METINVEST ANNOUNCES FINANCIAL RESULTS FOR THE FIRST SIX MONTHS OF 2020

8 September 2020 – Metinvest B.V., the parent company of a vertically integrated group of steel and mining companies (jointly referred to as “Metinvest” or “the Group”), announced its unaudited IFRS interim condensed consolidated financial statements for 1H 2020.

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

Summary - financial results	1H 2020	1H 2019	Change, y-o-y	
			US$ mn	%
Income statement highlights				
Revenues	4,968	5,818	-850	-15%
Adjusted EBITDA[1]	715	890	-175	-20%
Margin	14%	15%		-1 pp
Net profit	-240	408	-648	<-100%
Margin	-5%	7%		-12 pp
Cash flow highlights				
Net cash from operations	685	570	115	20%
Net cash used in investing activities	-435	-529	94	-18%
Net cash used in financing activities	-52	-40	-12	30%
CAPEX	313	482	-169	-35%

Summary - financial results	30-06-20	31-12-19	Change, YTD	
			US$ mn	%
Total debt[2]	3,010	3,032	-22	-1%
Cash and cash equivalents	465	274	191	70%
Net debt[3]	2,545	2,758	-213	-8%
Net debt/EBITDA[4]	2.5x	2.3x		0.2x

Summary - production results	1H 2020	1H 2019	Change, y-o-y	
			kt	%
Crude steel	**3,963**	**3,923**	**40**	**1%**
Azovstal	2,055	2,053	2	0%
Ilyich Steel	1,908	1,870	38	2%
Iron ore concentrate	**15,174**	**14,454**	**720**	**5%**
Northern GOK	6,368	6,078	290	5%
Ingulets GOK	6,424	6,254	170	3%
Central GOK	2,382	2,122	260	12%
Coking coal concentrate	**1,536**	**1,404**	**132**	**9%**
United Coal	1,536	1,404	132	9%

Notes:

1) Adjusted EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign-exchange gains and losses, the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures. We will refer to adjusted EBITDA as EBITDA throughout this release.
2) Total debt is calculated as the sum of bank loans, bonds, trade finance and lease liabilities.
3) Net debt is calculated as total debt less cash and cash equivalents.
4) EBITDA for the last 12 months

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ESG HIGHLIGHTS

- Metinvest took all possible measures to protect its employees and communities from the COVID-19 pandemic
- In June, Sustainalytics, a leading global provider of environmental, social and governance (ESG) research, ratings and data, completed a comprehensive assessment of the Group's performance using its ESG Risk Ratings methodology, ranking Metinvest in the top 10 within the industry group assessed by Sustainalytics and awarding Metinvest an overall ESG Risk Rating score of 32.0 on a scale between 0 (lowest risk) and 100 (highest risk)

OPERATIONAL HIGHLIGHTS

- Due to the COVID-19 pandemic, Metinvest Trametal and Ferriera Valsider in Italy shut down production operations from March 25 to April 12 and April 30, respectively
- Central GOK launched production of iron ore concentrate with 70.5% Fe content and pellets with 67.5% Fe content used in direct reduced iron (DRI) technology after completing the upgrade of its beneficiation plant
- Metinvest increased its interest in Dnipro Coke, a Ukrainian producer of coke and chemicals, and in Zaporizhia Refractories, a Ukrainian producer of refractory products and materials, to 73.01% and 50.79% in March and September, respectively, upon which they became subsidiaries of the Group

DEBT MANAGEMENT

- Metinvest secured two long-term buyer credit facilities covered by European export credit agencies for around EUR34 mn to finance the investment programme at Ilyich Steel
- The Group entered its first partnership with an international financial institution after the board of directors of the Black Sea Trade and Development Bank approved a long-term EUR62 mn facility
- Metinvest Trametal attracted a six-year, EUR15 mn term loan facility from Italy's Cassa Depositi e Prestiti S.p.A (CDP) to implement the CAPEX programme at the re-roller; the facility was issued under an Italian government programme guaranteed by SACE S.p.A., the state-owned export credit agency
- Metinvest's credit ratings were recently revised: Moody's upgraded to 'B2' (outlook 'stable'), S&P affirmed 'B' (outlook 'stable') and Fitch affirmed 'BB-' (outlook 'negative')

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

"So far in 2020, Metinvest has successfully navigated global turbulence and continued to demonstrate solid progress on its ESG agenda, focusing foremost on maintaining stable operations and keeping its people safe.

During this time, we took decisive steps to fight the spread of the COVID-19 pandemic while protecting our employees and communities. Among other steps, we ensured our workers were protected in all our plants through rigorous health protocols and switched administrative employees to remote work, in addition to implementing other safety measures. The Group also purchased and transferred free-of-charge 18,000 COVID-19 express tests to 44 medical institutions. Our overriding priority remains the health and safety of our people and communities during this emergency.

In the first half of 2020, Metinvest's financial performance was affected by weak global pricing for steel products and the COVID-19 pandemic. However, the Group's vertical integration, global sales network and the deep experience of our team have once again proven themselves. We managed to quickly adjust the product mix and redirect sales volumes among markets. As a result, Metinvest was able to benefit from China's early and robust economic recovery in the second quarter of the year, expanding ore shipments to that market by more than 3 million tonnes. We also resumed steel sales to this country, selling almost half a million of tonnes of semi-finished and finished steel products during the reporting period. Coupled with a lower cost base, the Metallurgical segment significantly improved its performance, delivering an 80% year-on-year increase in EBITDA. Overall EBITDA totalled US$715 million.

As planned, we reduced our CAPEX by 35% year-on-year to US$313 million during the reporting period. Despite external challenges, we were able to achieve our objectives and complete several strategic projects during this period. As such, Metinvest completed an upgrade of the beneficiation facilities at Central GOK to produce a premium class concentrate with 70.5% Fe, which allowed us to create the fabrication line for the production of a high-grade pellet for DRI technology. We remained committed to reducing our environmental footprint and doubled our ecological CAPEX year-on-year to US$110 million.

Importantly, we also managed to strengthen the Group's liquidity. Amid a working capital release and lower capital expenditures, the Group generated free cash flow of US$240 million, while the cash balance improved by 70% since the beginning of the year to US$465 million.

Looking forward, despite continued uncertainty in the macroeconomic environment and recurring global challenges posed by the pandemic, we believe that Metinvest is able to overcome these difficulties and deliver a sustainable performance. I would also like to take the opportunity to thank our stakeholders for standing with us during this time of profound change."

RESULTS OF OPERATIONS

Results of operations	1H 2020		1H 2019		Change, y-o-y		
	US$ mn	% of revenues	US$ mn	% of revenues	US$ mn	%	pp of revenues
Revenues	**4,968**	**100%**	**5,818**	**100%**	**-850**	**-15%**	**-**
Net operating costs (excl. impairment)	-4,767	-96%	-5,325	-92%	558	-10%	-4
Impairment of financial assets	-115	-2%	-62	-1%	-53	85%	-1
Operating profit	**86**	**2%**	**431**	**7%**	**-345**	**-80%**	**-5**
Finance income	28	1%	100	2%	-72	-72%	-1
Finance costs	-293	-6%	-124	-2%	-169	>100%	-4
Share of result of associates and JV	-67	-1%	90	2%	-157	<-100%	-3
Profit before income tax	**-246**	**-5%**	**497**	**9%**	**-743**	**<-100%**	**-14**
Income tax	6	0%	-89	-2%	95	-	2
Net profit	**-240**	**-5%**	**408**	**7%**	**-648**	**<-100%**	**-12**

Revenues

Revenues by market	1H 2020		1H 2019		Change, y-o-y		
	US$ mn	% of revenues	US$ mn	% of revenues	US$ mn	%	pp of revenues
Total revenues	**4,968**	**100%**	**5,818**	**100%**	**-850**	**-15%**	**-**
Ukraine	1,360	27%	1,628	28%	-268	-16%	-1
Europe	1,439	29%	2,058	35%	-620	-30%	-6
MENA	843	17%	983	17%	-141	-14%	-
CIS	296	6%	387	7%	-91	-24%	-1
Southeast Asia	711	14%	431	7%	280	65%	7
North America	229	5%	240	4%	-11	-5%	1
Other regions	90	2%	90	2%	0	0%	-

In 1H 2020, Metinvest's consolidated revenues decreased by 15% y-o-y to US$4,968 mn, primarily due to a drop in steel prices in line with global benchmarks, as well as the effects of the COVID-19 pandemic on business activity and steel demand in several strategic markets for the Group. Resale volumes were also down. In addition, coking coal concentrate and coke selling prices fell following a drop in coking coal benchmark quotations. The iron ore sales mix and geography were affected by weak demand in Europe and reduced pellet premiums. At the same time, Metinvest boosted its revenues from merchant iron ore concentrate due to higher sales volumes and prices amid global supply disruptions.

During the reporting period, revenues in Ukraine declined by 16% y-o-y to US$1,360 mn, mainly due to lower steel prices, as well as a 7% y-o-y decrease in flat product sales volumes. This was partly compensated by a 23% y-o-y growth in semi-finished and long product shipments to local customers. Meanwhile, real GDP decreased by 1.3% y-o-y in 1Q 2020 and 11.4% in 2Q 2020[1]. Apparent consumption of steel products (excluding pipes) in Ukraine fell by 16.1% y-o-y to 2.3 mt[2] in 1H 2020, amid a 5.5% y-o-y decline in construction activity[1], a 22.5% drop in machinery output[1] and a 27.2% reduction in pipe production[2]. At the same time, deliveries of iron ore products to local steelmakers rose by 7% y-o-y. Overall, the share of Ukraine in consolidated revenues edged down by 1 pp y-o-y to 27%.

[1] Source: State Statistics Service of Ukraine
[2] Source: Metal Expert

In 1H 2020, revenues from other markets decreased by 14% y-o-y to US$3,608 mn, accounting for 73% of consolidated revenues.

- Revenues from Europe fell by 30% y-o-y, mainly due to lower steel product selling prices and pellet premiums, as well as lower shipments of pig iron (down 29%), slabs (down 16%), flat (down 9%) and iron ore (down 55%) products. As a result, the region's share in overall revenues declined by 6 pp y-o-y to 29%.
- Revenues from the Middle East and North Africa (MENA) dropped by 14% y-o-y amid reduced steel selling prices and lower square billet sales volumes (down 34%). At the same time, the MENA region's share in consolidated revenues remained unchanged y-o-y at 17%.
- Revenues from Southeast Asia surged by 65% y-o-y, as Metinvest resumed steel sales to China amid strong local demand, selling 457 kt of semi-finished and finished steel products in the country during the reporting period. In addition, shipments of iron ore products to China rose by 3.1x y-o-y. As a result, that market's share in total revenues increased by 7 pp y-o-y to 14%.
- Revenues from the CIS decreased by 24% y-o-y due to lower sales volumes and prices of flat products, while the region's share in consolidated revenues amounted to 6%, down 1 pp y-o-y.
- Revenues from North America dropped by 5% y-o-y, mainly due to reduced sales volumes of flat and long products, as well as lower pig iron selling prices. At the same time, the region's share in consolidated revenues rose by 1 pp y-o-y to 5%.
- Revenues from other regions were flat y-o-y and their share in total revenues was also unchanged at 2%.

Metallurgical segment

In 1H 2020, the Metallurgical segment's revenues declined by 18% y-o-y to US$3,899 mn, mainly driven by lower sales of flat products (US$512 mn), coke (US$73 mn), square billets (US$71 mn), slabs (US$63 mn), long products (US$53 mn), tubular products (US$7 mn) and other products and services (US$96 mn). This was partly compensated by greater sales of pig iron (US$27 mn). During the reporting period, the segment accounted for 78% of the overall top line, down 4 pp y-o-y.

Metallurgical segment Sales by market	1H 2020			1H 2019			Change, y-o-y		Change, y-o-y %	
	US$ mn	% of revenues	kt	US$ mn	% of revenues	kt	US$ mn	kt	US$ mn	kt
Total sales	**3,899**	**100%**	**8,498**	**4,746**	**100%**	**8,627**	**-847**	**-129**	**-18%**	**-2%**
Ukraine	994	25%	2,102	1,209	25%	2,016	-215	85	-18%	4%
Europe	1,243	32%	2,487	1,572	33%	2,778	-329	-291	-21%	-10%
MENA	832	21%	1,934	980	21%	1,933	-148	1	-15%	0%
CIS	296	8%	477	387	8%	584	-91	-107	-24%	-18%
Southeast Asia	221	6%	587	285	6%	565	-64	22	-23%	4%
North America	223	6%	704	235	5%	583	-12	121	-5%	21%
Other regions	90	2%	207	78	2%	169	12	38	16%	23%

Metallurgical segment Sales by product	1H 2020		1H 2019		Change, y-o-y		Change, y-o-y %		
	US$ mn	kt	US$ mn	kt	US$ mn	kt	US$ mn	due to price	due to volume
Semi-finished products	**1,056**	**2,872**	**1,162**	**2,705**	**-106**	**167**	**-9%**	**-15%**	**6%**
Pig iron	380	1,177	353	971	27	206	8%	-13%	21%
incl. resales	195	595	137	374	58	221	43%	-16%	59%
Slabs	390	975	453	956	-63	19	-14%	-16%	2%
Square billets	286	720	357	778	-71	-58	-20%	-12%	-7%
incl. resales	286	720	357	778	-71	-58	-20%	-12%	-7%
Finished products	**2,364**	**4,616**	**2,936**	**4,956**	**-572**	**-340**	**-19%**	**-13%**	**-7%**
Flat products	1,945	3,817	2,457	4,158	-512	-341	-21%	-13%	-8%
incl. resales	671	1,468	847	1,618	-176	-150	-21%	-12%	-9%
Long products	379	725	432	720	-53	5	-12%	-13%	1%
incl. resales	156	341	177	323	-21	18	-12%	-17%	6%
Tubular products	40	74	47	78	-7	-4	-15%	-10%	-5%
Coke	**243**	**1,010**	**316**	**966**	**-73**	**44**	**-23%**	**-28%**	**5%**
incl. resales	3	14	79	250	-76	-236	-96%	-2%	-94%
Other products and services	**236**	**-**	**332**	**-**	**-96**	**-**	**-29%**	**-**	**-**
Total sales	**3,899**	**8,498**	**4,746**	**8,627**	**-847**	**-129**	**-18%**	**-16%**	**-1%**

Pig iron

In 1H 2020, sales of pig iron increased by 8% y-o-y to US$380 mn, driven by a 21% y-o-y rise in volumes to 1,177 kt due to higher resales and destocking in the period. Consequently, the share of resales in overall pig iron sales volumes reached 51%, up 13 pp y-o-y. Available volumes were redistributed among markets according to demand. Sales to North America, the key market for this product, increased by 195 kt. Sales to Southeast Asia rose by 157 kt, as the Group resumed shipments to China amid strong demand in the country. At the same time, a drop in the average selling price affected revenues from sales of this product.

Slabs

In 1H 2020, sales of slabs decreased by 14% y-o-y to US$390 mn due to lower selling prices, in line with the 17% y-o-y decline in the slab FOB Black Sea benchmark. At the same time, volumes rose by 2% y-o-y to 975 kt amid greater production. Sales to MENA increased by 197 kt, driven by demand for high quality product in Turkey, which helped to bring MENA's share to 23% of volumes. Sales to Europe, the key market for this product, decreased by 117 kt, mainly due to lower consumption in the region. Sales to Southeast Asia declined by 86 kt due to the lack of sales to Indonesia and Thailand, which was partly compensated by shipments to China of 74 kt in the period.

Square billets

In 1H 2020, sales of square billets decreased by 20% y-o-y to US$286 mn due to both lower selling prices and resale volumes. Selling prices followed the dynamics of the square billet FOB Black Sea benchmark, which fell by 15% y-o-y. Volumes edged down by 7% y-o-y to 720 kt amid lower resales. Although shipments to MENA dropped by 224 kt due to lower sales in North Africa (namely Algeria) and the Gulf region (mainly to the United Arab Emirates and Saudi Arabia), the region remained the key market for this product, accounting for 60% of volumes. Shipments to Southeast Asia increased by 26 kt, primarily driven by higher demand in China. Sales to other regions rose by 143 kt, namely to customers in the Dominican Republic, Peru and Columbia.

Flat products

In 1H 2020, sales of flat products decreased by 21% y-o-y to US$1,945 mn, of which 13 pp was attributable to a lower average selling price and 8 pp to reduced sales volumes. Overall shipments dropped by 341 kt y-o-y to 3,817 kt amid lower sales of in-house goods, which fell by 191 kt. In addition, resales of Zaporizhstal's flat products declined by 9% y-o-y to 1,468 kt, reducing their share in total volumes by 1 pp y-o-y to 38%. Sales to Europe and Ukraine dropped by a respective 136 kt and 42 kt due to lower consumption in these regions and the lockdown measures introduced to combat the COVID-19 pandemic. Sales in the CIS fell by 102 kt due to quota restrictions imposed by Russia and lower demand. Meanwhile, sales to the MENA region rose by 79 kt, mainly due to higher shipments of hot-rolled coil (HRC) to Turkey and North Africa. Sales to Southeast Asia decreased by 75 kt despite a resumption of shipments to China (140 kt) amid strong demand in the country. The average selling price followed the HRC FOB Black Sea benchmark, which fell by 14% y-o-y.

Long products

In 1H 2020, sales of long products declined by 12% y-o-y to US$379 mn, driven by lower selling prices, in line with a 14% y-o-y drop in the square billet FOB Black Sea benchmark. At the same time, sales volumes rose by 1% (or 5 kt) y-o-y to 725 kt due to greater resales. Consequently, the share of resales in overall volumes edged up by 2 pp y-o-y to 47%. The shares of Ukraine and Europe, the key markets for this product, reached 47% and 40% of volumes in 1H 2020, respectively, compared with 43% and 35% in 1H 2019, due to higher sales volumes to these regions. Shipments to Ukraine rose by 35 kt amid higher sales of rebar and railway products. Deliveries to European customers rose by 34 kt due to greater demand for rebar in Romania.

Tubular products

In 1H 2020, sales of tubular products decreased by 15% y-o-y to US$40 mn, of which 10 pp was attributable to a lower average selling price and 5 pp to lower sales volumes. Shipments declined by 4 kt y-o-y to 74 kt.

Coke

In 1H 2020, sales of coke decreased by 23% y-o-y to US$243 mn due to a reduction in the average selling price. At the same time, shipments climbed by 5% (or 44 kt) y-o-y to 1,010 kt.

Mining segment

In 1H 2020, the Mining segment's revenues remained almost unchanged y-o-y at US$1,069 mn. Lower external sales of pellets (US$187 mn) and other products and services (US$24 mn) were compensated by higher sales of iron ore concentrate (US$203 mn) and coking coal concentrate (US$5 mn). In the reporting period, the segment accounted for 22% of the overall top line, up 4 pp y-o-y.

Mining segment Sales by market	1H 2020			1H 2019			Change, y-o-y		Change, y-o-y %	
	US$ mn	% of revenues	kt	US$ mn	% of revenues	kt	US$ mn	kt	US$ mn	kt
Total sales	**1,069**	**100%**	**10,288**	**1,072**	**100%**	**8,972**	**-3**	**1,316**	**0%**	**15%**
Ukraine	366	34%	3,740	419	39%	3,443	-53	297	-13%	9%
Europe	196	18%	1,863	487	45%	3,949	-291	-2,086	-60%	-53%
MENA	11	1%	103	3	0%	-	8	103	>100%	-
CIS	-	-	-	-	-	-	-	-	-	-
Southeast Asia	490	46%	4,516	146	14%	1,438	344	3,078	>100%	>100%
North America	6	1%	66	5	0%	46	1	21	16%	45%
Other regions	-	-	-	12	1%	97	-12	-97	-100%	-100%

Mining segment Sales by product	1H 2020		1H 2019		Change, y-o-y		Change, y-o-y %		
	US$ mn	kt	US$ mn	kt	US$ mn	kt	US$ mn	due to price	due to volume
Iron ore products	**957**	**9,871**	**941**	**8,708**	**16**	**1,163**	**2%**	**-12%**	**13%**
Merchant iron ore concentrate	649	7,248	446	5,077	203	2,171	45%	2%	43%
Pellets	308	2,623	495	3,631	-187	-1,008	-38%	-10%	-28%
Coking coal concentrate	**60**	**417**	**55**	**264**	**5**	**153**	**9%**	**-49%**	**58%**
Other products and services	**52**	**-**	**76**	**-**	**-24**	**-**	**-32%**	**-**	**-**
Total sales	**1,069**	**10,288**	**1,072**	**8,972**	**-3**	**1,316**	**0%**	**-15%**	**15%**

Iron ore concentrate

In 1H 2020, sales of merchant iron ore concentrate increased by 45% y-o-y to US$649 mn, of which 43 pp was attributable to greater sales volumes and 2 pp to higher selling prices. Volumes increased by 2,171 kt y-o-y to 7,248 kt amid higher merchant product output and destocking in 1H 2020. Incremental volumes were sold to customers in Ukraine and Southeast Asia, where they rose by 611 kt and 2,570 kt, respectively. At the same time, sales to Europe fell by 1,041 kt amid weak demand.

Pellets

In 1H 2020, sales of pellets dropped by 38% y-o-y to US$308 mn, of which 28 pp was attributable to lower sales volumes and 10 pp to a lower average selling price. Shipments declined by 1,008 kt y-o-y to 2,623 kt as a result of lower output. Given weak demand in Ukraine and Europe, shipments to these regions decreased by 390 kt and 1,126 kt, respectively. Consequently, volumes were partly redirected to Southeast Asia, where they increased by 507 kt. Selling prices were affected by reduced pellet premiums worldwide, which went down by 56% y-o-y to US$30/t in Europe and 21% y-o-y to US$26/t in China.

Coking coal concentrate

In 1H 2020, sales of coking coal concentrate rose by 9% y-o-y to US$60 mn. This was driven by an increase in sales volumes of 58% (or 153 kt) y-o-y to 417 kt due to greater output. Additional volumes were primarily sold to North America (up 21 kt), Ukraine (up 76 kt) and Europe (up 81 kt). The average selling price followed the hard coking coal FOB Australia spot benchmark, which fell by 33% y-o-y.

Net operating costs (excluding impairment)[3]

In 1H 2020, net operating costs decreased by 10% y-o-y to US$4,767 mn, primarily due to the following factors:

- Lower spending on raw materials (US$355 mn), mainly as a result of (i) a decrease in purchase prices; (ii) a drop in the consumption of purchased scrap amid higher usage of pig iron and internally generated scrap; (iii) a decline in the consumption of coking coal due to a 4% y-o-y drop in coke output; (iv) a fall in raw material transportation costs; and (v) a reduction in the cost of purchased semi-finished products
- Lower cost of goods and services for resale (US$324 mn), primarily due to lower volumes
- Lower spending on energy materials (US$106 mn), mainly due to reduced prices of natural gas (down 44% y-o-y) and PCI coal (down 30% y-o-y)
- Reduced repair and maintenance expenses (US$33 mn)

These factors were partly offset by:

- Operating foreign exchange losses of US$123 mn (compared with losses of US$6 mn a year earlier), mainly due to the revaluation of outstanding accounts payable balances and intragroup dividends receivable
- Greater depreciation and amortisation (US$88 mn) mainly amid the ongoing capital expenditure programme
- The negative effect of the hryvnia's appreciation against the US dollar on costs (US$55 mn)
- Higher spending on goods transportation services (US$31 mn), mainly driven by an increase in iron ore sales volumes to Southeast Asia (up 3.1x)

As a percentage of consolidated revenues, net operating costs increased by 4 pp y-o-y to 96% in the period.

Impairment of financial assets

In 1H 2020, impairment of financial assets climbed by 85% y-o-y to US$115 mn, mainly due to changes in expected credit loss provisions. As a share of consolidated revenues, impairment of financial assets increased by 1 pp y-o-y to 2% in 1H 2020.

Operating profit

In 1H 2020, operating profit decreased by 80% y-o-y to US$86 mn amid lower revenues (US$850 mn) and higher impairment of financial assets (US$53 mn), partly compensated by savings resulting from lower net operating costs (US$558 mn). The operating margin totalled 2% in 1H 2020, down 5 pp y-o-y.

EBITDA

In 1H 2020, consolidated EBITDA decreased by 20% y-o-y to US$715 mn, primarily driven by a decline in the Mining segment's EBITDA of US$245 mn. At the same time, the Metallurgical segment's EBITDA rose by US$106 mn y-o-y, while corporate overheads and eliminations doubled y-o-y to US$69 mn.

As a result, the Mining segment's contribution to total EBITDA (before adjusting for corporate overheads and eliminations) amounted to 70% in 1H 2020 (86% in 1H 2019), while that of the Metallurgical segment totalled 30% (14% in 1H 2019).

[3] On 1 January 2019, Metinvest began presenting items previously presented under "cost of sales", "distribution costs", "general and administrative expenses" and "other operating income and expenses" under net operating costs, excluding impairment, which is shown separately. Net operating costs consist primarily of the cost of raw materials; the cost of goods and services for resale; the cost of energy materials; payroll and related expenses for employees; depreciation and amortisation; repair and maintenance expenses; transportation services; taxes; and other costs. In the factor analysis here, all costs are presented net of the effect of exchange rate fluctuations between the hryvnia and the presentation currency, which is shown as a separate factor.

EBITDA by segment	1H 2020		1H 2019		Change, y-o-y	
	US$ mn	% of segment revenues	US$ mn	% of segment revenues	US$ mn	pp of segment revenues
Metallurgical segment	238	6%	132	3%	106	3
- incl. JV	-35		-9		-26	
Mining segment	546	36%	791	45%	-245	-9
- incl. JV	135		143		-8	
Corporate o/hs and eliminations	-69		-33		-36	
Total EBITDA	**715**	**14%**	**890**	**15%**	**-175**	**-1**

The decrease in consolidated EBITDA was primarily driven by:

- Lower average selling prices for Metinvest's semi-finished and finished steel products, coke and coking coal concentrate, as well as weaker pellet premiums (US$521 mn)
- Lower steel sales volumes
- The 4% y-o-y appreciation of the hryvnia against the US dollar to an average of 25.98 in 1H 2020, compared with 26.93 in 1H 2019 (US$42 mn)
- A deteriorated contribution from the joint ventures (US$34 mn)
- Higher spending on goods transportation services (US$31 mn), mainly due to greater shipments of iron ore products to Southeast Asia (up 3,078 kt)
- A decrease in earnings from resales (US$16 mn) amid lower selling prices and volumes

These factors were partly compensated by:

- Lower spending on raw materials (US$355 mn), mainly as a result of (i) reduced purchase prices; (ii) less consumption of purchased scrap metal amid higher usage of pig iron and internally generated scrap; (iii) decreased consumption of coking coal due to a 4% y-o-y drop in coke output; (iv) reduced raw material transportation costs; and (v) lower cost of purchased semi-finished products
- Reduced expenses on energy materials (US$106 mn), mainly due to reduced prices of natural gas (down 44% y-o-y) and PCI coal (down 30% y-o-y)
- Greater sales volumes of iron ore and coking coal concentrate, as well as coke

In 1H 2020, the Group's consolidated EBITDA margin decreased by 1 pp y-o-y to 14%. The Metallurgical segment's EBITDA margin increased by 3 pp y-o-y to 6%, while that of the Mining segment fell by 9 pp y-o-y to 36%.

Finance income

In 1H 2020, finance income decreased by 72% y-o-y to US$28 mn following lower foreign-exchange gains from financing activities. As a percentage of consolidated revenues, finance income fell by 1 pp y-o-y to 1% in 1H 2020.

Finance costs

In 1H 2020, finance costs more than doubled y-o-y to US$293 mn. This was mainly attributable to foreign-exchange losses from financing activities. As a percentage of consolidated revenues, finance costs increased by 4 pp y-o-y to 6% in 1H 2020.

Share of result of associates and joint ventures

In 1H 2020, Metinvest received losses from its associates and joint ventures in the amount of US$67 mn, compared with a profit of US$90 mn in 1H 2019, mainly driven by a decrease in contribution from the Pokrovske coal business, the Zaporizhstal JV and other associates in the amount of US$96 mn, US$66 mn and US$11 mn, correspondingly. This was partly compensated by an increase in contribution from the Southern GOK JV in the amount of US$16 mn.

Income tax expense

In 1H 2020, the income tax benefit totalled US$6 mn, compared with income tax expense of US$89 mn in 1H 2019, driven by a decline of current tax and an increase in deferred tax assets. Current tax expense fell by US$61 mn amid a deterioration in the Mining segment's profitability. In addition, income from changes in deferred taxes rose by US$34 mn as a result of a decrease in the deferred tax liability arising on the revaluation of property, plant and equipment. The effective tax rate, calculated as total income tax divided by profit before tax, was 2% in 1H 2020, compared with 18% in 1H 2019.

Net profit

In 1H 2020, the Group posted a net loss of US$240 mn, compared with a net profit of US$408 mn in 1H 2019. This was primarily due to lower revenues (US$850 mn), higher finance costs (US$169 mn), lower contribution from associates and joint ventures (US$157 mn), lower finance income (US$72 mn) and higher impairment of financial assets (US$53 mn). These factors were partly compensated by a drop in net operating costs (US$558 mn) and a decrease in income tax expense (US$95 mn). The net margin amounted to negative 5% in 1H 2020, compared with positive 7% in 1H 2019.

LIQUIDITY AND CAPITAL RESOURCES

Net cash from operating activities

In 1H 2020, net cash flow from operating activities rose by 20% y-o-y to US$685 mn due to a working capital release of US$138 mn (working capital additions of US$2 mn in 1H 2019), as well as lower income tax paid, which fell by US$95 mn y-o-y. This was partly offset by a 15% reduction in operating cash flows before working capital changes and an increase in interest paid of US$5 mn.

The positive change of working capital during the reporting period was attributable to: (i) a drop in inventory of US$134 mn (mainly iron ore concentrate, pig iron and coal); and (ii) a rise in trade and other accounts payable of US$241 mn. This was partly offset by an increase in trade and other accounts receivable of US$237 mn.

Net cash used in investing activities

In 1H 2020, net cash used in investing activities dropped by 18% y-o-y to US$435 mn. Total cash used to purchase property, plant and equipment and intangible assets decreased by 15% y-o-y to US$372 mn, as the Group continued to implement its Technological Strategy 2030. Loans issued totalled US$13 mn in 1H 2020 (US$82 mn 1H 2019), while US$63 mn was spent on other payments (US$19 mn in 1H 2019). During the reporting period, the Group received US$10 mn as proceeds from repayments of loans issued (nil in 1H 2019), US$2 mn as interest on loans issued and deposits (US$8 mn in 1H 2019) and US$1 mn as proceeds from the sale of property, plant and equipment (US$3 mn in 1H 2019).

Net cash used in financing activities

In 1H 2020, net cash used in financing activities totalled US$52 mn, up 30% y-o-y. During the reporting period, the Group used US$67 mn to repay loans and borrowings, while net repayments of trade finance facilities and payments for loans commissions totalled US$21 mn and US$5 mn, respectively. At the same time, the Group raised US$41 mn of gross new proceeds from loans and borrowings in 1H 2020. This compares with US$40 mn used in financing activities in 1H 2019, when Metinvest raised US$18 mn of gross new proceeds from several minor bank term loans and used US$9 mn to reduce its liabilities. In addition, dividends paid in 1H 2019 totalled US$31 mn, while payments for the acquisition of non-controlling interests in subsidiaries amounted to US$6 mn, net proceeds received from trade finance facilities totalled US$18 mn and payment under deferred consideration was US$30 mn.

At the end of June 2020, total debt was US$3,010 mn (-1% y-t-d), the cash balance was US$465 mn (+70% y-t-d) and net debt was US$2,545 mn (-8% y-t-d).

Capital expenditure

As planned, Metinvest reduced capital expenditure by 35% y-o-y to US$313 mn in 1H 2020. In line with the Group's 2020 CAPEX priorities to conduct crucial maintenance only and complete ongoing strategic projects, investments in maintenance decreased by 33% y-o-y, while those in strategic projects declined by 38%, bringing their shares in total expenditures to a respective 65% and 35% in 1H 2020 (63% and 37% in 1H 2019).

The Metallurgical segment accounted for 47% of capital expenditure (50% in 1H 2019) and Mining for 49% (46% in 1H 2019). Capital expenditure on corporate overheads amounted to US$11 mn (US$20 mn in 1H 2019).

Metinvest progressed on several strategic projects: the upgrade of the hot strip mill 1700 at Ilyich Steel (equipment testing is ongoing and a new down-coiler is expected to be installed in 4Q 2020); construction of the air separation unit at Ilyich Steel; re-equipment of beneficiation facilities at Central GOK (completed in 1H 2020); construction of crusher and conveyor systems at Northern GOK (the second facility for rock transportation) and Ingulets GOK (the Eastern conveyor line); and upgrade of the OK-306 roasting machine at Northern GOK.

The environmental agenda has been ring-fenced in 2020, with the major ongoing project being the reconstruction of the sinter plant at Ilyich Steel. Numerous other initiatives have advanced this year, including the reconstruction of gas cleaning facilities of the casthouse and stockhouse of blast furnace no. 3 at Ilyich Steel (completed in March 2020) and basic oxygen furnaces nos. 1 and 2 at Azovstal (basic and detailed engineering and documentation is being developed).

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METINVEST GROUP 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 comprises steel and mining production facilities located in Ukraine, Europe and the US, as well as a sales network covering all key global markets. The Group is structured into two operating segments, Metallurgical and Mining, and its strategic vision is to become a leading vertically integrated steel producer in Europe, delivering sustainable growth and profitability resilient to business cycles and providing investors with returns above the industry benchmarks. For the six months ended 30 June 2020, the Group reported revenues of US$5.0 bn and an EBITDA margin of 14%.

METINVEST HOLDING LLC is the management company of Metinvest Group.