STRENGTH IN NUMBERS

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

REVENUES

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

METALLURGICAL SEGMENT

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

PIG IRON

In 2018, sales of pig iron soared by 77% year-on-year to US$1,071 million, primarily driven by a 61% hike in sales volumes. Volumes rose by 1,028 thousand tonnes year-on-year to 2,717 thousand tonnes, amid strong market demand for the Group's pig iron (up 297 thousand tonnes) and greater resales (up 731 thousand tonnes). Consequently, the share of resales in total sales volumes reached 38% in 2018, compared with 18% in 2017. Greater orders from existing and new customers boosted sales primarily to North America (up 684 thousand tonnes), MENA (up 168 thousand tonnes) and Europe (up 90 thousand tonnes). An increased average selling price also contributed to higher sales.

SLABS

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

SQUARE BILLETS

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

FLAT PRODUCTS

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

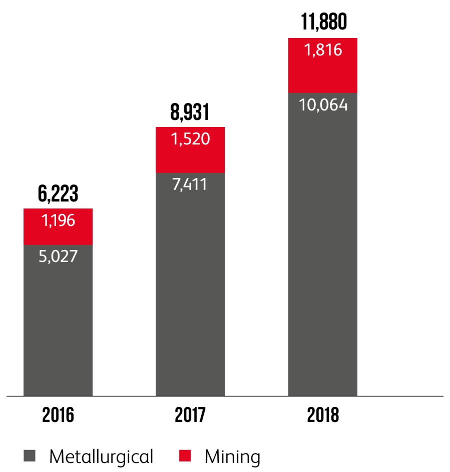
LONG PRODUCTS

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

Revenues by segment

US$11,880M

+33%



TUBULAR PRODUCTS

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

COKE

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

MINING SEGMENT

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

IRON ORE CONCENTRATE

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

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

PELLETS

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

COKING COAL CONCENTRATE

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

COST OF SALES

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

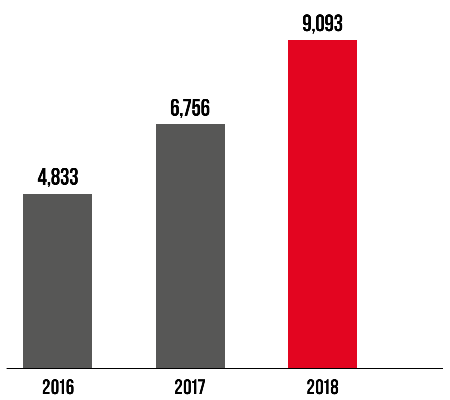
- higher cost of goods and services for resale (US$1,339 million), mainly pig iron and steel products;
- higher cost of raw materials (US$311 million), primarily due to: greater consumption of purchased billets (used as feedstock to roll at Promet Steel) and purchased coking coal (driven by an 11% year-on-year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

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

Cost of sales

US$9,093M

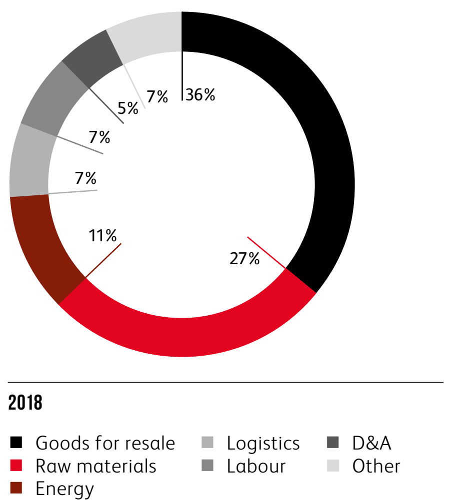
+35%



Operating expenses by nature

US$10,204M

+33%



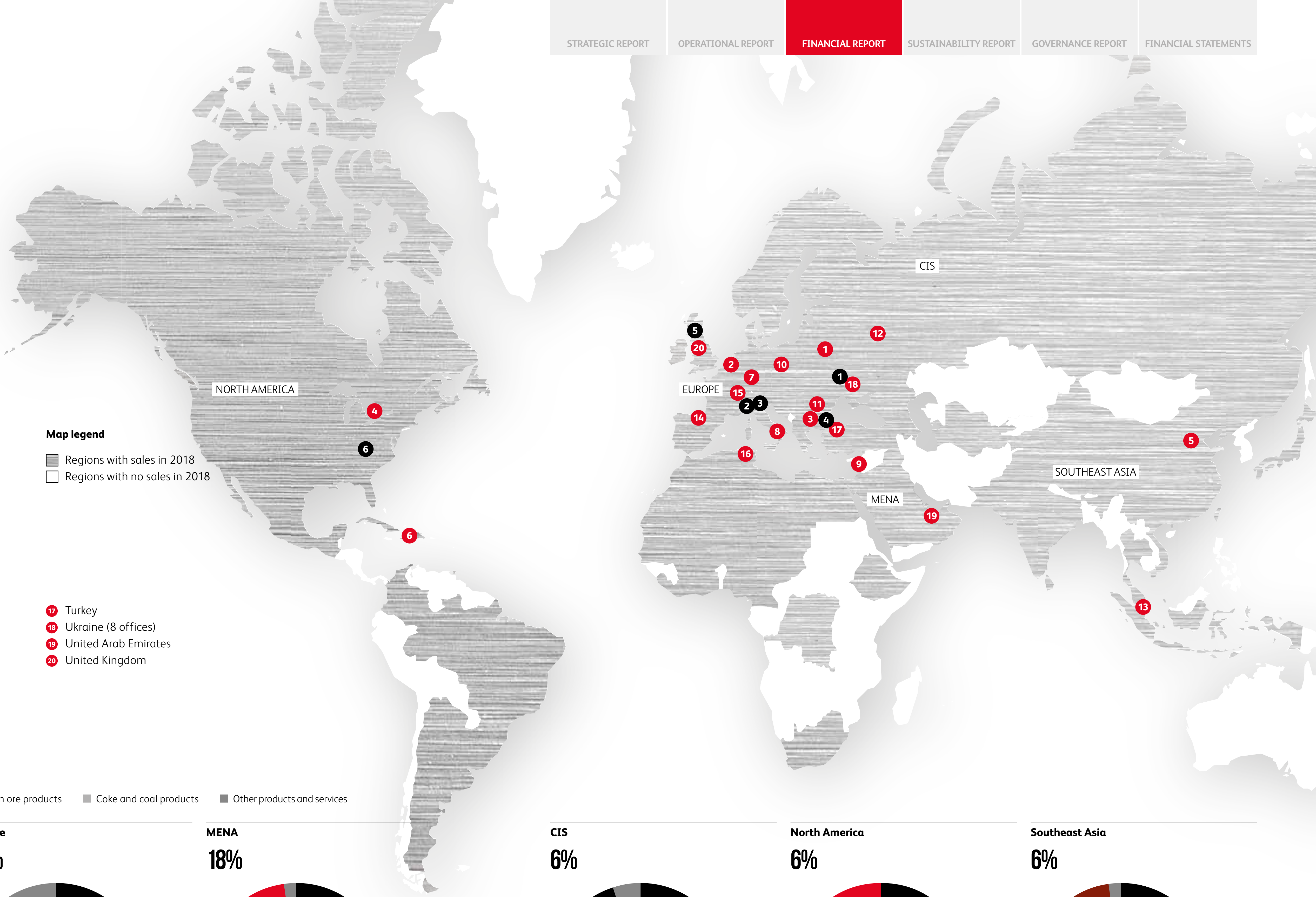
FINANCIAL REVIEW CONTINUED

SALES OFFICES
42

WAREHOUSES
37

COUNTRIES
100

CUSTOMERS
10,000+



Metinvest's operations

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

Map legend

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

Metinvest's sales offices

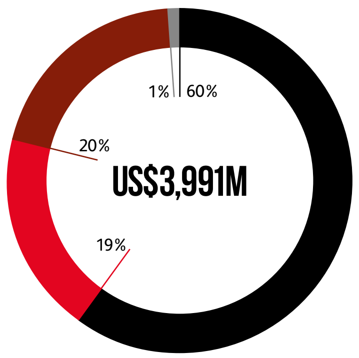
1. Belarus
2. Belgium
3. Bulgaria (3 offices)
4. Canada
5. China
6. Dominican Republic
7. Germany (2 offices)
8. Italy (3 offices)
9. Lebanon
10. Poland
11. Romania
12. Russia (11 offices)
13. Singapore
14. Spain
15. Switzerland
16. Tunisia
17. Turkey
18. Ukraine (8 offices)
19. United Arab Emirates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

REVENUES BY REGION IN 2018*

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

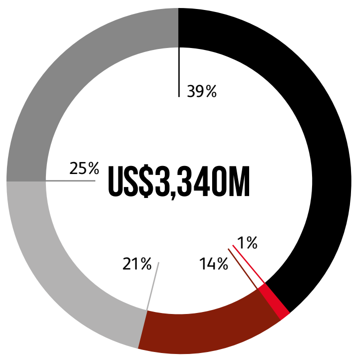
Europe

34%



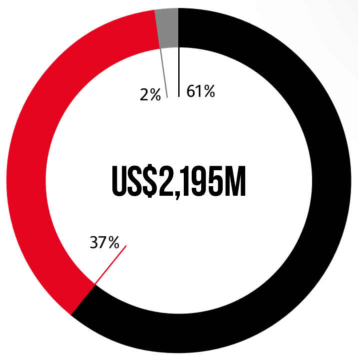
Ukraine

28%



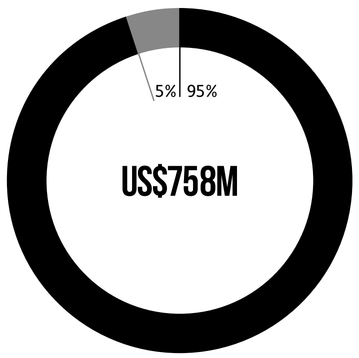
MENA

18%



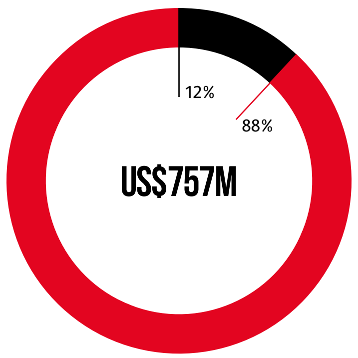
CIS

6%



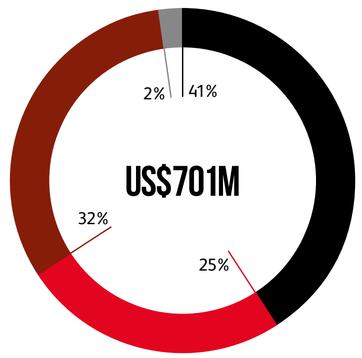
North America

6%



Southeast Asia

6%



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

FINANCIAL REVIEW CONTINUED

DISTRIBUTION COSTS

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

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

GENERAL AND ADMINISTRATIVE COSTS

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

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

OTHER OPERATING INCOME/EXPENSES

In 2018, other operating expenses amounted to US$120 million, compared with US$39 million of other operating income a year earlier. This was primarily attributable to operating foreign-exchange losses of US$70 million due to the revaluation of trade receivables in 2018, compared with operating foreign-exchange gains of US$66 million in 2017. In addition, impairment of trade and other accounts receivable grew by US$66 million, mainly due to recoverable VAT impairment of the seized assets (US$46 million). At the same time, charity and expenses for social activities increased by US$6 million following greater contributions to the cities of presence. This was partly compensated by higher other income (US$14 million) and write-off of certain accounts payable (US$33 million).

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

OPERATING PROFIT

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

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

EBITDA

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

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

FINANCE INCOME

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

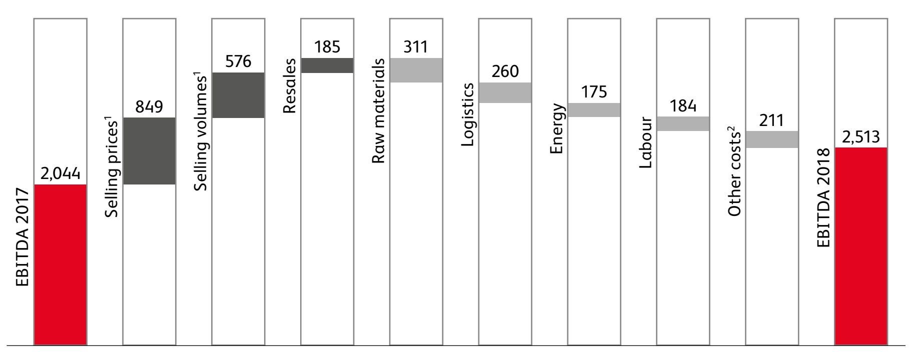
As a percentage of consolidated revenues, finance income amounted to 1% in 2018, up 1 percentage point year-on-year.

FINANCE COSTS

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

EBITDA drivers

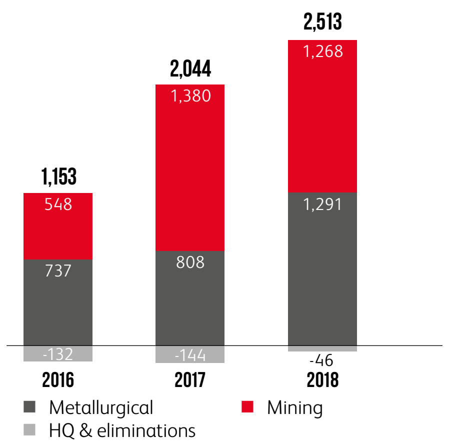
US$2,513M
+US$469M



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

EBITDA by segment

US$2,513M
+23%



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

SHARE OF RESULT OF ASSOCIATES AND JOINT VENTURES

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

INCOME TAX EXPENSE

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

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

NET PROFIT

In 2018, net profit soared by 93% year-on-year to US$1,188 million, primarily due to a 33% increase in revenues (US$2,949 million) and the lack of the provision for the loss of control over the seized assets (US$329 million). In addition, finance income rose by US$39 million, while finance costs declined by US$16 million. These factors were partly offset by a hike in operating expenses (US$2,693 million), greater income tax expense (US$51 million) and a reduced share of the results of associates and JVs (US$18 million).

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

LIQUIDITY AND CAPITAL RESOURCES

NET CASH FROM OPERATING ACTIVITIES

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

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

NET CASH USED IN INVESTING ACTIVITIES

In 2018, Metinvest used US$430 million in investing activities, down 4% year-on-year. Total cash used to purchase property, plant and equipment and intangible assets soared by 66% year-on-year to US$770 million. In addition, US$30 million was spent on the acquisition of the stake in Southern Coke, US$46 million on loans issued and US$20 million on other payments (there were no such payments a year earlier). At the same time, Metinvest received US$418 million of dividends from the Southern GOK JV (nil in 2017) and US$18 million of interest on loans issued and deposits (up 20% year-on-year).

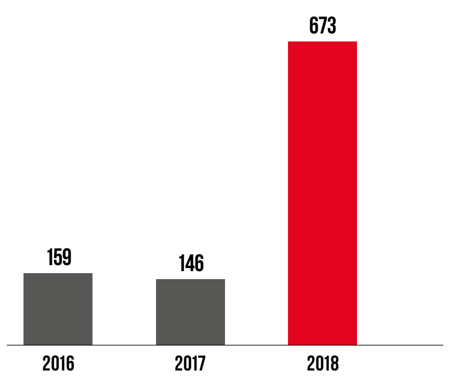
NET CASH USED IN FINANCING ACTIVITIES

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

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

Free cash flow

US$673M
4.6X



Year-end cash balance

US$280M
+8%