METINVEST®

TRADING UPDATE FOR THE FIRST NINE MONTHS OF 2018

4 December 2018 – Metinvest B.V., the parent company of a vertically integrated group of steel and mining companies (jointly referred to as "Metinvest" or "the Group"), today published a trading update for the first nine months ended 30 September 2018.

The information in this press release has been prepared based on preliminary financial results. Intragroup transactions have been eliminated in consolidation. This announcement does not contain sufficient information to constitute a full set of financial statements. The following preliminary results may differ from financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The numbers in this press release have not been audited or reviewed. Metinvest B.V. publishes consolidated financial statements prepared in accordance with IFRS for the six months ending 30 June and for the year ending 31 December. 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.

FINANCIAL HIGHLIGHTS

(US$ mn)	9M 2018	9M 2017	Change
Revenues	**9,063**	**6,222**	**46%**
Adjusted EBITDA[1]	**2,015**	**1,373**	**47%**
margin	22%	22%	0 pp
CAPEX[2]	**620**	**308**	**>100%**

(US$ mn)	30 Sep 2018	31 Dec 2017	Change
Gross debt[3]	**2,869**	**3,017**	**-5%**
Cash and cash equivalents[4]	**446**	**259**	**72%**
Net debt[5]	**2,257**	**2,298**	**-2%**
Net debt[5]**/EBITDA**[6]	**0.8x**	**1.1x**	**-0.3x**

Revenues

In 9M 2018, Metinvest's consolidated revenues increased by 46% y-o-y to US$9,063 mn, due to several factors. First, selling prices for steel rose y-o-y following global benchmarks, while those for iron ore grew amid higher premiums for quality and a focus on priority markets. Second, stronger demand spurred greater sales volumes of in-house products. Third, volumes of goods resold surged.

In the period, revenues in Ukraine rose by 57% y-o-y to US$2,525 mn amid improved local demand, as the economy continued to expand for the 11th quarter in a row. In particular, sales volumes of flat and long products both climbed by around 40% y-o-y, supported by a y-o-y surge in realised prices. Moreover, sales of pellets and coke approximately doubled y-o-y. As a result, the share of Ukraine in consolidated revenues rose by 2 pp y-o-y to 28%.

In 9M 2018, international sales increased by 42% y-o-y to US$6,538 mn, accounting for 72% of consolidated revenues. Sales to Europe rose by 33% y-o-y amid higher realised prices of steel and iron ore products, as well as greater sales volumes of semi-finished (+489 kt), long (+190 kt) and iron ore (+1,047 kt) products. At the same time, the region's share in overall revenues amounted to 34%, down 3 pp y-o-y. Sales to the Middle East and North Africa (MENA) surged by 82% y-o-y amid greater sales volumes of semi-finished (+853 kt) and flat

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[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] CAPEX is calculated on an accrual basis (recognition).
[3] Gross debt is calculated as the sum of bank loans, bonds, trade finance, finance lease, seller notes and subordinated shareholder loans.
[4] Cash and cash equivalents do not include blocked cash for cash collateral under issued letters of credit and irrevocable bank guarantees and include cash blocked for foreign-currency purchases.
[5] Net debt is calculated as gross debt less cash and cash equivalents less subordinated shareholder loans.
[6] EBITDA for the last 12 months

(+223 kt) products, as well as higher selling prices of all goods, boosting MENA's share in consolidated revenues by 3 pp y-o-y to 19%. Sales to the CIS rose by 4% y-o-y following higher finished product prices and volumes, while the region's share in consolidated revenues fell by 2 pp y-o-y to 7%. Sales to North America climbed by 70% y-o-y, mainly due to higher pig iron sales, causing the region's share in overall revenues to increase by 1 pp y-o-y to 6%. Revenues in Southeast Asia climbed by 10% y-o-y, primarily due to higher flat product sales. At the same time, that market's share in consolidated revenues decreased by 2 pp y-o-y to 5%. Sales to other regions tripled y-o-y, helping to keep their share in consolidated revenues flat y-o-y at 1%.

Revenues by market	9M18		9M17		Change, y-o-y		
	US$ mn	% of revenues	US$ mn	% of revenues	US$ mn	%	pp of revenues
Total revenues	**9,063**	**100%**	**6,222**	**100%**	**2,841**	**46%**	**-**
Ukraine	2,525	28%	1,610	26%	915	57%	2
Europe	3,062	34%	2,296	37%	766	33%	-3
MENA	1,762	19%	971	16%	791	82%	3
CIS (ex Ukraine)	598	7%	572	9%	26	4%	-2
Southeast Asia	448	5%	406	7%	42	10%	-2
North America	563	6%	331	5%	232	70%	1
Other regions	105	1%	36	1%	69	>100%	-

Metallurgical segment[7]

The Metallurgical segment generates revenues from sales of pig iron, steel, coke and other products and services. In 9M 2018, its top line rose by 52% y-o-y to US$7,712 mn, driven by higher selling prices, stronger demand for in-house products and greater resales. In 9M 2018, the segment accounted for 85% of external sales, up 3 pp y-o-y.

Metallurgical segment Sales by market	9M18			9M17			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	**7,712**	**100%**	**12,955**	**5,082**	**100%**	**9,522**	**2,630**	**3,432**	**52%**	**36%**
Ukraine	1,956	25%	3,106	1,214	24%	2,081	742	1,025	61%	49%
Europe	2,469	32%	3,925	1,843	36%	3,363	625	562	34%	17%
MENA	1,762	23%	3,064	971	19%	1,993	791	1,072	82%	54%
CIS (ex Ukraine)	598	8%	869	572	11%	918	26	-49	4%	-5%
Southeast Asia	269	3%	468	136	3%	298	133	170	98%	57%
North America	560	7%	1,360	312	6%	799	249	561	80%	70%
Other regions	97	1%	163	33	1%	71	64	92	>100%	>100%

Metallurgical segment Sales by product	9M18		9M17		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	**1,921**	**4,108**	**830**	**2,096**	**1,091**	**2,012**	**>100%**	**35%**	**96%**
Pig iron	820	2,071	410	1,144	410	927	>100%	19%	81%
incl. resales	317	797	52	142	265	655	>100%	46%	>100%
Slabs	599	1,080	309	715	290	365	94%	43%	51%
Square billets	502	957	111	237	391	719	>100%	48%	>100%
incl. resales	502	957	84	170	418	787	>100%	31%	>100%
Finished products	**4,800**	**7,343**	**3,648**	**6,513**	**1,152**	**830**	**32%**	**19%**	**13%**
Flat products	3,972	6,090	3,104	5,542	868	548	28%	18%	10%
incl. resales	1,489	2,497	1,074	2,099	415	398	39%	20%	19%
Long products	758	1,145	479	857	279	288	58%	25%	34%
incl. resales	272	446	47	88	224	358	>100%	66%	>100%
Tubular products	70	108	65	113	5	-5	8%	13%	-5%
Coke	**478**	**1,504**	**270**	**914**	**208**	**590**	**77%**	**13%**	**65%**
Other products and services	**513**	**-**	**334**	**-**	**179**	**-**	**54%**	**-**	**-**
Total sales	**7,712**	**12,955**	**5,082**	**9,522**	**2,630**	**3,432**	**52%**	**16%**	**36%**

[7] 2017 resale volumes were updated

Pig iron

In 9M 2018, sales of pig iron doubled y-o-y to US$820 mn, primarily driven by an 81% increase in sales volumes. Volumes rose by 927 kt y-o-y to 2,071 kt amid stronger demand for the Group's pig iron (+272 kt) and greater resales (+655 kt). Consequently, the share of resales in total volumes reached 38% in 9M 2018, compared with 12% a year earlier. Greater orders from existing and new customers boosted sales mainly in North America (+588 kt), MENA (+146 kt) and Europe (+102 kt). In addition, increased average selling prices also contributed to higher sales.

Slabs

In 9M 2018, sales of slabs increased by 94% y-o-y to US$599 mn, of which 51 pp was attributable to greater sales volumes and 43 pp to a higher average selling price. Volumes rose by 365 kt y-o-y to 1,080 kt, spurred by demand and supported by greater production, while lower sales in 9M 2017 caused stock to increase. Europe's share in overall volumes reached 70% (+7 pp y-o-y), following an increase of 304 kt in sales to the region amid greater orders from customers in Italy and sales to new clients in France, the UK and Hungary. The rise in the average selling price followed the benchmark for slabs (FOB Black Sea), which climbed by 25% y-o-y.

Square billets

In 9M 2018, sales of square billets soared by 4.5 times y-o-y to US$502 mn, mainly driven by a comparable hike (719 kt) in sales volumes to 957 kt amid greater resales. MENA and Europe accounted for 89% and 9% of billet sales volumes, following increases of 655 kt and 83 kt y-o-y, respectively. At the same time, higher average selling price, which followed a 21% y-o-y rise in the square billet FOB Black Sea benchmark, also contributed to higher sales.

Flat products

In 9M 2018, sales of flat products increased by 28% y-o-y to US$3,972 mn, of which 18 pp was attributable to a higher average selling price and 10 pp to greater sales volumes. Overall volumes rose by 548 kt y-o-y to 6,090 kt. Resales of Zaporizhstal's goods accounted for 41% of total sales volumes, up 2 pp y-o-y, following a 398 kt y-o-y increase in resales to 2,497 kt. Sales to Ukraine climbed by 299 kt amid greater demand from the construction, transportation and machine-building sectors. Sales to Europe dropped by 129 kt due to redirection of hot-rolled coil (HRC) resales to MENA and Southeast Asia, which was partly compensated by greater sales of hot-rolled plates, cold-rolled coils 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 climbed by 17% y-o-y.

Long products

In 9M 2018, sales of long products rose by 58% y-o-y to US$758 mn, of which 34 pp was attributable to improved sales volumes and 25 pp to higher average selling prices. Volumes increased by 288 kt y-o-y to 1,145 kt, driven by greater resales. The key markets for long products were Ukraine and Europe, accounting for 39% and 37% of long sales volumes, respectively. Meanwhile, the positive y-o-y price trend on all markets for long products was due to stronger billet quotations: the billet FOB Black Sea benchmark climbed by 21% y-o-y.

Tubular products

In 9M 2018, sales of tubular products rose by 8% y-o-y to US$70 mn, driven by a higher average selling price. This was partly offset by a 5% decline in sale volumes to 108 kt, given weaker demand in the CIS.

Coke

In 9M 2018, sales of coke rose by 77% y-o-y to US$478 mn following a 65% increase in sales volumes (or 590 kt) to 1,504 kt amid stronger demand in Ukraine. Moreover, the average selling price climbed by 13% y-o-y.

Mining segment

The Mining segment generates revenues from sales of iron ore, coal and other products and services. In 9M 2018, its top line increased by 19% y-o-y to US$1,351 mn, primarily due to stronger sales of pellets (US$221 mn), which offered higher margins than iron ore concentrate. In the period, the segment accounted for 15% of external sales, down 3 pp y-o-y.

Mining segment Sales by market	9M18			9M17			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	**1,351**	**100%**	**11,779**	**1,140**	**100%**	**11,992**	**211**	**-214**	**19%**	**-2%**
Ukraine	569	42%	4,262	397	35%	3,329	172	933	43%	28%
Europe	594	44%	5,953	452	40%	4,906	141	1,047	31%	21%
MENA	-	-	-	-	-	-	-	-	-	-
CIS (ex Ukraine)	-	-	-	-	-	-	-	-	-	-
Southeast Asia	179	13%	1,430	270	24%	3,440	-91	-2,009	-34%	-58%
North America	2	0%	61	19	2%	318	-17	-257	-88%	-81%
Other regions	8	1%	73	2	0%	-	6	73	>100%	-

Mining segment Sales by product	9M18		9M17		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	**1,109**	**11,439**	**949**	**11,421**	**160**	**18**	**17%**	**17%**	**0%**
Merchant iron ore concentrate	432	5,764	493	7,021	-61	-1,257	-12%	5%	-18%
Pellets	677	5,675	456	4,400	221	1,275	48%	19%	29%
Coking coal concentrate	**65**	**340**	**80**	**571**	**-15**	**-231**	**-18%**	**22%**	**-40%**
Other products and services	**177**	**-**	**112**	**-**	**66**	**-**	**59%**	**-**	**-**
Total sales	**1,351**	**11,779**	**1,140**	**11,992**	**211**	**-214**	**18%**	**20%**	**-2%**

Iron ore concentrate

In 9M 2018, sales of merchant iron ore concentrate decreased by 12% y-o-y to US$432 mn, primarily caused by lower sales volumes. Total volumes dropped by 18% y-o-y (or 1,257 kt) to 5,764 kt, amid lower merchant product output and higher intragroup consumption, although this did not impact sales to priority markets. Stable demand in Ukraine helped to keep sales there flat y-o-y. Strong premiums in Europe caused sales to the region to increase by 462 kt y-o-y. Meanwhile sales in Southeast Asia, which is as an opportunistic market for this product, decreased by 1,801 kt. The average selling price rose y-o-y amid higher premiums for Fe content globally and a change in the basis for pricing in Europe and Southeast Asia to the 65% Fe benchmark. At the same time, the 62% Fe iron ore fines CFR China benchmark fell by 6% y-o-y to an average of US$69/t in 9M 2018, down from US$74/t a year earlier.

Pellets

In 9M 2018, sales of pellets climbed by 48% y-o-y to US$677 mn, of which 29 pp was attributable to greater sales volumes and 19 pp to a higher average selling price. Volumes rose by 1,275 kt y-o-y to 5,675 kt amid stronger demand in strategic markets. In particular, sales in Ukraine and Europe increased by 899 and 585 kt y-o-y, respectively. The remaining volumes went to Southeast Asia, although sales there fell by 209 kt. At the same time, the average selling prices on all markets increased y-o-y following stronger pellet premium quotations.

Coking coal concentrate

In 9M 2018, sales of coking coal concentrate decreased by 18% y-o-y to US$65 mn, driven by a 40% y-o-y drop (or 231 kt) in volumes to 340 kt amid greater internal consumption, which affected sales in North America. This was partly compensated by a higher average selling price.

EBITDA

In 9M 2018, Metinvest's consolidated EBITDA amounted to US$2,015 mn, up 47% y-o-y. This was primarily driven by a US$749 mn increase in the Metallurgical segment's EBITDA. The Mining segment's EBITDA fell by US$146 mn, while corporate overheads and eliminations dropped by US$39 mn.

As a result, the Metallurgical segment's contribution to total EBITDA (before adjusting for corporate overheads and eliminations) reached 54% in 9M 2018 (26% in 9M 2017), while that of the Mining segment was 46% (74% in 9M 2017).

EBITDA by segment	9M18 US$ mn	9M18 % of segment revenues	9M17 US$ mn	9M17 % of segment revenues	Change, y-o-y US$ mn	Change, y-o-y pp of segment revenues
Metallurgical segment	1,126	15%	377	7%	749	8
- incl. JV	135		103		32	
Mining segment	946	33%	1,092	41%	-146	-8
- incl. JV	124		144		-20	
Corporate o/hs and eliminations	-57		-96		39	
Total EBITDA	**2,015**	**22%**	**1,373**	**22%**	**642**	**-**

The increase in consolidated EBITDA was primarily driven by:

- stronger sales prices for Metinvest's products (US$883 mn);
- greater sales volumes of in-house pig iron, slabs, flat products, coke and pellets (US$443 mn); and
- higher earnings on resales (US$207 mn).

These factors were partly offset by:

- greater logistics costs (US$287 mn) amid increased shipment volumes of raw materials, finished goods and resales, as well as higher freight and railway tariffs;
- higher raw materials costs (US$277 mn), mainly due to greater consumption of purchased coal, driven by a 15% y-o-y rise in coke output and purchased billets as feedstock to roll at Promet Steel, as well as higher prices of bulk ferroalloys and scrap;
- more spending on energy (US$145 mn), due to a 21% y-o-y hike in natural gas prices, a 15% y-o-y rise in Ukrainian electricity tariffs and greater gas consumption amid an 8% rise in hot metal output; and
- higher other costs (US$182 mn) amid higher labour costs, repairs and maintenance expenses and spending on other services.

In 9M 2018, the consolidated EBITDA margin remained flat y-o-y at 22%. The Metallurgical segment's EBITDA margin rose by 8 pp y-o-y to 15%, while the Mining segment's fell by 8 pp y-o-y to 33%.

Debt management

Given the favourable debt market conditions in early 2018, the Group proactively managed its borrowings to extend its debt maturity profile, decrease total funding costs, secure a longer-term capital structure and lower refinancing risks. In April, the Group completed the refinancing of US$2,271 mn of debt, issuing two bond tranches and amending and restating its pre-export finance (PXF) facility. As a result, Metinvest issued US$1,592 mn in new bonds and secured US$765 mn in the PXF facility.

New incremental proceeds from the combined transaction amounted to around US$205 mn. Coupled with own cash flows and US$346 mn in dividends from the Southern GOK JV, this was allocated to reduce Metinvest's liabilities, both voluntarily and as per the agreed schedule under several debt instruments as part of the general commitment to deleverage. This includes a US$237 mn repayment under the syndicated loan facility, which has US$528 mn outstanding.

As Metinvest's financing strategy envisages using ECA facilities offering relatively cheaper and longer funding for investment projects, in July, the Group secured its first facility covered by an Austrian export guarantee. The EUR43.2 mn, seven-year facility will be used to construct continuous casting machine no. 4 at Ilyich Steel.

In February, Metinvest fully repaid seller notes used to buy coal assets in the US. At the same time, following the acquisition of around 25% in a coking coal business in Ukraine in July 2018, the amount outstanding for that stake was US$92 mn as of 30 September 2018.

Given the abovementioned factors, as of 30 September 2018, gross debt was down 5% y-t-d to US$2,869 mn, while cash and cash equivalents was up 72% y-t-d to US$446 mn. This reduced net debt to US$2,257 mn (-2% y-t-d), while the net debt to EBITDA ratio reached 0.8x (-0.3x y-t-d).

In January, international rating agency S&P assigned Metinvest a long-term corporate credit rating of 'B-', the outlook 'stable'. In April, after the successful completion of the refinancing, Fitch changed its outlook to 'positive' and affirmed its 'B' credit rating.

Capital expenditure

In 9M 2018, Metinvest's capital expenditure doubled y-o-y to US$620 mn. Amid the ongoing implementation of the Technological Strategy 2030, the share of expansion projects in overall investments reached 39% in 9M 2018, up from 11% a year earlier. The Group also continued scheduled maintenance of its facilities, which accounted for 61% of capital expenditure (89% in 9M 2017). The split between the Metallurgical and Mining segments was 63% to 36% in 9M 2018, while corporate overheads accounted for 1% of investments. This compares with a respective 43%, 55% and 2% a year ago.

Major ongoing strategic investment projects at Ilyich Steel include the construction of continuous casting machine no. 4, basic engineering development for the reconstruction of the 1700 hot strip mill, and the reconstruction of the sinter plant. At Azovstal, the construction of the PCI unit at blast furnace no. 3 is advancing in parallel with a major overhaul of the machine.

At the iron ore producers, key ongoing strategic projects include the construction of crusher and conveyor systems at Northern GOK (the second facility for rock transportation at the Pervomaisky quarry) and Ingulets GOK (Vostochny conveyor line), as well as the replacement of gas cleaning units on the Lurgi 552-B pelletising machine at Northern GOK.

In addition, Metinvest Shipping purchased 1,800 open rail wagons for transporting raw materials and finished goods to mitigate the impact of the shortage of rolling stock in Ukraine. The project was completed on time and in line with the budget.

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For further information, please visit www.metinvestholding.com

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