In 2020, as the global economy adjusted to the adversity caused by COVID-19, Metinvest again demonstrated its agility. Amid major movements on and among key markets, the Group delivered solid financial results due to its vertical integration, proactive response and timely positioning.

Agility amid adversity

REVENUES

Metinvest's revenues are generated from sales of its own steel, iron ore, coal and coke products and resales of goods produced by joint ventures and other third parties.

In 2020, the Group's consolidated revenues decreased by 3% year-on-year to US$10,453 million. This was primarily due to a drop in average selling prices of steel, coking coal and coke, which followed global benchmarks. It was also partly the result of reduced pellet premiums worldwide.

In the first half of the year, pandemic-related lockdowns affected business activity and steel demand in several strategic markets. Later, the easing of restrictions spurred an economic recovery and a rebound in steel prices, as demand caught up. In addition, Metinvest benefited from iron ore prices, which remained high throughout the reporting period amid global supply disruptions and strong demand in China.

Compared with 2019, the Group's recent investments and global sales network enabled it to increase sales volumes of semi-finished and finished steel products by 7%, coke by 14% and iron ore products by 9%.

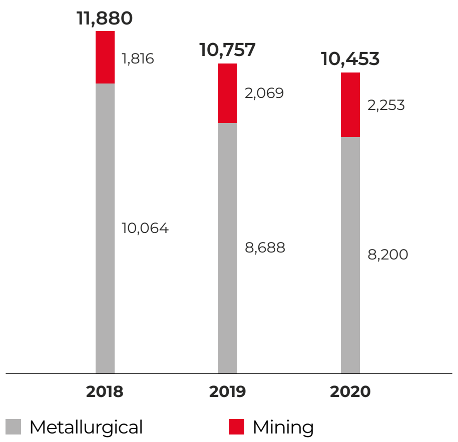
Alongside sales of own products, the Group resells pig iron, steel products and other goods produced by joint ventures and other third parties. During the reporting period, Metinvest sold 15,448 thousand tonnes of pig iron and steel products, of which 9,288 thousand tonnes were manufactured in-house and 6,160 thousand tonnes were purchased from third parties comparing with a total of 14,415 thousand tonnes of pig iron and steel products sales in 2019, of which 8,823 thousand tonnes were made in-house and 5,592 thousand tonnes came from third parties.

Overall, revenues from resales totalled US$3,118 million in 2020, down 4% year-on-year, accounting for 30% of the overall top line.

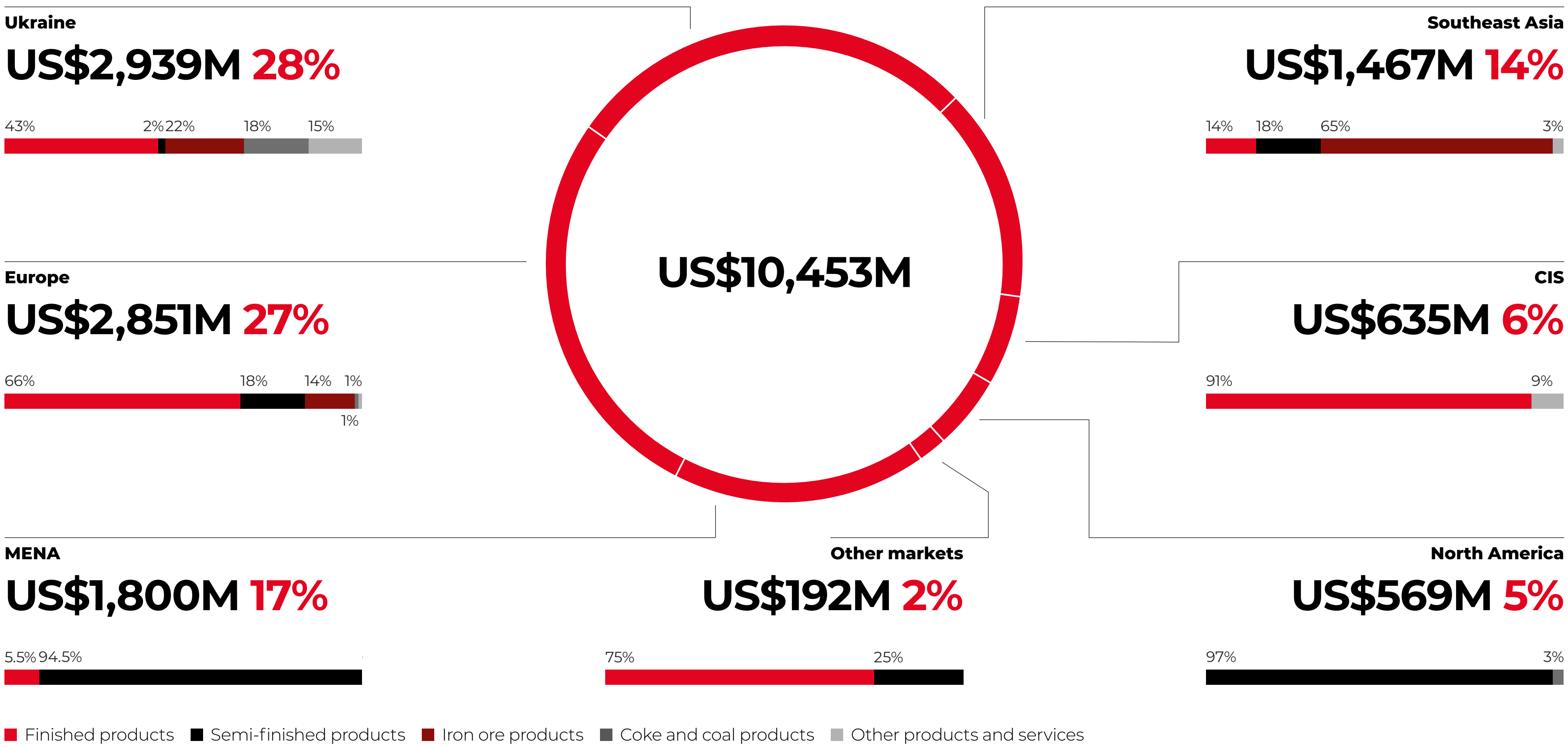
Revenues by segment

US$10,453M

-3%



REVENUES BY MARKET IN 2020



REVENUES BY MARKET

In 2020, revenues in Ukraine declined by 7% year-on-year to US$2,939 million. This was mainly due to lower average selling prices of steel products and coke, as well as lower sales volumes of pellets (down 26%). The reduction in revenues was partly compensated by greater local shipments of long products (up 23%), coke (up 14%) and iron ore concentrate (up 43%). Overall, the share of Ukraine in consolidated revenues edged down by one percentage point to 28%.

Sales to other markets decreased by 1% year-on-year to US$7,514 million in 2020, accounting for 72% of total revenues.

Sales to Europe fell by 21% year-on-year to US$2,851 million, primarily due to lower steel selling prices, as well as reduced sales volumes of semi-finished products (down 31%) and iron ore products (down 48%). As a result, the region's share in overall revenues dropped by seven percentage points to 27%.

Revenues from the Middle East and North Africa (MENA) rose by nine percentage points year-on-year to US$1,800 million, mainly on the back of higher shipments of slab (up 2.5 times) and flat products (up 12%). This boosted the region's share in consolidated revenues by 2 percentage points to 17%.

Revenues from Southeast Asia surged by 56% year-on-year to US$1,467 million as Metinvest resumed steel sales to China amid strong local demand. During the reporting period, the Group sold 862 thousand tonnes of semi-finished and finished steel products in the country, while its shipments of iron ore products there rose by 1.7 times. As a result, Southeast Asia's share in revenues climbed by five percentage points to 14%.

Revenues from the CIS fell by 23% year-on-year to US$635 million amid lower sales volumes and prices of flat products. The region's share in consolidated revenues declined by two percentage points to 6%.

Revenues from North America rose by 23% year-on-year to US$569 million, driven mainly by higher shipments of pig iron (up 40%). This boosted the region's share in consolidated revenues by one percentage point to 5%.

Sales in other regions increased by 81% year-on-year to to US$192 million, while their share in total revenues rose by one percentage point to 2%.

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METALLURGICAL SEGMENT

In 2020, the Metallurgical segment's revenues decreased by 6% year-on-year to US$8,200 million, driven mainly by the factors mentioned above. The segment accounted for 78% of the overall top line, down three percentage points.

FLAT PRODUCTS

US$4,027M -9%

In 2020, revenues from flat products fell amid lower average selling prices, which follow regional benchmarks with a time lag. Overall shipments rose by 1% to 7,737 thousand tonnes, as sales volumes of in-house goods increased by 4% as a consequence of greater production. Resales declined by 5%, reducing their share in total volumes by two percentage points to 37%. Available volumes were redistributed among markets according to demand. Sales to MENA climbed by 237 thousand tonnes, mainly amid higher shipments of hot-rolled coil to Turkey and North Africa. Sales to Ukraine rose by 44 thousand tonnes, primarily as demand recovered in the second half of the year following the easing of pandemic measures and resumption of regular shipments to key customers. Sales to Southeast Asia increased by 52 thousand tonnes, as Metinvest supplied 253 thousand tonnes to China in 2020. Sales to Europe dropped by 52 thousand tonnes amid lower consumption in the region and the shutdown of the Group's Italian re-rollers in March-April. Both of those factors were caused by the restrictions introduced to combat COVID-19. Sales to the CIS fell by 196 thousand tonnes, partly because of the quota restrictions imposed by Russia, which affected shipments in early 2020. Pandemic measures also constrained demand in the region.

SLABS

US$896M +3%

Higher revenues from slabs were driven by a 51% increase in shipments to 2,187 thousand tonnes amid higher production. Incremental volumes were primarily sold to MENA, where they rose by 519 thousand tonnes because of demand in Turkey.

LONG PRODUCTS

US$861M +3%

Revenues from long products increased, as sales volumes grew by 12% to 1,604 thousand tonnes. There were two main drivers of this. First, in-house volumes rose by 12% amid greater production. Second, resales climbed by 13%, while their share in overall volumes remained flat at 45%. Additional volumes were primarily sold to Ukraine and Europe, the key markets for this product. The average selling price was lower year-on-year, following the trend in billet FOB Black Sea benchmark.

PIG IRON

US$823M +13%

Revenues from pig iron climbed, driven by higher sales volumes, which fully compensated for lower average selling prices. Shipments rose by 17% to 2,421 thousand tonnes, as resales volumes soared by 51%. Sales volumes of own goods fell by 6% because of less production.

SQUARE BILLETS

US$552M +7%

Revenues from square billet resales climbed, as higher volumes fully compensated lower average selling prices. Shipments rose by 19% to 1,352 thousand tonnes. Deliveries to MENA dropped by 134 thousand tonnes. Sales to Southeast Asia rose by 100 thousand tonnes, primarily driven by demand in China. Sales to other regions climbed by 301 thousand tonnes. The average selling price followed the dynamics of the billet FOB Black Sea benchmark, which fell by 3% year-on-year.

COKE

US$473M -17%

Revenues from coke dropped, primarily driven by a decline in the average selling price. Shipments climbed by 14% to 2,145 thousand tonnes, following the consolidation of Dnipro Coke from April 2020.

TUBULAR PRODUCTS

US$83M -12%

Revenues from tubular products fell, primarily due to a 10% decrease in shipments to 147 thousand tonnes.

OTHER

US$485M -25%

MINING SEGMENT

In 2020, the Mining segment's revenues increased by 9% year-on-year to US$2,253 million, despite a significant change in the iron ore sales mix and geography. The shift was caused by weak demand in Europe, strong demand in China and reduced pellet premiums globally. The segment accounted for 22% of the overall top line, up three percentage points.

IRON ORE CONCENTRATE

US$1,403M +53%

In the reporting period, revenues from iron ore concentrate increased by 53% year-on-year to US$1,403 million on the back of higher sales volumes and selling prices. Shipments rose by 33% to 14,220 thousand tonnes, driven by greater output and destocking. Additional supply went to Ukraine and Southeast Asia, where sales volumes rose by 1,771 thousand tonnes and 3,645 thousand tonnes, respectively. Sales to Europe fell by 2,164 thousand tonnes. Shipments to MENA increased by 342 thousand tonnes, propelled by sales to Algeria. The average selling price climbed, following the 16% increase in the 62% Fe iron ore fines CFR China benchmark.

PELLETS

US$642M -30%

In 2020, revenues from pellets fell by 30% year-on-year to US$642 million. This was primarily driven by a 28% reduction in shipments to 5,051 thousand tonnes amid weak demand. Overall, sales to all markets decreased. Selling prices were affected by reduced pellet premiums worldwide.

COKING COAL CONCENTRATE

US$98M -32%

In 2020, revenues from coking coal concentrate fell by 32% year-on-year to US$98 million. This was mainly driven by lower average selling prices, following a 30% reduction in the hard coking coal FOB Australia spot benchmark. Overall sales volumes increased marginally to 759 thousand tonnes. Greater deliveries to Europe and North America compensated lower shipments to Ukraine and other regions.

OTHER

US$110M +18%

■ Percentage of segment sales.
■ Percentage of remaining sales covered by other products in segment.

NET OPERATING COSTS

In 2020, net operating costs[15] fell by 7% year-on-year to US$9,507 million, driven by several factors.

Spending on raw materials decreased by US$582 million, mainly because of decreased market prices (for coking coal, coke, scrap and ferroalloys); reduced consumption of seaborne coking coal and lower railway costs in the US and Ukraine; lower inventory destocking; and fewer purchases of third-party coils for further processing at Unisteel and Ilyich Steel's cold-rolling mill after the revamp of hot strip mill 1700.

In addition, the cost of goods and services for resale fell by US$182 million, primarily amid lower purchase prices. Spending on energy materials declined by US$160 million, caused mainly by reduced prices of natural gas (down 35%) and PCI coal (down 35%). The positive effect of the hryvnia's depreciation against the US dollar on costs totalled US$133 million in 2020.

The management reduced repair and maintenance expenses by US$57 million, primarily by a greater use of in-house repair staff. Lastly, services and other costs decreased by US$78 million, largely because of a gain from the revaluation of financial instruments and the option to acquire Pokrovske Coal.

These drivers were primarily offset by two factors. First, foreign-exchange operating losses totalled US$217 million (compared with income of US$57 million a year earlier), caused mainly by the revaluation of outstanding accounts payable balances and intragroup dividends receivable. Second, greater depreciation and amortisation amounted to US$149 million, driven by the ongoing capital expenditure programme, as well as a revaluation performed in 2019.

As a percentage of consolidated revenues, net operating costs fell by four percentage points to 91%.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2020, impairment of property, plant and equipment fell to US$6 million (US$84 million in 2019) and accounted for 0% as a share of consolidated revenues (1% a year earlier).

IMPAIRMENT OF FINANCIAL ASSETS

In 2020, impairment of financial assets increased by 19% year-on-year to US$93 million. This was mainly due to an expected credit loss provision of US$115 million accrued in the first half of the year. It was subsequently partly reversed in the second half of the year.

As a share of consolidated revenues, impairment of financial assets was unchanged at 1%.

OPERATING PROFIT

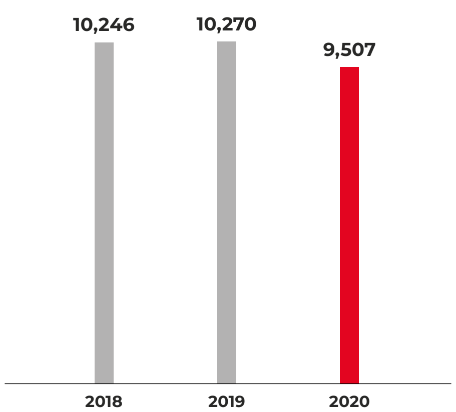
In 2020, operating profit almost tripled year-on-year to US$847 million, primarily driven by lower net operating costs and impairment of property, plant and equipment. This was partly offset by lower revenues and higher impairment of financial assets.

The operating margin stood at 8%, up five percentage points.

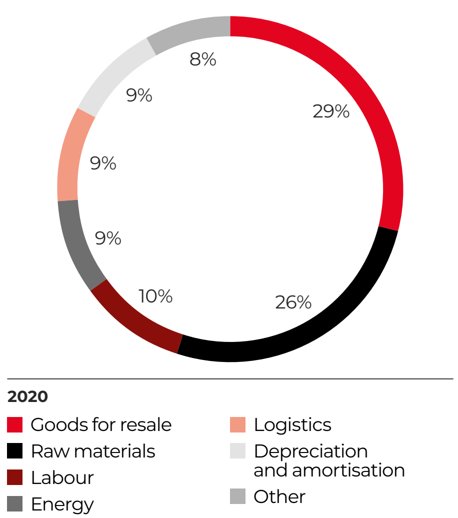
Net operating costs

US$9,507M

-7%



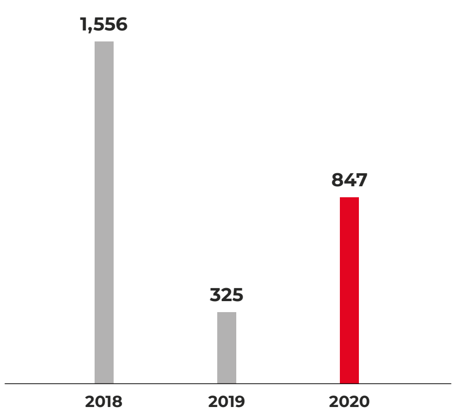
Net operating costs by category



Operating profit

US$847M

+2.6x



15 Net operating costs are presented without the effects of operational improvements.

EBITDA

In 2020, Adjusted EBITDA[16] climbed by 82% year-on-year to US$2,204 million. This was primarily due to the Metallurgical segment's EBITDA recovering to positive US$890 million, compared with negative US$107 million a year earlier. In addition, the Mining segment's EBITDA increased by US$105 million to US$1,448 million. While corporate overheads rose marginally to US$92 million, eliminations amounted to negative US$42 million, compared with positive US$63 million in 2019.

As a result, the split between the Metallurgical and Mining segments was 38% to 62% in the reporting period. For comparison, the Mining segment generated all of the Group's EBITDA in 2019.

The increase in the Group's EBITDA was primarily driven by the positive effect of operational improvements, lower spending on raw materials, greater contributions from both joint ventures, higher sales volumes, reduced expenses on energy materials, the positive effect of the hryvnia's depreciation against the US dollar on costs, stronger earnings from resales, and higher average iron ore concentrate selling prices. These factors were partly offset by lower average selling prices for steel products, coke and coking coal concentrate, as well as by weaker pellet premiums.

For more details, see the operational improvements case study on pages 35-36

In 2020, the consolidated EBITDA margin expanded by ten percentage points year-on-year to 21%. The Metallurgical segment's EBITDA margin rose by 12 percentage points to 11%, while that of the Mining segment climbed by six percentage points to 46%.

FINANCE INCOME

In 2020, finance income fell by 76% year-on-year to US$60 million, as no foreign-exchange gains from financing activities were recorded.

As a percentage of consolidated revenues, finance income amounted to 1%, down one percentage point.

FINANCE COSTS

In 2020, finance costs doubled year-on-year to US$566 million, which was mainly attributable to foreign-exchange losses from financing activities.

As a percentage of consolidated revenues, finance costs increased by two percentage points to 5%.

SHARE OF RESULT OF ASSOCIATES AND JOINT VENTURE

In 2020, the share of net income from associates and joint ventures more than tripled year-on-year to US$285 million. This was mainly attributable to a greater contribution from the Southern GOK JV (US$147 million) amid higher iron ore prices, and from Pokrovske Coal (US$51 million), which recognised a gain after completing the restructuring of a significant part of its loans and borrowings.

INCOME TAX EXPENSE

In 2020, the income tax expense doubled year-on-year to US$100 million, due to lower income from changes in deferred taxes. The latter fell by US$70 million following the utilisation of tax losses carried forward for the 2019 financial year. The current tax expense dropped by US$17 million.

The effective tax rate, calculated as total income tax divided by profit before tax, increased to 16% in 2020, up four percentage points.

NET PROFIT

In 2020, net profit rose by 54% year-on-year to US$526 million. This was due to lower net operating costs, a greater contribution from associates and joint ventures, and lower impairment of property, plant and equipment. These factors were partly offset by lower revenues, higher finance costs, lower finance income, as well as higher income tax expense and impairment of financial assets.

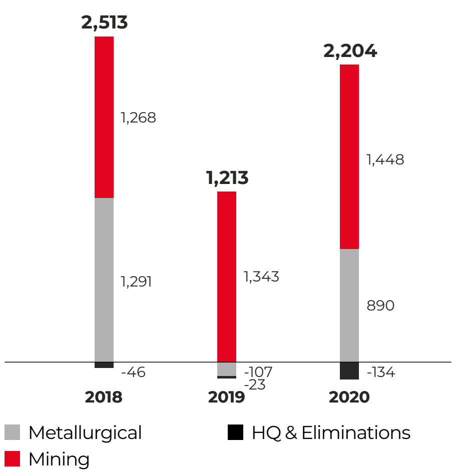
The net profit margin amounted to 5%, up two percentage points.

>> CONTINUED ON PAGE 37

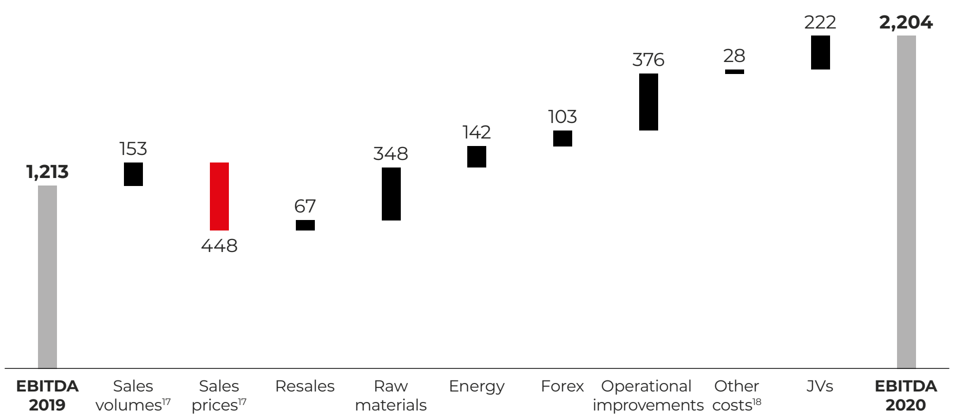
EBITDA by segment

US$2,204M

+82%



EBITDA drivers (US$M)



16 Adjusted EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation 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 is referred to as EBITDA in this report.
17 Net of resales.
18 Other costs include fixed costs (excluding labour costs) and other expenses; net of resales.

Operational improvements

In 2020, Metinvest continued to focus on overcoming several challenges, one being an efficiency gap compared with leading peers in the industry. By the year-end, the Group had succeeded in narrowing it significantly.

CLOSING THE EFFICIENCY GAP

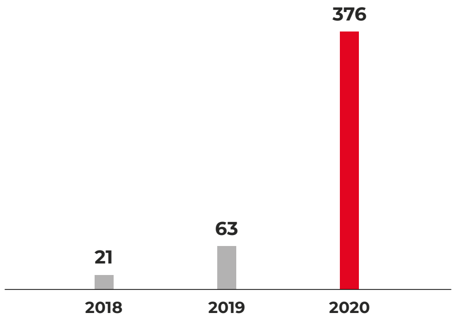
Among the many uncertainties posed by 2020, one constant was Metinvest's focus on operational efficiency. By engaging personnel in continuous improvements, in particular through customising the incentive system and using IT tools, the Group was able to connect directly with each employee to fully engage the workforce in achieving the desired goal.

Overall, Metinvest achieved operational improvements totalling US$376 million during the reporting period, a six-fold increase year-on-year. This was primarily due to reductions in variable costs, driven by such measures as lower equivalent fuel consumption at the steelmakers and improved mining fleet efficiency at the iron ore producers.

Effect of operational improvements

US$376M

+6.0x



Pursuing greater___efficiency

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In addition, Metinvest introduced digital strategies for much of its processes and businesses.

In 2020, the Group's steel plants delivered operational efficiency gains of US$184 million, primarily from advances in sinter, iron and steelmaking operations. The single largest contributor in monetary terms was better equivalent fuel consumption in hot metal production, which resulted from numerous investment projects and operational measures.

One key operational activity was the initiative to stabilise blast furnace heat balance by reducing the silicon content of hot metal and decreasing its variability. During the second half of 2020, the variability was halved across Metinvest's blast furnaces.

This reduced the silicon content of hot metal from 0.71-0.76% to 0.64-0.65% and, in turn, coke consumption by 5 kg a tonne. One of the most promising developments in this area is the use of artificial intelligence to control blast furnace heat balance. In 2020, a solution for predicting silicon in hot metal was developed and successfully tested at Azovstal's blast furnace no. 4. In 2021, the Group plans to roll this out across all of its blast furnaces.

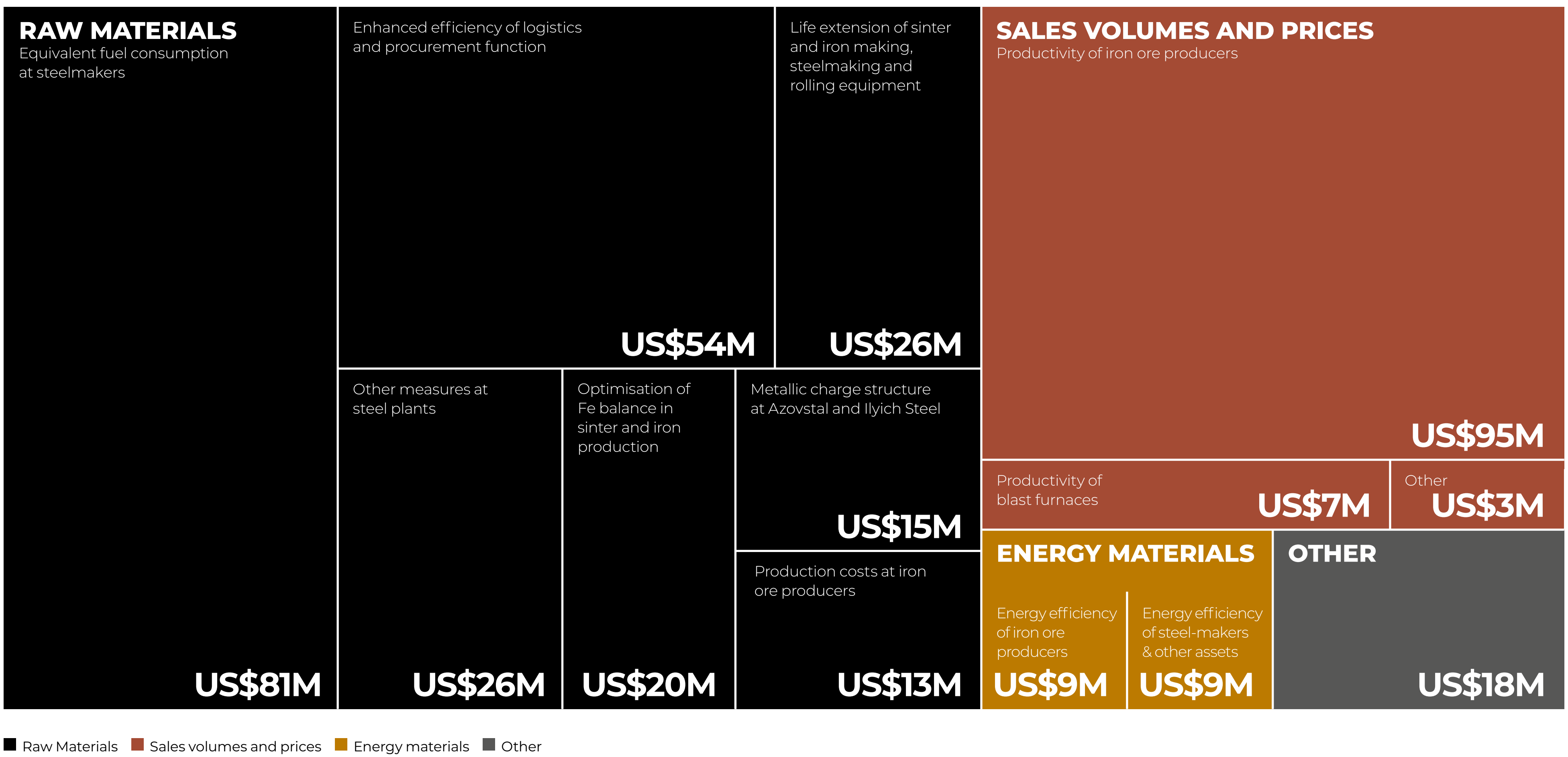
Meanwhile, Metinvest's iron ore assets made combined operational improvements of US$117 million, mostly from enhanced productivity.

First, the Group increased the equipment utilisation ratio by renovating the heavy truck fleet, optimising repair and maintenance work, and extending the life of quick wear units. Second, it extended the available operating time of open pit mines by reducing the number of blasts and enhancing their intensity. Third, the Group improved productivity at its ore beneficiation plants. Among other factors, these helped Metinvest to boost overall iron ore concentrate output by 5% year-on-year in 2020.

This had a significant economic effect, as the ability to sell additional volume coincided with a time when the benchmark iron ore price was high.

From here, the aim is to sustain the operational efficiency momentum gained in 2020. The Group recognises that each further step will be increasingly difficult. To achieve its objectives, it will need to apply creative solutions and tools, including digital technology such as artificial intelligence.

OPERATIONAL IMPROVEMENTS DURING 2020 CREATED US$376M OF SAVINGS CONSISTING OF:



LIQUIDITY AND CAPITAL RESOURCES

NET CASH FROM OPERATING ACTIVITIES

In 2020, net cash flow from operating activities more than doubled year-on-year to US$1,740 million, primarily as a result of a 66% increase in operating cash flow before working capital changes.

In addition, income tax paid decreased by 50% to US$119 million in 2020, mainly due to the utilisation of tax losses carried forward for the 2019 financial year.

While interest paid remained almost unchanged at US$215 million, there was a working capital release totalling US$242 million in 2020. The latter was attributable to:

- a drop in inventory of US$217 million (mainly iron ore products by 838 thousand tonnes, coal by 609 thousand tonnes and pig iron by 87 thousand tonnes)
- a rise in trade and other accounts payable of US$372 million
- an increase in trade and other accounts receivable of US$347 million, mainly due to the recovery of steel and iron ore prices in the second half of the year.

As a result, the cash conversion cycle, calculated as days of inventories on hand and days of sales outstanding less days of payables, totalled 30 days, down 22 days year-on-year.

NET CASH USED IN INVESTING ACTIVITIES

In 2020, net cash used in investing activities totalled US$824 million, down 13% year-on-year. Total cash used to purchase property, plant and equipment and intangible assets decreased by 24% to US$678 million.

In addition, US$13 million was spent on loans issued, down 91%. Principal payments under a guarantee totalled US$77 million, while US$70 million was spent on other payments (US$45 million in 2019).

At the same time, the Group received US$3 million in interest on loans issued and deposits (US$17 million in 2019) and US$1 million of proceeds from the sale of property, plant and equipment (US$3 million in 2019), while proceeds from the repayment of loans issued totalled US$10 million (nil in 2019). No dividends were received in 2020 (compared with US$124 million received from the Southern GOK JV a year earlier).

NET CASH USED IN FINANCING ACTIVITIES

In 2020, net cash used in financing activities totalled US$360 million. During the reporting period, the Group used US$573 million to repay loans and borrowings, primarily US$308 million to redeem all Eurobonds due in 2021 and 38% of those due in 2023, as well as US$178 million to repay the PXF facility. In addition, net repayments of trade finance facilities and payments for commissions on loans totalled US$130 million and US$17 million, respectively.

Dividends paid totalled US$100 million, while US$50 million was used for the acquisition of a non-controlling interest in Northern GOK and US$4 million on other purposes. At the same time, Metinvest raised US$514 million of gross new proceeds from loans and borrowings, including the new seven-year Eurobond and the long-term facility from the Black Sea Trade and Development Bank.

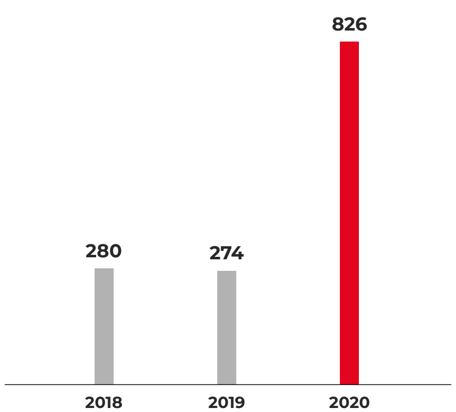
This compares with US$123 million generated from financing activities a year earlier, when the Group raised US$871 million of gross new proceeds from loans and borrowings (mainly from US$824 million from a dual-currency Eurobond offering) and US$37 million of net proceeds from trade finance facilities. At the same time, US$586 million was used to repay loans and borrowings (primarily US$440 million to tender Eurobonds due in 2023 and US$123 million to repay the PXF facility), US$100 million to pay dividends, US$55 million to fully settle the remaining balance for the acquisition of the 24.77% stake in Pokrovske Coal, US$33 million to pay commission on loans and US$11 million for other purposes.

At the end of 2020, compared with a year earlier, total debt[19] was down 3% to US$2,937 million, the cash balance had tripled to US$826 million and net debt[20] was down 23% to US$2,111 million. Given this and the strong EBITDA generation, net debt to EBITDA had decreased to 1.0x (down 1.3x).

Year-end cash balance

US$826M

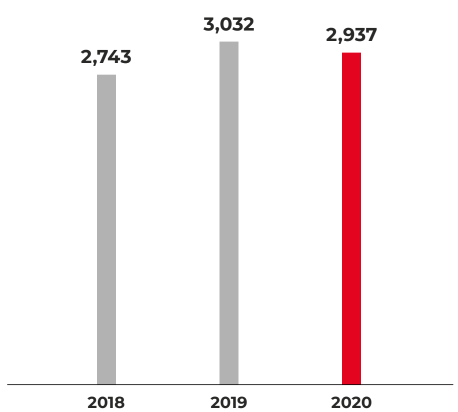
+3.0x



Year-end total debt

US$2,937M

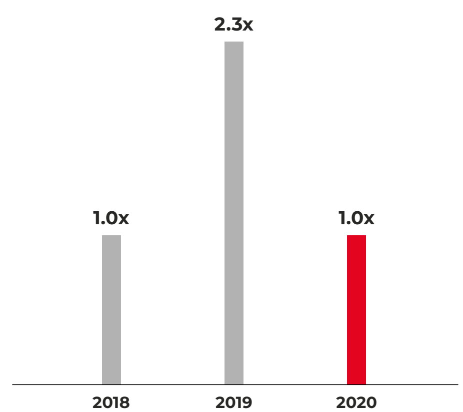
-3%



Net debt to EBITDA

1.0X

-1.3x



19 Total debt is calculated as the sum of bank loans, bonds, trade finance, lease liabilities and deferred consideration.
20 Net debt is calculated as total debt less cash and cash equivalents.

Liability management

Managing liabilities prudently

In 2020, Metinvest worked diligently to ensure that it had the financial flexibility needed in an uncertain environment. In addition to extending its bond maturity profile, the Group launched its first partnership with an international financial institution and a new securitisation programme.

EXTENDING BOND MATURITY PROFILE

In October 2020, the Group took advantage of favourable market conditions to extend the maturity of its outstanding Eurobonds. While this was effectively a debt-neutral liability management exercise, all bonds due in 2021 and 38% of those due in 2023 were extended to 2027.

Metinvest conducted two simultaneous transactions. The first involved capped tender offers to purchase for cash the US$115 million in outstanding 7.50% Eurobonds due in 2021, as well as the US$505 million in outstanding 7.75% Eurobonds due in 2023. Concurrently, it made a consent solicitation in respect of the 2021 bonds to include an issuer call option. The second transaction was a new Eurobond offering of US$333 million bearing a fixed-rate coupon of 7.65% per annum, due in 2027.

The international financial community expressed significant interest in the transactions. The new offering was oversubscribed almost five-fold, as the final book exceeded US$1.6 billion, which made it possible to significantly tighten the issue price during the bookbuilding. Early tender participation was around 90% for the 2021 bonds and 47% for the 2023 bonds.

LAUNCHING THE FIRST SECURITISATION PROGRAMME

In December 2020, the Group launched a new accounts receivable securitisation programme for its Italian re-rollers, Metinvest Trametal and Ferriera Valsider, totalling EUR75 million.

Securitisation is a part of the Group's funding strategy aimed at enhancing its debt portfolio with instruments that will improve its credit profile, reduce the cost of debt and create a prudent framework for reliable, long-term working capital financing. This landmark deal is also part of Metinvest's broader strategy to expand its customer base and provide additional, flexible solutions for financing sales in Europe.

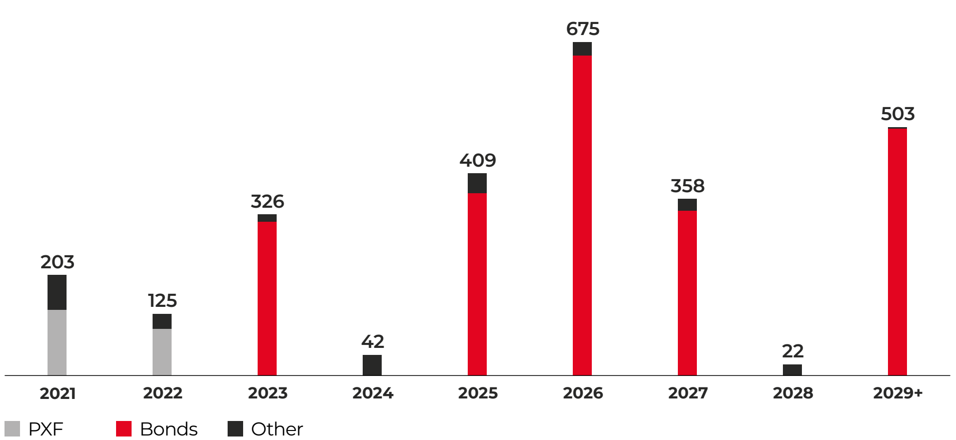
Regarding the new programme, Metinvest Trametal and Ferriera Valsider will originate and sell, on a revolving basis, portfolios of trade receivables to a special purpose vehicle. Their acquisition will be financed by issuing partially paid variable-interest notes backed by the purchased receivables.

INITIATING PARTNERSHIP WITH AN INTERNATIONAL FINANCIAL INSTITUTION

In 2020, the Group also arranged its first financing deal with an international financial institution, the Black Sea Trade and Development Bank, which supports economic development and regional cooperation in the Black Sea region.

Metinvest received a EUR62 million, seven-year credit facility with a two-year grace period for principal repayment. The funds will be used to finance and refinance machinery and equipment purchases by its iron ore producers.

Corporate debt maturity as of 31 December 2020 (US$M)[21]



21 Excluding trade finance and lease liability under IFRS 16. The scheduled instalments presented include principal only (without accrued interest, fees, commissions and discounts).