).

### 18 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES

Subsidiaries that have non-controlling interest that is material to the Group have been determined by management based on combination of the following factors: (i) the percentage of shares held by non-controlling shareholders; (ii) accumulated amount of non-controlling interest ('NCI') in the subsidiary; and (iii) total assets, revenues, profit or loss and OCI of the respective subsidiaries.

The following table provides information about subsidiaries that have non-controlling interest that is material to the Group:

	Proportion of NCI (same as voting rights held by NCI)	Profit or loss attributable to NCI	OCI attributable to NCI	Amount of NCI in the subsidiary	Dividends paid to NCI during the year
<b>As at 31 December 2018</b>					
PrJSC Zaporozhcoke	42.8%	17	–	57	–
PrJSC Northern Iron Ore Enrichment Works	3.2%	10	–	35	(11)
Other subsidiaries with NCI	n/a	16	–	(34)	–
<b>Total</b>		<b>43</b>	<b>–</b>	<b>58</b>	<b>(11)</b>
<b>As at 31 December 2017</b>					
PrJSC Azovstal Iron and Steel Works	3.3%	–	(1)	30	1
PrJSC Avdiivka Coke Plant	5.4%	6	–	20	–
PrJSC Zaporozhcoke	47.8%	19	(3)	45	–
PrJSC Northern Iron Ore Enrichment Works	3.6%	11	(2)	31	–
Ferriera Valsider S.p.A.	30.0%	4	3	29	–
Other subsidiaries with NCI	n/a	(26)	(6)	(32)	–
<b>Total</b>		<b>14</b>	<b>(9)</b>	<b>123</b>	<b>1</b>

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**18 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES** CONTINUED

The summarised financial information of these subsidiaries (including the impact of consolidation fair value adjustments, but before intercompany eliminations), was as follows at 31 December 2018 and 2017:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
<b>As at 31 December 2018</b>					
PJSC Zaporozhcoke	250	58	165	9	134
PJSC Northern Iron Ore Enrichment Works	1,378	659	858	69	1,110
<b>As at 31 December 2017</b>					
PJSC Azovstal Iron and Steel Works	1,645	1,089	1,671	163	900
PJSC Avdiivka Coke Plant	629	250	466	31	382
PJSC Zaporozhcoke	233	44	175	8	94
PJSC Northern Iron Ore Enrichment Works	1,036	657	764	76	853
Ferriera Valsider S.p.A.	273	85	252	8	98
			Revenue	Profit/(Loss)	Total comprehensive (loss)/income
<b>Year ended 31 December 2018</b>					
PrJSC Zaporozhcoke			341	41	40
PrJSC Northern Iron Ore Enrichment Works			1,086	301	308
<b>Year ended 31 December 2017</b>					
PrJSC Azovstal Iron and Steel Works			2,633	(21)	(65)
PrJSC Avdiivka Coke Plant			964	106	97
PrJSC Zaporozhcoke			323	40	34
PrJSC Northern Iron Ore Enrichment Works			963	294	238
Ferriera Valsider S.p.A.			497	12	23

The Group's centralised treasury monitors the cash flows of the Group's subsidiaries and adjusts the subsidiaries' operating cash flows (e.g. by means of changing intragroup trading balances) to provide sufficient funds for the approved investing activities or payment of taxes, interest and dividends.

According to the terms of Refinancing in 2018 (Note 19), bonds benefit from suretyship granted by PrJSC Northern Iron Ore Enrichment Works.

According to the terms of Restructuring in 2017, the bonds were guaranteed on a joint and several basis by the Group's subsidiaries PrJSC Avdiivka Coke Plant, PrJSC Northern Iron Ore Enrichment Works, PrJSC Azovstal Iron and Steel Works.

Certain subsidiaries of Metinvest (PrJSC Azovstal Iron and Steel Works, PrJSC Northern Iron Ore Enrichment Works) are also jointly committed to perform sales of steel products to Metinvest International S.A. The proceeds from such sales are transferred through special accounts pledged in favour of the PXF lenders which had rights to these proceeds only in case when Metinvest does not make a scheduled payment under the credit facilities or otherwise defaults in respect of its obligations under the PXF loans. The amount of funds on such account as at 31 December 2018 is US\$9 million (31 December 2017: US\$1 million).

**19 LOANS AND BORROWINGS**

As at 31 December, loans and borrowings were as follows:

	31 December 2018	31 December 2017
<b>Non-current</b>		
Bonds issued	1,680	1,159
Bank borrowings	499	1,074
Non-bank borrowings	–	460
Trade finance	–	36
Finance lease	15	10
<b>Total non-current loans and borrowings</b>	<b>2,194</b>	<b>2,739</b>
<b>Current</b>		
Bonds issued	29	7
Bank borrowings	93	7
Trade finance	363	255
Finance lease	4	2
<b>Total current loans and borrowings</b>	<b>489</b>	<b>271</b>
<b>Total loans and borrowings</b>	<b>2,683</b>	<b>3,010</b>

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### 19 LOANS AND BORROWINGS CONTINUED

As at 31 December 2018, the bank borrowings include PXF in the amount of US\$538 million (31 December 2017: US\$1,058 million).

On 22 March 2017, Metinvest has restructured its Bonds and PXF facility.

As of 31 December 2017, US\$56 million of fees and costs paid directly related to restructuring were capitalised in the amount of borrowings. As of 31 December 2017, the transaction was treated as a modification of original financial instrument as the difference between the present value of the cash flows under the new terms discounted using the original effective interest rate and discounted present value of the remaining cash flows of the original financial liability is less than 10%. This difference (including the transaction fees paid) was accounted for through the change of the effective interest rate resulting in an increase from 5% to 7% for the PXF facilities and from 10% to 12% for bonds. On adoption of IFRS 9 as at 1 January 2018, the Group debited the amortised amount of the US\$51 million of previously capitalised effect of modification of borrowings in March 2017 to retained earnings (Note 5) and revised effective interest rate back to 6% for the PXF and 11% for bonds.

On April 23, 2018, Metinvest successfully completed the refinancing of its US\$2,271 million of debt, consisting of the issuance of two tranches of bonds which replaced a significant part of existing 2021 bonds and the amendment and restatement of its PXF facility ('Refinancing').

Key features of the Refinancing are:

- On 4 April 2018, Metinvest successfully priced a US\$1,350 million bond offering across two tranches: a US\$825 million five-year tranche bearing a fixed interest rate of 7.75% per annum due in April 2023; and a US\$525 million eight-year tranche bearing a fixed rate of 8.50% per annum due in April 2026. The US\$1,350 million bond offering consisted of refinancing of US\$1,070 million of the 2021 bond as well as raising of US\$280 million of new finances.
- In addition, certain PXF holders agreed to shift their exposure from the PXF facility to new bonds. As a result, the final new issuance of bonds amounted to US\$1,592.2 million: consisting of US\$944.5 million five-year and a US\$647.7 million eight-year tranches.
- Following the refinancing, US\$117 million of the 2021 bonds remain outstanding, their interest rate was decreased to fixed 7.50% per annum, while their terms and conditions were amended and restated in line with the terms and conditions of newly-issued bonds.
- The PXF facility was amended and restated to, inter alia, extend its maturity to October 2022. Interest rate for PXF facility was set at US\$ LIBOR plus margin, paid fully in cash. After a required partial repayment of the PXF facility, a shift of certain lenders to the new bond issue and an attraction of a new tranche of US\$65 million the total amount of the PXF facility amounted to US\$765 million.
- Two instruments were structurally untied: cash sweep common for bonds and the PXF facility was removed, while common security was released.
- Each instrument received collateral, guarantees typical for such instruments. Bonds benefit from suretyships granted by six entities, including PrJSC Azovstal Iron and Steel Works, PrJSC Ilyich Iron and Steel Works, PrJSC Avdiivka Coke Plant, PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Central Iron Ore Enrichment Works and PrJSC Northern Iron Ore Enrichment Works. The PXF facility benefits from suretyships granted by four entities, including PrJSC Ilyich Iron and Steel Works, PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Central Iron Ore Enrichment Works and Metinvest Management B.V., security assignments of rights under certain export, commission and offtake contracts, as well as pledges of certain bank accounts and rights under certain commission contracts.
- Certain restrictive covenants continue to be imposed on the Group, including limitation to pay dividends, make certain restricted payments, engage in certain transactions with related parties, incur new debt, as well as certain financial covenants (interest cover ratio, debt cover ratio, tangible net worth and gearing). These covenants have been eased when compared to the terms of prior debt.
- Shareholder loans remain subordinated to bonds and the PXF facility.

Change in PXF facility (apart from PXF shifted exposure) and US\$117 million of the 2021 bonds was treated as a modification of original financial instrument as the difference between the present value of the cash flows under the new terms discounted using the original effective interest rate and discounted present value of the remaining cash flows of the original financial liability is less than 10%. This transaction resulted in recognition of loss on modification amounting to US\$23 million and was recognised in income statement as part of loss on refinance.

Refinancing of US\$1,070 million of the 2021 bond and US\$239 million of PXF shifted exposure was accounted for as extinguishment of the prior financial liability and recognition of the new debt instruments. Gain on extinguishment amounted to US\$6 million and was recognised in income statement as part of loss on refinance.

As of 31 December 2018, the Group's 2021 bonds were traded on open markets with a discount of approximately 3% to their nominal value, 2023 bonds with a discount of approximately 9% and 2026 bonds with a discount of approximately 10% (31 December 2017: the Group's 2021 bonds were traded on open market with a premium of approximately 5%). As of 31 December 2018, the fair value of 2021 bonds was US\$114 million, of 2023 bonds – US\$884 million and of 2026 bonds – US\$594 million (31 December 2017: US\$1,251 million) as determined by reference to observable market quotations. Have these market quotations been used to determine the fair values of the bank borrowings as at 31 December 2018, those would be US\$499 million (31 December 2017: US\$1,161 million).

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**19 LOANS AND BORROWINGS** CONTINUED

The majority of the Group's bank borrowings and trade finance have variable interest rates. The weighted average effective interest rates and currency denomination of loans and borrowings as at the balance sheet dates are as follows:

In % per annum	31 December 2018			31 December 2017			
	USD	EUR	GBP	USD	EUR	GBP	CHF
Bank borrowings	7%	6%	–	7%	3%	–	–
Bonds issued	9%	–	–	12%	–	–	–
Non-bank borrowings from related parties	–	–	–	7%	–	–	–
Trade finance	5%	3%	5%	4%	3%	5%	7%
Finance lease	8%	–	–	8%	–	–	–
<b>Reported amount</b>	<b>2,481</b>	<b>170</b>	<b>32</b>	<b>2,844</b>	<b>144</b>	<b>20</b>	<b>2</b>

The Group defines net debt as the sum of bank loans, bonds, trade finance, finance lease, deferred consideration and seller notes, non-bank borrowings less cash and cash equivalents.

Movements in the Groups' net debt are presented below:

	Cash in banks	Deposits up to 3 months	Bank borrowings	Bonds issued	Non-bank borrowings from related parties	Trade finance	Deferred consideration and seller's notes	Finance lease	Total
<b>Net debt as at 1 January 2017</b>	<b>217</b>	<b>9</b>	<b>(1,110)</b>	<b>(1,183)</b>	<b>(425)</b>	<b>(161)</b>	<b>(90)</b>	<b>–</b>	<b>(2,743)</b>
Cash flows	36	–	40	44	–	(117)	85	7	95
Interest accrued (Notes 11, 28)	4	–	(77)	(128)	(35)	(8)	(6)	–	(250)
Interest paid/(received)	(4)	–	42	76	–	6	4	–	124
Legal and consulting fees capitalised	–	–	11	8	–	–	–	–	19
Commissions capitalised	–	–	16	17	–	–	–	–	33
Currency translation differences	(3)	–	(3)	–	–	(11)	–	–	(17)
Equipment received under finance lease	–	–	–	–	–	–	–	(19)	(19)
<b>Net debt as of 31 December 2017</b>	<b>250</b>	<b>9</b>	<b>(1,081)</b>	<b>(1,166)</b>	<b>(460)</b>	<b>(291)</b>	<b>(7)</b>	<b>(12)</b>	<b>(2,758)</b>
Change in accounting policy	–	–	(16)	(35)	–	–	–	–	(51)
<b>Adjusted net debt as at 1 January 2018</b>	<b>250</b>	<b>9</b>	<b>(1,097)</b>	<b>(1,201)</b>	<b>(460)</b>	<b>(291)</b>	<b>(7)</b>	<b>(12)</b>	<b>(2,809)</b>
Cash flows	16	10	273	(264)	369	(79)	137	(1)	461
Interest accrued (Notes 11, 28)	–	1	(48)	(134)	(22)	(13)	(5)	(2)	(223)
Interest paid/(received)	–	(1)	49	99	113	12	5	2	279
Legal and consulting fees capitalised	–	–	–	13	–	–	–	–	13
Commissions capitalised	–	–	22	–	–	–	–	–	22
Effect of refinancing	–	–	(34)	17	–	–	–	–	(17)
Currency translation differences	(5)	–	4	–	–	8	–	–	7
Equipment received under finance lease	–	–	–	–	–	–	–	(6)	(6)
Transfers	–	–	239	(239)	–	–	–	–	–
Acquisition of associate	–	–	–	–	–	–	(190)	–	(190)
<b>Net debt as of 31 December 2018</b>	<b>261</b>	<b>19</b>	<b>(592)</b>	<b>(1,709)</b>	<b>–</b>	<b>(363)</b>	<b>(60)</b>	<b>(19)</b>	<b>(2,463)</b>

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 20 DEFERRED CONSIDERATION AND SELLER'S NOTES

	31 December 2018	31 December 2017
Current portion	60	7
<b>Total deferred consideration and seller's notes</b>	<b>60</b>	<b>7</b>

In July 2018, the Group has acquired stake in the Pokrovske coal business for US\$190 million of which US\$60 remain outstanding as at the reporting date. The amount is payable through the end of 2019 bearing interest of 8% p.a. For the details on the arrangement refer to Note 12.

US\$7 million outstanding as of 31 December 2017 represented consideration payable for acquisition of United Coal Company LLC (Group's subsidiary) in 2009. The balance was paid off at the beginning of 2018.

As at 31 December 2018, nominal interest rate of deferred consideration and seller's notes approximated effective interest rate.

As of 31 December 2018 and 31 December 2017, the fair value of deferred consideration and seller's notes approximated their carrying amount.

### 21 RETIREMENT BENEFIT OBLIGATIONS

The Group's defined benefit obligations relate to:

	31 December 2018	31 December 2017
State-defined early pensions for employees working in hazardous and unhealthy working conditions	391	352
Long-term employee benefits under collective bargaining agreements	20	17
<b>Total defined benefit obligations</b>	<b>411</b>	<b>369</b>

Nature and the risks and uncertainties associated with the Group's defined benefit obligations are further disclosed in the Note 4.

In October 2017, there were certain changes introduced to the Law of Ukraine on Mandatory State Pension Insurance.

- Increase in retirement age and required employment period which resulted in increase of preferential pensions period covered by the Group and consequently past service costs.
- Decrease of index used in the calculation of insurance period which subsequently led to decrease of pensions amount.
- The Government of Ukraine deblocked pensions indexation starting from 2019 which are now estimated as 50% of salary increase and 50% of inflation.

In addition retirement benefit obligations in 2017 were impacted by the events as described in Note 8.

Changes in the present value of the defined benefit obligation were as follows:

	2018	2017
<b>Defined benefit obligation as at 1 January</b>	<b>369</b>	<b>326</b>
Current service cost	10	7
Remeasurements of the defined benefit liability resulting from:		
– changes in financial assumptions	(30)	36
– changes in demographic assumptions	1	48
– experience adjustments	40	18
Negative past service cost	–	(59)
Interest cost	44	42
Benefits paid	(27)	(23)
Curtailment (Note 8)	–	(15)
Currency translation difference	4	(11)
<b>Defined benefit obligation as at 31 December</b>	<b>411</b>	<b>369</b>

The amounts recognised in the consolidated income statement were as follows:

	2018	2017
Current service cost	10	7
Past service cost	–	(59)
Interest cost	44	42
<b>Total</b>	<b>54</b>	<b>(10)</b>

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**21 RETIREMENT BENEFIT OBLIGATIONS** CONTINUED

The principal actuarial assumptions used were as follows:

	31 December 2018	31 December 2017
Nominal discount rate	14.03%	12.85%
Nominal salary increase	10.0%	10.0%
Nominal pension entitlement increase (indexation)	7.2%	7.5%
Long-term inflation	6.2%	5.0%

Assumptions about mortality are based on the publicly available mortality tables for city population of the respective regions of Ukraine (depending on the location of the Group's subsidiaries) for 2018 and are consistent with the prior year.

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented below:

	2018	2017
Nominal discount rate increase/decrease by 1 pp	(34)/40	(31)/36
Nominal salary increase/decrease by 1 pp	17/(17)	20/(20)
Inflation increase/decrease by 1 pp	4/(7)	8/(10)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change significantly compared to the previous period.

As at 31 December 2018, the weighted average maturity of the Group's defined benefit obligations is 9.5 years and it varies across different Group's subsidiaries from 8.2 to 14 years (31 December 2017: 9.2 years, varying from 7 to 10.5 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2019 are US\$27 million (2018: US\$29 million).

**22 OTHER NON-CURRENT LIABILITIES**

	31 December 2018	31 December 2017
Asset retirement obligations	52	68
Tax liabilities under moratorium (Note 30)	7	7
Other non-current liabilities	24	5
Guarantee issued (Note 12)	113	–
<b>Total other non-current liabilities</b>	<b>196</b>	<b>80</b>

**23 TRADE AND OTHER PAYABLES**

	31 December 2018	31 December 2017
Trade payables and payables on sales made on commission	1,527	1,354
Dividends payable to shareholders of Metinvest B.V.	41	88
Dividends payable to non-controlling shareholders of Company's subsidiaries	9	19
Payables for acquired property, plant and equipment and other intangible assets	118	74
Other financial liabilities	27	17
<b>Total financial liabilities</b>	<b>1,722</b>	<b>1,552</b>
Prepayments received	136	124
Accruals for employees' unused vacations and other payments to employees	74	62
Other taxes payable, including VAT	128	143
Wages and salaries payable	25	18
Guarantee issued (Note 12)	8	–
Other allowances and provisions	33	32
<b>Total trade and other payables</b>	<b>2,126</b>	<b>1,931</b>



## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 24 EXPENSES BY NATURE

	2018	2017
Raw materials including change in finished goods and work in progress	2,714	2,023
Goods and services for resale, excluding related transportation	3,690	2,351
Energy materials including gas, electricity and fuel	1,117	949
Wages and salaries	606	509
Transportation services	751	642
Repairs and maintenance expenses	224	194
Pension and social security costs	103	84
Pension costs – defined benefit obligations (Note 21)	10	(52)
Depreciation and amortisation	550	525
Impairment of property, plant and equipment and other intangible assets (Notes 10, 11)	5	35
Taxes and duties	94	88
Services and other costs	340	322
<b>Total operating expenses</b>	<b>10,204</b>	<b>7,670</b>
<b>Classified in the consolidated income statement as:</b>		
– cost of sales	9,093	6,756
– distribution costs	885	721
– general and administrative expenses	226	193
<b>Total operating expenses</b>	<b>10,204</b>	<b>7,670</b>

During 2018 the Group has recognised within distribution costs US\$741 million of transportation expenses related to delivery of goods to customers which under IFRS 15 Revenue from Contracts with Customers is considered as separate performance obligation and recognised as revenue over time as the transportation services provided to customers.

Raw materials include externally purchased coke and coal, iron ore, scrap metal, ferroalloys, ancillary and other materials and cost of their transportation.

**Auditor's fees.** The following fees were expensed in the consolidated income statement in the reporting period:

	2018	2017
Audit of the financial statements (including audit fee of the signing firm of US\$0.2 million in 2018 and US\$0.2 million in 2017)	2	2
<b>Total</b>	<b>2</b>	<b>2</b>

During 2018, tax and other non-audit services expensed in the consolidated income statement amounted to US\$0.3 million and US\$0.7 million respectively (2017: US\$0.1 million and US\$0.1 million), including US\$0.2 million of other non-audit services fees of signing firm during 2018 (nil during 2017).

### 25 OTHER OPERATING INCOME/(EXPENSE), NET

Other operating income and expenses for the year ended 31 December were as follows:

	2018	2017
Charity and expenses on social activities	(16)	(10)
Maintenance of social infrastructure	(9)	(8)
VAT on sales below cost and VAT write-off	(7)	(7)
Impairment of trade and other receivables (Note 14)	(73)	(7)
Operating foreign exchange gains less losses, net	(70)	66
Gain on disposal of property, plant and equipment, net	10	7
Write-off of trade and other payables	33	–
Other income/(expense), net	12	(2)
<b>Total other operating income/(expense), net</b>	<b>(120)</b>	<b>39</b>

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**26 FINANCE INCOME**

Finance income for the year ended 31 December was as follows:

	2018	2017
Net foreign exchange gain	23	–
Interest income:		
– loans issued	21	21
– bank deposits	8	4
– imputed interest on other financial instruments	7	–
Other finance income	9	4
<b>Total finance income</b>	<b>68</b>	<b>29</b>

Net foreign exchange gains arise on intragroup loans and dividends payable between the entities with different functional currencies. During 2018 other finance income is presented by amortisation of the guarantee issued (Note 12).

**27 FINANCE COSTS**

Finance costs for the year ended 31 December were as follows:

	2018	2017
Net foreign exchange loss	–	50
Interest expense on:		
– borrowings	57	98
– bonds	134	128
– deferred consideration and seller's notes	5	6
Interest cost on retirement benefit obligations	44	42
Refinance fees	60	–
Loss on modification	17	–
Other finance costs	17	26
<b>Total finance costs</b>	<b>334</b>	<b>350</b>

During 2018 and 2017, other finance costs mainly include factoring fees and discounting of the financial instruments.

Net foreign exchange losses arise on intragroup loans and dividends payable between the entities with different functional currencies.

**28 INCOME TAX**

Income tax for the year ended 31 December was as follows:

	2018	2017
Current tax	306	241
Deferred tax	(31)	(17)
<b>Income tax expense</b>	<b>275</b>	<b>224</b>

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2018, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2017: 18%). In 2018, the tax rate for Swiss operations was 10% (2017: 10%) and for European companies tax rate in 2018 varied from 10% to 28% (2017: varied from 10% to 28%). The tax rate for US operations was 21% (2017: 35%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2018	2017
<b>IFRS profit/(loss) before tax</b>	<b>1,463</b>	<b>841</b>
Tax calculated at domestic tax rates applicable to profits in the respective countries	202	72
Tax effect of items not deductible or assessable for taxation purposes:		
– impairment of non-current assets at UCC (Notes 9, 10)	–	13
– impairment of trade and other receivables	–	–
– other non-deductible expenses	65	66
– non-taxable income	–	(7)
Tax benefits	(19)	–
Under/(Over) provision of current tax in prior years	2	–
Write-down/(Reversal of write-down) of deferred tax assets, net	25	80
<b>Income tax expense/(benefit)</b>	<b>275</b>	<b>224</b>

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 28 INCOME TAX CONTINUED

The effect of events described in Note 8 is included in the write-down of deferred tax assets stated above for the year ended 31 December 2017.

Other non-tax deductible expenses include mainly the expenses incurred by Metinvest B.V. and other subholdings where no sufficient taxable profits are expected to utilise these.

The weighted average applicable tax rate was 14% in 2018 (2017: 9%). Variation in weighted average tax rate is mostly due to variation in profitability of the Group's subsidiaries in Ukraine some of which are profitable and some are loss making.

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	1 January 2018 (adjusted)	Credited/ (Charged) to income statement	Credited/ (Charged) to other comprehensive income	Currency translation difference	31 December 2018
<b>Tax effect of deductible temporary differences</b>					
Property, plant and equipment and intangible assets	3	(1)	–	–	2
Long-term receivables	3	–	–	–	3
Inventory valuation	25	(9)	–	–	16
Trade and other accounts receivable	34	5	–	–	39
Accrued expenses	20	(19)	–	–	1
Tax losses carried forward	5	2	–	–	7
Retirement benefit obligations	63	(1)	–	1	63
Other	54	(1)	–	(1)	52
<b>Gross deferred tax asset</b>	<b>207</b>	<b>(24)</b>	<b>–</b>	<b>–</b>	<b>183</b>
Less offsetting with deferred tax liabilities	(94)	(10)	–	1	(103)
<b>Recognised deferred tax asset</b>	<b>113</b>	<b>(34)</b>	<b>–</b>	<b>1</b>	<b>80</b>
<b>Tax effect of taxable temporary differences</b>					
Property, plant and equipment and intangible assets	(384)	58	–	(6)	(332)
Inventory tax differences	(4)	(4)	–	–	(8)
Other	(6)	1	–	1	(4)
<b>Gross deferred tax liability</b>	<b>(394)</b>	<b>55</b>	<b>–</b>	<b>(5)</b>	<b>(344)</b>
Less offsetting with deferred tax assets	94	10	–	–	104
<b>Recognised deferred tax liability</b>	<b>(300)</b>	<b>65</b>	<b>–</b>	<b>(5)</b>	<b>(240)</b>

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**28 INCOME TAX CONTINUED**

Deferred tax asset on unused tax losses not recognised of Ukrainian subsidiaries as at 31 December 2018 comprised US\$81 million (31 December 2017: US\$80 million). There are no expiry dates on tax losses carried forward in Ukraine and Italy. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable; future taxable profits are estimated using the cash flow forecasts used for impairment testing of non-current assets.

	1 January 2017	Credited/ (Charged) to income statement	Credited/ (Charged) to other comprehensive income	Currency translation difference	31 December 2017
<b>Tax effect of deductible temporary differences</b>					
Property, plant and equipment and intangible assets	4	(1)	–	–	3
Long-term receivables	2	1	–	–	3
Inventory valuation	9	16	–	–	25
Trade and other accounts receivable	30	1	–	(1)	30
Accrued expenses	19	1	–	–	20
Tax losses carried forward	52	(47)	–	–	5
Retirement benefit obligations	50	(2)	17	(2)	63
Other	52	(2)	–	4	54
<b>Gross deferred tax asset</b>	<b>218</b>	<b>(33)</b>	<b>17</b>	<b>1</b>	<b>203</b>
Less offsetting with deferred tax liabilities	(122)	34	(7)	1	(94)
<b>Recognised deferred tax asset</b>	<b>96</b>	<b>1</b>	<b>10</b>	<b>2</b>	<b>109</b>
<b>Tax effect of taxable temporary differences</b>					
Property, plant and equipment and intangible assets	(480)	49	39	8	(384)
Inventory tax differences	(3)	(1)	–	–	(4)
Other	(7)	2	–	(1)	(6)
<b>Gross deferred tax liability</b>	<b>(490)</b>	<b>50</b>	<b>39</b>	<b>7</b>	<b>(394)</b>
Less offsetting with deferred tax assets	122	(34)	7	(1)	94
<b>Recognised deferred tax liability</b>	<b>(368)</b>	<b>16</b>	<b>46</b>	<b>6</b>	<b>(300)</b>

The tax charge relating to components of other comprehensive income is as follows:

	2018			2017		
	Before tax	Deferred tax charge	After tax	Before tax	Deferred tax charge	After tax
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	(5)	–	(5)	(228)	38	(190)
Revaluation of property, plant and equipment	–	–	–	–	–	–
Remeasurement of retirement benefit obligation	(11)	–	(11)	(102)	18	(84)
<b>Other comprehensive income</b>	<b>(16)</b>	<b>–</b>	<b>(16)</b>	<b>(330)</b>	<b>56</b>	<b>(274)</b>

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2018 and 2017, significant balances outstanding with related parties are detailed below:

	31 December 2018					31 December 2017				
	SCM Limited (Cyprus)	Associates	Joint ventures	Entities related to SCM	Smart Group	SCM Limited (Cyprus)	Associates	Joint ventures	Entities related to SCM	Smart Group
<b>ASSETS</b>										
<b>Non-current trade and other receivables, including:</b>										
receiving:	–	–	–	42	88	–	–	–	41	87
Long-term loans issued	–	–	–	42	88	–	–	–	41	87
<b>Current trade and other receivables, including:</b>										
receiving:	–	34	1,057	225	23	–	29	924	117	2
Trade receivables and receivables on commission sales	–	32	945	121	3	–	27	814	51	2
Prepayments made	–	–	2	65	–	–	–	–	52	–
Loans issued	–	–	98	26	20	–	–	98	–	–
Other financial receivables (short-term, non-interest-bearing)	–	2	12	13	–	–	2	12	14	–
<b>Cash and cash equivalents</b>	–	–	–	85	–	–	–	–	39	–

	31 December 2018					31 December 2017				
	SCM Limited (Cyprus)	Associates	Joint ventures	Entities related to SCM	Smart Group	SCM Limited (Cyprus)	Associates	Joint ventures	Entities related to SCM	Smart Group
<b>LIABILITIES</b>										
Other non-current liabilities	–	–	–	–	–	–	–	–	–	–
Non-bank borrowings	–	–	–	–	–	–	–	–	341	119
<b>Trade and other payables, including:</b>										
Dividends payable to shareholders of Metinvest B.V.	40	–	–	–	1	40	–	–	–	48
Dividends payable to non-controlling shareholders of Company's subsidiaries	–	–	–	6	–	–	–	–	15	–
Trade payables and payables on sales made on commission	–	123	648	135	–	–	32	711	97	–
Prepayments received	–	19	–	1	–	–	18	–	1	–
Other financial liabilities	1	–	5	6	–	1	–	5	3	–

In 2018, dividends paid disclosed in the consolidated statement of cash flows include US\$47 million of dividends paid by the Company to its Class B shareholder (SMART), US\$9 million paid by the Company's subsidiaries to entities related to SCM that are shareholders in such subsidiaries, and US\$2 million of payments to other non-related parties.

**NOTES TO THE SUMMARY CONSOLIDATED  
FINANCIAL STATEMENTS – 31 DECEMBER 2018** CONTINUED  
**ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS**

**29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED**

Significant transactions (excluding purchases) with related parties during 2018 and 2017 are detailed below:

	Associates	Joint ventures	Entities related to SCM	Smart Group	Total
<b>2018</b>					
<b>Sales, including:</b>	<b>9</b>	<b>1,236</b>	<b>190</b>	<b>2</b>	<b>1,437</b>
Steel	6	30	68	2	106
Scrap metal	–	52	–	–	52
Coke and coking coal	1	719	116	–	836
Iron ore	–	391	1	–	392
Other	2	44	5	–	51
<b>Other operating income/(expenses), net</b>	<b>–</b>	<b>1</b>	<b>(2)</b>	<b>–</b>	<b>(1)</b>
Expected credit losses charge	–	(2)	(1)	(1)	(4)
<b>Finance income/(expenses), including:</b>	<b>–</b>	<b>11</b>	<b>(9)</b>	<b>1</b>	<b>3</b>
Interest income – bank deposits	–	–	2	–	2
Interest income – loans issued	–	11	4	6	21
Interest expense – borrowings	–	–	(15)	(5)	(20)
<b>2017</b>					
<b>Sales, including:</b>	<b>11</b>	<b>942</b>	<b>62</b>	<b>1</b>	<b>1,016</b>
Steel	–	27	53	1	81
Scrap metal	–	33	–	–	33
Coke and coking coal	9	520	1	–	530
Iron ore	–	275	1	–	276
Other	2	87	7	–	96
<b>Other operating income/(expenses), net</b>	<b>2</b>	<b>7</b>	<b>(2)</b>	<b>–</b>	<b>7</b>
<b>Finance income/(expenses), including:</b>	<b>–</b>	<b>11</b>	<b>(22)</b>	<b>(3)</b>	<b>(14)</b>
Interest income – bank deposits	–	–	1	–	1
Interest income – loans issued	–	11	4	6	21
Interest expense – borrowings	–	–	(27)	(9)	(36)

The following is a summary of purchases from related parties in 2018 and 2017:

	Associates	Joint ventures	Entities related to SCM	Smart Group	Total
<b>2018</b>					
<b>Purchases, including:</b>	<b>171</b>	<b>2,108</b>	<b>1,349</b>	<b>–</b>	<b>3,628</b>
Metal products	–	2,049	10	–	2,059
Coke and coking coal	141	3	83	–	227
Raw materials and spare parts	23	45	83	–	151
Electricity	–	–	431	–	431
Gas	–	6	325	–	331
Fuel	–	–	64	–	64
Services	3	1	313	–	317
Other	4	4	40	–	48
<b>2017</b>					
<b>Purchases, including:</b>	<b>38</b>	<b>1,523</b>	<b>1,174</b>	<b>1</b>	<b>2,736</b>
Metal products	–	1,466	12	–	1,478
Coke and coking coal	17	–	54	–	71
Raw materials and spare parts	13	48	64	1	126
Electricity	–	–	386	–	386
Gas	–	5	236	–	241
Fuel	–	–	50	–	50
Services	–	2	314	–	316
Other	8	2	58	–	68

During 2018, the Group has acquired the non-controlling interest of Ferriera Valsider S.p.A. from SCM related entity for US\$42 million, the outstanding payable for the interest acquired as at 31 December 2018 is US\$6 million.

Not included in the tables above are the Group's transactions on purchase and further re-sale of iron ore, coal and steel products from or to joint ventures where the Group is acting as an agent and not as principal. Income and costs related to such transactions are presented net within revenue in 2018 and net within other operating income in 2017. The Group's net gain on such transactions was US\$18 million in 2018 (2017: US\$11 million).

## 29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED

In 2018, the remuneration of key management personnel of the Group comprised current salaries and related bonuses paid totalling US\$15.3 million (in 2017: US\$13.3 million).

As at 31 December 2018 and 2017, key management held the Group's bonds in the total amount of less than US\$1 million. Rights of these bondholders are not different from the rights of other bondholders.

## 30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

**Tax legislation.** Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. As a result, there is significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's operations are vertically integrated and a significant portion of the Group's iron ore, coke and coal production is used in the subsequent production operations. Because of non-explicit requirements of the applicable tax legislation, intercompany transactions may be assessed by the Ukrainian tax authorities as non-market. Such transactions have not been challenged in the past by the tax authorities. However, it is possible with evolution of the interpretation of tax law in Ukraine and other jurisdictions plus changes in the approach of tax authorities, that such transactions could be challenged in the future.

The tax legislation had been expanded with the new transfer pricing rules effective from 1 September 2013 that are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles. The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and is not supported by relevant documentation. Since 1 January 2015, the transfer pricing rules were amended so that transactions between Ukrainian companies (irrespective whether they are related parties or not) ceased to be treated as controlled transactions.

Management believes it is taking appropriate measures to ensure compliance with the new transfer pricing legislation.

**Bankruptcy proceedings.** During 2006, bankruptcy proceedings were initiated against the Group's subsidiary PrJSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relate to the Group thus are eliminated on consolidation. As at 31 December 2018, the amount of financial and tax liabilities related to the bankruptcy proceedings recorded in these consolidated financial statements is US\$10 million (31 December 2017: US\$10 million), out of which US\$7 million (31 December 2017: US\$7 million) are presented as non-current tax liabilities under moratorium (Note 22).

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

**Environmental matters.** The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations (including asset retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

**Capital expenditure commitments.** As at 31 December 2018, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US\$295 million (31 December 2017: US\$185 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

**Guarantees issued.** As at 31 December 2018 the Group has issued a financial guarantee related to the settlement of the obligations for acquisition of associate as disclosed in Note 12.

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including increase in the cost of borrowings and declaration of default. As at 31 December 2018, the Group was in compliance with the covenants.

**Insurance.** Metinvest maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law, including life and health insurance; third-party liability insurance on hazardous industrial assets and in respect of cargo and motor vehicles; voluntary insurance cover for most of its production facilities and in respect of cargo and motor vehicles; 'All Risk' insurance to cover property damage and provide business interruption coverage including 'inter-dependency' coverage for its key production facilities in Ukraine; property damage and business interruption policies in respect of its European and US assets.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## 31 FINANCIAL RISK MANAGEMENT

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

### (A) MARKET RISK.

#### (I) FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through: (i) borrowings denominated in the relevant foreign currencies; and (ii) different treasury operations such as forward, swap and others.

Foreign exchange risk is managed centrally by the Group's treasury. The Group's treasury has set up a policy to manage foreign exchange risk. The Group's treasury sets limits on the level of exposure by currency and maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks without permission of the Group's treasury.

At 31 December 2018, if the UAH had strengthened/weakened by 25% against the US dollar with all other variables held constant, post-tax profit for the year would have been US\$128 million lower/higher (2017: if the UAH strengthened/weakened by 25% against US\$ dollar, post-tax profit for the year would have been US\$61 million lower/higher), mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated trade receivables and foreign exchange gains/losses on translation of US dollar-denominated intragroup borrowings and dividends payable.

#### (II) PRICE RISK

The Group's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that the Group sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that the Group receives from the sale of its steel or mined products.

The Group's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self-sufficient for iron ore and certain portion of coking coal requirements.

No financial instruments are exposed to price risk.

#### (III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings attracted at variable rates expose the Group to cash flow interest rate risk. Borrowings attracted at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2018, 69% of the total borrowings were provided to the Group at fixed rates (31 December 2017: 54%). During 2018 and 2017, the Group's borrowings at variable rate were denominated in US\$, EUR and GBP.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of attracting new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Refer to Notes 14, 19 and 31 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2018, if interest rates on US\$, EUR and GBP denominated floating rate borrowings had been by 1 pp higher/lower (2017: 1 pp) with all other variables held constant, post-tax profit for the year would have been US\$7 million lower/higher (2017: US\$11 million).

### (B) CREDIT RISK

Credit risk is managed centrally by the Group management. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions and financial guarantees issued. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable. Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.



## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 31 FINANCIAL RISK MANAGEMENT CONTINUED

#### (B) CREDIT RISK CONTINUED

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk as at 31 December 2018 is US\$3,532 million (2017: US\$2,310 million) being the carrying value of long and short-term loans issued and receivables and cash and the amount of the commitment in respect of the financial guarantees issued as disclosed in Note 31(c) below. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance. The Group does not hold any collateral as security. Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets, and management does not expect any significant losses from non-performance by these counterparties.

#### (C) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

As at 22 March 2017, the Group has completed the restructuring of its debts to achieve healthy liquidity position and maintains its ability to continue operating on a going concern basis.

The Group treasury analyses the ageing of Group's assets and the maturity of Group's liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Cash flows from borrowings were calculated using spot rates.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>At 31 December 2018</b>				
Bank borrowings	130	218	319	12
Trade finance	363	–	–	–
Bonds	176	139	1,410	778
Seller's notes	65	–	–	–
Guarantee	45	120	484	69
Finance lease	6	6	13	–
Financial trade and other payables	1,722	24	–	7
<b>Total</b>	<b>2,507</b>	<b>507</b>	<b>2,226</b>	<b>866</b>
<b>At 31 December 2017</b>				
Bank borrowings	25	335	918	–
Trade finance	255	38	–	–
Bonds	38	120	1,555	–
Non-bank borrowings	–	–	636	–
Seller's notes	7	–	–	–
Finance lease	2	10	–	–
Financial trade and other payables	1,552	–	–	–
<b>Total</b>	<b>1,879</b>	<b>503</b>	<b>3,109</b>	<b>–</b>

### 32 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and Seller's Notes (including current and non-current parts) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

## ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

### 32 CAPITAL RISK MANAGEMENT CONTINUED

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within two to five years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy.

	31 December 2018	31 December 2017
Total loans and borrowings (Note 19)	2,683	3,010
Seller's notes and deferred consideration (Note 20)	60	7
Less: cash and cash equivalents (Note 15)	(280)	(259)
<b>Net debt</b>	<b>2,463</b>	<b>2,758</b>
Total equity	5,403	4,308
<b>Total capital</b>	<b>7,866</b>	<b>7,066</b>
<b>Gearing ratio</b>	<b>31%</b>	<b>39%</b>

### 33 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date, which is Level 1 of fair valuation hierarchy. The quoted market price used for financial assets held by the Group is the current bid price. This valuation technique is used for fair value disclosures of bonds issued.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows are used to determine fair value for seller's notes. Calculation is based on current interest rates for new instruments with similar credit risk, currency and remaining maturity; such estimation represents Level 3 of fair value hierarchy.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The estimated fair value and related methods and assumptions used for the valuation of the option received are disclosed in Note 12.

**Financial assets carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of financial assets carried at amortised cost approximate their fair values.

**Financial liabilities carried at amortised cost.** The fair value is based on quoted market prices, if available. Except as discussed in the Note 19, the estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ('demandable liabilities') is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Notes 19, 20 and 22).

### 34 RECONCILIATION OF CLASSES OF FINANCIAL INSTRUMENTS WITH MEASUREMENT CATEGORIES

All of the Group's financial assets and financial liabilities are carried at amortised cost, except for investments in associates and joint ventures which are accounted for by the equity method of accounting, trade receivables subject to factoring and the option carried at fair value through profit or loss.

### 35 ACCOUNTING POLICIES EFFECTIVE PRIOR TO 1 JANUARY 2018

The Group applied IFRS 9 and IFRS 15 using a modified retrospective approach from 1 January 2018, which means that the cumulative impact of the adoption was recognised in retained earnings as of 1 January 2018 and that comparatives were not restated. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

**Classification of financial assets.** All the Group's financial assets are loans and receivables.

Loans and receivables are financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term or which are quoted in an active market. Loans and receivables comprise primarily loans, trade and other accounts receivable including purchased loans and promissory notes. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

**Initial recognition of financial instruments.** The Group's principal financial instruments comprise loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

### 35 ACCOUNTING POLICIES EFFECTIVE PRIOR TO 1 JANUARY 2018 CONTINUED

The Group's financial assets and liabilities are initially recognised at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost.

**Subsequent measurement of financial instruments.** Subsequent to initial recognition, the Group's financial liabilities and loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

**Derecognition of financial assets.** The Group derecognises financial assets when: (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired; or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets; or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group enters into transactions in the normal course of business by which it transfers financial assets to third parties. Depending on the circumstances, these transfers may either result in these financial assets being derecognised or continuing to be recognised.

Full derecognition occurs when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, foreign currency, prepayment and other price risks.

Derecognition does not occur when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but either:

- retains substantially all of the risks and rewards of ownership of the transferred asset; or
- neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control of the financial asset. In this situation, the financial assets are recognised on the balance sheet to the extent of Group's continuing involvement.

**Trade and other financial receivables.** Trade and other financial receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement against other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement against other operating expenses.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

**Cash and cash equivalents.** Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly-liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets. Cash and cash equivalents are carried at amortised cost using effective interest rate method.

**Derecognition of financial liabilities.** A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, are recognised in profit or loss. If the exchange or modification of financial liability is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018 CONTINUED

### 35 ACCOUNTING POLICIES EFFECTIVE PRIOR TO 1 JANUARY 2018 CONTINUED

**Revenue recognition.** Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### (A) SALE OF GOODS, BY-PRODUCTS AND MERCHANDISE

The Group manufactures and sells a range of steel products to large, medium and small size customers. By-products and merchandise are sold to the same range of customers. Revenues from sales of goods, by-products and merchandise are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. The Group normally uses standardised Incoterms such as cost-and-freight (CFR), free-carrier (FCA), cost-insurance-freight (CIF), free-on-board (FOB) and ex-works (EXW) which define the point of risks and rewards transfer. Revenue is recorded on an accrual basis as earned.

Sales are recorded based on the price indicated in the specifications to the sales contracts. The sales price is established separately for each specification.

The Group also engages in sale and purchase transactions the objective of which is to manage cash flows and/or to sell the products of its joint ventures through the Group's sales channels and where the Group acts as an agent. Such transactions are not revenue generating to the Group and accordingly such sales and purchases are presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross.

#### (B) INTEREST INCOME

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

#### (C) SALE OF SERVICES

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

#### (D) DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

#### (E) COMMISSION INCOME

The Group acts as an agent for sales transactions on behalf of the third parties. The commission income received by the Group as a fee for facilitating such transactions is recognised at the point of transfer of risks and rewards of ownership of the goods to the customers of the third parties. Such income is reported as part of other operating income.

### 36 EVENTS AFTER THE BALANCE SHEET DATE

In January 2019, the Group acquired 23.71% effective interest in PrJSC 'Yuzhcoke', the Ukrainian producer of metallurgical coke, for the consideration of US\$30 million. Management is currently assessing the financial impact of the transaction.

On 11 January 2019, the Management Board of Metinvest B.V. has approved the distribution of dividends to its Class B shareholder (SMART) out of 2017 profits in the amount of US\$60 million.

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## GLOSSARY

### TECHNICAL METALS AND MINING TERMS

#### Bars

Long steel products that are rolled from billets. Merchant bar and reinforcing bar (rebar) are two common categories of bars. Merchant bar includes rounds, flat-bulbs, angles, squares and channels that are used by fabricators to manufacture a wide variety of products, such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete in highways, bridges and buildings.

#### Basic oxygen furnace (BOF)

A pear-shaped furnace, lined with refractory bricks, which refines molten iron from the blast furnace and scrap into steel due to the oxidising action of oxygen blown into the melt under a basic slag. The basic oxygen process is the most powerful and effective steel making method. About 67% of the crude steel in the world is made in BOFs.

#### Blast furnace (BF)

A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. Its name comes from the 'blast' of hot air and gases forced up through the iron ore, coke and limestone that load the furnace. Under extreme heat, chemical reactions among the ingredients release liquid iron from the ore.

#### Coils

Hot, cold or coated flat-rolled products, supplied in regularly wound coils.

#### Coke

Coke is the solid product obtained from the dry distillation of coking coal in the absence of oxygen. Depending on property, coke is known as hard coke, soft coke and metallurgical coke.

#### Coking coal

Coking coal is those varieties of coal that, on heating in the absence of oxygen (a process known as carbonisation), undergo transformation into a plastic state, swell and then re-solidify to produce a cake. On quenching, the cake results in a strong and porous mass called coke. Coking coal needed to produce blast furnace coke (the right type of fuel/reductant needed for a blast furnace) is characterised by certain specific properties in terms of appropriate composition (low ash (up to 10%), volatile matter (17-26%) and low sulphur and phosphorous content, etc).

#### Cold rolling

Plastic deformation of a metal at room temperature that might result in substantial increases in strength and hardness. The usual end product is characterised by improved surface, greater uniformity in thickness and improved mechanical properties compared with hot-rolled steels. Cold-rolled products typically include sheets, coils, strips and rebars, among others.

#### Continuous casting

A method of casting steel into a billet, bloom or slab directly from its molten form. Continuous casting avoids the need for large, expensive mills for rolling ingots into semi-finished products. Continuous cast slabs and billets also solidify in a few minutes, compared with several hours for an ingot. As a result, the chemical composition and mechanical properties are more uniform. Steel from the BOF or electric furnace is poured into a tundish (a shallow vessel that looks like a bathtub) atop the continuous caster. As steel carefully flows from the tundish down into the water-cooled copper mould of the caster, it solidifies into a ribbon of red-hot steel to form slabs or blooms.

#### Continuous improvement (CI)

An aspect of lean manufacturing, CI encompasses various changes in business processes that aim to improve operational results by taking a systematic approach to analysing problems and finding solutions throughout an organisation.

#### Crude steel

Liquid steel used to make steel castings. The term is also internationally used to mean the steel produced in basic oxygen furnaces, electric arc furnaces and open-hearth furnaces.

#### Crusher and conveyor system

A transportation system used to move bulk materials from mine shafts and open pits to the surface for further processing.

#### Downstream

In manufacturing, this term refers to processes that happen later in a production sequence or production line.

#### Direct reduced iron (DRI)

Solid metallic iron product obtained upon direct reduction of high-grade iron ore in solid state itself without being converted into liquid form like that in a blast furnace. DRI is also known as sponge iron because of its spongy micro structure. Merchant DRI product is delivered mainly in the form of pellets or briquettes.

#### Environmental Impact Identification (ENVID)

A systematic approach designed to identify and reduce the risk of incidents that can damage the surrounding environment, and to limit the environmental impact throughout the production process.

#### Enterprise Resource Planning (ERP)

An integrated system of software applications used by companies to monitor all core aspects of their business, such as purchasing to manufacturing to sales, facilitating information sharing and allowing managers to make decisions informed by a global view of what is happening across the supply chain.

#### Fe content

The chemical symbol for iron, Fe, comes from the Latin word 'ferrum'. Fe content refers to the iron content of an ore.

#### Ferroalloy

Alloys consisting of certain elements (Mn, Si, Mo, V, Ni, B, Cr and so on) combined with iron and used in steelmaking to reach the necessary chemical composition and properties of steel products. In some cases, the ferroalloys may serve as deoxidisers.

#### Finished products

Products that emerge at the end of a manufacturing process. In metallurgy, these products are obtained from hot rolling, cold rolling, forging and other processing of semi-finished steel (blooms, billets and slabs). These cover two broad categories of products, namely long and flat.

#### Flat products

Finished steel flat products are produced from slabs or thin slabs in rolling mills using flat rolls. These are supplied in hot-rolled, cold-rolled or in coated condition, depending on the requirement. Flat products include plates, sheets and wide and narrow strips.

#### Galvanised steel

Steel coated with a thin layer of zinc to provide corrosion resistance. Flat steel normally must be cold-rolled before the galvanising stage.

#### Hard coking coal (HCC)

Hard coking coal is a type of coking coal with better coking properties, which is traditionally measured by the CSR (coke strength after reaction) of coke made from a specific kind of coal. Usually the CSR for HCC is assumed to be about 60%.

#### Hazard and Operability Study (HAZOP)

A structured and systematic examination of a planned or existing process or operation, aiming to identify and evaluate problems that may represent risks to personnel or equipment or prevent efficient operation.



**Hazard Identification (HAZID)**

A systematic approach designed to identify and reduce the risk of dangerous incidents, and to ensure safety throughout the production process.

**Heavy plate**

Thick flat finished product with a width from 500 millimetres to 5 metres and a thickness of at least 3 millimetres. Plates are normally produced and supplied in hot-rolled condition with or without specific heat treatment. Heavy plate is mainly used for construction, machinery, shipbuilding or large-diameter pipe fabrication.

**Hot rolling**

Rolling of steel at above the re-crystallisation temperature (normally above 1,000°C) to produce hot-rolled long and flat products from semis. Ingots are also hot-rolled to obtain semis.

**Human resources (HR)**

HR broadly refers to the people who make up the workforce of a company, while also frequently referring to the HR management function that is responsible for ensuring the recruitment and retention of qualified employees, managing goal setting and assessments, overseeing the process of training and further education to meet company requirements and employee potential, and other processes required to maintain an effective workforce.

**Ingot**

The primary solid product obtained upon solidification of liquid steel in conventional vertical cast iron moulds, which are intended for rolling into intermediate/semi-finished products after re-heating.

**Integrated steelmaking plant**

A producer that converts iron ore into semi-finished or finished steel products. Traditionally, this process required coke ovens, sintering machines, blast furnaces, steelmaking furnaces and rolling mills.

**Iron ore**

A naturally occurring mineral from which iron (Fe) is extracted in various forms, mainly for producing hot metal and direct-reduced iron.

**Iron ore concentrate**

Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed.

**Lean manufacturing**

An approach to manufacturing processes that focuses on creating value for the end user and eliminating waste.

**Lock out, tag out, try out (LOTOTO)**

A standard that is used to isolate hazardous energy during repair and maintenance work.

**Long products**

Finished steel products produced normally by hot rolling or forging blooms, billets and pencil ingots into useable shapes and sizes (such as rounds, flat-bulbs, angles, squares, rebars, channels, etc). They are normally supplied in straight or cut length, except wire rods, which are supplied in irregularly wound coils. Long products are used in all industrial sectors, particularly in the construction and engineering industries.

**Lost-time injury frequency rate (LTIFR)**

An internationally recognised safety indicator, the LTIFR is the ratio of lost-time injuries per million hours worked. It is calculated using the total number of incidents leading to the loss of one day/shift or more from work.

**Mineral**

A natural inorganic substance that is definite in both chemical composition and physical characteristics, or any chemical element or compound occurring naturally as a product of inorganic processes.

**Mineral resources**

The known mineral concentration, estimated and interpreted from specific geological evidence and knowledge and with reasonable prospects for economic extraction.

**Open-hearth furnace (OHF)**

A furnace for melting metal, in which the bath is heated by the combustion of hot gases over the surface of the metal and by radiation from the roof. This furnace is used to derive steel from pig iron and scrap. The open-hearth process has been replaced by the basic oxygen process and electric arc method in most modern facilities.

**Overburden**

Used in mining to describe material that lies above the area of economic interest, e.g. the rock and soil that lies above the iron ore body. Overburden is removed during surface mining, but is typically not contaminated with toxic components and may be used to restore a mining site to a semblance of its appearance before mining began.

**Pelletising**

Pelletising is the process of compressing or moulding a product into the shape of a pellet. When doing so with iron ore concentrate, spheres of typically 8-18 millimetres (0.31-0.71 inches) in diameter are produced. The process combines agglomeration and thermal treatment to convert the raw ore into pellets with characteristics appropriate for use in a blast furnace and DRI processes.

**Pelletising machine**

Specific equipment designed for production of pellets (see Pelletising).

**Pellets**

An enriched form of iron ore shaped into small balls or pellets, that are used as raw material in the iron making process (see Pelletising).

**Permit-to-work procedure**

A process used to control work that is identified as possibly hazardous.

**Pickling line**

Specialised equipment for the chemical removal of surface oxides (scale) and other contaminants such as dirt from steel product by immersion in an aqueous acid solution. The most common pickling solutions are sulfuric and hydrochloric acids.

**Pig iron**

High-carbon (above 2.14%) iron alloy made by reducing iron ore in a blast furnace. A product in solid (lumpy) form obtained on solidification of hot metal in pig casting machine. It is called pig iron because of its typical humpy shape.

**Pulverised coal injection (PCI)**

Technologies whereby pulverised/granulated/dust coal is injected into the blast furnace through the tuyeres along with the blast to replace natural gas and a part of the coke requirement.

**Public relations (PR)**

Communications between an organisation and external stakeholders, in particular members of the general public, aimed at communicating both a positive impression of the organisation and its activities and identifying and addressing negative perceptions. PR uses mass and targeted media as well as public events and other outreach.

**Reserves (proven, probable, recoverable)**

Proven ore reserves are the part of measured resources that can be mined in an economically viable fashion. They include diluting materials and allowances for losses that occur when the material is mined. Proven ore reserves represent the highest confidence category of a reserve estimate.

Probable ore reserves are the part of indicated and, in some circumstances, measured mineral resources that can be mined in an economically viable fashion. They include diluting material and allowances for losses, which may occur when the material is mined. Probable ore reserves have a lower level of confidence than proven ones but are of sufficient quality to serve as the basis for a decision to develop a deposit.

**Roasting machine**

One of the types of equipment used to purify the metal component(s) at elevated temperatures. Such machines usually have variable temperatures so that they can process different types of ore.

## GLOSSARY CONTINUED

### **Rolled products**

Products obtained from hot rolling semi-finished steel (blooms, billets and slabs) or cold rolling hot-rolled steel.

### **Scrap**

Steel waste that is not usable in its existing form and is re-melted to produce crude steel or sold. Depending on its form and type, it is classified as heavy melting scrap, light melting scrap or turnings/borings, etc.

### **Sections**

Hot-rolled long products obtained by rolling blooms or billets. They include angles, channels, girders, joists, I-beams, H-beams, rails and so on. Sections can also be produced by welding together pieces of flat products. They can be used for a wide variety of purposes in the construction, machinery and transportation industries.

### **Semi-finished products**

Intermediate solid steel products obtained by hot rolling or forging ingots or by continuous casting liquid steel. They are intended for further rolling or forging to produce finished steel products.

### **Sinter**

An aggregate that is normally produced from relatively coarse fine iron ore, mixed with coke breeze, limestone dolomite fines and various metallurgical return wastes used as an input/raw material in blast furnaces. Sinter improves blast furnace operation and productivity and reduces coke consumption.

### **Slab**

A semi-finished rectangular wide steel product used to make finished hot-rolled flat products such as plates, sheets and coils.

### **Square billet**

A semi-finished steel product with a square cross section of up to 200 millimetres x 200 millimetres. This product is used as input material to make finished long steel products such as bars, rods and light sections.

### **Wire**

A broad range of products produced by cold-reducing hot-rolled wire rod through a series of dies or through rolls to improve surface finish, dimensional accuracy and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.

### **Wire rod**

Hot-rolled coiled plain bar and rods of up to 18.5 millimetres in diameter. Wire rod is normally used to make steel wire, cold-rolled rebar and hardware.

# ABBREVIATIONS

## COMPANY ABBREVIATIONS

### **Avdiiivka Coke**

PJSC 'AVDIIVKA COKE'

### **Azovstal**

PJSC 'AZOVSTAL IRON & STEEL WORKS'

### **Central GOK**

PJSC 'CENTRAL GOK'

### **Donetsk Coke**

PJSC 'DONCOKE'

### **Ferriera Valsider**

Ferriera Valsider S.P.A.

### **Ilyich Steel**

PJSC 'ILYICH IRON AND STEEL WORKS OF MARIUPOL'

### **Ingulets GOK**

PJSC 'INGULETS GOK'

### **Inkor Chemicals**

'SMA 'INKOR & Co' LLC

### **Khartsyzk Pipe**

PJSC 'KHARTSYZSK PIPE'

### **Komsomolske Flux**

PJSC 'KOMSOMOLSKE FLUX'

### **Krasnodon Coal**

PJSC 'KRASNODON COAL COMPANY'

### **Kryvyi Rih Machining and Repair Plant**

'METINVEST – KMRP', LLC

### **Mariupol Machining and Repair Plant**

'METINVEST M&R', LLC

### **Metalen**

US JV LLC 'METALEN'

### **Metinvest**

Metinvest Group

### **Metinvest Digital**

'Metinvest Digital', LLC

### **Metinvest Distribution**

'METINVEST DISTRIBUTSIYA', LLC

### **Metinvest Engineering**

'METINVEST ENGINEERING', LLC

### **Metinvest Eurasia**

'METINVEST EURASIA', LLC

### **Metinvest Holding**

'METINVEST HOLDING', LLC

### **Metinvest International**

Metinvest International S.A.

### **Metinvest-Promservice**

'METINVEST-PROMSERVICE', LLC

### **Metinvest-SMC**

'METINVEST-SMC', LLC

### **Metinvest-Shipping**

'METINVEST-SHIPPING', LLC

### **Metinvest Trametel**

METINVEST TRAMETAL S.P.A.

### **Northern GOK**

PJSC 'NORTHERN GOK'

### **Pokrovske coal business**

Coking coal assets in Ukraine, the most significant being PJSC 'CG 'POKROVSKE' and LLC 'CONCENTRATING FACTORY 'SVIATO-VARVARYNSKA'

### **Promet Steel**

PROMET STEEL JSC

### **SCM**

A group of companies beneficially owned by Mr Rinat Akhmetov and commonly referred to as System Capital Management

### **SMART, Smart Group or Smart Holding**

A group of companies beneficially owned by Mr Vadim Novinsky

### **Southern Coke**

PJSC 'YUZHOKS'

### **Southern GOK**

PJSC 'YUZHNIY GOK'

### **Spartan UK**

Spartan UK Limited

### **Unisteel**

'UNISTEEL', LLC

### **United Coal**

United Coal Company LLC

### **Yenakiieve Steel**

PJSC 'YENAKIIIEVE STEEL', US JV LLC 'METALEN' and PJSC 'MAKIIIVKA STEEL'

### **Zaporizhia Coke**

PJSC 'ZAPORIZHCOKE'

### **Zaporizhstal**

PJSC 'ZAPORIZHSTAL'

## OTHER TERMS

### **ACCA**

Association of Chartered Certified Accountants

### **CAPEX**

Capital expenditure

### **CFA®**

Chartered Financial Analyst

### **CIS**

Commonwealth of Independent States

### **CSR**

Corporate social responsibility

### **D&A**

Depreciation and amortisation

### **EBITDA**

Earnings before interest, taxes, depreciation and amortisation

### **ECA**

Export credit agency

### **ESG**

Environmental, social and governance

### **FCCA**

Fellow of the Association of Chartered Certified Accountants

### **GRI**

Global Reporting Initiative

### **GW**

Gigawatt

### **HRC**

Hot-rolled coil

### **HSE**

Health, safety and the environment

### **HVA**

High value-added

### **IMF**

International Monetary Fund

### **ISO**

International Organisation for Standardisation

### **JSC**

Joint-stock company

### **KPI**

Key performance indicator

### **KT**

One thousand metric tonnes

### **LHS**

Left-hand side

## **ABBREVIATIONS** CONTINUED

**LLC**  
Limited liability company

**LTIFR**  
Lost-time injury frequency rate

**MCM**  
Million cubic metres

**MENA**  
Middle East and North Africa

**MT**  
One million metric tonnes

**OHSAS**  
Occupational Health and Safety  
Advisory Services

**PJSC**  
Public or private joint-stock company

**PP**  
Percentage point

**PXF**  
Pre-export finance

**RHS**  
Right-hand side

**S&OP**  
Sales and Operations Planning

**WSA**  
World Steel Association









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