METINVEST

2018 Results

21 March 2019

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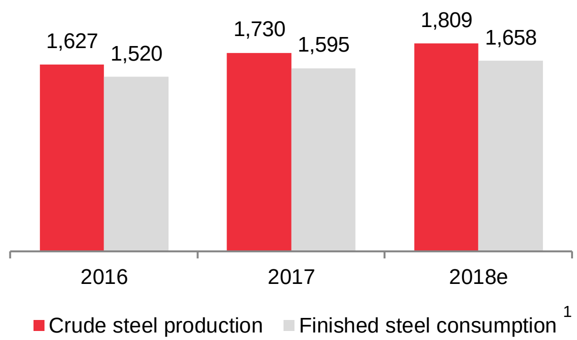
Industry overview

Global steel, iron ore and coking coal markets

- In 2018, global steel output rose by 4.6% y-o-y, while consumption is expected to increase by 3.9% y-o-y
- Global steel prices peaked in 1H 2018 amid strong demand in all regions, falling steel exports from China, rising worldwide protectionism and high prices for coking coal and scrap
- In 2H 2018, steel prices were under pressure amid heightened concerns about global economic growth, greater trade tensions and lower raw material prices
- In 2018, HRC FOB Black Sea trended higher in line with global steel benchmarks, averaging US$560/t (+10% y-o-y) and peaking at US$613/t in March 2018 before closing the year at US$469/t
- In 2018, 62% Fe iron ore prices remained rather high, averaging US$69/t, as certain producers cut output amid accidents, while others closed inefficient operations; still, the benchmark fell by 3% y-o-y due to supply growth outpacing demand
- Premiums for Fe content and pellets soared y-o-y amid supportive demand for high-grade ores and an efficiency drive among steel producers:
    - the premium for 65% Fe content to 62% Fe content jumped by 30% y-o-y to US$21/t
    - the Atlantic basin premium for pellets in Europe increased by 31% y-o-y to US$59/t
- In 2018, the average spot hard coking coal price grew by 9% y-o-y to US$208/t due to supply constraints (including slow production growth in China and logistical disruptions in Australia)

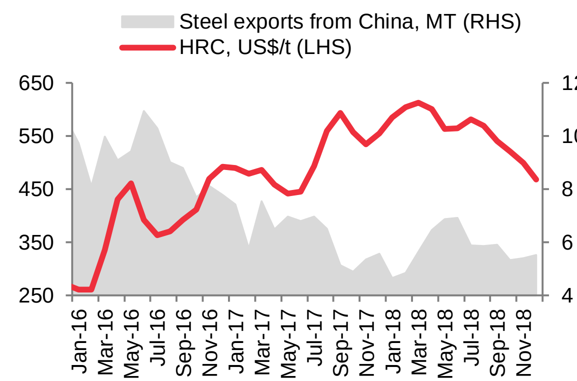
Global steel industry

MT



Source: World Steel Association

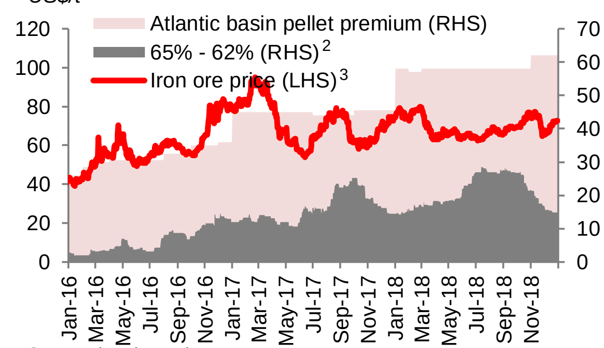
Steel product prices vs exports from China



Source: Bloomberg, Metal Expert

Iron ore price

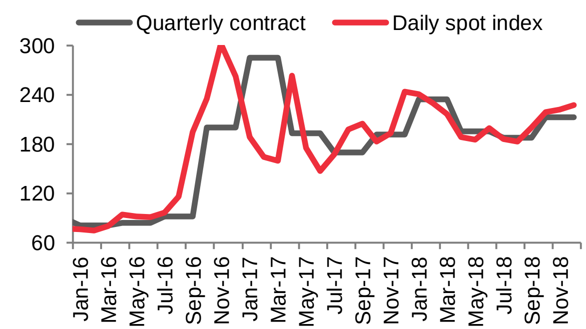
US$/t



Source: Bloomberg, Platts

Hard coking coal price[4]

US$/t



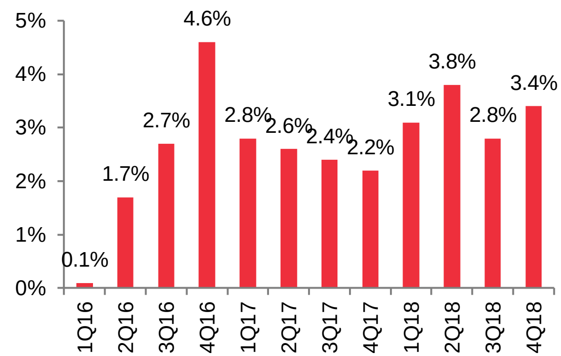
Source: Bloomberg, Platts

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

Macro and steel industry in Ukraine

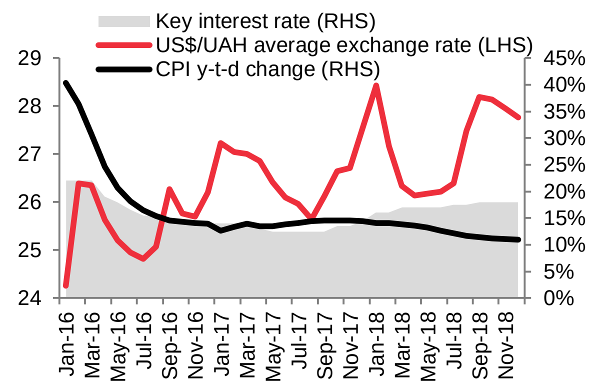
- Ukraine's economy continued to show solid growth for the third year in a row, driven by structural economic reforms, higher consumer spending due to an increase in real wages, a record harvest, favourable export markets and stronger macroeconomic fundamentals
- Real GDP growth accelerated to 3.3% y-o-y in 2018, compared with 2.5% y-o-y in 2017, according to the National Bank of Ukraine (NBU)
- The NBU has a consistent interest rate policy with inflation targets and keeps the local currency floating
  - CPI slowed to 10.9% y-o-y in 2018, down from 14.4% in 2017
  - in 2018, the hryvnia exchange rate against the US dollar strengthened seasonally from 28.43 in January to 26.14 in April, weakened to 28.19 in September and strengthened again to 27.62 at the year-end, which brought the yearly average to 27.22 and depreciation to 2.3% y-o-y
  - The NBU has increased its key interest rate six times over the last 18 months, most recently to 18.0% on 7 September 2018
- In 2018, apparent steel consumption continued to grow (+4.0% y-o-y), driven by:
  - industrial construction (+9.0% y-o-y)
  - railcar manufacturing (+32.0% y-o-y) amid strong domestic demand
- In 2018, total steel output rose by 3.6% y-o-y

Real GDP dynamics (y-o-y)



Source: State Statistics Service of Ukraine

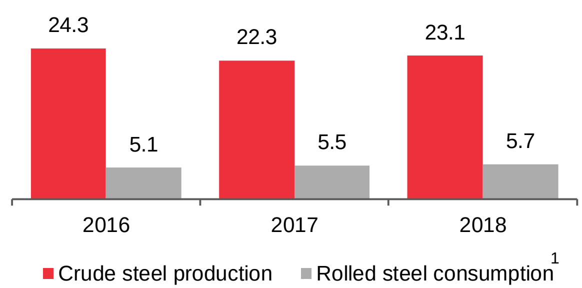
Inflation targeting policy in place



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

Steel industry

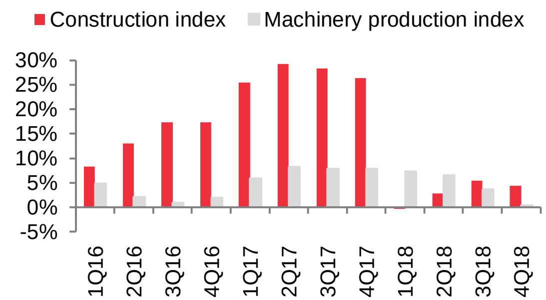
MT



Source: Metal Expert

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

Key steel-consuming sectors[2]



Source: State Statistics Service of Ukraine

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

2018 highlights

Summary

US$ mn	2018	2017	Change
Revenues	**11,880**	**8,931**	**33%**
Adjusted EBITDA[1]	**2,513**	**2,044**	**23%**
EBITDA margin	21%	23%	-2 pp
CAPEX	**898**	**542**	**66%**
Free cash flow[2]	**673**	**146**	**>100%**

US$ mn	31 Dec 2018	31 Dec 2017	Change
Gross debt[3]	**2,743**	**3,017**	**-9%**
Cash and cash equivalents	**280**	**259**	**8%**
Net debt[4]	**2,463**	**2,298**	**7%**
Net debt to LTM EBITDA	**1.0x**	**1.1x**	**-0.1x**

Production[5] (kt)	2018	2017	Change
Hot metal	**8,205**	**7,941**	**3%**
Crude steel	**7,323**	**7,361**	**-1%**
Coke	**5,269**	**4,736**	**11%**
Iron ore concentrate	**27,353**	**27,464**	**0%**
Coking coal concentrate	**2,683**	**2,461**	**9%**

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

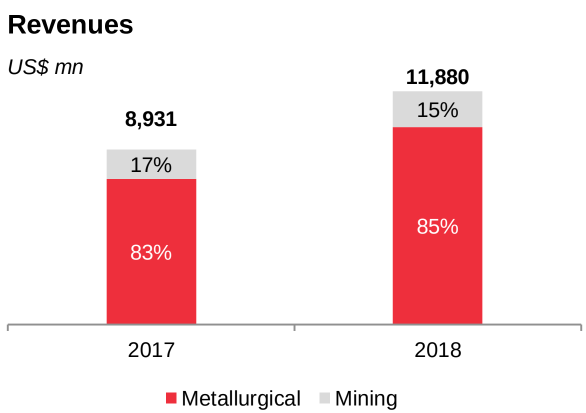
1. Adjusted EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment of property, plant and equipment, foreign exchange gains and losses, the share of results of associates and other expenses that the management considers non-core plus the share of EBITDA of joint ventures. Adjusted EBITDA will be referred to as EBITDA in this presentation
2. Free cash flow is calculated as net cash from operating activities less net cash used in investing activities
3. Gross debt is calculated as the sum of bank loans, bonds, trade finance, finance lease, seller notes and subordinated shareholder loans
4. Net debt is calculated as gross debt less cash and cash equivalents and less subordinated shareholder loans
5. Figures for 2017 have been updated to exclude production at assets, control over which was lost in March 2017

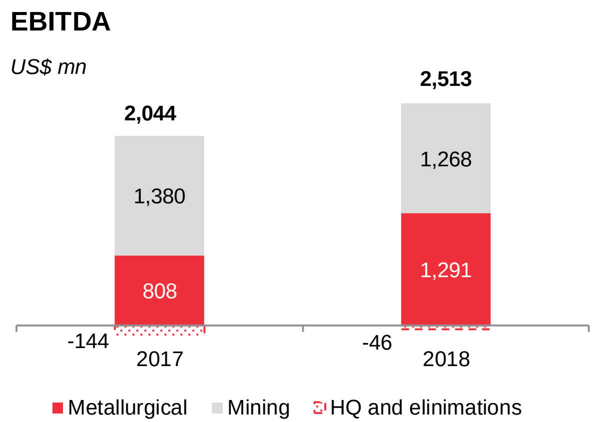
Due to rounding, numbers presented throughout this presentation may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures.

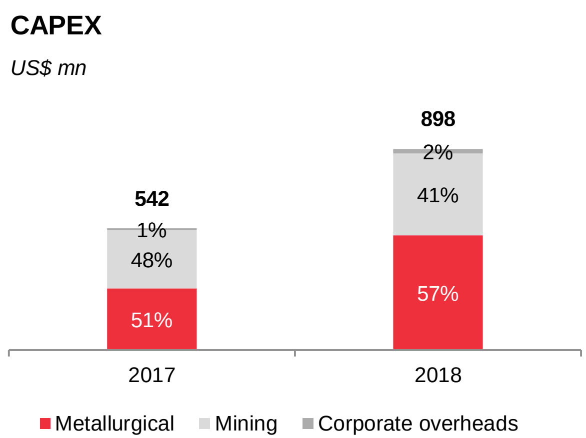
Financial highlights

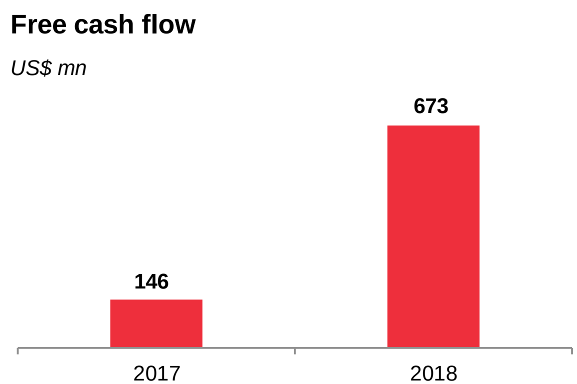
- Total revenues increased by 33% y-o-y
  - Metallurgical revenues rose by 36% y-o-y to US$10,064 mn
  - Mining revenues climbed by 19% y-o-y to US$1,816 mn
- Total EBITDA grew by 23% y-o-y
  - Metallurgical EBITDA surged by 60% y-o-y to US$1,291 mn
  - Mining EBITDA fell by 8% y-o-y to US$1,268 mn
- The segments' shares in EBITDA[1] changed y-o-y in 2018: 50% for Metallurgical (37% in 2017) and 50% for Mining (63% in 2017)
- The consolidated EBITDA margin was 21%, down 2 pp y-o-y
  - Metallurgical EBITDA margin rose by 2 pp y-o-y to 13%
  - Mining EBITDA margin dropped by 6 pp y-o-y to 34%
- Total CAPEX soared by 66% y-o-y to US$898 mn
- Free cash flow[2] surged by 4.6 times y-o-y to US$673 mn

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









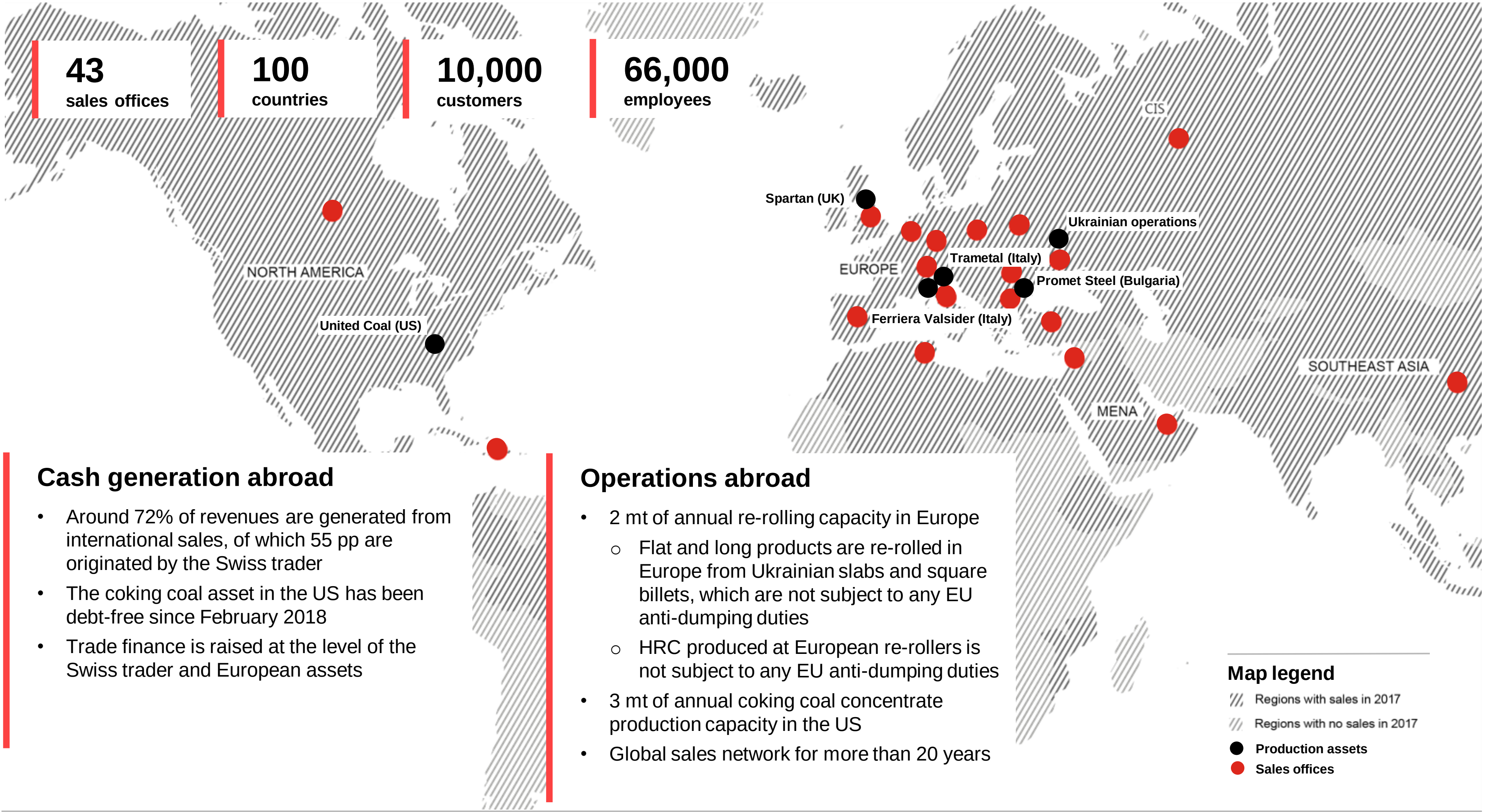
Global operations

43 sales offices

100 countries

10,000 customers

66,000 employees



Cash generation abroad

- Around 72% of revenues are generated from international sales, of which 55 pp are originated by the Swiss trader
- The coking coal asset in the US has been debt-free since February 2018
- Trade finance is raised at the level of the Swiss trader and European assets

Operations abroad

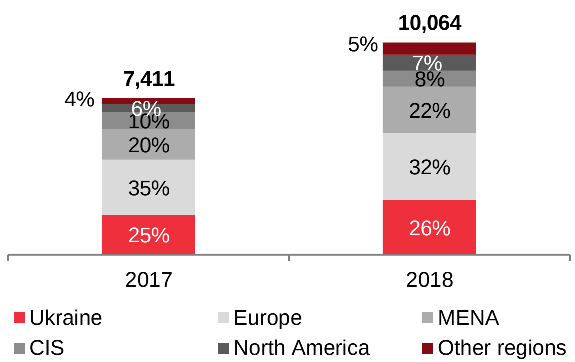
- 2 mt of annual re-rolling capacity in Europe
  - Flat and long products are re-rolled in Europe from Ukrainian slabs and square billets, which are not subject to any EU anti-dumping duties
  - HRC produced at European re-rollers is not subject to any EU anti-dumping duties
- 3 mt of annual coking coal concentrate production capacity in the US
- Global sales network for more than 20 years

Sales portfolio

- Total sales increased by US$2,949 mn y-o-y, mainly driven by:
  - higher selling prices
  - greater sales volumes of in-house products
  - higher resales
- Metallurgical sales
  - higher share of Ukraine (+1 pp y-o-y) amid improved local demand, as the economy continued to expand
  - lower share of Europe (-3 pp y-o-y), mainly following a redirection of HRC resales to MENA (+2 pp y-o-y) and Southeast Asia (+2 pp y-o-y)
- Mining sales
  - share of Ukraine rose by 4 pp y-o-y to 42% amid strong demand
  - share of premium European market rose by 4 pp y-o-y to 44% following long-term agreements signed with customers
  - FCA prices for iron ore products increased by around 15% y-o-y
- The proportion of sales in hard currencies (US$, EUR, GBP) totaled 79% in 2018, up 2 pp y-o-y

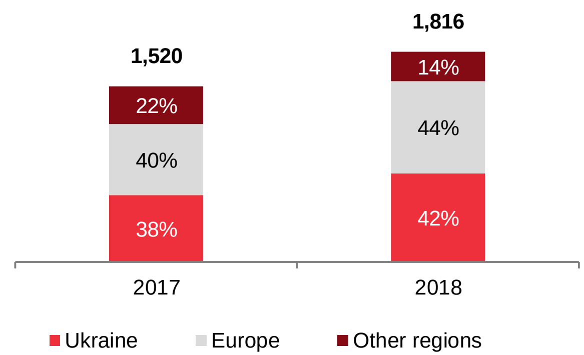
Metallurgical sales by region

US$ mn



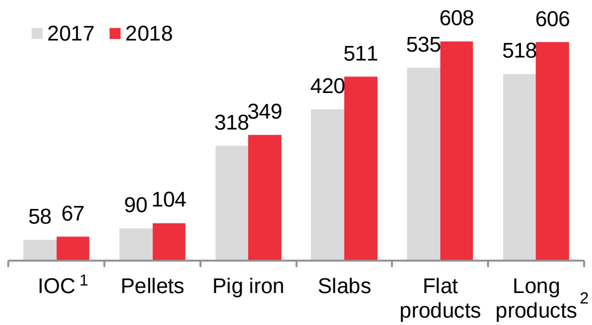
Mining sales by region

US$ mn



Price trends, FCA basis

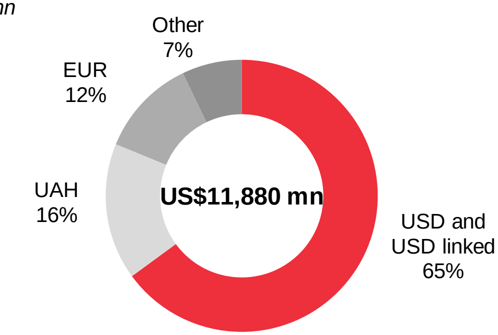
US$/t



1. Iron ore concentrate
2. Excluding railway products

Total sales by currency in 2018

US$ mn

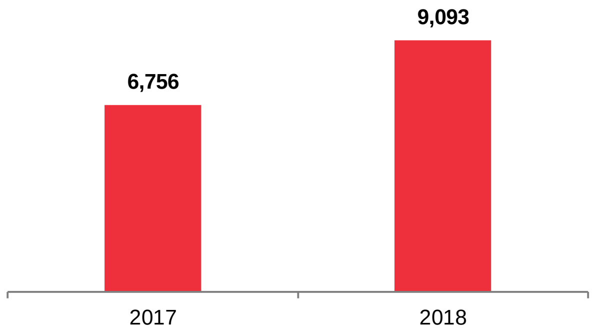


Operating expenses

- Cost of sales rose by 35% y-o-y, mainly due to:
  - higher cost of goods and services for resale (US$1,339 mn), mainly pig iron and steel products
  - greater consumption of raw materials following higher y-o-y output (coke, sinter, hot metal, long products), as well as higher prices of scrap and ferroalloys (US$311 mn)
  - increased expenses for energy materials (US$175 mn)
  - greater labour costs (US$166 mn) amid increased salaries and corresponding social security expenses
  - greater spending on raw material transportation (US$87 mn)
- Distribution costs rose by 23% y-o-y, driven by:
  - greater steel sales volumes to Europe, MENA, North America and Southeast Asia, which affected freight and handling costs
  - higher freight tariffs globally amid increased crude oil prices
  - increased railcar usage fees in Ukraine
  - greater iron ore and steel product distribution by rail
- General and administrative expenses increased by 17% y-o-y, mainly due to higher labour costs and service fees

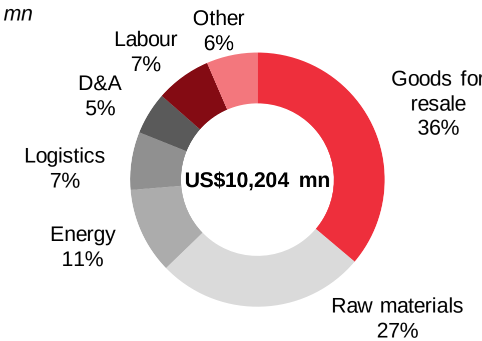
Cost of sales

US$ mn



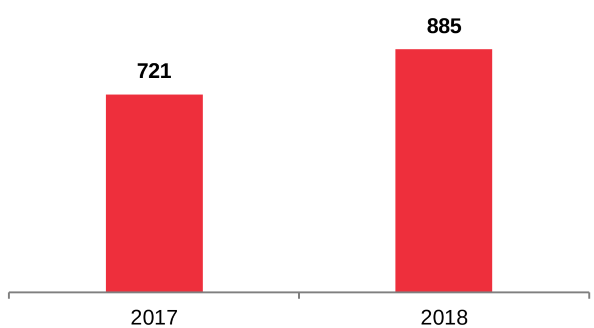
Operating expenses by nature in 2018

US$ mn



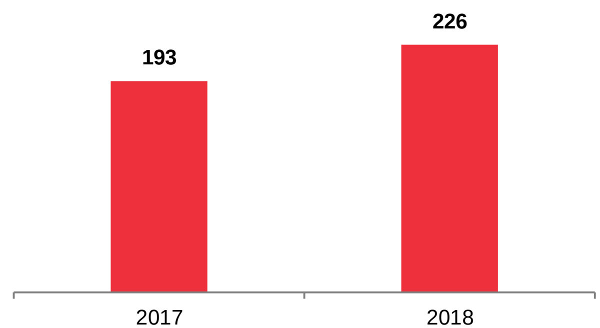
Distribution costs

US$ mn



General and administrative expenses

US$ mn

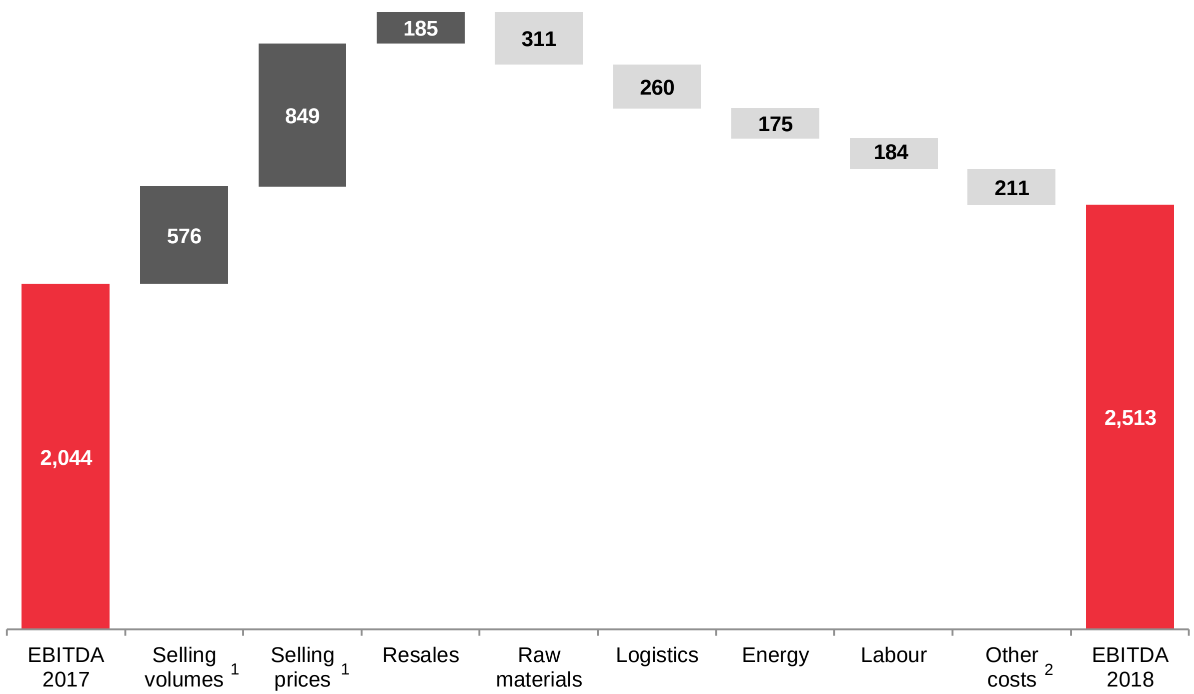


EBITDA

- Total EBITDA soared by US$469 mn y-o-y to US$2,513 mn, driven by:
  - higher average selling prices
  - greater sales volumes of in-house pig iron, slabs, flat products, coke and pellets
  - higher earnings on resales due to increased prices and volumes
- Cost pressure on EBITDA, primarily amid increased production and sales volumes, as well as higher market prices of raw materials, energy and transportation tariffs:
  - greater consumption of purchased coking coal amid an 11% y-o-y rise in coke output
  - increased purchases of billets as feedstock to roll at Promet Steel
  - higher market prices of ferroalloys and scrap
  - more spending on energy due to higher natural gas prices (+22% y-o-y) and Ukrainian electricity tariffs (+15% y-o-y), as well as greater consumption of natural gas and fuel
  - increased shipment volumes of raw materials, finished goods and resales, as well as higher freight tariffs and railcar usage fees

EBITDA drivers

US$ mn



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

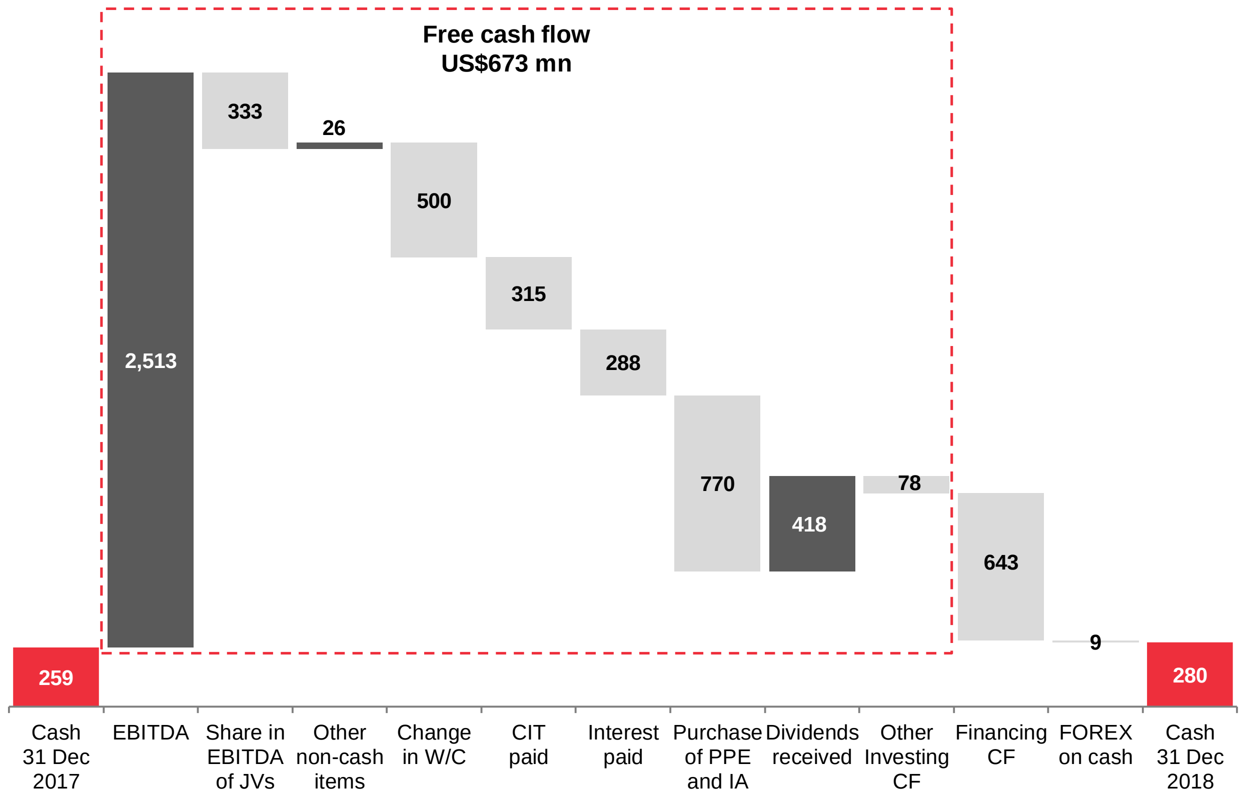
Cash flow

- Strong free cash flow[1] of US$673 mn amid robust EBITDA and dividends received from Southern GOK JV
- Working capital outflow totaled US$500 mn, primarily due to:
  - an increase in accounts receivable amid higher sales, while receivables turnover remained flat y-t-d at 4.6x
  - a rise in inventories (primarily coal and iron ore), while inventory turnover grew to 7.0x (from 6.2x in the end of 2018)
  - average working capital as a percentage of LTM revenues remained flat y-o-y at 15%
- Corporate income tax paid reached US$315 mn, doubling y-o-y, mainly due to improved profitability of each business segment
- Financing cash outflow was primarily due to:
  - repayments under several debt instruments (both voluntary and as per the agreed schedule) as part of the Group's commitment to deleveraging
  - US$130 mn paid for the acquisition of around 25% of coking coal business in Ukraine

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

Cash flow in 2018

US$ mn

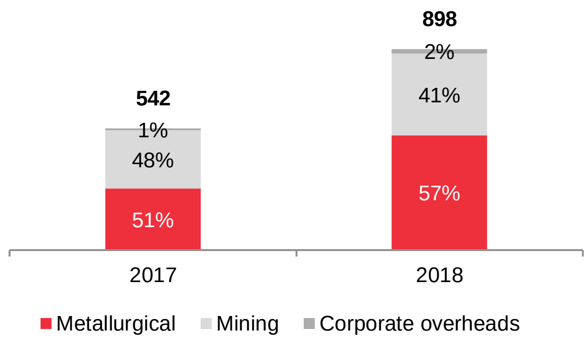


Capital expenditure

- In 2018:
  - CAPEX soared by 66% y-o-y to US$898 mn
  - The Metallurgical segment accounted for 57% of total investments (+6 pp y-o-y)
  - The share of expansion projects reached 32% (+15 pp y-o-y)
- The Technological Strategy 2030 focuses on:
  - Enhance operational safety and reduce environmental footprint
  - Steel
    - increase steel production capacity at Azovstal and Ilyich Steel to 11 mt/y by implementing numerous projects, including major overhauls of BFs and construction of new CCMs
    - focus on downstream to increase share of HVA products (mainly flat, sections and rails)
    - improve production cost efficiency
  - Iron ore
    - pursue quality over quantity strategy
    - increase Fe content and enhance key mechanical and chemical characteristics of iron ore products to penetrate premium markets
    - maintain low-cost position
- Key ongoing strategic projects are on slide 15

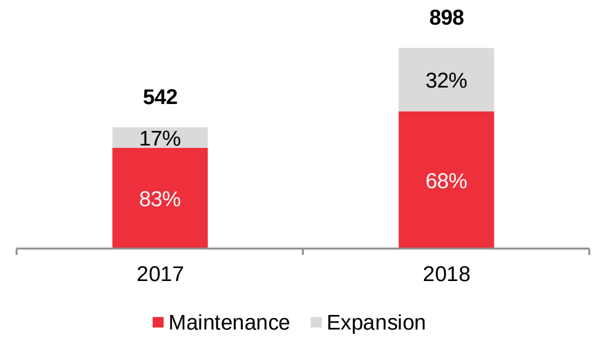
CAPEX by segment

US$ mn



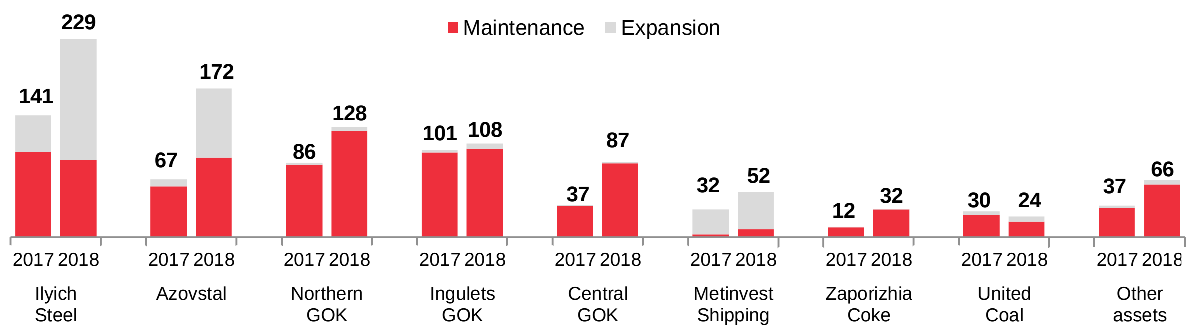
CAPEX by purpose

US$ mn



CAPEX by key asset

US$ mn



Key strategic CAPEX projects in 2018

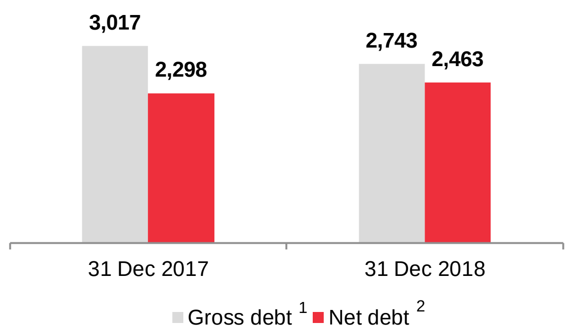
No	Project	Asset	Description	Status
1	**Construction of continuous casting machine (CCM) no. 4**	**Ilyich Steel**	Boost slab casting capacity to 4.3 mt/y, improve product quality, decrease costs and reduce environmental impact.	The active construction stage started in September 2016. The first pill heat was cast in November 2018, as expected.
2	**Reconstruction of 1700 hot strip mill**	**Ilyich Steel**	Increase hot strip mill capacity, improve the steel surface quality and reduce the process waste during slab rolling.	Basic engineering development started in 3Q 2017. Detailed engineering and documentation are ready. Commissioning is currently expected in 2H 2019.
3	**Sinter plant reconstruction**	**Ilyich Steel**	Comply with environmental requirements.	New gas cleaning filters have been installed in the sintering zones of sintering machines (SMs) nos. 1-10 and cooling zones of SMs nos. 7-9. Remaining cyclones are to be replaced by mid-2019. Desulphurisation complexes at SMs nos. 7-9 are being tested, while their construction at other SMs is ongoing.
4	**Major overhaul of blast furnace (BF) no. 3**	**Azovstal**	Increase hot metal production capacity by 0.5-0.8 mt/y to 1.3-1.6 mt/y; and reduce production cost by decreasing consumption of coke and coke nuts.	The final investment decision was made in July 2017 and the active construction stage has started. The launch has been postponed to mid-2019 due to delays with engineering and a lack of contractor personnel.
5	**Construction of pulverised coal injection (PCI) facilities**	**Azovstal**	Minimise the need for natural gas in the production process and use coke more efficiently.	Two of four BFs are operating using PCI technology (nos. 2 and 4). Construction at BF no. 3 is ongoing: PCI injection has been postponed to mid-2019 to align with the major overhaul schedule.
6	**Construction of crusher and conveyor system at Pervomaisky quarry**	**Northern GOK**	Reduce operational and capital expenditure in iron ore mining and maintain production volumes.	The first facility for iron ore transportation was launched in July 2016. The launch of the second facility for rock transportation has been postponed to 2020.
7	**Replacement of gas cleaning unit on Lurgi 552-B pelletising machine**	**Northern GOK**	Comply with the maximum permissible concentrations of pollutants in the air and improve conditions in the workplace.	All five filters have been replaced with the last one, no. 5, completed in December 2018.
8	**Construction of crusher and conveyor system**	**Ingulets GOK**	Reduce operational and capital expenditure in iron ore mining and maintain production volumes.	Construction is ongoing on the Vostochny conveyor line.
9	**Purchase of 1,800 open rail wagons**	**Metinvest Shipping**	Purchase rail wagons to deliver raw materials and dispatch finished products to curtail negative effect from rolling stock shortage in Ukraine.	All wagons have been purchased on time and in line with the budget.

Debt profile

- Sustainable maturity profile amid no significant repayments until 2023
- US$63 mn of equipment financing secured y-t-d, including a EUR43 mn, 7-year, ECA-covered facility for CAPEX at Ilyich Steel
- As of 31 December 2018:
  - gross debt fell by 9% y-t-d to US$2,743 mn amid full repayment of shareholder loans and partial repayment of the PXF facility
  - net debt was US$2,463 mn (+7% y-t-d)
  - net debt to LTM EBITDA decreased to 1.0x (-0.1x y-t-d)
  - 94% of gross debt is US$-denominated and debt service is hedged by revenues in hard currencies

Gross and net debt

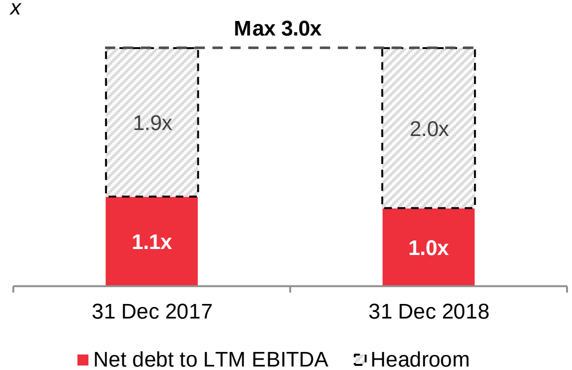
US$ mn



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

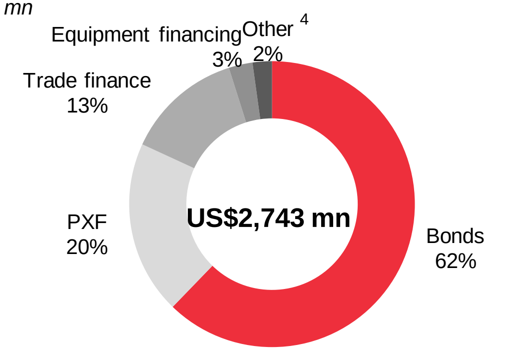
Net debt to LTM EBITDA

x



Gross debt breakdown as of 31 Dec 2018

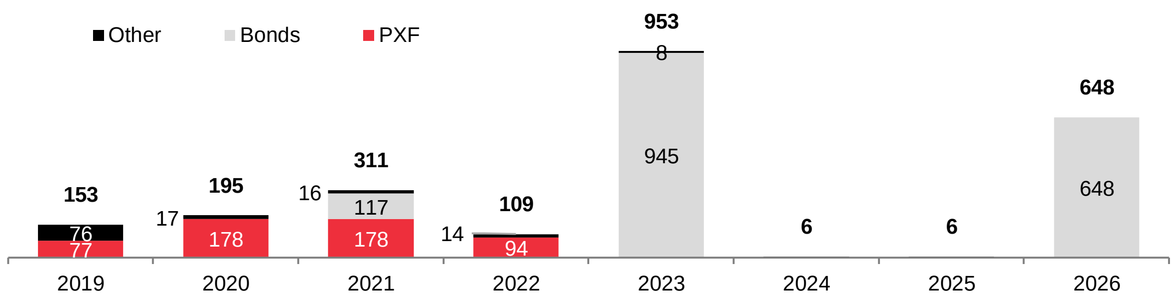
US$ mn



4. Deferred consideration for Pokrovske coal business acquisition (24.99%)

Corporate debt maturity as of 31 Dec 2018[3]

US$ mn



3. Notes:
   - Other includes deferred consideration for Pokrovske coal business acquisition (24.99%), ECA facilities, finance lease and other facilities
   - Trade finance lines are mainly rollovers, therefore are excluded from the maturity profile chart

Refinancing overview

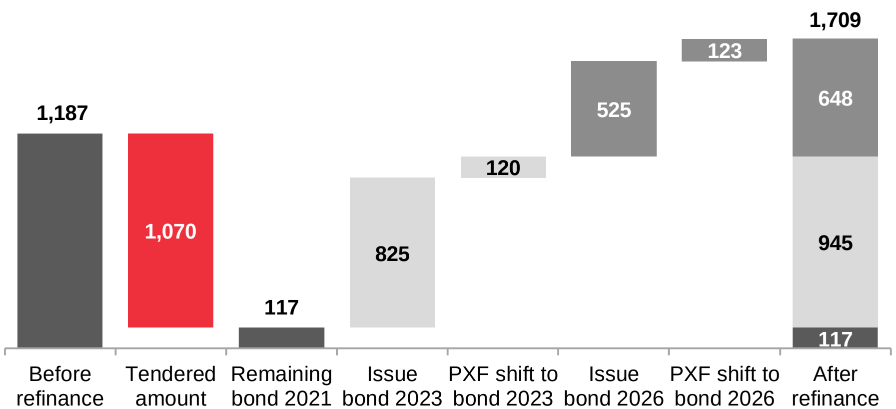
- In April 2018, a bond and PXF refinancing was successfully completed to:
  - decrease total funding costs
  - smooth and extend the maturity profile
  - untie the bonds and PXF facility by removing the inter-creditor agreement
  - reduce refinancing risks
  - align bond terms with standard market terms for similarly rated issuers
  - release certain covenants
- US$205 mn of new incremental proceeds from the refinancing were used to partly repay ahead of schedule the PXF facility
- The transaction awarded Emerging EMEA Bond of 2018 by International Financing Review (IFR)

Bonds and PXF key parameters

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

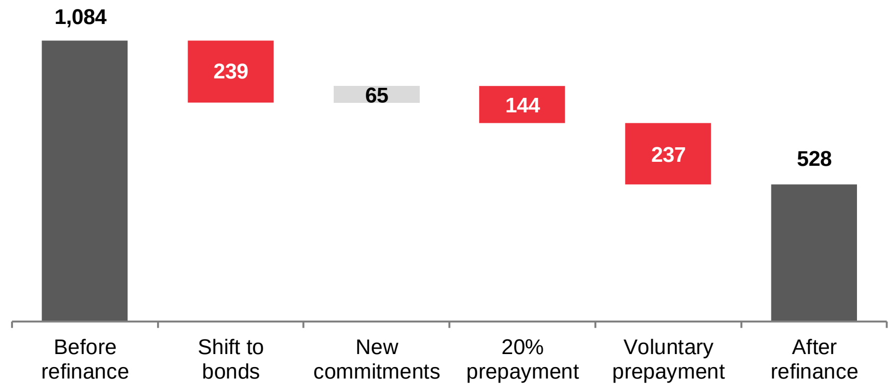
Bond evolution

US$ mn



PXF evolution

US$ mn



Credit rating

Metinvest's ratings are constrained by the Sovereign rating

B / positive

FitchRatings

→ one notch above Ukraine's country ceiling

→ Launched ESG Relevance Scoring and assessed that **ESG risks has no impact on Metinvest's credit risks**

B- / positive

S&P Global

→ in line with Ukraine's Sovereign rating

B3 / stable

Moody's

→ one notch above Ukraine's Sovereign rating
→ capped by Ukraine's country ceiling

→ Applying Moody's indicated rating methodology for the steel industry gives a rating of **Baa3**[1]

Moody's steel industry grid	A	Baa	Ba	B
Factor 1: Scale (20%)				
a) Revenues (US$ bn)		**US$10.7 bn**		
Factor 2: Business profile (20%)				
a) Business profile			**Ba**	
Factor 3: Profitability (15%)				
a) EBIT Margin		**11.5%**		
b) Return on tangible assets (EBIT / tangible assets)	**11.6%**			
Factor 4: Leverage and coverage (35%)				
a) Debt / EBITDA	**1.9x**			
b) Debt / book capitalisation	**38.1%**			
c) (CFO – dividends) / debt		**31.3%**		
d) EBIT / interest expense		**4.2x**		
Factor 5: Financial policy (10%)				
a) Financial policy			**Ba**	
Rating:				
a) **Indicated rating from grid**		**Baa3**		
b) Actual rating assigned				**B3**

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

ESG

	Environment	Social	Governance
Goals	▪ Reduce environmental footprint ▪ Introduce more efficient energy-saving technology ▪ Meet European standards in this area ▪ Respond rapidly to any critical issues	▪ Work in partnership with the communities where Metinvest operates to achieve long-term improvements in social conditions ▪ Maintain close dialogue with local stakeholders	▪ Develop the corporate governance system to be among the most transparent international companies and serve the interests of all stakeholders as thoroughly as possible
Initiatives	▪ Continually examine and enhance environmental standards within the framework of the Technological Strategy ▪ Require all newly built and reconstructed assets to meet EU environmental standards ▪ Regularly review the environmental action plan to target efforts more effectively	▪ Implement social partnership programmes with local authorities ▪ Empower local communities ▪ Foster the development of green and ecological initiatives ▪ Enhance the sustainable development of regions	▪ Supervisory Board consists of 10 members: 7 representing SCM and 3 representing SMART ▪ Supervisory Board includes three independent non-executive members: Stewart Pettifor, Christiaan Norval and Johan Bastin ▪ Supervisory Board is assisted by four committees: Audit and Finance, Strategy and Investments, HSE, Appointments and Compensations
Results 2018	▪ Around US$260 mn was spent on environmental safety[1] ▪ Progress on key environmental projects: ○ reconstruct gas cleaning system of sinter plant at Ilyich Steel ○ major overhaul of gas-cleaning equipment at Azovstal's secondary steel treatment facilities ○ construct gas-cleaning system for new CCM no. 4 at Ilyich Steel ○ replace gas cleaning units of pelletising machines at Northern GOK and Central GOK ○ extensive maintenance of oven chambers at Avdiivka Coke and Zaporizhia Coke	▪ Paid US$0.7 bn of taxes, incl. CIT and other taxes ▪ Invested US$13 mn to support communities in cities where Metinvest operates ▪ Implemented nine projects of the "We Improve the City" initiative in Mariupol ▪ Implemented 18 projects of the "#ClassMetinvest2018" and six projects of the "#FestMetinvest2018" initiatives in Kryvyi Rih ▪ Selected and implemented 73 projects of the "We are the City" initiative in Zaporizhia ▪ Continued cooperation with the Mariupol Development Fund: 27 projects were completed ▪ "Zaporizhia. Joint Action Platform" was launched ▪ Held around 1,000 environmental events as part of "Green Centre" in Mariupol and Kryvyi Rih, and expanded this campaign to Zaporizhia	▪ Supervisory Board's expertise in external financing and human resources has been strengthened following the appointments of professionals with extensive experience in international debt capital markets, leading European financial institutions and global consulting companies ▪ Executive team has been strengthened by introducing two new positions: one to implement the integrated business management system and the other to implement the Technological Strategy 2030

1. Including both capital and operational improvements

Strengthening governance and management

- **Changes in the Supervisory Board**
  - Oleg Popov has been appointed chairman of the Supervisory Board.
  - Johan Bastin joined the Supervisory Board, overseeing investor relations and investment strategy. Mr Bastin is a member of the Audit and Finance Committee and the Strategy and Investments Committee.
  - Natalia Izosimova joined the Supervisory Board, overseeing HR matters. Mrs Izosimova is a member of the Appointments and Compensations Committee and Health, Safety and Environmental Committee.
- **Changes in the executive team**
  - A chief technology officer position has been introduced to implement the Group’s Technological Strategy 2030, oversee the enhancement of its operational efficiency and ensure further development of Metinvest’s assets. Andriy Yemchenko has been appointed to this position.
  - The Economics and Business System Directorate headed by Olga Ovchinnikova has been created to implement the integrated business management system and ensure the Group’s sustainable long-term development.
  - Alexey Gromakov has joined the executive team as a new logistics and procurement director.

Oleg Popov
Chairman (2018-)
Class A Member (2014-)
- Supervisory Board member at Metinvest B.V. (2014-18)
- CEO at SCM (2006-)
- Chairman of the Supervisory Board at DTEK (2009-)
- COO at SCM (2001-06)
- Degree in economics from Donetsk State University (Ukraine)

Johan Bastin
Class A Member
(2018-)
- Member of supervisory boards of DTEK Energy, DTEK Renewables
- CEO at CapAsia (2009-15)
- MD at Darby Private Equity / Franklin Templeton Investments
- Business group director at EBRD (1993-2002)
- PhD from Université de Montréal (Canada)

Natalia Izosimova
Class A Member
(2018-)
- Board member of several major companies, consultant for top business executives
- Member of supervisory boards of several SCM companies (2007-13)
- HR and corporate transformation director at SCM (2005-07)
- Various positions at McKinsey and Company (1994-2005)

Olga Ovchinnikova
Economics and Business System Director (2018-)
- Logistics and procurement director (2013-18)
- Logistics director of the Supply Chain Management Directorate (2012-13)
- Logistics manager at Severstal-Resource (2006-11)
- Logistics and supply chain management

Andriy Yemchenko
Chief Technology Officer
(2018-)
- Deputy of CEO for strategic development at Donetsksteel (2007-18)
- Director of Directorate for Corporate Planning at Donetsksteel (2004-07)
- Deputy CEO at Consortium Energo (1993-2004)
- PhD (metal treatment under pressure)

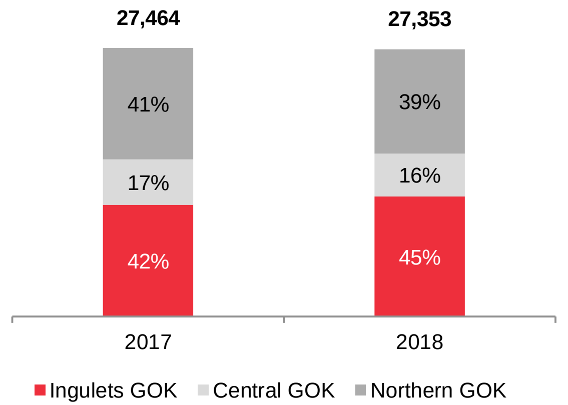
Alexey Gromakov
Logistics and Procurement Director (2018-)
- Director for corporate strategy and regional development at Beeline (2015-18)
- Director of purchasing and logistics at Aeroflot (2009-15)
- MBA from Kingston University (UK)
- Strategy and Innovation from Oxford University’s Saïd Business School (UK)

Segmental review

Mining operations

Iron ore concentrate production

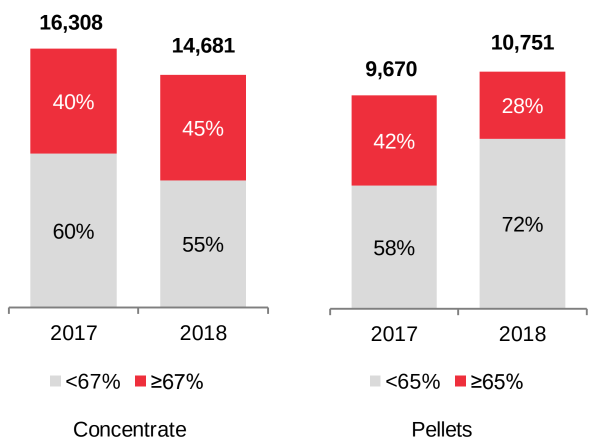
kt



- Overall iron ore concentrate production remained flat y-o-y amid greater output at Ingulets GOK (+7% y-o-y) following the expansion of the off-highway truck fleet
- Iron ore self-sufficiency was 276%[1] in 2018
- Metinvest used 40%[2] of total iron ore concentrate internally and allocated 60%[2] for third-party sales

Output of iron ore products[3] by Fe %

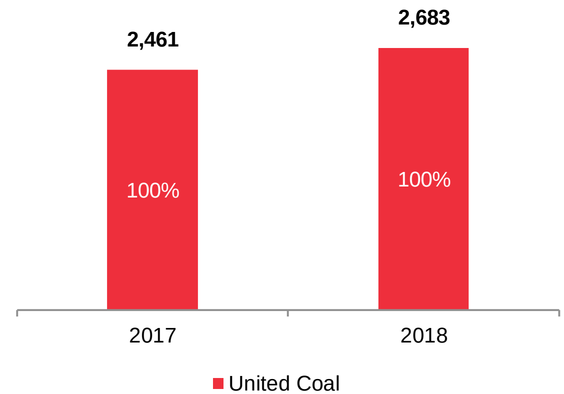
kt



- Metinvest's strategy is to produce premium products (with greater Fe content and better mechanical and chemical characteristics) to penetrate premium markets
  - share of high-grade concentrate (Fe ≥67%) increased by 5 pp y-o-y to 45%
  - share of high-grade pellets (Fe ≥65%) stood at 28%
  - pellet output increased by 11% y-o-y, as this product offered higher margins than iron ore concentrate

Coking coal production[4]

kt



- Coking coal concentrate production grew by 9% y-o-y following the commissioning of new mining areas and upgrades of key equipment
- High-quality US coking coal is delivered to Metinvest's Ukrainian coke production facilities to cover around 43%[5] of intragroup needs
- Other coal volumes required for coke production are delivered by international and local suppliers
- Additional long-term supplies have been secured after acquiring up to 24.99% in coking coal assets in Ukraine, primarily Pokrovske Colliery and Svyato-Varvarinskaya Enrichment Plant (Pokrovske coal business)

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

Mining segment financials

- Sales
  - External revenues increased by 19% y-o-y, driven by greater sales of pellets, which offer higher margins than iron ore concentrate
  - Pellets accounted for 48% of the iron ore sales mix and merchant concentrate for another 52% in 2018 (39% and 61% in 2017 respectively)
  - The top five iron ore customers accounted for 58% of segmental sales
  - A total of 82% of iron ore volumes are sold under annual contracts (70% in 2017)
- EBITDA
  - The segment's EBITDA and EBITDA margin decreased y-o-y due to (i) higher energy, repairs and maintenance, logistics and labour costs for the Group's iron ore producers, and (ii) a drop in the contribution from the Southern GOK JV
- The segment's CAPEX increased by 42% y-o-y to US$366 mn, primarily due to higher investments at Central GOK and Northern GOK

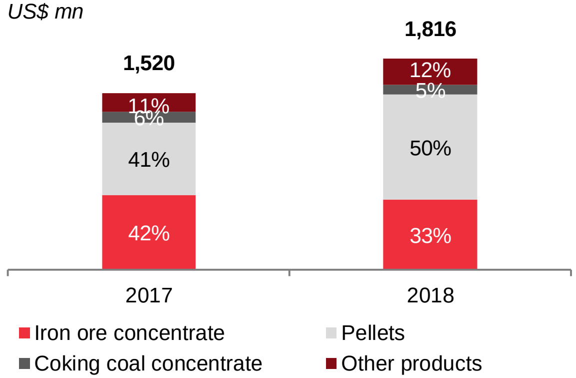
1. The contribution is to the gross EBITDA, before adjusting for corporate overheads

Segment financials

US$ mn	2018	2017	Change
Sales (total)	**3,747**	**3,460**	**8%**
Sales (external)	**1,816**	**1,520**	**19%**
% of Group total	*15%*	*17%*	*-2 pp*
EBITDA	**1,268**	**1,380**	**-8%**
% of Group total[1]	*50%*	*63%*	*-14 pp*
margin	*34%*	*40%*	*-6 pp*
CAPEX	**366**	**258**	**42%**

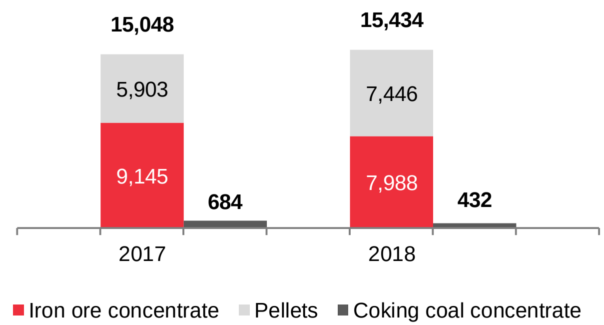
Sales by product

US$ mn



Sales by product

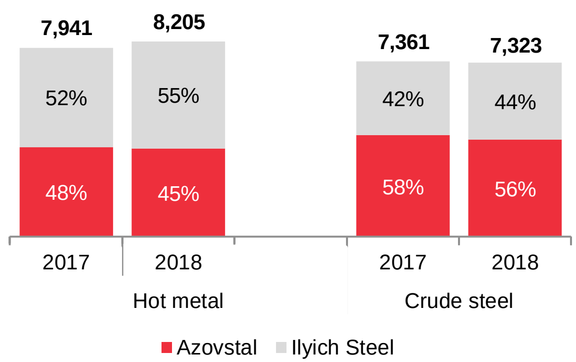
kt



Metallurgical operations

Hot metal and crude steel production[1]

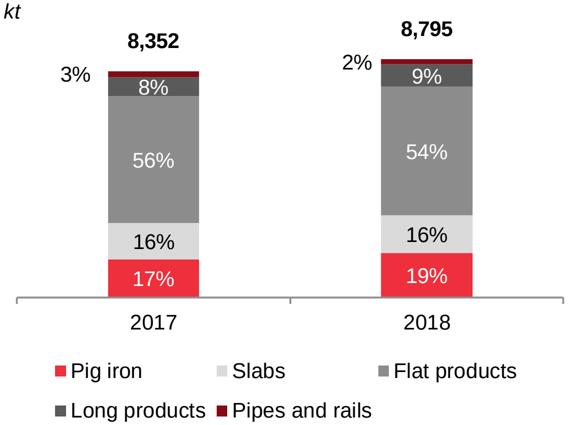
kt



- Total hot metal production rose by 3% y-o-y due to an 8% y-o-y increase at Ilyich Steel amid stable raw material supplies (irregular in 2017)
- Crude steel output edged down by 1% y-o-y due to a 4% y-o-y decrease at Azovstal amid scheduled major overhauls of blast furnaces and basic oxygen furnaces

Output of merchant steel products[1]

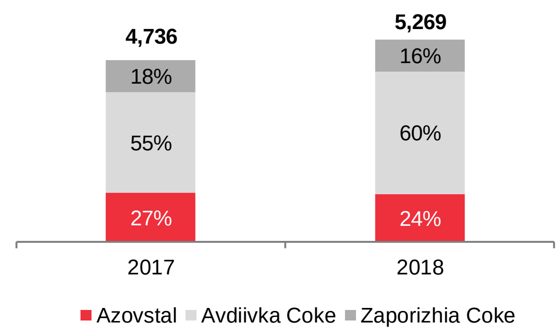
kt



- Steel product mix in 2018:
  - the pig iron share reached 19% while the slab share remained at 16%, both amid higher output following a favourable market trend
  - the flat product share remained above 50%, primarily due to greater output of plates at Ilyich Steel (+254 kt) given strong demand
  - the long product share rose to 9% due to higher production at Promet Steel, as stable supplies of square billets were secured
- The Group acquired 100% stake in Unisteel owning a galvanising line with production capacity of up to 100 kt/y.

Coke production

kt



- Coke[2] output increased by 11% y-o-y, driven by a rise in output of 563 kt at Avdiivka Coke, as all eight coke oven batteries have been in operation since May 2017
- Metinvest covered 151%[3] of its coke needs with own production in 2018
- The Group acquired 23.71% stake in Yuzhcoke, the Ukrainian metallurgical coke producer, for US$30 mn to secure Metinvest's long-term coke self-sufficiency

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

Metallurgical segment financials

- Sales
  - External sales rose by 36% y-o-y, mainly due to higher selling prices, increased sales volumes of products manufactured at Metinvest's facilities and greater resales
  - The share of HVA products[1] in the steel sales mix, excluding resales, was 51% in 2018
  - The top five steel customers accounted for 13% of the segment's revenues
  - Almost all steel volumes are sold on the spot market
- EBITDA
  - EBITDA soared by 60% y-o-y, mainly due to higher prices and sales volumes
  - The contribution to gross EBITDA[2] increased by 14 pp y-o-y to 50%
  - The EBITDA margin rose by 2 pp y-o-y, primarily due to strong realised prices
- The segment's CAPEX increased by 86% y-o-y to US$513 mn, mainly amid greater investments at the Mariupol steelmakers

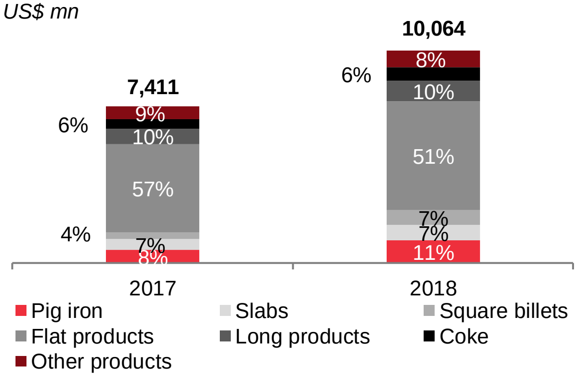
1. HVA products include thick plates, cold-rolled flat products, hot-dip galvanised sheets and coils, structural sections, rails and pipes
2. The contribution is to the gross EBITDA, before adjusting for corporate overheads

Segment financials

US$ mn	2018	2017	Change
Sales (total)	**10,134**	**7,464**	**36%**
Sales (external)	**10,064**	**7,411**	**36%**
% of Group total	*85%*	*83%*	*+2 pp*
EBITDA	**1,291**	**808**	**60%**
% of Group total[1]	*50%*	*37%*	*+14 pp*
margin	*13%*	*11%*	*+2 pp*
CAPEX	**513**	**276**	**86%**

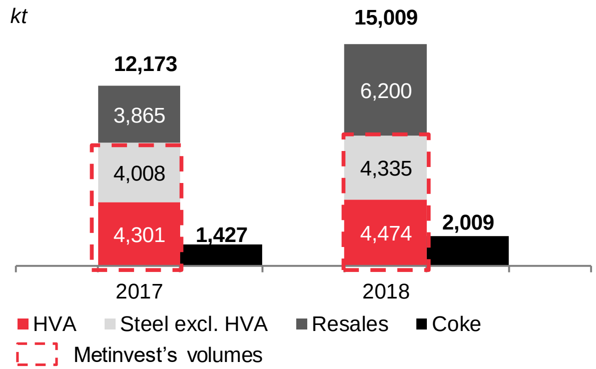
Sales by product

US$ mn



Sales by product

kt



Thank you!

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