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%

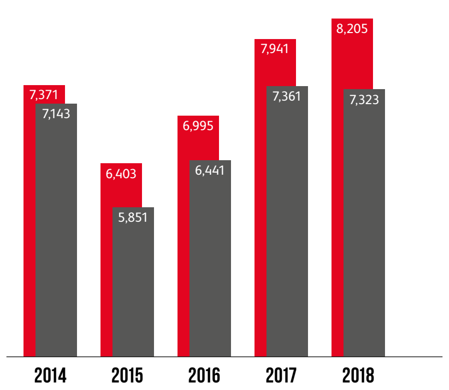
in-house products only

IRON ORE SALES VOLUMES TO EUROPE

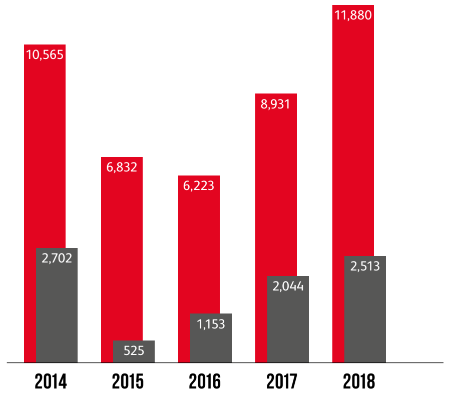
+3.5X

over the last four years

Hot metal and crude steel production (KT)



Revenues and EBITDA (US$M)



Iron ore sales by market (KT)