IN FOCUS CONTINUED
DEBT MANAGEMENT

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

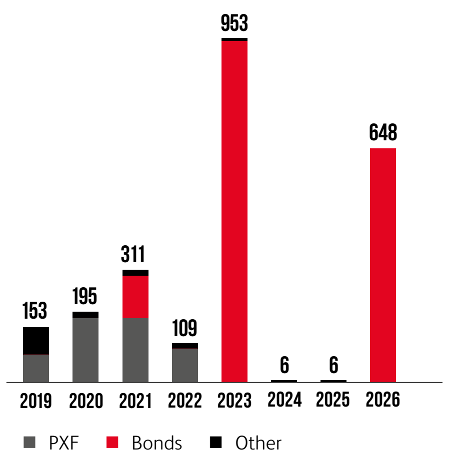
S&P CREDIT RATING

B- POSITIVE

MOODY'S CREDIT RATING

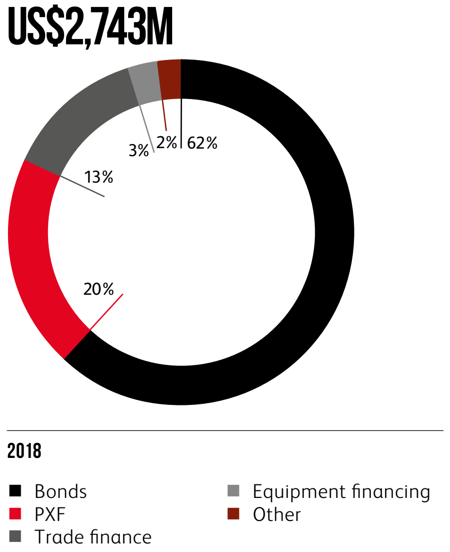
B3 STABLE

Corporate debt maturity (US$M)[1]

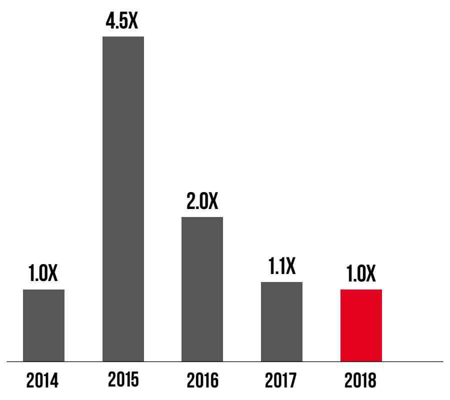


1. As of 31 December 2018.

Total debt by instrument



Net debt to EBITDA[2]



2. Excluding shareholder loans.