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

RESULTS: A SHOW OF STRENGTH

OPERATIONS

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

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

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

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

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

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

FINANCES

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

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

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

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

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

1. Production figures for 2016 and 2017 were updated to exclude production at assets, control over which has been lost since March 2017.

2. EBITDA is calculated as profit before income tax before finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign exchange gains and losses (starting from 1 January 2015), the share of results of associates and other expenses that the management considers non-core plus the share in EBITDA of joint ventures.

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

REVENUE GROWTH

+US$1,315M

over the last four years

HVA IN STEEL SALES IN 2018

51%

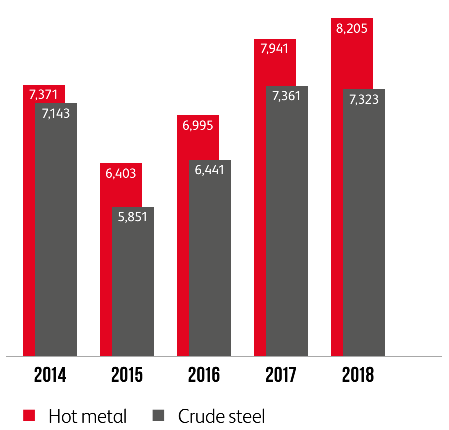
in-house products only

IRON ORE SALES VOLUMES TO EUROPE

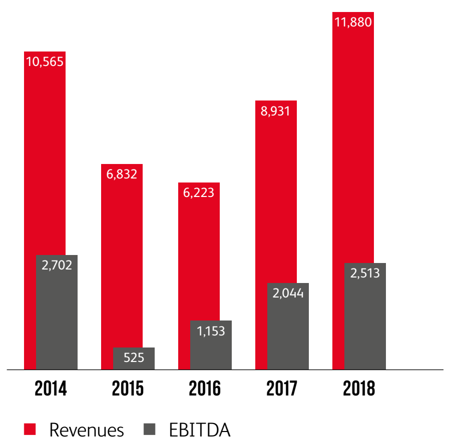
+3.5X

over the last four years

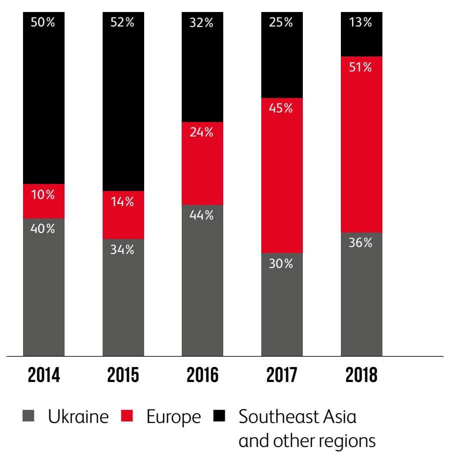
Hot metal and crude steel production (KT)



Revenues and EBITDA (US$M)



Iron ore sales by market (KT)



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

CAPEX: FULL STEAM AHEAD

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

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

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

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

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

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

Meanwhile, Azovstal moved closer to concluding the major overhaul of blast furnace no. 3, which is expected to be launched in mid-2019. It is designed to increase the blast furnace's annual hot metal capacity by 0.5-0.8 million tonnes to 1.3-1.6 million tonnes and reduce production costs by decreasing consumption of coke and coke nuts. The project budget increased to more than US$145 million as the scope and costs were reviewed. Construction of a pulverised coal injection (PCI) unit at the blast furnace is advancing in parallel with its major overhaul. The Group also started preparations for the major overhaul of blast furnace no. 6, which will involve the installation of a PCI unit as well. Once completed, all of the plant's blast furnaces will be equipped with this technology, which minimises the need for natural gas in the production process and uses coke more efficiently.

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

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

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

TOTAL CAPEX IN 2018

US$898M

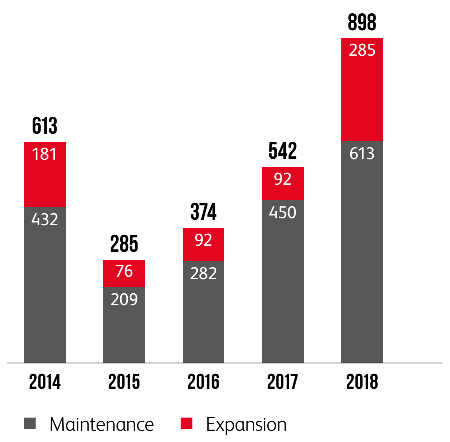
CAPEX GROWTH YEAR-ON-YEAR

66%

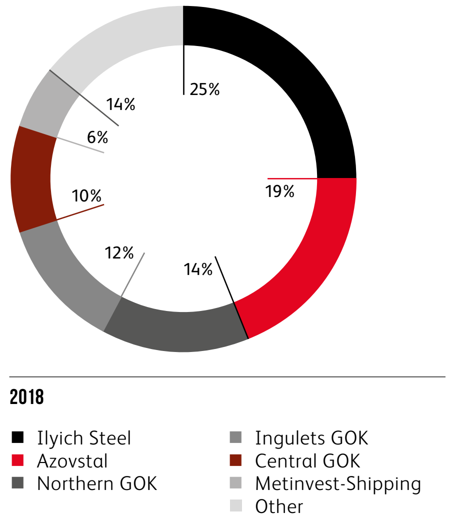
SHARE OF EXPANSION CAPEX IN 2018

32%

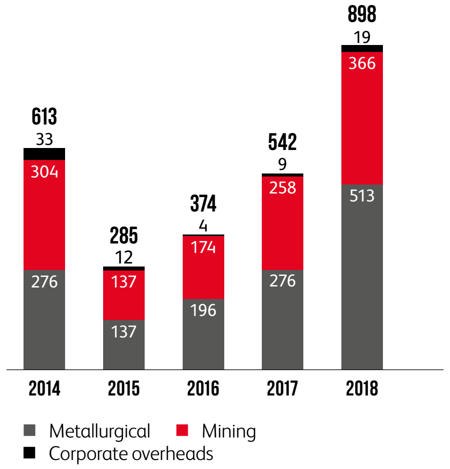
CAPEX by purpose (US$M)



CAPEX by asset (US$M)



CAPEX by segment (US$M)



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

DEBT MANAGEMENT: ON FIRMER FINANCIAL FOOTING

REFINANCING

OVERVIEW

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

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

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

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

ACHIEVEMENTS

In concluding the deal, the Group fulfilled several objectives.

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

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

IFR AWARD

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

TECHNICAL DETAILS

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

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

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

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

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

CAPEX FINANCING

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

In 2018, US$63 million was secured for equipment financing through several facilities. The largest was a seven-year repayment buyer credit facility of around EUR43.2 million for the construction of continuous casting machine no. 4 at Ilyich Steel, equalling around one-third of the project cost. It is covered by an Austrian export guarantee issued by Oesterreichische Kontrollbank Aktiengesellschaft (OeKB), while Raiffeisen Bank International AG acted as the sole lender. The facility is the first ECA-covered one since 2012.

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

TRADE FINANCING

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

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

CREDIT RATINGS

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

FITCH CREDIT RATING

B+ STABLE

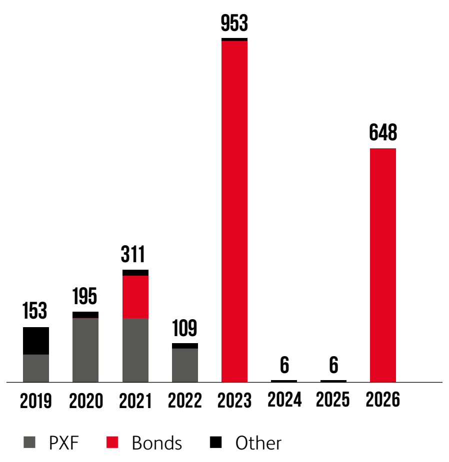
S&P CREDIT RATING

B- POSITIVE

MOODY'S CREDIT RATING

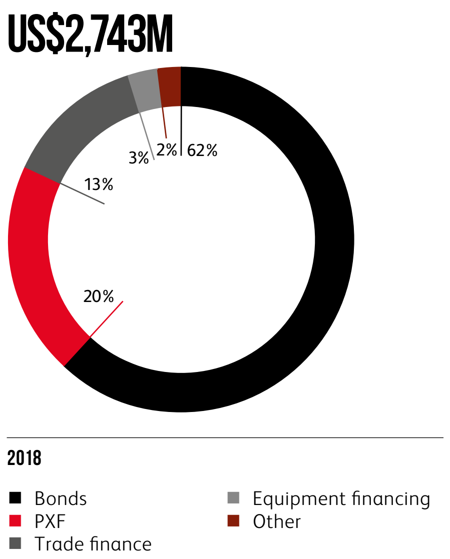
B3 STABLE

Corporate debt maturity (US$M)[1]

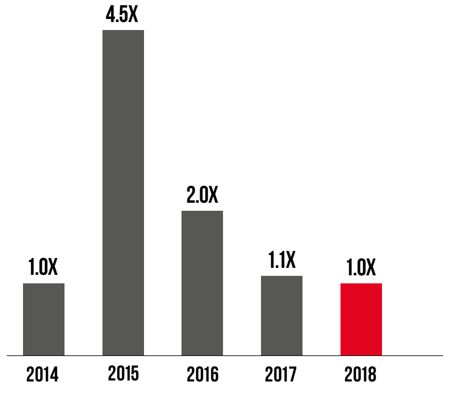


1. As of 31 December 2018.

Total debt by instrument



Net debt to EBITDA[2]



2. Excluding shareholder loans.

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

M&A: ADVANCING ON TWO KEY FRONTS

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

SECURING RAW MATERIALS

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

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

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

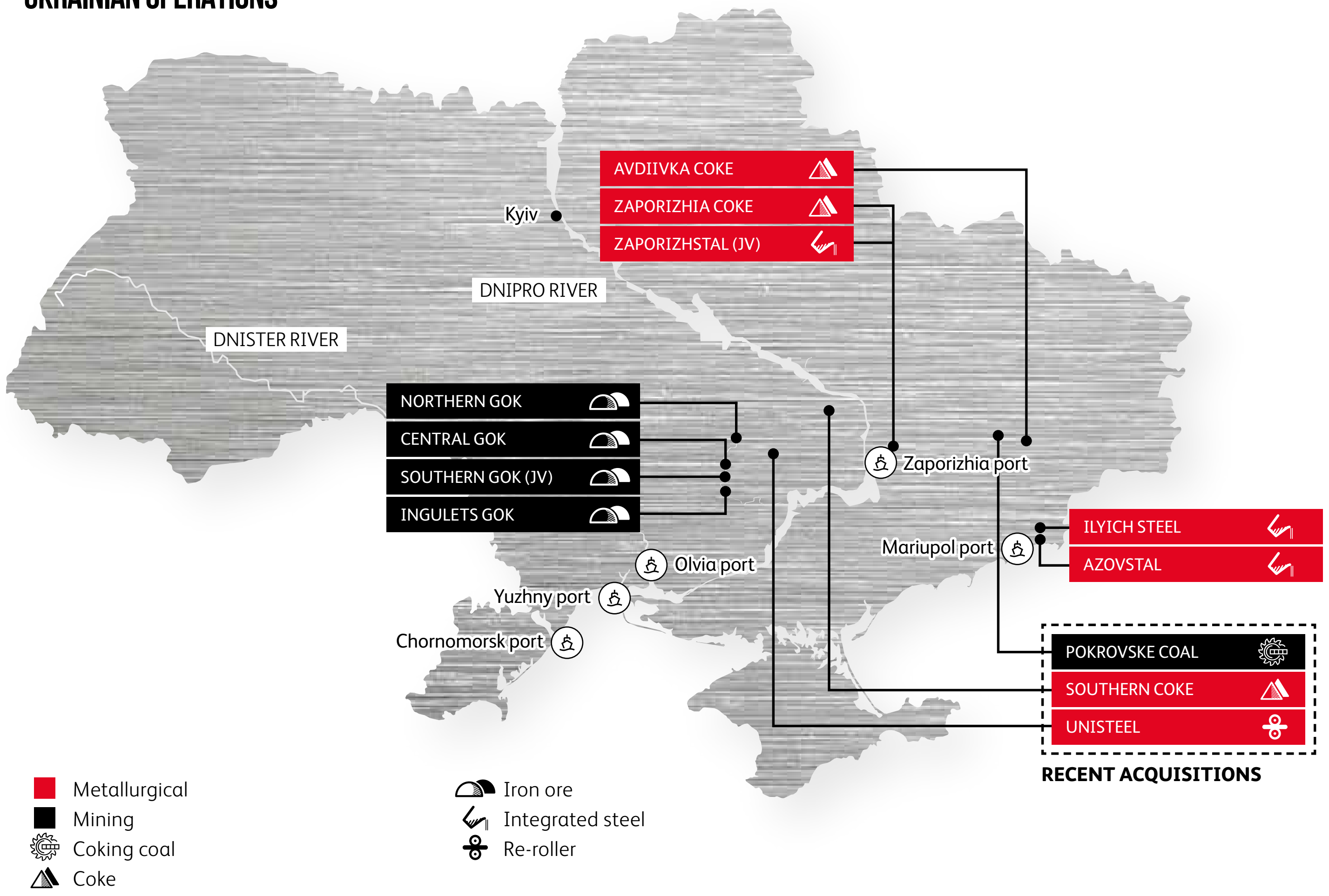
In 2018, the assets mined 4.0 million tonnes of raw coal and produced 2.3 million tonnes of coking coal concentrate.

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

SECURING MARKETS

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

UKRAINIAN OPERATIONS



POKROVSKE'S COKING COAL CONCENTRATE OUTPUT IN 2018

2.3MT

SOUTHERN COKE'S PRODUCTION CAPACITY

600KT

UNISTEEL'S ANNUAL GALVANISED STEEL PRODUCTION CAPACITY

100KT