METINVEST

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Metinvest announces financial results for the first six months of 2015

Metinvest B.V., the parent company of a vertically integrated group of steel and mining companies (jointly referred to as “Metinvest” or “the Group”), today announced its unaudited IFRS interim condensed consolidated financial statements for the six months ended 30 June 2015.

Summary - financial results	1H 2015	1H 2014	Change, y-o-y	
			US$m	%
Income statement highlights				
Revenues	3 650	6 023	-2 373	-39%
Adjusted EBITDA[1]	620	1 666	-1 046	-63%
Margin	17%	28%		-11 pp
Net profit	-166	653	-819	-125%
Margin	-5%	11%		-16 pp
Cash flow highlights				
Net cash from operations	351	766	-415	-54%
Net cash used in investing activities	-94	-280	186	-66%
incl. purchase of PPE and intangible assets	-113	-279	166	-59%
Net cash used in financing activities	-209	-710	501	-71%
incl. dividends	0	-253	253	N/A

Summary - financial results	30.06.2015	31.12.2014	Change, YTD	
			US$m	%
Total debt	3 070	3 232	-162	-5%
Cash	151	114	37	32%
Key ratios				
Total debt/EBITDA[2]	1,9	1,2		0,7x
Net debt[3]/EBITDA[2]	1,8	1,2		0,6x
EBITDA/Interest expense	6,3	11,4		-5,1x
Total debt/Equity	0,5	0,5		

Notes:

1). 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 (starting from 1 January 2015), sponsorship and other charity payments, the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures. We will refer to adjusted EBITDA as EBITDA throughout this release.

2). EBITDA for the last 12 months

3). Net debt is calculated as the sum of long-term and short-term loans and borrowings and seller notes less cash and cash equivalents.

4). Due to rounding, numbers presented throughout this release may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures.

Summary - production results	1H 2015	1H 2014	Change, y-o-y	
			000 t	%
Crude steel	3 875	5 725	-1 850	-32%
Azovstal	1 688	2 040	-352	-17%
Ilyich Steel	1 362	2 209	-847	-38%
Yenakiieve Steel	825	1 476	-651	-44%
Iron ore concentrate	15 806	18 011	-2 205	-12%
Northern GOK	6 317	7 075	-758	-11%
Ingulets GOK	6 366	7 707	-1 341	-17%
Central GOK	3 123	3 229	-106	-3%
Coking coal concentrate	1 638	2 362	-724	-31%
Krasnodon Coal	121	1 175	-1 054	-90%
United Coal	1 517	1 187	330	28%

OPERATIONAL HIGHLIGHTS

- In 1H 2015, disruptions to the Group's operations continued due to the ongoing conflict in Eastern Ukraine. Metinvest suspended production at Yenakiieve Steel and its Makiivka branch from 7 February to 16 March amid interruptions to raw material and electricity supplies due to the conflict. Other plants in the Donbas region have experienced periodic delays due to damage to railway, pipeline and power infrastructure and blockages of raw material supplies.
- Azovstal installed a new state-of-the-art gas cleaning system as part of the modernisation of blast furnace no. 4. The new equipment is expected to cut dust emissions by 20%.
- Metinvest opened a new retail warehouse for steel products in Dnipropetrovsk and representative sales offices in Spain and Poland.
- The Group launched 10 new products, mainly rebar, plates and coils for the construction, machine-building and oil transportation industries.
- Metinvest established Metinvest-PromService, which will specialise in maintaining and repairing equipment at metallurgical assets of Metinvest and third parties.

DEBT MANAGEMENT

- In January, the Group renegotiated to move repayment of the remaining US$90 million of seller notes from 2015 to 2016.
- In February, Metinvest obtained a waiver from the pre-export finance (PXF) lenders, deferring payment of 75% of the February principal instalment by one month.
- After not obtaining another waiver to partly defer the March and April principal instalments from 100% of its PXF lenders and due to very tight liquidity, Metinvest had to stop repayments under its PXF facilities and decided to launch global debt restructuring discussions with both its PXF lenders and noteholders.
- In June, as part of a consent solicitation process, Metinvest extended the maturity of its 2015 guaranteed notes from 20 May 2015 to 31 January 2016 in exchange for redeeming 25% of the nominal in July 2015. In addition, holders of 2015, 2017 and 2018 notes agreed to waive certain existing and related future event of defaults until 31 January 2016, allowing time for restructuring negotiations.
- Global debt restructuring discussions are ongoing.

CORPORATE STRUCTURE

- As of 30 June 2015, Metinvest B.V. is owned 71.24% by SCM Cyprus and 23.76% by companies of the Smart Group. The remaining 5% interest in the Company has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after receipt of respective governmental approvals if such will be necessary), and in such manner that the ultimate interest of SCM in the Company shall be 75% minus 1 share, and the ultimate interest of SMART in the Company shall be 25% plus 1 share.

EVENTS AFTER THE REPORTING PERIOD

- In July, as part of the abovementioned consent solicitation process, US$28.4 million of the 2015 guaranteed notes were repaid to noteholders.
- In August, Metinvest completed the final drawdown under the ECA facility for the construction of a pulverised coal injection (PCI) unit at Yenakiieve Steel.
- In August, disruptions to Metinvest's operations in Ukraine continued amid the conflict in the east of the country. Avdiivka Coke was hit several times by intensive artillery shelling.

Commenting on the results, Yuriy Ryzhenkov, Chief Executive Officer of Metinvest, said: "As expected, the challenges facing our business remained considerable in the first half of 2015. We continued to experience significant disruptions due to the conflict in Eastern Ukraine, where many of our assets are based, while the collapse of global raw material and steel prices continue to impact our margins.

In general, all of our facilities located in or nearby the conflict zone saw material year-on-year production declines due to direct damage in some instances, as well as disruptions to raw material supplies, transport infrastructure and power and water utilities.

Yenakiieve Steel had to suspend its operations in February and March. Ilyich Steel and Azovstal were further affected by damage to a key gas pipeline in June. Khartsyzk Pipe has been idle since June due to limited supplies of coating materials for pipes and shipments of finished goods. In August, after the reporting period, Avdiivka Coke's power supply was interrupted once again by heavy shelling. Our employees worked with experts from the power company DTEK to repair damaged high-voltage lines.

Overall output of crude steel fell by 32% year-on-year to 3.9 million tonnes, iron ore concentrate by 12% to 15.8 million tonnes, and coking coal concentrate by 31% to 1.6 million tonnes.

In many cases, our plants are the key employers and economic anchors in the local communities where we operate. Metinvest takes its role as a corporate citizen of Ukraine very seriously, and equally takes responsibility for these communities. We have reacted to the economic and political uncertainty promptly and effectively, particularly the conflict in Eastern Ukraine, through increased financial support in cooperation with the Rinat Akhmetov Humanitarian Centre and personal commitment by thousands of our employees.

Alongside the conflict and the heightened country risk that has effectively closed international capital markets to Ukrainian companies, including Metinvest, prices on global markets are affecting our business results. Raw material prices remain depressed due to persisting oversupply worldwide and the pursuit of a 'volume over price' strategy by the largest global producers of iron ore. The benchmark iron ore price

[1]

decreased by 46% year-on-year in the first half of 2015, reaching a spot market historic low of US$45/tonne in July.

While prices for steel products remained more resilient than raw material prices, they also continued to decline. This was primarily due to increased international competition from Chinese steel exporters, as steel demand in China proved lower than expected due to slowing domestic economic growth. The average benchmark price for hot-rolled coil

[2]

decreased by 27% year-on-year in the first half of 2015.

The combination of lower production volumes at our assets, logistical bottlenecks to ship raw materials to and finished goods from Eastern Ukraine, and sharply lower product prices continued to have a significant impact on financial results, hitting revenues and profitability. Compared with the same period last year, revenues dropped by 39% to US$3,650 million, EBITDA by 63% to US$620 million and the EBITDA margin by 11 percentage points to 17%. We recorded a net loss of US$166 million.

We sought to reduce the negative impact on our sales by increasing sales volumes of raw materials, mainly to Europe and China. We also adjusted the geography of our steel product sales to compensate for weak demand in the Ukrainian market by redirecting volumes to Europe, increasing the share of sales in Europe by 9 percentage points year-on-year to 41% of total sales. Our robust global sales network remains vital for supporting our business. We continue to prioritise a client-oriented approach and are launching new products and services.

Despite the operational issues, we continued to implement our long-term Technological Strategy, demonstrating our confidence in the long-term future of our business and country. Given the tight liquidity situation and conflict in the region, we have focused our investments on high-priority maintenance projects, which accounted for 80% of total CAPEX projects during the reporting period, as well as expansion projects capable of delivering a rapid return on investments. Some projects remain delayed or frozen. As a result, we reduced capital expenditure by 57% year-on-year to US$117 million in the first half of 2015.

Major CAPEX projects in the Metallurgical division include the major overhaul of blast furnace no. 4 at Azovstal, completed in September, and the replacement of turbine air blower no. 3. We further advanced the project to build a PCI unit at Yenakiieve Steel. In addition, we made progress on another continuing major project, the refurbishment of the sinter plant at Ilyich Steel, which is expected to significantly reduce our environmental footprint.

In the Mining division, we continued to install a crusher and conveyor system at Northern GOK. We are also building a crusher and conveyor system at Ingulets GOK on one line.

The current outlook remains deeply uncertain due to the sustained political and economic instability and security situation in Ukraine, as well as the volatility of global prices for raw materials and steel.

Against this backdrop, the successful outcome of the debt restructuring process launched with our creditors in early 2015 is critical to the survival of the Group. We remain committed to transparent and open dialogue with our creditors, and I would like to thank them for their continued loyalty and confidence in Metinvest.

We also acknowledge the tremendous ongoing efforts of our employees, management and partners, and would like to thank them for addressing all issues promptly and finding appropriate solutions in difficult situations."

Commenting on the results, Aleksey Kutepov, Chief Financial Officer of Metinvest, said: "The year-on-year results in the first half of 2015 clearly reflect the continued impact of the conflict in Eastern Ukraine, exacerbated by falling global prices for our products. The negative effect of lower sales volumes on EBITDA totalled US$1,222 million, while the decline in prices reduced it by US$1,151 million.

At the same time, cost of sales decreased by US$1,272 million year-on-year. In particular, following lower consumption and prices, we saved US$484 million on lower costs of raw materials and US$110 million on lower spending on natural gas. Distribution and general and administrative costs declined by US$145 million year-on-year. In the first quarter of the year, a positive financial effect came from the further devaluation of the hryvnia, which stabilised in the second quarter.

The comparatively faster decline in prices of raw materials has continued to shift margins from the Mining to the Metallurgical division. The Mining division's EBITDA margin dropped by 39 percentage points year-on-year to 15%, while the EBITDA margin of the Metallurgical division increased by 2 percentage points to 15%.

Total debt was down by US$162 million year-to-date, mainly due to the repayment of PXF facilities in January and February and trade finance during the first half of 2015.

The cash balance stood at US$151 million at the end of the reporting period. We consider this to be inadequate in the ordinary course of our business and continue to review all of our options to restore it given our limited recourse to external funding for the foreseeable future.

At the beginning of the year, Metinvest launched global debt restructuring discussions with PXF lenders and holders of 2015, 2017 and 2018 notes, continuing to service interest and coupon payments under its bank loans and notes.

A coordinating committee of PXF lenders was formed in May 2015 and Metinvest recently agreed a standstill with PXF lenders until the end of January 2016. As part of a consent solicitation process, Metinvest obtained noteholders consent to waive certain events of default under each series of notes until the end of January 2016, as well as to extend maturity of 2015 notes to 31 January 2016. In August, an ad hoc committee of noteholders was formed. Both PXF lenders' standstill and noteholders' waivers and maturity extension have created a stable platform for negotiating a deal fair to all parties over the coming months.

As restructuring discussions continue, we fully appreciate creditors' confidence in us as a strong market player and intend to submit a restructuring proposal to our PXF lenders and noteholders in the near future."

RESULTS OF OPERATIONS

Results of operations	1H 2015		1H 2014		Change, y-o-y		
	US$m	% of revenues	US$m	% of revenues	US$m	%	pp of revenues
Revenues	3 650	100%	6 023	100%	-2 373	-39%	0
Cost of sales	-3 047	-83%	-4 319	-72%	1 272	-29%	-12
Gross profit	603	17%	1 704	28%	-1 101	-65%	-12
Distribution costs	-463	-13%	-556	-9%	93	-17%	-3
General and administrative costs	-99	-3%	-151	-3%	52	-34%	0
Other operating income	47	1%	206	3%	-159	-77%	-2
Operating profit	88	2%	1 203	20%	-1 115	-93%	-18
Finance income	11	0%	12	0%	-1	-8%	0
Finance costs	-371	-10%	-417	-7%	46	-11%	-3
Share of results of associates and JV	99	3%	23	0%	76	330%	2
Profit before income tax	-173	-5%	821	14%	-994	-121%	-18
Income tax	7	0%	-168	-3%	175	-104%	3
Net profit	-166	-5%	653	11%	-819	-125%	-15

Revenues

Metinvest's revenues are generated from sales of its steel, iron ore, coal and coke products and re-sales of products from third parties. Unless otherwise stated, revenues are reported net of value-added tax and discounts and after eliminating sales within the Group.

Revenues by market	1H 2015		1H 2014		Change, y-o-y		
	US$m	% of revenues	US$m	% of revenues	US$m	%	pp of revenues
Total revenues	3 650	100%	6 023	100%	-2 373	-39%	0
Ukraine	741	20%	1 455	24%	-714	-49%	-4
Europe	1 256	34%	1 628	27%	-372	-23%	7
MENA	725	20%	1 163	19%	-438	-38%	1
CIS (ex Ukraine)	281	8%	544	9%	-263	-48%	-1
incl. Russia	189	5%	380	6%	-192	-50%	-1
Southeast Asia	527	14%	933	15%	-407	-44%	-1
North America	89	2%	212	4%	-124	-58%	-1
Other regions	32	1%	88	1%	-55	-63%	-1

In 1H 2015, Metinvest's consolidated revenues fell by US$2,373 million y-o-y to US$3,650 million. Revenues from the Metallurgical division declined by US$1,849 million, while those from the Mining division dropped by US$524 million, mainly due to overall lower production of steel products amid the conflict in Eastern Ukraine and a collapse in global prices of steel and iron ore products. The shares of the Metallurgical and Mining divisions in external sales remained unchanged y-o-y, at 78% and 22% respectively.

In 1H 2015, the Group's revenues in Ukraine almost halved y-o-y to US$741 million. This was mainly due to a drop in sales volumes of steel and iron ore products amid lower demand in major steel consuming sectors (construction, machine-building and pipeline infrastructure) as a result of the conflict in Eastern Ukraine and overall economic slowdown in the country. Steel production in Ukraine decreased by 27% y-o-y to 11.3 million tonnes in 1H 2015

[3]