30 май 2017

Metinvest announces financial results for 2016

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 audited IFRS consolidated financial statements for the 12 months ended 31 December 2016 in compliance with Clause 8.4 and Condition 4(w) of the trust deed dated 22 March 2017 (“the Trust Deed”) executed between Madison Pacific Trust Limited as trustee and Metinvest B.V. as issuer.

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 - financial results	FY2016	FY2015	Change, y-o-y	
			US$ mn	%
Income statement highlights				
Revenues	6,223	6,832	-609	-9%
Adjusted EBITDA[1]	1,153	525	628	>100%
Margin	19%	8%		11 pp
Adjusted EBITDA[1] excl. impairment of trade and other receivables[2]	1,380	817	563	69%
Net profit	118	-1,003	1,121	-
Margin	2%	-15%		17 pp
Cash flow highlights				
Net cash from operations	490	637	-147	-23%
Net cash used in investing activities	-331	-237	-94	40%
incl. purchase of PPE and intangible assets[3]	-358	-275	-83	30%
Net cash used in financing activities	-105	-321	216	-67%

Summary - financial results	31.12.2016	31.12.2015	Change, YTD	
			US$ mn	%
Total debt[4]	2,969	2,946	23	1%
Cash and cash equivalents[5]	226	180	46	26%
Key ratios				
Net debt[6]/EBITDA[7]	2.4x	5.3x		-2.9x
Consolidated Net Leverage Ratio[8]	2.1x	N/A		-

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), 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) Following further delays in payments from some key customers beyond the originally expected dates and certain operational and financial issues for them, the Group recognised full impairment of trade receivables from some of its key customers totalling US$220 mn in 2016

(2015: partial impairment of US$254 mn). The overall impairment of trade and other receivables was US$227 mn in 2016 and US$292 mn in 2015.

3) Comprises Capital Expenditures defined in the Trust Deed.

4) Total debt is calculated as the sum of bank loans, bonds, trade finance, seller notes and subordinated shareholder loans.

5) Cash and cash equivalents do not include blocked cash for cash collateral under issued letters of credit and irrevocable bank guarantees and include cash blocked for foreign-currency purchases.

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

7) EBITDA for the last 12 months.

8) Calculated in line with the Trust Deed.

Summary - production results	FY2016	FY2015	Change, y-o-y	
			kt	%
Crude steel	**8,393**	**7,669**	**724**	**9%**
Azovstal	3,705	3,206	499	16%
Ilyich Steel	2,736	2,645	91	3%
Yenakiieve Steel	1,952	1,818	134	7%
Iron ore concentrate	**29,640**	**32,208**	**-2,568**	**-8%**
Northern GOK	11,634	13,152	-1,518	-12%
Ingulets GOK	12,783	12,903	-120	-1%
Central GOK	5,224	6,154	-930	-15%
Coking coal concentrate	**3,051**	**3,285**	**-234**	**-7%**
Krasnodon Coal	750	346	404	>100%
United Coal	2,302	2,940	-638	-22%

OPERATIONAL HIGHLIGHTS

- In 2016, disruptions to the Group's operations continued due to the ongoing conflict in Eastern Ukraine. Logistical constraints remained one of the biggest challenges.
- In January, the Group sold its stake in Black Iron (Cyprus) Limited for US$6 mn.
- In September, Metinvest established an Operations directorate based on its Mining and Metallurgical divisions (now segments). The main objective of the move is to ensure close cooperation between the Group's mining and metallurgical production assets and centralise the management of all production processes.
- Ilyich Steel completed the major overhaul of blast furnace no. 4 in May.
- Azovstal started pulverised coal injection (PCI) at blast furnace no. 4 in November.
- Northern GOK commissioned the first facility of the iron ore crushing and conveying system at the Pervomaisky open pit mine in July.
- The Group launched 47 new steel products, mainly heavy plates, hot-rolled and cold-rolled coils, as well as galvanised products used in construction, machine-building and pipe production.

EVENTS AFTER THE REPORTING PERIOD

- On 4 January 2017, the Group's seller notes were restructured. Their maturity was extended by five years to 31 December 2021.
- On 15 March 2017, assets owned by PJSC Yenakiieve I&SW (including its Makiivka branch), Ukrainian-Swiss JV Metalen, PJSC Khartsyzk Pipe, PJSC Krasnodon Coal, PJSC Komsomolske Flux, PJSC Donetsk Coke and PJSC Yenakiieve Coke, which are located in the territory not controlled by the Ukrainian government, were seized following an ultimatum issued by the unrecognised local authorities to re-register these assets, and Metinvest declared a complete loss of control over operations there.
- On 22 March 2017, Metinvest successfully concluded the restructuring of its bonds and pre-export financing (PXF) facilities, issued new bond totalling US$1.2 bn and amended, restated and combined

four PXF facilities into one facility totalling US$1.1 bn, both due in 2021.

Commenting on the results, Yuriy Ryzhenkov, Chief Executive Officer of Metinvest, said:

"While the situation on the global and domestic markets improved somewhat in 2016, there was ongoing turbulence, and Metinvest underscored its dedication by delivering commendable results.

Global steel, iron ore and coal prices remained highly volatile. After hitting new multi-year lows in the first quarter of the year, steel prices rebounded. The market in China, in particular economy stimulus measures and steel and iron capacity cuts there, is the main driver. We believe that the fundamental indicators do not yet support the case for a sustained recovery.

In Ukraine, there were the first indications of economic improvement since 2012. Real GDP growth was 2.3% in 2016 and the recovery accelerated by the year-end. This led to a 25% increase in internal apparent steel demand in 2016. We are encouraged by this positive news and the potential for continued growth in the country's steel market, while acknowledging that the economic and geopolitical situation remains fragile.

Amid improved steel prices worldwide and recovering demand in Ukraine, the Group delivered a healthy increase in steel production, which rose by 9% year-on-year to 8,393 thousand tonnes in 2016. Iron ore concentrate output fell by 8% year-on-year to 29,640 thousand tonnes, which deteriorated amid the underinvestment of recent years, while coking coal production dropped by 7% year-on-year to 3,051 thousand tonnes, mainly due to the unfavourable market environment in the first half of 2016.

Revenues totalled US$6,223 million in 2016. While this was down 9% year-on-year as expected, the decrease was driven mainly by lower realised prices and lower iron ore sales volumes. At the same time, EBITDA more than doubled to US$1,153 million amid greater finished steel product output and cost reductions. We delivered a positive net profit of US$118 million, compared with a loss in 2015.

The successful restructuring of 94% of Metinvest's debt portfolio, totalling US$2.8 billion, which was concluded after the reporting period, was a landmark moment for the Group and its creditors. The fair and equal treatment of all external lenders and the commitment of all parties enabled a UK court to sanction the restructuring of bonds and pre-export finance facilities in February 2017. The completion of the process gives us the option of returning to the global financial markets. Following this, in early 2017, international rating agencies Moody's and Fitch both upgraded Metinvest's credit ratings to 'Caa2' ('stable' outlook) and 'B' ('stable' outlook), respectively.

We appreciate that the Group significantly underinvested in CAPEX in 2016. This was due to a combination of factors, including poor liquidity, market uncertainty and safety issues in the conflict zone. Nevertheless, we were able to focus resources on vital projects and delivered on important long-term investments. In 2017, the Group expects to increase CAPEX spending compared with recent levels, albeit within the limit of US$636 million set by the debt restructuring documentation for the year.

Regarding the geopolitical situation in Eastern Ukraine, 2016 was another complex year for Metinvest and its employees. While the majority of the Group's assets have been safe and functioning normally, including all of the steelmakers in Mariupol and iron ore assets in Kryvyi Rih, Avdiivka Coke, which is close to the front line, has experienced constant disruptions due to military action. Moreover, in March 2017, as Metinvest refused to re-register entities located on the non-government-controlled areas, their assets were seized and Metinvest declared a complete loss of control over operations there. The Group will use all available national and international legal means to protect its rights to these assets. The current situation forced us to adjust production processes and look for alternatives sources of raw materials. It is worth mentioning that around 20,000 employees worked at the facilities seized, and we have offered alternate positions to all personnel affected.

There are challenges posed by volatile market conditions and the geopolitical situation in Ukraine, but we successfully cope with them. With the right team in place and a clear vision, I believe that we can prevail under even the most adverse external circumstances. On behalf of our management, I would like to thank all stakeholders for their ongoing support, including our shareholders, investors, partners, suppliers, customers, employees and local communities."

RESULTS OF OPERATIONS

Results of operations	FY2016		FY2015		Change, y-o-y		
	US$ mn	% of revenues	US$ mn	% of revenues	US$ mn	%	pp of revenues
Revenues	**6,223**	**100%**	**6,832**	**100%**	**-609**	**-9%**	**-**

Cost of sales	-4,833	-78%	-6,087	-89%	1,254	-21%	11
Gross profit	**1,390**	**22%**	**745**	**11%**	**645**	**86%**	**11**
Distribution costs	-660	-11%	-920	-13%	260	-28%	2
General and administrative expenses	-183	-3%	-199	-3%	16	-8%	-
Other operating expenses	-222	-4%	-300	-4%	78	-26%	-
Operating profit	**325**	**5%**	**-674**	**-10%**	**999**	**-**	**15**
Finance income	26	0%	26	0%	-	0%	-
Finance costs	-397	-6%	-647	-9%	250	-39%	3
Share of result of associates and JV	205	3%	131	2%	74	56%	1
Profit before income tax	**159**	**3%**	**-1,164**	**-17%**	**1,323**	**-**	**20**
Income tax	-41	-1%	161	2%	-202	<-100%	-3
Net profit	**118**	**2%**	**-1,003**	**-15%**	**1,121**	**-**	**17**

Revenues

Metinvest's revenues are generated from sales of its steel, iron ore, coal and coke products and resales 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	FY2016		FY2015		Change, y-o-y		
	US$ mn	% of revenues	US$ mn	% of revenues	US$ mn	%	pp of revenues
Total revenues	**6,223**	**100%**	**6,832**	**100%**	**-609**	**-9%**	**-**
Ukraine	1,606	26%	1,619	24%	-13	-1%	2
Europe	2,267	36%	2,255	33%	12	1%	3
MENA	949	15%	1,305	19%	-357	-27%	-4
CIS (ex Ukraine)	591	9%	602	9%	-11	-2%	-
Southeast Asia	413	7%	751	11%	-338	-45%	-4
North America	320	5%	229	3%	91	40%	2
Other regions	77	1%	71	1%	7	9%	-

In 2016, Metinvest's consolidated revenues decreased by 9% y-o-y to US$6,223 mn. External revenues dropped by US$380 mn y-o-y in the Metallurgical segment and by US$229 mn in the Mining segment. This was driven by lower average selling prices of steel, iron ore and coal products, which hit multi-year lows in 1Q 2016. Since then, prices have somewhat recovered but have remained highly volatile. In addition, iron ore sales volumes dropped amid lower overall production following underinvestment in CAPEX during liquidity constraints between 2014 and 1H 2016; and higher intragroup consumption amid greater crude steel output. In 2016, the Metallurgical segment accounted for 81% of external sales (79% in 2015) and the Mining segment for 19% (21% in 2015).

In 2016, revenues in Ukraine amounted to US$1,606 mn, almost unchanged y-o-y. On a y-o-y basis, lower sales of coke and coking coal concentrate were offset by higher sales of flat, long and iron ore products amid greater local demand, as the Ukrainian economy started to recover. Real GDP increased for the first time since the end of 2012, by 2.3% in 2016, while quarterly economic growth accelerated from 0.1% y-o-y in 1Q 2016 to 4.8% y-o-y in 4Q 2016[1]. Apparent consumption of steel products (excluding pipes) in Ukraine rose by 24.7% y-o-y to 5.1 mt[2] in 2016, driven mainly by inventory replenishment amid expectations of further growth in steel product prices and a recovery in real demand in key steel-consuming industries. Construction activity rose by 17.4% y-o-y[1], the machine-building industry by 2.0% y-o-y[1] and the hardware sector by 6.5% y-o-y[2]. Regarding iron ore products, sales in Ukraine increased, as a couple of Metinvest's key customers in the country managed to partly restore operations and boosted consumption, despite the ongoing conflict. As a result, the share of Ukraine in consolidated revenues climbed by 2 pp y-o-y to 26%.

International sales accounted for 74% of consolidated revenues in 2016. The share of Europe, Metinvest's largest market, reached 36%, up 3 pp y-o-y, amid higher sales volumes of finished steel (+208 kt) and iron ore products (+1,474 kt), as well as higher selling prices of iron ore concentrate and pellets. The proportion of sales to the Middle East and North Africa (MENA) decreased by 4 pp y-o-y to 15% amid a 27% y-o-y drop in sales to the region, caused by lower selling prices of key products, as well as lower sales volumes of semi-finished products (-553 kt) and pellets (-484 kt). The share of sales to Southeast Asia decreased by 4 pp y-o-y to 7% as a result of a 45% decline in sales to the region, due to lower sales volumes of iron ore (-4,379 kt) and flat (-97 kt) products amid lower selling prices for both. The share of North America increased by 2 pp y-o-y to 5% in 2016, mainly due to higher sales volumes of pig iron (+330 kt) and finished steel products (+68 kt). The shares of the CIS (ex Ukraine) and other regions remained unchanged y-o-y at 9% and 1% respectively.

Metallurgical segment

The Metallurgical segment generates revenues from sales of pig iron, steel and coke products and services. In 2016, its revenues decreased by 7% y-o-y to US$5,027 mn. In particular, sales of semi-finished products dropped by US$206 mn, flat products by US$129 mn, tubular products by US$58 mn, coke by US$34 mn and other products and services by US$66 mn. This was partly compensated by an increase in sales of long products of US$113 mn.

Metallurgical segment Sales by market	FY2016			FY2015			Change, y-o-y		Change, y-o-y %	
	US$ mn	% of revenues	kt	US$ mn	% of revenues	kt	US$ mn	kt	US$ mn	kt
Total sales	**5,027**	**100%**	**12,301**	**5,407**	**100%**	**12,273**	**-380**	**28**	**-7%**	**0%**
Ukraine	1,129	22%	2,476	1,151	21%	2,169	-22	307	-2%	14%
Europe	1,989	40%	4,762	2,090	39%	4,769	-101	-7	-5%	0%
MENA	948	19%	2,683	1,266	23%	3,265	-318	-582	-25%	-18%
CIS (ex Ukraine)	591	12%	1,170	602	11%	1,219	-11	-50	-2%	-4%
Southeast Asia	76	2%	226	116	2%	262	-40	-35	-35%	-14%
North America	217	4%	767	111	2%	379	106	388	96%	>100%
Other regions	77	2%	216	71	1%	209	7	7	9%	3%

https://metinvestholding.com/bg/media/news/7437