

LISTING PARTICULARS



Metinvest B.V.

(incorporated in The Netherlands with limited liability)

Up to U.S.\$ 1,225,000,000 Fixed Rate Senior Secured Notes due 2021 guaranteed on a senior basis by certain of its subsidiaries

Application has been made to the Irish Stock Exchange plc for the Fixed Rate Senior Secured Notes due 31 December 2021, including any PIK Notes (as defined below) (the **Notes**) of Metinvest B.V. (the **Issuer**) to be admitted to the Official List (the **Official List**) and to trading on the Global Exchange Market of the Irish Stock Exchange (the **Listing**). These Listing Particulars do not constitute a prospectus for the purposes of the Prospectus Directive. These Listing Particulars have been approved by the Irish Stock Exchange.

The guarantors named herein (the **Guarantors**) will, jointly and severally, unconditionally and irrevocably, guarantee (the **Guarantees**) the moneys payable by the Issuer in respect of the Notes subject, in the case of the Guarantee of Metinvest Management B.V. (the **Intermediate Holdco**), to the terms of the Intercreditor Agreement (as defined below). Each of the Ukrainian Guarantors (as defined below) will grant a Guarantee pursuant to and on the terms set out in the relevant surety agreement to which it will be a party (each, a **Surety Agreement**) to be dated on or about the Issue Date (as defined below) between, in each case, the relevant Ukrainian Guarantor and Madison Pacific Trust Limited in its capacity as trustee (the **Trustee**). Each Guarantee to be granted by the Ukrainian Guarantors under the Surety Agreements will constitute a suretyship (in Ukrainian: "*poruka*") for the purposes of Ukrainian law. The Intermediate Holdco will grant a Guarantee pursuant to and on the terms set out in the deed of guarantee and indemnity (the **Intermediate Holdco Guarantee Agreement**) and, together with the Surety Agreements, the **Guarantee Agreements**) between the Intermediate Holdco and Madison Pacific Trust Limited in its capacity as common security agent (the **Common Security Agent**) to be dated on or about the Issue Date. On or about the Issue Date, the Notes will be secured by first priority security interests over all of the share capital in the Intermediate Holdco, pledges over certain equipment granted by Ingulets GOK, Ilyich Steel and Central GOK (each as defined below), the OpCo Share Pledges (as defined below) and pledges over certain offshore service accounts (including the debt service account) granted by the Issuer and an offshore account granted by Intermediate Holdco on or about the Issue Date (the **Pledge Agreements**) as well as assignments granted by the Issuer over certain intercompany receivables owed to it by the Intermediate Holdco and granted by Metinvest Capital UK Limited over certain intercompany receivables owed to it by Ingulets GOK, Ilyich Steel and Central GOK on or about the Issue Date (the **Assignments**). Within three business days following the Issue Date, the Notes will be secured by first priority security interests over 50 per cent. plus one share of the share capital in each of Ingulets GOK, Ilyich Steel and Central GOK.

The Issuer is not offering any Notes, nor any other securities in connection with the Listing, to the public. This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, any Notes or any other securities in any jurisdiction. The Notes will not be generally made available or marketed to the public in connection with the Listing. The Notes will be constituted by a trust deed to be dated on or about the Issue Date between the Issuer and the Trustee (the **Trust Deed**). See "*Description of Indebtedness and the Third Scheme—Restructuring and the Third Scheme—Scheme of Arrangement*". The Notes will be unrated. The Issuer will not receive any proceeds from the issue of the Notes, which will be issued pursuant to a scheme of arrangement under Part 26 of the Companies Act 2006 (the **Third Scheme**). The Third Scheme also provides for the cancellation of the Issuer's 10.25 per cent. Guaranteed Notes due 2016 and 10.50 per cent. Guaranteed Notes due 2017 and 8.75 per cent. Guaranteed Notes due 2018 issued under the Issuer's U.S.\$1,000 million Guaranteed Medium Term Note Programme (collectively, the **Existing Notes**). The issuance of the Notes up to a maximum amount of U.S.\$1,225,000,000 assumes the Notes will be issued on or before 30 April 2017 (the **Longstop Date**). On or about the Issue Date, the Issuer will publish an announcement on the website of the Irish Stock Exchange stating the total amount of the Notes issued. These Listing Particulars have been prepared purely for the purposes of the Listing. In making an investment decision as regards the Notes, prospective investors should rely upon their own examination of the Issuer and the Notes. Voting instructions in relation to the Notes to be issued pursuant to the Third Scheme will be contained in an explanatory statement which is anticipated to be published by the Issuer on or around 17 January 2017 following the conclusion of a hearing in the English court in which the Issuer will, amongst other matters, seek leave to convene a meeting of holders of the Existing Notes to consider and, if thought fit, approve the Third Scheme. No Notes will be issued unless the Third Scheme is implemented.

The Notes are securities of a specialist nature and should only be allocated to and bought and traded by persons who are particularly knowledgeable in investment matters. See "*Risk Factors*" for a discussion of certain factors that should be considered in connection with an allocation of or an investment in the Notes.

NEITHER THE NOTES NOR THE GUARANTEES HAVE BEEN, OR WILL BE, REGISTERED UNDER THE U.S. FEDERAL SECURITIES LAWS OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE NOTES ARE BEING OFFERED AND DISTRIBUTED IN THE UNITED STATES ONLY IN TRANSACTIONS NOT INVOLVING ANY PUBLIC OFFERING UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), AND IN TRANSACTIONS OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES, SEE "*DISTRIBUTION OF THE NOTES*" AND "*TRANSFER RESTRICTIONS*".

The Notes mature on 31 December 2021 (the **Maturity Date**) at their principal amount together with accrued interest. The Notes are subject to redemption in whole or in part, at their principal amount, together with accrued interest, at the option of the Issuer on giving not more than 60, nor less than 15, days' notice to the Noteholders and subject to the provisions of the Intercreditor Agreement. Under certain conditions, the Notes will be subject to partial repayment through a cash sweep (the **Cash Sweep**) as provided in the terms and conditions of the Notes (the **Conditions**) and the Intercreditor Agreement. Upon the occurrence of certain change of control events, each Noteholder shall have the right to require that the Issuer repurchase such Noteholder's Notes at a purchase price in cash equal to 101 per cent. of the outstanding principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to (but excluding) the date of purchase.

Interest on the Notes is payable in equal instalments quarterly in arrear on 18 February, 18 May, 18 August and 18 November in each year (each, an **Interest Payment Date**), except that (A) the first payment of interest will be made on 18 May 2017 and will be in respect of the period from and including the Issue Date to but excluding 18 May 2017 and (B) the last payment of interest will be made on the Maturity Date and will be in respect of the period from and including 18 November 2021 to but excluding the Maturity Date. In the period from the Issue Date to 31 December 2018 (the **Initial Period**), the Issuer shall pay (i) interest in cash on the relevant Interest Payment Date at the rate of 2.793 per cent. per annum (the **Cash-pay Interest Amount**); (ii) interest on the relevant Interest Payment Date at the rate of 6.5795 per cent. per annum (the **PIYC Interest Amount**) payable only if and to the extent that amounts are available for such purpose pursuant to the Cash Sweep and (iii) interest in cash on the relevant Interest Payment Date at the rate of 1.5025 per cent. per annum (the **Catch-Up Interest Amount**) payable only if and to the extent that amounts are available for such purpose pursuant to the Cash Sweep. If all or part of any PIYC Interest Amount has not been satisfied in cash, the Issuer shall instead on the relevant Interest Payment Date increase the principal amount of the Notes by issuing to each Noteholder additional Notes (the **PIK Notes**) in an aggregate principal amount equal to the proportion of the PIYC Interest Amount not so satisfied in cash and to which such Noteholder was otherwise entitled (rounded up to the nearest U.S. Dollar in the case of amounts of U.S.\$0.50 or more and down to the nearest U.S. Dollar otherwise). The Issuer shall redeem in cash on the relevant Interest Payment Date any outstanding PIK Notes at a redemption price equal to 100 per cent. of the principal amount thereof, only if and to the extent that amounts are available for such purpose pursuant to the Cash Sweep. See Condition 5 (*Interest, PIK and Cash Sweep*). If the Issuer pays all eligible PIYC Interest Amount in the form of PIK Notes, it will increase the principal amount of the Notes by issuing PIK Notes during the Initial Period in a principal amount up to a maximum amount of U.S.\$175,000,000. Upon an increase of the principal amount of the Notes, the Issuer will publish an announcement on the website of the Irish Stock Exchange substantively in the form of Appendix III. After the end of the Initial Period, the Issuer shall pay all interest on each Interest Payment Date in cash. The Issuer shall redeem the Notes at their principal amount to the extent amounts are available for such purpose pursuant to the Cash Sweep.

Payments on the Notes and under the Guarantees will be made without withholding or deduction for or on account of taxes of The Netherlands and Ukraine to the extent described in Condition 8 (*Taxation*).

The Notes will be issued in registered form in the denomination of U.S.\$1,000 and integral multiples of U.S.\$1 in excess thereof. Upon the issuance of the Notes, the Issuer will make an announcement on the website of the Irish Stock Exchange (the **Issue Date**). The Notes initially offered outside the United States will upon issue be represented by a single global note certificate (the **Unrestricted Global Note Certificate**) in registered form, which will be deposited with a common depositary (the **Common Depositary**) for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) on or about the Issue Date for the accounts of their respective accountholders. The Notes initially offered in the United States will be evidenced by a global note certificate (the **Restricted Global Note Certificate**, and, together with the Unrestricted Global Note Certificate, the **Global Note Certificates**) in registered form, which will be deposited with the Common Depositary for, and registered in the name of a nominee of Euroclear and Clearstream, Luxembourg on or about the Issue Date for the accounts of their respective accountholders.

13 January 2017

IMPORTANT NOTICE

THESE LISTING PARTICULARS DO NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY. THE NOTES MAY NOT BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except in accordance with the Securities Act and other applicable securities laws, pursuant to registration or an exemption therefrom. See "Transfer Restrictions".

These Listing Particulars do not constitute a prospectus for the purposes of Article 5.3 of the Prospectus Directive. These Listing Particulars were prepared for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the rights attaching to the Notes. The Issuer accepts responsibility for the information contained in these Listing Particulars. To the best of the knowledge of the Issuer, having taken all reasonable care to ensure that such is the case, the information contained in these Listing Particulars is in accordance with the facts and contains no omission likely to affect its import.

Confirmation of your Representation: In order to be eligible to receive Notes on the Scheme Settlement Date in accordance with the Third Scheme and the Distribution Agreement, you must be a holder or a beneficial owner of either of the Existing Notes (as defined below) and be either (i) a "qualified institutional buyer" (as that term is defined in Rule 144A under the Securities Act), (ii) an institution that is an institutional accredited investor (within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act) or (iii) outside of the United States (as that term is defined in Rule 902 under the Securities Act) transacting in an offshore transaction (in accordance with Regulation S under the U.S. Securities Act) (all of the foregoing holders, collectively, **Eligible Holders**). By accepting these Listing Particulars, you shall be deemed to have represented to the Issuer, the Principal Paying Agent and Transfer Agent (as defined below) that:

- (a) you are an Eligible Holder;
- (b) you are either an institutional "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive or not incorporated or situated in any member state of the European Union;
- (c) you are either not located or resident in the United Kingdom or, if a resident of or located in the United Kingdom, an institution within the definition of Investment Professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**)) or within Article 43(2) of the Order or an institution to whom the Listing Particulars may lawfully be communicated in accordance with the Order;
- (d) you are either not located or resident in Israel or, if located or resident in Israel, an institutional "sophisticated investor" within the meaning of the Israel Securities Law, 5728-1968, as amended from time to time;
- (e) you are either not located or resident in Russia or, if located or resident in Russia, a professional participant of securities market within the meaning of Article 2 of the Federal law "On the securities market" No. 39-FZ dated 22 April 1996, as amended from time to time;
- (f) you are either not located or resident in Singapore or, if located or resident in Singapore, an "institutional investor" within the meaning of Section 4A(1)(c) of the Singaporean Securities and Futures Act, as amended from time to time;
- (g) you are either not located or resident in Switzerland or, if located or resident in Switzerland, an institutional "qualified investor" (*qualifizierter Anleger*) within the meaning of article 10 of the Swiss Collective Investment Scheme Act, as amended from time to time;
- (h) you are either not located or resident in Turkey or, if located or resident in Turkey, an institutional "qualified investor" under Turkish law;
- (i) you are either not located or resident in Liechtenstein or, if located or resident in Liechtenstein, an institutional "qualified investor" under Liechtenstein law;

- (j) you are either not located or resident in Cayman Islands or, if located or resident in Cayman Islands, an institutional "qualified investor" under Cayman law;
- (k) you are either not located or resident in Guernsey or, if located or resident in Guernsey, an institutional "qualified investor" under Guernsey law;
- (l) you are either not located or resident in Japan or, if located or resident in Japan, an institutional "qualified investor" under Japanese law;
- (m) you are either not located or resident in Lebanon or, if located or resident in Lebanon, an institutional "qualified investor" under Lebanese law;
- (n) you are either not located or resident in Monaco or, if located or resident in Monaco, an institutional "qualified investor" under Monaco law;
- (o) you are either not located or resident in Hong Kong or, if located or resident in Hong Kong, an institutional "qualified investor" under Hong Kong law;
- (p) you have informed yourself of any restrictions, legal requirements and tax consequences within the countries of your citizenship, residence, domicile and place of business with respect to the acquisition, holding or disposal of the Notes and you are not a person to whom it is unlawful to make an offer to sell or the solicitation of an offer to buy in such jurisdiction;
- (q) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to participate in the Third Scheme (as defined below) and deliver your consent in order to receive the Notes; and
- (r) you consent to delivery of the Listing Particulars by electronic transmission.

Neither the United States Securities and Exchange Commission nor any U.S. state securities commission has approved or disapproved of these Notes or determined if these Listing Particulars are truthful or complete. Any representation to the contrary is a criminal offence.

Each acquirer of the Notes will be deemed to have made the representations, warranties and acknowledgments that are described in these Listing Particulars under "*Transfer Restrictions*". The Notes and the Guarantees have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and are subject to certain restrictions on transfer. Prospective investors are hereby notified that the seller of any Note may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the Notes, see "*Transfer Restrictions*". The Notes may not be resold to the public in any jurisdiction. By accepting delivery of these Listing Particulars, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Note to the public. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective investor, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the section in these Listing Particulars entitled "*Distribution of the Notes*" and "*Transfer Restrictions*".

The distribution of these Listing Particulars and the distribution of the Notes may be restricted by law in certain jurisdictions. The Issuer makes no representation that these Listing Particulars or the Notes may be lawfully distributed in any jurisdiction or assumes any responsibility for facilitating any such distribution. Accordingly, neither these Listing Particulars nor any other offering material may be distributed or published, and the Notes may not be distributed, in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession these Listing Particulars may come must inform themselves about, and observe, any such restrictions on the distribution of these Listing Particulars and the distribution of the Notes.

The information contained in these Listing Particulars has been prepared based upon information available to the Issuer. To the best of the Issuer's knowledge, information and belief, the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information. The financial statements commencing at page F-1 have been prepared in accordance with IFRS and contain information on consolidated subsidiaries of the Group, including all of the Guarantors. The Issuer has taken all reasonable steps to ensure that these Listing Particulars contain the information reasonably necessary in the context

of the issue of Notes. None of the Issuer's legal, financial or tax advisers, the Trustee or the Trustee's legal advisers have authorised the contents of these Listing Particulars or any part of it, nor do they accept any responsibility for the accuracy, completeness or reasonableness of the statements contained within it.

None of the Issuer's legal, financial or tax advisers, the Trustee or the Trustee's legal advisers has verified that the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information and each of those persons expressly disclaims any responsibility for such information.

These Listing Particulars may only be used for the purpose for which it has been published. No person is authorised to give any information other than that contained in these Listing Particulars and the documents referred to herein which are made available for inspection by the public.

Nothing contained in these Listing Particulars shall be deemed to be a forecast, projection or estimate of the Issuer's future financial performance except where otherwise specifically stated. These Listing Particulars contain certain statements, statistics and projections that are, or may be, forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the Issuer's future financial position, strategy, plans and objectives for the management of future operations, is not warranted or guaranteed. These statements typically contain words such as "intends", "expects", "anticipates", "estimates" and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although the Issuer believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, future revenues being lower than expected, increasing competitive pressures in the industry and general economic conditions or conditions affecting demand for the products offered by the Issuer in the markets in which it operates being less favourable than expected.

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ENFORCEABILITY OF JUDGMENTS

The Issuer is incorporated under the laws of The Netherlands. Each of the Guarantors as of the Issue Date, other than the Intermediate Holdco (which is incorporated in The Netherlands), is incorporated under the laws of Ukraine and certain of the officers and members of the management board of the Issuer (the **Management Board** and each member, a **Director**) and certain other persons referred to herein are residents of Ukraine. A substantial portion of the assets of such persons, the Issuer and the Guarantors are located outside the United Kingdom and the United States. As a result, it may not be possible for investors to effect service of process upon such persons in the United Kingdom or the United States or to enforce against them, the Issuer or the Guarantors judgments obtained in the courts of the United Kingdom and the United States.

The courts of Ukraine will not recognise or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party providing for enforcement of such judgments, and then only in accordance with the terms of such treaty. There is no such treaty between the United Kingdom and Ukraine or between the United States and Ukraine providing for enforcement of judgments.

In the absence of an international treaty providing for enforcement of judgments, the courts of Ukraine may only recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. Ukrainian law does not provide any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice in this respect. Accordingly, there can be no assurance that the courts of Ukraine will recognise or enforce a judgment rendered by the courts of the United Kingdom or the United States on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in applicable Ukrainian legislation.

As Ukraine and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters, a final and conclusive judgment for the payment of money rendered by any courts in Ukraine based on civil liability would not automatically be enforceable in The Netherlands. However, a final judgment obtained in a court of Ukraine and not rendered by default, which is not subject to appeal or other means of contestation and is enforceable in Ukraine with respect to the payment of obligations of a Dutch company expressed to be subject to Ukrainian law may be upheld and be regarded by a competent Dutch court as conclusive evidence when asked to render a judgment in accordance with that judgment by a court of Ukraine, without substantive re-examination or re-litigation of the merits of the subject matter thereof, if: that judgment has been rendered by a court of competent jurisdiction, in accordance with the principles of due justice; its contents and enforcement do not conflict with Dutch public policy (*openbare orde*); it has not been rendered in proceedings of a penal or revenue or other public law nature; it was not rendered by default; it is not subject to appeal or other means of contestation; and it is enforceable in Ukraine with respect to the payment of obligations expressed to be subject to Ukrainian law. The United States and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) and accordingly the foregoing also applies to judgments obtained in United States courts.

A Ukrainian court may apply Ukrainian law notwithstanding the choice of foreign law by the parties if the court determines that (a) the content of foreign law in respect of the relevant matter cannot be established within a reasonable time, (b) the relevant matter is not of a contractual nature and falls under the mandatory regulatory requirements of Ukraine or another relevant jurisdiction (including tax, currency exchange, banking or financial services legislation) or (c) the application of the relevant foreign law provisions would produce a result incompatible with the public order of Ukraine. Ukrainian legislation and court practice do not determine the precise scope or content of the concept of the "public order" of Ukraine.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **New York Convention**). Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention), subject to compliance with applicable procedural requirements.

The Notes, the Trust Deed, certain Pledge Agreements, the Guarantees, the Assignments and the Intercreditor Agreement are governed by English law. Disputes arising under the Notes, the Trust Deed, the Pledge Agreements, the Guarantees, the Assignments and the Intercreditor Agreement are subject to settlement by, among others, arbitration in accordance with the London Court of International Arbitration (**LCIA**) Arbitration Rules subject to a right in favour of the Trustee to refer any dispute to a court of law in England or such other court of competent jurisdiction (if any). Since the United Kingdom is a party to the New York Convention, the arbitral awards obtained

in the United Kingdom may be enforced in Ukraine and/or The Netherlands under provisions of the New York Convention and subject to compliance with applicable procedural requirements.

FORWARD-LOOKING STATEMENTS

These Listing Particulars contain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities and Exchange Act of 1934 (the **Exchange Act**) which relate, without limitation, to any of the Issuer's or the Guarantors' plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial performance and future operations and development, business strategy and the trends in the industry and the political and legal environment in which Metinvest operates and other information that is not historical information. The words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions to identify forward-looking statements may be used herein. Prospective investors in the Notes are cautioned that actual results could differ materially from those anticipated in forward-looking statements. Also, where estimates relating to Metinvest's reserves and resources are presented, these estimates may differ from comparable estimates in the technical reports dated 1 January 2010 and 31 March 2010 (the **Reserves Reports**) prepared by SRK Consulting (UK) Limited, a company registered at 21 Gold Tops, Newport, South Wales, NP20 4PG (**SRK**) and Cardno (formerly Marshall Miller & Associates, Inc.), a company registered at 534 Industrial Park Road Bluefield, VA 24605 United States (**Cardno**), respectively, and from reserves estimates reported under Ukrainian guidelines. The forward-looking statements contained in these Listing Particulars are largely based on Metinvest's expectations, which reflect estimates and assumptions made by Metinvest's management and by SRK and Cardno in the Reserves Reports and Ukrainian reserves estimates. These estimates and assumptions reflect Metinvest's best judgement based on currently known market conditions and other factors, some of which are discussed below. Although Metinvest believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond Metinvest's control. In addition, assumptions about future events may prove to be inaccurate. Metinvest cautions prospective investors in the Notes that the forward-looking statements contained in these Listing Particulars are not guarantees of outcomes of future performance and Metinvest cannot assure any prospective investors in the Notes that such statements will be realised or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond Metinvest's control and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those described in the section headed "*Risk Factors*", as well as those included elsewhere in these Listing Particulars. Prospective investors in the Notes should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements.

When relying on forward-looking statements, the prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which Metinvest operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, Metinvest does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. Metinvest does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to Metinvest or persons acting on its behalf.

PRESENTATION OF CERTAIN INFORMATION

Certain Defined Terms

In these Listing Particulars:

"**Issuer**" means Metinvest B.V.

"**Intermediate Holdco**" means Metinvest Management B.V.

"**Group**" or "**Metinvest**" means Metinvest B.V. together with its subsidiaries at the relevant time.

"**Avdiivka Coke**" means Private Joint Stock Company "Avdeevskiy Coke-Processing Works" (Ukraine), otherwise known as Private Joint Stock Company "Avdiivka Coke Plant" and PJSC "Avdiivka Coke"; "**Azovstal**" means Private Joint Stock Company "Azovstal Iron & Steel Works" (Ukraine), otherwise known as Azovstal Iron and Steel Works and PJSC "Azovstal Iron & Steel Works"; "**Belgorodmetalloznab**" means Closed Joint-Stock Company "Belgorodmetalloznab" (Russian Federation), otherwise known as Locked Joint-Stock Company "Belgorodmetalloznab"; "**Central GOK**" means Private Joint Stock Company "Central Mining-Dressing Integrated Works" (Ukraine), otherwise known as Centralny GOK Private Joint Stock Company, Private Joint Stock Company "Central Iron Ore Enrichment Works", and PJSC "Central GOK"; "**Donetsk Coke**" means Private Joint Stock Company "Donetsk Coke Plant" (Ukraine), otherwise known as PJSC "Donckoke" and Donetskkoks; "**Ferriera Valsider**" means Ferriera Valsider S.p.A. (Italy); "**Ingulets GOK**" means Private Joint Stock Company Ingulets'kyi Ore Mining and Processing Enterprise (Ukraine), otherwise known as Private Joint Stock Company "Ingulets Iron Ore Enrichment Works" and PJSC "Ingulets GOK"; "**Ilyich Steel**" means Private Joint Stock Company "Ilyich Iron and Steel Works of Mariupol" (Ukraine), otherwise known as Private Joint Stock Company "Ilyich Iron and Works of Mariupol", PJSC "Ilyich Iron and Steel Works of Mariupol", and MMK Illycha; "**Inkor Chemicals**" means Limited Liability Company "Scientific & Manufacturing Association "Inkor & Co" (Ukraine), otherwise known as Inkor & Co Chemical Company; "**Khartsyzsk Pipe**" means Private Joint Stock Company Khartsyzsk Tube Works (Ukraine), otherwise known as Private Joint Stock Company "Khartsyzsk Pipe Plant" and PJSC "Khartsyzsk Pipe"; "**Kindrativka Refractory Plant**" means Public Joint-Stock Company "Kindrativka Refractory Plant" (Ukraine), otherwise known as "Kindrativka Refractory Plant", PJSC; "**Komsomolske Flux**" means Private Joint Stock Company "Komsomolske Flux Plant" (Ukraine), otherwise known as PSC "Komsomolske Flux"; "**Krasnodon Coal**" means Private Joint Stock Company Krasnodonvugillya (Ukraine), otherwise known as Private Joint Stock Company "Krasnodon Coal Company" and PJSC "Krasnodon Coal Company"; "**Makiivka Steel**" means Private Joint Stock Company "Makiivka Iron and Steel Works" (Ukraine), otherwise known as Makiivka Iron and Steel Works and PJSC "Makiivka Steel"; "**Metalen**" means Ukraine-Switzerland Joint Venture Limited Liability Company Metalen; "**Metinvest Distribution**" means Limited Liability Company "Metinvest Distributsiya" (Belarus), otherwise known as Metinvest Distribution; "**Metinvest Eurasia**" means Limited Liability Company "Metinvest" Eurasia (Russian Federation); "**Metinvest International**" means Metinvest International S.A. (Switzerland); "**Metinvest-Resource**" means Limited Liability Company "Metinvest-Resource" (Ukraine); "**Metinvest-Shipping**" means Limited Liability Company "Metinvest-Shipping" (Ukraine), otherwise known as "Metinvest-Shipping LLC"; "**Metinvest-SMC**" means Limited Liability Company "Metinvest-SMC" (Ukraine); "**Metinvest Trametal**" means Metinvest Trametal S.P.A. (Italy); "**Metinvest Ukraine**" means Limited Liability Company "Metinvest Ukraine" (Ukraine); "**Metinvest Holding LLC**" means Limited Liability Company "Metinvest Holding" (Ukraine); "**Promet Steel**" means Joint Stock Company "Promet Steel" (Bulgaria), otherwise known as Promet Steel of Metinvest; "**SCM**" means Private Joint Stock Company "System Capital Management" (Ukraine); "**SCM Cyprus**" means SCM (System Capital Management) Limited (Cyprus); "**SCM Holdings**" means SCM Holding Limited (Cyprus); "**SCM Group**" means SCM, SCM Cyprus, SCM Holdings and their consolidated subsidiaries at the relevant time; "**Northern GOK**" means Private Joint Stock Company Severniy GOK (Ukraine), otherwise known as Private Joint Stock Company "Northern Iron Ore Enrichment Works", PJSC "Northern GOK" and Joint Stock Company "Sev GOK"; "**SMART**" means the group of companies controlled directly or indirectly by Mr. Vadym Novynskyi as of the date hereof; "**Spartan UK**" means Spartan UK Limited (United Kingdom); "**United Coal**" means United Coal Company LLC (Virginia, United States); "**Yenakiieve Coke**" means Private Joint Stock Company Enakievskiy Koksokhimprom (Ukraine), otherwise known as Yenakiieve Coke Plant and Private Joint Stock Company "Yenakiieve Coke and Chemical Works "; "**Yenakiieve Iron and Steel Works**" or "**Yenakiieve I&SW**" means Private Joint Stock Company Enakievo Metallurgical Works (Ukraine), otherwise known as Private Joint Stock Company "Yenakiieve Iron and Steel Works" and PJSC "Yenakiieve Steel"; "**Yenakiieve Steel**" means Yenakiieve Iron and Steel Works, Makiivka Steel and Metalen, taken together; "**Southern GOK**" means Public Joint Stock Company "Yuzhniy GOK" (Ukraine), otherwise known as PJSC "Yuzhniy GOK"; "**Zaporizhia Coke**" means Private Joint Stock Company "Zaporizhia Coke Plant" (Ukraine), otherwise known as PJSC "Zaporizhcoke" and Zaporizhkoks; "**Zaporizhia Refractories**" means Public Joint Stock

Company "Zaporozhzhneupor" (Ukraine); and "**Zaporizhstal**" means Public Joint Stock Company "Integrated Iron and Steel Works "Zaporizhstal", otherwise known as PJSC "Zaporizhstal" and Zaporizhstal Iron and Steel Works.

"**Intercreditor Agreement**" means (i) the intercreditor agreement to be dated on or about the Issue Date, between, among others, the Issuer, the Intermediate Holdco, the Trustee, the Common Security Agent and Deutsche Bank AG, Amsterdam Branch as agent under the PXF Facility Agreement (the **PXF Agent**), and (ii) each agreement entered into between certain members of the Group incorporated under the laws of Ukraine, the Common Security Agent, the Trustee and the PXF Agent and substantially in the form approved by the Issuer, the Common Security Agent, the Trustee and the PXF Agent prior to the Issue Date (each, a **Standalone Intercreditor Agreement**), in each case, as amended, varied or supplemented from time to time.

"**PXF Facility Agreement**" means the amended and restated facility agreement to be dated on or about the Issue Date, between, among others, the Issuer, the lenders party thereto and the PXF Agent, as amended, varied or supplemented from time to time.

"**Existing PXF Facilities**" means the syndicated U.S.\$300 million pre-export finance facility, syndicated U.S.\$560 million pre-export finance facility, syndicated U.S.\$325 million pre-export finance facility and syndicated U.S.\$1 billion pre-export finance facility. See "*Description of Indebtedness and the Third Scheme—Current Indebtedness—Loan Facilities*".

"**Notes Documents**" means the Trust Deed, the Guarantee Agreements, the Security Documents, the Intercreditor Agreement and any additional intercreditor agreement.

"**Finance Documents**" means the PXF Facility Agreement, the Intercreditor Agreement (and each intercreditor amendment thereto), the Intermediate Holdco Guarantee Agreement, the Security Documents and each other document designated as such by the PXF Agent, the Trustee and the Issuer.

"**UCC Seller Notes**" means the fixed rate subordinated notes issued on 30 April 2009 (as amended and restated on 31 January 2015 and from time to time) by United Coal Company LLC and Metinvest U.S., Inc., as issuers, to the following initial holders: The United Company, Gregory Energy Partners, LLC, SJ Strategic Investments LLC, Southern Mining, Incorporated, Samuel A. Blankenship, Joseph R. Gregory, Gregory Resource Partners, LLC, Kingsway, LLC, James W. McGlothlin, Nicholas D. Street and Clyde E. Stacey.

All references to "**U.S.**" and "**United States**" are to the United States of America, all references to the "**UK**" and "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland and all references to the "**EU**" are to the European Union and its member states as of the date of these Listing Particulars. All references to the "**CIS**" are to the following countries that formerly comprised part of the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Financial Information

The financial information set forth herein has, unless otherwise indicated, been derived from:

- (i) the Issuer's (and its consolidated subsidiaries') audited abbreviated consolidated balance sheet and abbreviated consolidated income statement, abbreviated statement of comprehensive income, abbreviated statement of cash flows and abbreviated statement of changes in shareholders' equity as at and for the year ended 31 December 2014 (the **2014 Financial Statements**);
- (ii) the Issuer's (and its consolidated subsidiaries') audited abbreviated consolidated balance sheet and abbreviated consolidated income statement, abbreviated statement of comprehensive income, abbreviated statement of cash flows and abbreviated statement of changes in shareholders' equity as at and for the year ended 31 December 2015 (the **2015 Financial Statements**); and
- (iii) the Issuer's (and its consolidated subsidiaries') unaudited interim condensed consolidated balance sheet, unaudited interim condensed consolidated income statement, unaudited interim condensed consolidated statement of comprehensive income, unaudited interim condensed statement of cash flows and unaudited interim condensed consolidated statement of changes in equity as at and for the six months ended 30 June 2016 (the **2016 Interim Financial Statements**).

The 2014 Financial Statements, the 2015 Financial Statements and the 2016 Interim Financial Statements (the **Financial Statements**) presented in these Listing Particulars have been prepared in accordance with IFRS as

adopted by the European Union and contain information on consolidated subsidiaries of the Group, including all of the Guarantors (other than the Intermediate Holdco).

The Financial Statements have been prepared by the Issuer. The 2014 Financial Statements and the 2015 Financial Statements were audited and the 2016 Interim Financial Statements were reviewed by independent auditors, PricewaterhouseCoopers Accountants N.V., located at Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, The Netherlands. The partner of PricewaterhouseCoopers Accountants N.V. who signed the auditors' reports is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*). In their respective audit reports, PricewaterhouseCoopers Accountants N.V. have expressed an unqualified opinion on the 2014 Financial Statements and the 2015 Financial Statements. The audit reports on the 2014 Financial Statements and the 2015 Financial Statements contain an emphasis of matter relating to economic and political uncertainties in Ukraine.

This document includes Adjusted EBITDA, a non-IFRS measure calculated as profit before income tax before finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, sponsorship and other charity payments, share of result of associates and other expenses that management believes are non core. Management uses Adjusted EBITDA, among other things, to assess Metinvest's operating performance and make decisions about allocating resources. Adjusted EBITDA is a supplemental measure of Metinvest's performance and is not in accordance with IFRS and may not be comparable to similarly titled measures of other companies. Adjusted EBITDA should not be considered as an alternative to operating profit, net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flows from operating activities as a measure of Metinvest's liquidity. For a reconciliation of Adjusted EBITDA to profit before income tax see "*Selected Consolidated Financial Information*".

Market, Economic and Industry Data

Market, economic and industry data used throughout these Listing Particulars has been derived from various industry and other independent sources. The accuracy and completeness of such information is not guaranteed.

Information contained in these Listing Particulars relating to the industries in which Metinvest operates in Ukraine and to its competitors (which may include estimates and approximations) was derived from publicly available sources, including official data published by certain government and international agencies, industry publications and press releases, including the State Statistics Service of Ukraine (**SSSU**), the National Bank of Ukraine (the **NBU**), the World Steel Association (**WSA**), Metal Expert, EnergoBusiness, Bloomberg, Ukrainian Industry Expertise, BP Statistical Review of World Energy, June 2016 (**BP Energy Review**) and the United States Geological Survey Mineral Summaries 2014 (**USGS**). The Issuer and each Guarantor jointly and severally confirm that such information (included in "*Overview of Metinvest*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Industry*" and "*Business Description*") has been accurately reproduced from its sources and, as far as the Issuer and each Guarantor is aware and is able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. However, the Issuer and each Guarantor have jointly and severally relied on the accuracy of this information without carrying out an independent verification thereof.

Certain information in these Listing Particulars in relation to Ukraine has been extracted from documents and other publications released by, and is presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector of Ukraine. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, each of the Issuer and the Guarantors jointly and severally accepts responsibility for accurately reproducing such extracts as they appear in these Listing Particulars, but accepts no further or other responsibility in respect of such information.

Operating Data

All data relating to Metinvest's production and operations, such as volumes of production, production capacity and certain sales information presented by sector, geographical region and product, cited in "*Business Description*" and elsewhere in these Listing Particulars, were derived from management accounts and information, which were not reviewed or audited by PricewaterhouseCoopers Accountants N.V., the independent auditors of Metinvest.

Currency

In these Listing Particulars, all references to "**Hryvna**" and "**UAH**" are to the lawful currency for the time being of Ukraine, all references to "**dollars**", "**U.S. dollars**" and "**U.S.\$**" are to the lawful currency for the time being of the United States of America and all references to "**Euro**" or "**€**" are to the currency introduced at the start of the third

stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Translations of amounts from Hryvna to dollars are solely for the convenience of the reader and are made at exchange rates based on those established by the NBU and effective as at the dates or for the periods of the respective financial information presented elsewhere in these Listing Particulars in respect of both balance sheet and income statement items. No representation is made that the Hryvna or dollar amounts referred to herein could have been converted into dollars or Hryvna, as the case may be, at any particular exchange rate or at all. See "*Exchange Rates*".

Rounding

Some figures included in these Listing Particulars have been subject to rounding adjustments.

Iron Ore Reserves and Coal Reserves

All data relating to Metinvest's iron ore reserves and resources in Ukraine and coal reserves and resources located in the United States presented in "*Business Description—Reserves*" are calculated by reference to estimates provided by SRK and Cardno in their respective Reserve Reports, which were prepared in accordance with terms and definitions given in the 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the **JORC Code**) as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (**JORC**) and the United States Securities and Exchange Commission (the **SEC**) Industry Guide 7—Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations (**Industry Guide 7**) reporting standards, respectively. For additional information on JORC and SEC reporting standards, see Appendix II.

Iron ore reserves and resources in Ukraine and coal reserves and resources located in the United States are quoted as at 1 January 2010 and 31 December 2009, respectively. The Reserve Reports prepared by SRK and Cardno were not prepared for the purposes of the Listing Particulars and have not been included herein. Where indicated, these figures should be read together with production data for the period since 1 January 2010 and 31 December 2009, as the case may be, to illustrate estimated reserves and resources as at 31 December 2015. Investors should also consider the impact changes in prices for iron ore and coal since the date of the relevant Reserve Report will have on reported reserves. Prospective investors are cautioned, however, that such estimates do not constitute a reserves and resources report prepared in accordance with JORC standards or SEC standards, respectively.

In determining the feasibility of developing and operating its coal mines located in Ukraine, Metinvest estimates its coal reserves based on its legal right to mine specified coal mines pursuant to the state permits it holds. Ukraine's coal mining rights belong to the state, which then grants such rights to third parties who have applied for and been granted a special permit to mine. Metinvest's reserve estimates include only those mines for which it has received a mining permit. When the state issues a coal mining permit, the permit sets forth the mine's coal reserves at the time of the issuance of such permit based on the state's estimation of the reserves located in the licenced area, which is calculated in accordance with various laws and regulations.

Metinvest presents in these Listing Particulars estimated "industrial reserves," which are the recoverable reserves that it believes are economically feasible to mine and which are greater than 60 centimetres in thickness. Metinvest does not present in these Listing Particulars its "non-industrial reserves", which are recoverable reserves that are less than 60 centimetres thick or which it believes are not economically feasible to mine, such as reserves located under heavily populated areas.

Metinvest estimates its industrial reserves for each of its coal mines as at 31 December of each year in accordance with the reporting requirements prescribed by Ukrainian law which differ significantly from both (i) the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers and (ii) the reserves classifications permitted by the SEC, in particular with respect of the manner in which and the extent to which commercial factors are taken into account in calculating reserves. Metinvest implements such Ukrainian requirements by taking the original amount of industrial reserves estimated by the state when that coal mine's licence was originally issued and deducting (i) the amount of industrial reserve coal extracted from the mine in each subsequent year and losses incurred upon coal extraction and (ii) any additional industrial reserves that it subsequently determines to have been improperly classified as industrial reserves and by adding (a) any additional industrial reserves that it has discovered during the course of mining or (b) any additional industrial reserves that it has acquired from third parties or from the state. Metinvest relies exclusively on the state's initial estimates of its coal mine reserves when the licences were

issued and its subsequent adjustments as set forth above after taking into account Metinvest's knowledge, experience and industry practice, without the input of third party reserves engineers or the benefit of further reviews by the state's reserve engineers. The reserves data with respect to Ukrainian coal contained in these Listing Particulars, unless otherwise stated, are taken from reserves analyses prepared in accordance with Ukrainian law by Metinvest's professional engineering staff. Metinvest's industrial coal reserves estimates may require future revision based upon actual production experience, changes in operating or extraction costs, changes in world coal prices and other factors that it is unable to foresee. As a result, its estimates of its coal resources or reserves that appear valid when made may change significantly in the future when new information becomes available. See *"Risk Factors—Risks Relating to Metinvest—Estimates of Metinvest's mining reserves and resources are subject to assumptions and uncertainties and estimates of its resources are speculative"*.

Reporting on Coal Reserves Located in Ukraine - Cautionary Note to United States Investors

As discussed above, reporting requirements for reserves prescribed by Ukrainian law differ substantially from reporting requirements in the United States, where reserves must be presented under the requirements as adopted by the SEC in its Industry Guide 7, which provides that only proved (measured) or probable (indicated) reserves can be reported.

The SEC has applied the following reporting definitions to coal reserves under Industry Guide 7:

- A "reserve" is "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves are customarily stated in terms of "ore" when dealing with metalliferous minerals; when other materials such as coal, oil, shale, tar, sands, limestone, etc. are involved, an appropriate term such as "recoverable coal" may be substituted."
- "Proven (measured) reserves" are "reserves for which:
 - (a) the quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and
 - (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established."
- "Probable (indicated) reserves" are "reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation."

THESE LISTING PARTICULARS USE THE TERMS "INDUSTRIAL RESERVES" AND "NON-INDUSTRIAL RESERVES" IN RESPECT OF UKRAINIAN COAL RESERVE DATA. UNITED STATES INVESTORS ARE ADVISED THAT, WHILE SUCH TERMS MAY BE RECOGNISED BY SOME INVESTORS, THE SEC DOES NOT RECOGNISE THEM OR THE STANDARDS OR METHODS BY WHICH THEY ARE DETERMINED.

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Notes are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Issuer will during any period that it is neither subject to section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder furnish, upon request, to any holder or beneficial owner of such restricted securities or any prospective investor designated by any such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective investor, in each case upon the request of such holder, beneficial owner, prospective investor or the Trustee, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

OVERVIEW

This condensed description of Metinvest and the Notes may not contain all the information that may be important to prospective investor in the Notes. These entire Listing Particulars, including the more detailed information about Metinvest's business and the Financial Statements included elsewhere in these Listing Particulars, should be read carefully, and any decision to invest in the Notes should be based on a consideration of these Listing Particulars as a whole. The following overview is qualified in its entirety by the remainder of these Listing Particulars. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in these Listing Particulars are forward-looking statements that also involve risks and uncertainties as described under "Forward-looking Statements".

Overview of Metinvest

Metinvest is the largest vertically integrated mining and steel business in Ukraine, operating assets in each stage of the production chain from iron ore mining and processing, coking coal mining and coke production, through to semi-finished and finished steel production, pipe rolling and coil production as well as the production of other value-added products. In the year ended 31 December 2015, Metinvest produced 32.2 million tonnes of iron ore concentrate, 7.7 million tonnes of crude steel and 3.2 million tonnes of coking coal. In the six months ended 30 June 2016, Metinvest produced 15.8 million tonnes of iron ore concentrate, 4.2 million tonnes of crude steel and 1.6 million tonnes of coking coal.

For the year ended 31 December 2015, Metinvest had consolidated revenue of U.S.\$6.8 billion and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) of U.S.\$0.5 billion, compared to consolidated revenue of U.S.\$10.6 billion and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) of U.S.\$2.7 billion for the year ended 31 December 2014. For the six months ended 30 June 2016, Metinvest had consolidated revenue of U.S.\$2.9 billion and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) of U.S.\$0.6 billion.

Based on 2015 production, Metinvest was one of the world's ten-largest iron ore producers, based on management estimates and published operating results of the largest iron ore producing companies, and the largest producer of iron ore and crude steel in Ukraine, according to Metal Expert. In addition, according to the World Steel Association, Metinvest was the 40th largest crude steel producer in the world in 2015. As at 31 December 2015, Metinvest ranked as the largest producer of crude steel in Ukraine and one of the largest crude steel producers in the CIS, according to Metal Expert.

Metinvest's business is divided for financial reporting purposes into two segments: the metallurgical segment and the mining segment. In the year ended 31 December 2015, the metallurgical segment accounted for 85 per cent. of Metinvest's consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures), while the mining segment accounted for 15 per cent. of its consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures). For the six months ended 30 June 2016, the metallurgical segment accounted for 61 per cent. of Metinvest's consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures), while the mining segment accounted for 39 per cent. of its consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures).

- **Metallurgical segment.** In the year ended 31 December 2015, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$5.4 billion and U.S.\$486 million, respectively, compared to U.S.\$8.2 billion and U.S.\$1.1 billion, respectively, in the year ended 31 December 2014. In the six months ended 30 June 2016, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$2.3 billion and U.S.\$401 million, respectively, compared to U.S.\$2.8 billion and U.S.\$421 million, respectively, in the six months ended 30 June 2015. The metallurgical segment's principal products include: finished steel products, such as flat and long steel products and pipes; semi-finished steel products, such as slabs and billets; pig iron; and coke. In the year ended 31 December 2015, finished steel products comprised approximately 74 per cent. of Metinvest's total steel sales volumes, compared to 78 per cent. in the previous year. In the six months ended 30 June 2016, finished steel products comprised approximately 79 per cent. of Metinvest's total steel sales volumes, compared to 77 per cent. in the six months ended 30 June 2015. Metinvest has thirteen industrial assets in the metallurgical segment:

- Ilyich Steel, the fourth-largest Ukrainian integrated steel producer, according to Metal Expert;

- Azovstal, the third-largest Ukrainian steel producer, according to Metal Expert;
 - Yenakieve I&SW, a fully integrated steel producer located in Ukraine;
 - Makiivka Steel, a producer of shapes and bars located in Ukraine;
 - Khartsyzsk Pipe, a producer of large diameter pipes located in Ukraine;
 - Ferriera Valsider, a producer of plates and coils located in Italy;
 - Promet Steel, a producer of shapes and bars located in Bulgaria;
 - Metinvest Tramatel and Spartan UK, producers of plates located in Italy and in the United Kingdom, respectively;
 - Avdiivka Coke, Donetsk Coke and Zaporizhia Coke, producers of coke and chemicals located in Ukraine; and
 - Inkor Chemicals, a producer of refined naphthalene and phenol and cresol products located in Ukraine.
- **Mining segment.** In the year ended 31 December 2015, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$1.4 billion and U.S.\$0.1 billion, respectively, compared to U.S.\$2.4 billion and U.S.\$1.8 billion, respectively, in the year ended 31 December 2014. In the six months ended 30 June 2016, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$0.6 billion and U.S.\$255 million, respectively, compared to U.S.\$0.8 billion and U.S.\$218 million, respectively, in the six months ended 30 June 2015. Metinvest's key products in this segment are merchant iron ore concentrate and pellets and coking coal concentrate. Metinvest has six industrial assets in the mining segment, including three major iron ore enrichment works located in the Kryvyi Rih region of Ukraine:
 - Northern GOK and Ingulets GOK, the second- and the third- largest iron ore mining companies in Ukraine by production volume, according to Metal Expert;
 - Central GOK, the sixth- largest iron ore mining company in Ukraine by production volume, according to Metal Expert;
 - Komsomolske Flux, a producer of fluxing limestone located in the Donetsk region of Ukraine;
 - Krasnodon Coal, a producer of coking coal located in the Luhansk region of Ukraine; and
 - United Coal, a producer of coking coal based in the United States.

Metinvest's trading and logistical assets serve both segments. Metinvest sells steel, iron ore, coke and coal products to non-CIS international markets in Europe, the Middle East and North Africa and Southeast Asia through Metinvest International; to the Ukrainian market through Metinvest-SMC; and to CIS markets (primarily the Russian Federation and Belarus) through Metinvest Eurasia and Metinvest Distribution. In addition, Metinvest-Shipping, a company based in Mariupol, provides transportation and forwarding services for Metinvest's cargoes by railway and for their transshipment via sea ports, while Belgorodmetalloznab provides warehouse and transshipment services for Metinvest in the Russian Federation.

The ownership structure of Issuer is as follows: (i) 71.24 per cent. of the issued share capital is owned by SCM Cyprus, a holding company registered in Cyprus whose ultimate controlling shareholder is Mr. Rinat Akhmetov; (ii) 23.76 per cent. of the issued share capital is owned by SMART Group, a group of companies controlled directly or indirectly by Mr. Vadym Novynskyi; and (iii) the remaining 5 per cent. interest in the Issuer has been acquired for the benefit of SCM and the SMART Group. It is the intention of SCM and SMART Group to dispose of the remaining 5 per cent. interest (after receiving any required governmental approvals), such that the ultimate beneficial interest of SCM in the Issuer will be 75 per cent. minus 1 share, and the ultimate beneficial interest of SMART Group in the Issuer will be 25 per cent. plus 1 share. SCM Cyprus is a member of the SCM Group, which is one of Europe's leading industrial groups with controlling interests in over 100 companies, including Metinvest,

as well as companies operating in the energy, finance, telecommunications, oil, clay mining, retail, real estate, media, agricultural, transportation and engineering sectors. SMART Group is a diversified holding company with holdings in metals and mining, oil and gas, banking, agriculture, ship building and real estate.

Competitive Strengths

Notwithstanding the impact of the ongoing civil disturbances and political instability in Ukraine and military activity in some parts of the Donetsk and Luhansk regions of Ukraine, Metinvest believes that it benefits from a number of structural competitive advantages which will assist it in delivering its strategy in the medium- to long-term. However, its ability to capitalise on its competitive advantage is subject to the stabilisation of the situation in Ukraine. See *"Risk Factors—Risks relating to the Group—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition"*.

- **Vertically integrated business.** Vertical integration is a key element of Metinvest's strategy to secure access to raw materials for steel production (including coal to meet its energy needs) and to reduce overall unit production costs. Through vertical integration, Metinvest utilises significant internal sources of raw materials to reduce its exposure to fluctuating raw material prices. As at 30 June 2016, Metinvest had approximately 1,350 billion tonnes of proven and probable iron ore reserves (according to the Issuer's estimates), approximately 420 million tonnes of proven and probable coal reserves at Krasnodon Coal (according to the Issuer's estimates) and approximately 86 million tonnes of proven and probable coal reserves at United Coal (according to the Issuer's estimates). As at 30 June 2016, Metinvest was more than three times self-sufficient in iron ore and 43.0 per cent. self-sufficient in coking coal, calculated as actual coal concentrate production divided by actual consumption of coal concentrate, including coal consumption for PCI, to produce coke required for production of hot metal in the Metallurgical segment. Krasnodon Coal, one of Metinvest's key coking coal assets, was operating at reduced capacity as at 31 December 2015 as a result of the disruptions to rail transport services and damage to railway infrastructure caused by the recurrent military activity in some parts of the Donetsk and Luhansk regions of Ukraine. Metinvest expects that its self-sufficiency in coking coal should be restored after the end of the conflict. (See *"Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition"*.) Metinvest sells iron ore and coke products that exceed its own production needs to third parties, which diversifies its revenue base. Metinvest believes that its ability to source raw materials internally or from affiliates provides it with greater stability of operations, better control of end-product quality and improved flexibility in planning its steel production. In addition, management believes that vertical integration enables Metinvest to achieve economies of scale and reduce per unit costs.
- **Strong market position and increasing capacity.** Metinvest is one of the world's ten largest iron ore producers (excluding Chinese and Indian companies), based on management estimates and published operating results of the largest iron ore-producing companies. In addition, according to the World Steel Association, in 2015 Metinvest was the 40th largest crude steel producer in the world. Metinvest is the largest producer of iron ore and steel in Ukraine, having produced 47.3 per cent. of the aggregate volume of iron ore concentrate (total concentrate, including concentrate used for further reprocessing into pellets) and 33.4 per cent. of all steel produced in Ukraine in the year ended 31 December 2015, according to Metal Expert and the Issuer's estimates. In the year ended 31 December 2015, Metinvest was also the largest coke producer in Ukraine, with a 41 per cent. share of production, according to UkrKoks. Management believes that Metinvest's strong market position, combined with strong historical cash flow generation, will enable it to capitalise on the expected mid- to long-term growth of the export and Ukrainian markets for its products. Metinvest has actively sought to strengthen its market position globally and domestically through a number of acquisitions, which has resulted in increases in its annual iron ore concentrate production capacity by approximately 15 million tonnes; its annual flat products production capacity by 7.5 million tonnes; its annual long products production capacity by 4.0 million tonnes; and its annual raw coking coal production capacity by 9 million tonnes since 2007. The acquisition of Ilyich Steel enabled Metinvest to increase its annual crude steel production capacity to up to approximately 11 million tonnes (excluding capacity of open-hearth furnaces decommissioned in late 2014) and to strengthen its market position in Ukraine and globally.

- **Low cost producer.** Management believes that Ukraine is one of the lowest-cost regions for steel production in the world, enabling Metinvest to benefit from lower production costs compared to some of its competitors elsewhere in the world. In particular, Metinvest benefits from:
 - *Secure access to raw materials.* As at 31 December 2015, Metinvest was more than fully self-sufficient in iron ore for its steel producing assets, based on production capacity. Metinvest's iron ore assets are located close to its steel-producing assets, thus enabling it to benefit from a relatively secure supply of key raw materials and relatively low raw material transportation costs. However, Metinvest currently faces significant logistical constraints in delivering iron ore to steel mills located within territories which the Ukrainian authorities do not control as a result of the conflict, as well as persistent bottlenecks at some of the major railway routes to Mariupol, including Kamysh-Zarya–Volnovakha.
 - *Low transportation and logistics costs with prime location of assets.* Metinvest's production facilities benefit from access to relatively low-cost sea and rail transport. Azovstal and Ilyich Steel are located in the port city of Mariupol on the Sea of Azov. Azovstal operates its own port facilities. Although military activity in some parts of the Donetsk and Luhansk regions of Ukraine has adversely affected rail transportation in the region since 2014 (with damage to railway infrastructure, sabotage and blockades affecting deliveries of raw materials and finished products to and from Metinvest's Ukrainian plants), Metinvest's facilities benefited from favourable railway links before the conflict and management expects they will continue to do so once the conflict has ended and the damage to the railway infrastructure has been repaired. Yenakieve Steel is located close to major rail junctions and within 200 kilometres of the Mariupol port. Metinvest controls most of its logistics: it owns and operates a number of railcars and has a long-term strategic partnership with a major private Ukrainian railway operator, Lemtrans, which increases its security of supply in view of the anticipated shortage of railcars in Ukraine. Metinvest's favourable geographic location also allows for the relatively inexpensive shipment of its products to domestic, CIS, Middle Eastern, North African and European markets. See also "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".
 - *Low labour costs.* Ukraine currently has relatively low labour costs, including lower pension obligations (which are paid by employers in the form of regular payroll-related contributions to the state pension fund), particularly when expressed in U.S.\$ and or other currencies in which its products are usually priced, as compared to some other steel producing countries and regions such as the United States, Western Europe, Japan and South Korea. In addition, Metinvest is continuously working to optimise its headcount.
 - *Capital expenditures to maintain cost competitiveness.* Metinvest is investing in modern technology in order to reduce production costs and maintain its cost competitiveness. For instance, Metinvest launched a pulverised coal injection (**PCI**) unit and a new turbine air blower at the Ilyich Steel blast furnaces. At Yenakieve Steel, Metinvest also commissioned a state-of-the-art blast furnace and started PCI injection into blast furnaces No. 5 and No. 3. These upgrades have already contributed to improvements in Metinvest's operating efficiency and reductions in its overall production costs and environmental footprint.
- **Growing geographical diversification.** Management believes that Metinvest is geographically well-positioned to benefit from access to the mature markets of Western Europe and North America, following its acquisitions in those regions in the last eight years. Management also believe this places Metinvest in a strong position to access the growing markets of Eastern Europe, the Middle East and North Africa. In the long term, Metinvest may also consider expanding its steel-making and rolling capacity.
- **Access to domestic and export markets with the potential for high growth in the long term and broad product range.** Management believes that Metinvest has a leading market position in a broad range of products and expects reasonable long-term growth in export and domestic markets, including sales of iron ore and coal for the global and Ukrainian steel-producing sectors, as well as bars, rebars and sections supplied to the construction sector, plates and coils for the machine-building sector, large diameter pipes for the oil and gas sector and rails for railway infrastructure development. Management also believes that Metinvest's diversified steel product range reduces Metinvest's exposure to fluctuations in demand for any

particular steel product, and accordingly its dependence on the performance of any particular steel-consuming industry.

- **Diversified end customer base.** Metinvest exports a substantial portion of its steel products to more than 1,000 customers in over 75 countries, principally in Europe, the CIS, the Middle East, North Africa and South East Asia. Sales outside Ukraine accounted for 79 per cent. of Metinvest's total Metallurgical segment sales in the year ended 31 December 2015. Metinvest's customers operate in a number of industries, including steel-making, construction, engineering, oil and gas and automobile production. Management believes that Metinvest's diversified customer base contributes to the stability of its revenue base and margins, provides it with additional growth opportunities (in particular in the developing markets of the Middle East, South East Asia, the CIS and China) and reduces Metinvest's reliance on the economy of any single market or performance of any particular industry.
- **Experienced management team.** Metinvest's senior management team combines extensive industry and market experience with financial and management expertise, and includes individuals who have been involved in Metinvest's business for an average of between five and ten years. At the operational level, Metinvest has developed, and continues to refine, an improved management structure that is focused on enhancing accountability and decision-making processes. Equipped with international experience and advanced business qualifications, the management team's ability to improve the performance of the Issuer's assets is evidenced by Metinvest's increased operating efficiency implemented through various cost reduction measures despite the highly volatile current operating environment (see *Management—Metinvest's General Director and Management Team*" below).
- **Strong corporate governance.** Metinvest recognises the importance of strong corporate governance and aims to develop its corporate structure in accordance with international best practices. The Issuer has a supervisory board (the **Supervisory Board**), which advises the Management Board and is responsible for approving a number of significant decisions related to the Group's operations, including Metinvest's long-term business strategy and annual business plans. The Supervisory Board currently consists of ten members, of whom seven are appointed by the joint meeting of System Capital Management Limited and Clarendale Limited, and three by companies of the SMART Group. In line with best practices in corporate governance, the Supervisory Board has several committees including the Strategy and Investments Committee, Audit and Finance Committee, Health, Safety & Environmental Committee and the Appointments and Compensations Committee and the Technological Sub-committee.

Strategy

Set out below is an overview of Metinvest's medium- to long-term strategy. Metinvest's ability to realise this strategy is subject to the stabilisation of the ongoing civil disturbances and political instability in Ukraine and the military action in some parts of the Donetsk and Luhansk regions of Ukraine. See "*Risk Factors—Risks relating to the Group— Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

- **Sustaining a competitive advantage in steel-making by increasing operational efficiency and vertical integration.** Metinvest intends to seek competitive advantage and to enhance its profitability and security of supply by increasing vertical integration through the following means:
 - **Increasing operational efficiency and achieving best practices in steel-making through focused investments in advanced technologies.** Metinvest plans to maximise the efficiency of its operating facilities and use of resources through the use of advanced know-how and operating efficiency projects to increase production volumes, improve quality, reduce emissions and costs, and enhance safety:
 - **Investing in new, state-of-the-art steel-making technologies.** Metinvest invests in new, state-of-the-art steel-making technologies. For example, Metinvest commissioned a PCI unit at Ilyich Steel in 2012 and started precommissioning a PCI unit at Yenakiiyev Steel and commenced a PCI project at Azovstal in 2016. Metinvest plans to reconstruct blast furnaces and commission PCI units at all of the Group's steel plants, which is expected to considerably reduce the consumption of natural gas and coke by replacing them with cheaper PCI coal (imported from Russia or other countries), help maintain furnace stability and improve the quality of hot iron. As a result of the implementation of PCI technology and the consequent decrease in coke consumption, Metinvest decommissioned three coke batteries at Azovstal. In 2015, Metinvest completed the

installation of a state-of-the-art gas cleaning system at Azovstal's blast furnace No. 4, bringing emissions from the furnace in line with EU standards. Metinvest plans to continue to invest in energy-saving projects, including PCI technology. However, in order to sustain this strategy in the short term, Metinvest plans to prioritise fast-payback projects (such as PCI).

- ***Further modernisation of the existing asset base.*** Metinvest intends to invest in existing assets to optimise production processes, the diversity of the product mix and its cost competitiveness. For example, Metinvest installed accelerated cooling at the Azovstal plate mill and constructed new turbine air blowers for blast furnaces at Ilyich Steel and Yenakieve Steel. As part of its modernisation programme, Metinvest has decommissioned inefficient open-hearth furnaces and implemented various operational improvements at Azovstal's converter shop, which allowed debottlenecking of its existing converter capacity and resulted in an increase in its productivity. Metinvest decommissioned six furnaces and halted an open-hearth production at Ilyich Steel in 2014, which led to a decrease of nitrogen compounds by approximately 68 per cent. and dust emissions by approximately 12 per cent. at the plant. Metinvest envisages casting all of its steel using continuous-casting machines and discontinuing the use of ingot casting. It also intends to upgrade steel rolling mills in order to reduce costs, optimise energy consumption, reduce emissions and enhance product quality. For example, modernisation of Ilyich Steel's cold rolling shop and hot strip mill should enable Metinvest to increase production and expand its product mix to include polymer coated sheets and other products. Metinvest also plans to install or reconstruct heating furnaces at its steel plants to optimise energy consumption and reduce emissions.
- ***Continue improving Metinvest's self-sufficiency in raw materials.*** Metinvest seeks to increase and diversify its captive base for high-quality coking coal, which is an important factor in strengthening its vertical integration. Metinvest also seeks to pursue efficient supply strategies for other key raw materials including high-quality coking coal, PCI coal, ferroalloys and scrap. Due to the continuing civil disturbances and political instability in Ukraine and the resulting shortages in local coking coal supply, Metinvest plans, in the short term, to diversify its coal supply from outside Ukraine, including increasing amounts sourced from United Coal.
- ***Increase production capacity by growing organically and by pursuing selective acquisition opportunities.*** Metinvest seeks, in the long term, to increase its production capacity by growing organically and by pursuing selective acquisition opportunities. Metinvest intends to enhance its cost competitiveness by maximising the utilisation of its existing capacity, by expanding the capacity of its steel and coking coal production facilities and optimising production of iron ore concentrate. For example, a PCI unit launched at Ilyich Steel has contributed to improvements in Metinvest's operating efficiency and reductions in overall production costs and the facility's environmental footprint. Metinvest also plans to increase its cost efficiency by commissioning a PCI unit at Yenakieve Steel and building a PCI unit at Azovstal, as noted above. In the long-term, Metinvest expects to continue its structured approach to acquisitions to facilitate its strategy of vertical integration and improving its steel product mix. In its core business areas, Metinvest may consider acquisition opportunities to gain access to additional sources of raw materials or to production facilities with higher-margin products.
- ***Establish and sustain a continuous improvement culture.*** Metinvest is committed to establishing a culture of continuous improvement. In 2015 and 2016, it continued implementing its Continuous Improvement Programme (CIP) based on Lean principles. The aim of the CIP is to train and incentivise employees to identify and eliminate inefficiencies. The targeted improvements focus on repair and maintenance optimisation, productivity, cost reduction, quality improvement and working capital optimisation. In 2015, the effect of operational improvements amounted to U.S.\$169 million in the Metallurgical segment and U.S.\$32 million in the Mining segment.
- ***Increase personnel productivity.*** Metinvest seeks to increase its operating efficiency by managing headcount, outsourcing non-core operations (such as repair and maintenance and other support functions) and streamlining administrative structures.
- ***Strengthening its position in key strategic markets.*** Metinvest intends to strengthen its position in key strategic markets by focusing on finished products and differentiating finished products for particular requirements. This is expected to result in broader product lines, increasing sales in markets with strong

demand for finished products, and enhanced long-term customer relationships and service. Despite the continuing civil disturbances and political instability in Ukraine resulting in decreased activity and uncertainty in certain strategic markets, this strategic objective remains important for Metinvest.

- ***Increasing its focus on finished products.*** As part of its Technological Strategy, Metinvest plans to further improve the quality of its steel products and to increase production of heavy sections and coated coils, increasing its focus on products that yield higher margins and have higher barriers to entry.
- ***Increasing sales of steel products in the domestic and regional markets.*** Metinvest is well-positioned to capitalise on expected growth in demand for finished products in the domestic and regional markets in the long term. It intends to further strengthen its positions in these markets by expanding its distribution network and increasing its sales of higher margin, value-added finished products, which accounted for 73 per cent., 63 per cent. and 66 per cent. of its product portfolio in the first six months of 2016 and the years ended 31 December 2015 and 2014, respectively. In particular, Metinvest is focused on increasing steel sales in Ukraine and neighbouring markets, where historically there has been a strong demand for finished products. Despite the slump in demand in the domestic market in 2015 to the lowest level since Ukraine became independent from the Soviet Union, the Ukrainian market remains important to Metinvest. In 2015, Metinvest established representative sales offices in Poland and Spain. These offices will focus on strengthening cooperation with Metinvest's local steel product customers in a more responsive and efficient manner. Moreover, Metinvest intends to re-organise its sales channels in Ukraine in order to create a single sales channel for its buyers. As part of the reorganisation, Metinvest-SMC will become the core seller of steel products. Metinvest Ukraine, LLC, which previously managed wholesale deliveries to end customers, will focus on niche products.
- ***Building long-term customer relationships and delivering high-quality customer service worldwide.*** Metinvest seeks to become the preferred supplier of steel products for its key customers by building long-term relationships through long-term framework contracts, as well as targeting key industries and markets, integrating its products with end-users, providing customer technical support and strengthening the Metinvest brand by continuing to build a reputation for quality and reliability. Specifically, Metinvest was a co-founder of The Ukrainian Steel Construction Association (**UkrSCA**) in 2013. The creation of UkrSCA is intended to contribute to the development of the domestic steel market. Metinvest, as a member of the Ukrainian Steel Construction Centre (**USCC**), is actively involved in the expansion of the steel construction market. In addition, USCC has introduced European standard documentation which is compliant with EU construction standards. In 2015, Metinvest and Module-Ukraine, LLC, a leading Ukrainian producer of coated steel, concluded a long-term agreement to develop the colour-coated rolled steel market. Also, Metinvest commissioned a new shot blasting and priming facility at Metinvest Tramatel, an Italian re-rolling operation of the Group specialising in the production of hot-rolled plates. The line was put into serial production following the completion of performance tests at the end of March 2016.
- ***Achieving business excellence through the systematic use of outstanding practices in managing the Group and achieving results.*** Metinvest seeks to manage its operations more efficiently by transforming its operating model, creating a unified corporate culture of employee commitment and efficient business processes and maintaining transparency of operations and corporate responsibility.
- ***Developing a new operating model.*** Metinvest believes that leveraging the advantages of integration is the key to market leadership. Metinvest aims to manage every link in the value chain: from mining and processing iron ore and coal to making and selling semi-finished and finished steel products. Metinvest established a new Operations Directorate based on its Mining and Metallurgical segments on 1 September 2016. This merger is the final step in the process of building a vertically integrated group under the Technological Strategy approved in 2010. The core objective of the transformation is to ensure close cooperation between the Group's mining and metallurgical production assets and centralise the management of all production processes. This organisational structure also prioritises client relationships by merging Metinvest's segmental sales units into a single sales function, whose head will report directly to the General Director. Metinvest has also centralised its other functions, such as procurement and logistics, into a supply chain function within the managing company. Metinvest implemented a centralised Sales and Operational Planning function, which is intended to provide Metinvest with a more efficient and transparent planning process, and help it to identify and implement cost-effective solutions.

- ***Creating a unified corporate culture and maximising employees' commitment.*** While operating in multiple locations, Metinvest seeks to create a unified corporate culture. Metinvest launched the Corporate University, a unified training system for Metinvest's personnel, and the Leadership Academy, a specialised development programme for high-potential managers. Both are tailored to Metinvest's strategy of seeking to unify its corporate culture. Metinvest is also developing its talent management system. For example, at Azovstal, selected key managers were seconded to leading producers in South Korea and Germany. Metinvest continues implementing a series of human resources programmes to train production workers in the use of new technologies and development of their leadership skills, which is expected to improve the skills of line managers, and improve the transparency of personnel performance evaluations and the remuneration policy.
- ***Creating unified and efficient business processes.*** Metinvest is standardising and automating its business processes through enhancements to its data processing (**SAP**) and enterprise resource planning system (**ERP**). Having installed a SAP framework and completed the concept design for pilot implementation, Metinvest is implementing a SAP system at certain of its plants (Ingulets GOK, Central GOK, Ilyich Steel).
- ***Maintaining transparency of operations and corporate responsibility.*** Metinvest intends to continue to retain and build an experienced and motivated professional management team and maintain the transparency and efficiency of its management system through high corporate governance standards and setting and retaining key performance indicators. Metinvest also publishes social responsibility reports within the framework of its global reporting initiative, which provides details of how Metinvest fulfils its responsibilities as a corporate citizen by engaging in a variety of activities that contribute to the creation of a better society.

Overview of the Notes

Issuer	Metinvest B.V.
Guarantors	Avdiivka Coke, Azovstal, Central GOK, Ilyich Steel, Ingulets GOK, Khartsyzsk Pipe, Metalen, Northern GOK, Yenakiieve I&SW (Ukrainian Guarantors) and the Intermediate Holdco. Yenakiieve I&SW and Metalen are collectively referred to herein as " Yenakiieve Steel ". See " <i>General Information—Information Relating to the Guarantors and Pledgors</i> ".
Pledgors	The Issuer with respect to the share pledge over 100 per cent. of the share capital in the Intermediate Holdco; the Intermediate Holdco with respect to the share pledges over 50 per cent. plus one share of the share capital in each of Ingulets GOK, Ilyich Steel and Central GOK; Ingulets GOK, Ilyich Steel and Central GOK in respect of certain pledges of equipment; and the Issuer and the Intermediate Holdco in respect of pledges over certain offshore accounts. See " <i>General Information—Information Relating to the Guarantors and Pledgors</i> " and " <i>Description of Indebtedness and the Third Scheme</i> ".
Assignors	The Issuer in respect of the assignment of certain intercompany receivables owed to it by the Intermediate Holdco and Metinvest Capital UK Limited in respect of the assignment of certain intercompany receivables owed to it by Ingulets GOK, Ilyich Steel and Central GOK.
Intercreditor Agreement	(i) The intercreditor agreement to be dated on or about the Issue Date, between, among others, the Issuer, the Trustee, Deutsche Bank AG, Amsterdam Branch as agent under the PXF Facility Agreement (the PXF Agent) and the Common Security Agent and (ii) each Standalone Intercreditor Agreement, in each case, as amended, varied or supplemented from time to time.
Common Recourse	The common recourse consists of the Collateral and the Guarantee from the Intermediate Holdco.
Collateral	The collateral consists or will consist of: (A) a pledge over all of the share capital of the Intermediate Holdco (the Intermediate Holdco Share Pledge); (B) pledges over certain intercompany receivables owed by the Intermediate Holdco (the Intermediate Holdco Security Assignment); (C) pledges over 50 per cent. plus one share of the share capital of each of Ingulets GOK, Ilyich Steel and Central GOK (the OpCo Share Pledges); (D) pledges over certain intercompany receivables owed by Ingulets GOK, Ilyich Steel and Central GOK (the OpCo Security Assignments); (E) pledges over certain equipment, granted by Ingulets GOK, Ilyich Steel and Central GOK; and (F) pledges over certain offshore accounts (including the debt service account) granted by the Issuer and an offshore account granted by the Intermediate Holdco. The Collateral will be subject to release under certain circumstances. See Condition 3(c) (<i>Release of Collateral</i>).

Description

The principal amount of Notes to be issued will be published by the Issuer on the website of the Irish Stock Exchange, which in accordance with the Third Scheme must occur on or before the Longstop Date. If the Third Scheme is successful, the maximum principal amount of Notes which may be issued is expected to be equal to the aggregate principal amount of the Existing Notes plus:

- (i) capitalised interest outstanding in respect of such Existing Notes to but excluding the Issue Date after deduction of any repayment of capitalised interest on the Issue Date, plus
- (ii) the accrued unpaid and uncapitalised interest in respect of such Existing Notes to but excluding the Issue Date after deduction of any repayment of interest accrued from and including 31 January 2017 to but excluding the Issue Date,

and no Notes will be issued if the Third Scheme does not successfully complete.

The Third Scheme is a scheme of arrangement under Part 26 of the Companies Act 2006. Pursuant to the Third Scheme, the holders of the Existing Notes, amongst others, will vote on proposals which, if approved by the requisite statutory majorities and sanctioned by the court, will result in, among other things, all of the Existing Notes (and accrued but unpaid interest on the Existing Notes up to a specified date) being cancelled and the Notes being issued.

Issue Price

The Notes will be issued at an issue price of 100 per cent. of the principal amount of the Notes.

Maturity Date

31 December 2021.

Interest and Instalment Amounts

- (i) In respect of each interest period (or a portion thereof) falling within the initial period starting on the Issue Date and ending on 31 December 2018 (the **Initial Period**) only, the Issuer:
 - (A) shall pay interest in cash on the relevant Interest Payment Date at the rate of 2.793 per cent. per annum (the **Cash-pay Interest Amount**);
 - (B) in addition to the amount payable under paragraph (A) above, shall pay interest on the relevant Interest Payment Date at the rate of 6.5795 per cent. per annum (the **PIYC Interest Amount**) in cash, only if and to the extent that amounts are available for such purpose pursuant to the cash sweep as provided in the terms and conditions of the Notes (the **Conditions**) and the Intercreditor Agreement (the **Cash Sweep**);
 - (C) if all or part of any PIYC Interest Amount has not been satisfied in cash in accordance with paragraph (B) above as a result of the application of the Cash Sweep, shall instead on the relevant Interest Payment Date increase the principal amount of the Notes by issuing to each Noteholder additional Notes (**PIK Notes**) in the aggregate nominal amount equal to the proportion of the PIYC Interest Amount not so satisfied in cash and to which such Noteholder was otherwise entitled (rounded up to the nearest US Dollar in the case of amounts of U.S.\$0.50 or more and down to the nearest US Dollar otherwise). If any PIK Notes are issued, upon receiving written notice the Registrar will reflect in the Register the issuance of such

PIK Notes and the Principal Paying Agent will deliver such PIK Notes, duly authenticated by the Registrar, to holders of Notes registered on the Register on the Record Date (as defined in Condition 7 (*Redemption, Purchase and Options*)). The Issuer shall redeem in cash on the relevant Interest Payment Date any outstanding PIK Notes at a redemption price equal to 100 per cent. of the principal amount thereof (the aggregate redemption price of all PIK Notes then outstanding, the **PIK Notes Redemption Amount**), only if and to the extent that amounts are available for such purpose pursuant to the Cash Sweep;

- (D) in addition to the amounts payable under paragraph (A) and (if applicable) (B) and (C) above, shall pay interest in cash on the relevant Interest Payment Date at the rate of 1.5025 per cent. per annum (the **Catch-Up Interest Amount**), only if and to the extent that amounts are available for such purpose pursuant to the Cash Sweep; and
 - (E) shall redeem the then outstanding principal amount of the Notes, only if and to the extent that amounts are available for such purpose pursuant to the Cash Sweep.
- (ii) Any PIK Notes issued in accordance with paragraph (C) above will be dated as of the applicable Interest Payment Date and will bear interest from and after such date. All PIK Notes issued will be governed by, and subject to, the terms of the Conditions and the Trust Deed and shall have the same rights and benefits as the Notes issued on the Issue Date as if references to a "Note" include reference to a "PIK Note".
 - (iii) The Catch-Up Interest Amount shall accrue and be payable only to the extent that amounts become payable under paragraph (D) above and pursuant to the Cash Sweep. For the avoidance of doubt, under no circumstances shall any PIK Notes be issued in respect of the Catch-Up Interest Amount (and such Catch-Up Interest Amount shall not be otherwise capitalised or added to the principal amount of the Notes or be deemed to be outstanding).
 - (iv) After the end of the Initial Period, the Issuer shall (A) pay all interest on each Interest Payment Date in cash and (B) redeem the then outstanding principal amount of the Notes, only if and to the extent that amounts are available for such purpose pursuant to the Cash Sweep.

Any amount applied to redeem the outstanding principal amount of Notes in accordance with paragraph (i)(C), (i)(E) or (iv)(B) above is referred to as an **Instalment Amount**.

- (i) In the case of the Interest Period from and including 18 November 2018 to but excluding 18 February 2019:
 - (A) the provisions of (i) to (iii) above shall apply to interest accruing on the Notes from and including 18 November 2018 to and including 31 December 2018 (for the avoidance of doubt, the total number of days in this period amounts to 45 days); and
 - (B) the provisions of (i) to (iii) above shall not apply to interest accruing on the Notes from and including 1 January 2019 to but excluding 18 February 2019 (for the avoidance of doubt, the total number of days in this period amounts to 45

days).

Interest Payment Dates

The Issuer will pay interest quarterly in arrear on 18 February, 18 May, 18 August and 18 November in each year, except that (A) the first payment of interest will be made on 18 May 2017 and will be in respect of the period from and including the Issue Date to but excluding 18 May 2017 and (B) the last payment of interest will be made on the Maturity Date and will be in respect of the period from and including 18 November 2021 to but excluding the Maturity Date.

Guarantees

The Guarantors have, pursuant to the granting of a Guarantee under the relevant Guarantee Agreement jointly and severally, unconditionally and irrevocably guaranteed, subject, in the case of the Intermediate Holdco, to the terms of the Intercreditor Agreement, the moneys payable by the Issuer under the Trust Deed, the Notes and the Agency Agreement. Each Guarantee by the Ukrainian Guarantors under the Surety Agreements will constitute a suretyship (in Ukrainian: "*poruka*") for the purposes of Ukrainian law.

Redemption at the Option of the Issuer

Subject to the limitations contained in the Intercreditor Agreement and the Conditions, the Issuer may at any time following the Issue Date, on giving not more than 60 nor less than 15 days' irrevocable notice to the Noteholders, redeem all or some (equal to U.S.\$1,000 or any integral multiple of U.S.\$1 in excess thereof) only of the Notes at their principal amount (together with interest accrued to (but excluding) the date fixed for redemption). See Condition 6(b) (*Redemption at the Option of the Issuer*).

Redemption upon Change of Control

Upon the occurrence of certain change of control events, each Noteholder shall have the right to require that the Issuer repurchase such Noteholder's Notes at a purchase price in cash equal to 101 per cent. of the principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to (but excluding) the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). See Condition 6(c) (*Redemption at the Option of the Noteholders Upon a Change of Control*).

Denominations

The Notes may only be transferred in minimum principal amounts of U.S.\$1,000 and integral multiples of U.S.\$1 in excess thereof.

Ranking of Notes and Guarantees

The Notes constitute direct, unsubordinated and unconditional obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Each Guarantee constitutes or will constitute a senior, unsubordinated obligation of the relevant Guarantor. The Notes and the Guarantees will be secured by the Collateral. See Condition 2(c) (*Status of Notes and Guarantee*). The Notes and the Guarantees are:

- (i) senior secured obligations of the Issuer and of the Guarantors that are members of the Collateral Group (as defined below), secured by the Collateral on a first priority basis, and *pari passu* in right of payment with the obligations under the PXF Facility Agreement, subject to the ranking more particularly set out in the Intercreditor Agreement;
- (ii) effectively senior in right of payment to any existing or future unsubordinated unsecured obligations of the Issuer and/or the Guarantors, to the extent of the value of the Collateral that is available to satisfy the obligations under the Notes and the Guarantees;
- (iii) *pari passu* in right of payment with any other existing or future unsecured and unsubordinated debt of the Issuer or the Guarantors with respect to any assets of the Issuer and/or the Guarantors that do

not constitute the Collateral;

- (iv) senior in right of payment to all existing and future subordinated debt and any other subordinated liabilities of the Issuer and/or the Guarantors; and
- (v) in the case of the Notes, structurally subordinated to any existing and future obligations of the Issuer's subsidiaries that are not Guarantors.

The Guarantees will be subject to legal limitations under relevant local law. See *"Risk Factors—Risks Relating to the Notes, the Guarantees and the Collateral—The Guarantees will be subject to certain limitation on enforcement and may be limited by applicable law or subject to certain defences that may limit their validity and enforceability"*. A Guarantee of any Guarantor will be automatically and unconditionally released under certain circumstances, see Condition 4(q) (*Additional Guarantors and Limitations on Guarantees*).

Certain Covenants

The terms and conditions of the Notes, among other things, will restrict the ability of the Issuer and its subsidiaries (the **Group**) to:

- incur or guarantee additional debt and issue certain preferred stock (including a requirement to maintain the amount of hedging obligations below certain levels);
- make certain restricted payments, including dividends or other distributions and sponsorship and charitable payments;
- prepay or redeem subordinated debt before its maturity;
- make certain investments;
- engage in certain transactions with affiliates;
- create or permit certain liens to exist;
- sell, lease or transfer certain assets (including a requirement to apply certain asset sale proceeds for debt service rather than re-investment);
- sell, lease or transfer certain assets of the Intermediate Holdco, Central GOK, Ilyich Steel and Ingulets GOK (collectively, the **Collateral Group**) to other members of the Group or, in some cases, within the Collateral Group;
- guarantee certain debt of the Issuer or any Guarantor without also guaranteeing the Notes, and the Issuer is required to ensure that the Guarantor coverage level in terms of Adjusted EBITDA (excluding share in EBITDA of joint ventures) and total assets is maintained above certain levels;
- create certain restrictions on the ability of subsidiaries of the Issuer to pay dividends, make loans or transfer assets to the Issuer or another subsidiary;
- make capital expenditures above certain levels;
- amend or refinance certain debt of Metinvest U.S., Inc. and certain of its subsidiaries;
- merge or consolidate the Issuer or any Guarantor with other entities

or transfer all or substantially all of the Issuer's or a Guarantor's assets; and

- impair the security interests for the benefit of the Noteholders.

Events of Default

The terms and conditions of the Notes permit the acceleration of the Notes following the occurrence of the following events of default:

- (a) non-payment of principal (including Instalment Amounts) or interest on the Notes;
- (b) breach of other obligations under the Notes or the Notes Documents;
- (c) cross-payment default and cross-acceleration to certain debt;
- (d) cross-default to event of default under certain financial covenants under the PXF Facility Agreement;
- (e) occurrence of certain enforcement proceedings;
- (f) expropriation;
- (g) failure to pay certain final judgments;
- (h) certain insolvency events;
- (i) winding up and cessation of business (but excluding the temporary cessation of business of certain subsidiaries of the Issuer due to armed hostilities);
- (j) nationalisation;
- (k) failure to obtain certain authorisation and consents;
- (l) illegality;
- (m) Guarantees and certain security interests securing the Notes ceasing to be in effect or certain actions or omissions which undermine the Guarantees or security interests;
- (n) breach of certain provisions of certain shareholder subordination agreements;
- (o) analogous events; and
- (p) certain other events described in clauses (b) and (c) in "*Description of Indebtedness and the Third Scheme—Restructuring—The Intercreditor Agreement—Intermediate Holdco Collateral Enforcement Event*".

The events of default exclude the expropriation, nationalisation and permanent cessation of business/winding up (due to expropriation or nationalisation) of certain subsidiaries of the Issuer located in or near the conflict zone in eastern Ukraine to the extent the Adjusted EBITDA of the affected subsidiaries is below a certain level. See "*Risk Factors—Risks Relating to the Notes, the Guarantees and the Collateral—The seizure, expropriation or nationalisation of the Group's assets or resultant permanent cessation of business or winding up would not constitute an event of default under the Notes in certain circumstances*".

See Condition 10 (*Events of Default*).

Taxation	All payments of the principal of (including any Instalment Amounts), premium on, if any, and interest on the Notes or under the Guarantees shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within The Netherlands or Ukraine or any political or governmental subdivision or authority thereof or therein having power to tax (Taxes), unless such withholding or deduction is required by law. In that event and in the event that any payment under the Guarantees is subject to any such Taxes, the Issuer (or, as the case may be, the Guarantors) shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required (Additional Amounts). See Condition 8 (<i>Taxation</i>).
Listing and Admission to Trading	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange.
Scheme Settlement Date	The date on which the steps to implement the Third Scheme occur, which will be identified in certain notices delivered by the Issuer in accordance with the Third Scheme.
Governing Law	The Notes are governed by English law.
Transfer Restrictions	The Notes have not been, and will not be, registered under the Securities Act, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.
Notes Scheme Creditors	BNY Mellon Corporate Trustee Services Limited in its capacity as trustee under the relevant trust deed for the 2016 Notes and any successor thereto as provided thereunder, GLAS Trust Corporation Limited in its capacity as trustee under the relevant trust deed for the 2017 Notes and any successor thereto as provided thereunder and GLAS Trust Corporation Limited in its capacity as trustee under the relevant trust deed for the 2018 Notes and any successor thereto as provided thereunder (solely in their capacities as the beneficiaries of the covenants to repay principal and interest on the Notes pursuant to the relevant trust deeds), The Bank of New York Depository (Nominees) Limited as nominee for Clearstream, Luxembourg, Euroclear and Cede & Co as nominee for DTC, and the Noteholders as at 5p.m. (New York time) on 2 February 2017.
Distribution Agreement	The agreement between, among others, the Notes Scheme Creditors, the Company and the Information Agent in respect of the distribution of notes scheme consideration which will be appended to the explanatory statement in connection with the Third Scheme.
Trustee	Madison Pacific Trust Limited.
Holding Period Trustee	Lucid Issuer Services Limited.
Common Security Agent	Madison Pacific Trust Limited.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Registrar	The Bank of New York Mellon (Luxembourg) S.A.
U.S. Paying and Transfer Agent	The Bank of New York Mellon, New York Branch.
Information Agent	Lucid Issuer Services Limited.

ISIN (Restricted Notes)	To be announced on the Issue Date.
ISIN (Unrestricted Notes)	To be announced on the Issue Date.
Common Code (Restricted Notes)	To be announced on the Issue Date.
Common Code (Unrestricted Notes)	To be announced on the Issue Date.

RISK FACTORS

Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer, the Guarantors or Metinvest, which, in turn, could have a material adverse effect on the amount of principal, premium and interest which Noteholders will receive in respect of the Notes. In addition, each of the risks highlighted below could adversely affect the trading price of the Issuer's securities, including the Notes or the rights of Noteholders under the Notes and, as a result, the Noteholders could lose some or all of their investment.

The Issuer has described only those risks relating to its operations of which it is aware and that it considers to be material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware and any of these risks could have the effects set forth above.

Risks Relating to the Group

Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition

Ukraine, where the Group's main production assets are located, experienced significant civil disturbances, political instability and territorial losses in 2013 - 2014, and currently suffers from the ongoing armed conflict in certain parts of its eastern Donetsk and Luhansk regions (see "*—Risks Relating to Ukraine—Ukraine is subject to ongoing political instability or uncertainty*" and "*—Risks Relating to Ukraine—Ukraine has experienced, and may continue to experience, significant economic instability*"). These factors have had and continue to have a negative impact on Ukraine's economy and, as a result, on the Group's business, results of operations and financial condition.

The armed conflict in certain parts of the Donetsk and Luhansk regions has adversely affected the production at some of the Group's assets located in the conflict zone. In particular:

- Avdiivka Coke, which produced approximately 48 per cent. and 47 per cent. of the Group's total blast furnace (dry) coke in 2014 and 2015, respectively, and 40 per cent. and 56 per cent. in the six months ended 30 June 2015 and 2016, respectively, experienced minor property damage to its non-core assets and disruptions in its electricity supply in mid-August 2014 as a result of damage to transmission lines caused by artillery fire. In 2015, with the resumption of hostilities, the facilities (including plant and equipment, buildings and road and rail transport infrastructure) were again damaged by artillery fire. In addition, four high-voltage lines supplying the plant were damaged, and supplies of raw materials and rolling stock were repeatedly interrupted by fighting. At the end of 2015, seven coke batteries of the plant were in operation, one was mothballed and one remains under repair. As a result, total production of blast furnace coke decreased by 381 thousand tonnes year on year to 1,938 thousand tonnes in 2015.
- At Yenakieve Steel (being the collective operations of Yenakieve, Metalen and Makiivka Steel), which produced approximately 22 per cent. and 23 per cent. of the Group's total crude steel by volume in 2014 and 2015, respectively, and 18 per cent. and 20 per cent. in the six months ended 30 June 2015 and 2016, respectively, a number of production shops have been damaged by inadvertent shell fire, and production was temporarily suspended as of mid-August 2014. In October 2014, after almost two months of inactivity, production resumed. In February 2015, the plant was repeatedly subjected to shelling which damaged the natural gas pipeline, production facility and an electrical substation. After the fighting intensified, parts of the Donetsk railway closed and iron ore supplies were interrupted, which led to the stoppage of several production units. Production was restored in the middle of March 2015 but was low due to limited supplies of raw materials and interruptions in natural gas supplies. As a result, production of crude steel decreased by 244 thousand tonnes year on year to 1,818 thousand tonnes in 2015.
- Operations at Khartsyzsk Pipe, which produced 238 thousand tonnes and 67 thousand tonnes of large diameter pipe in 2014 and 2015, respectively, and 66 thousand tonnes and 3 thousand tonnes in the six months ended 30 June 2015 and 2016, respectively, had to be temporarily suspended as of mid-August 2014 due to damage to the railway infrastructure used for deliveries of raw materials to and finished products from the plant. In early October 2014, the plant recommenced production and shipping of pipe after the damaged railway infrastructure was repaired. In addition, the plant has suffered minor property damage, and repair works are currently being carried out. In 2015, due to the closure of parts of the railway network and interruptions in supplying rolling stock to ship finished products from the plant, production was reduced by 171 thousand tonnes year on year to 67 thousand tonnes. Since June 2015, the plant has been idle due to lack of orders.

- At Krasnodon Coal's mines, which produced approximately 37 per cent. and 11 per cent. of the Group's total coking coal concentrate in 2014 and 2015, respectively, and 7 per cent. and 20 per cent. in the six months ended 30 June 2015 and 2016, respectively, production was scaled back as of mid-August 2014 due to damage to the railway infrastructure used for deliveries of coal to the Group's enterprises. In early October 2014, the plant was able to recommence production and shipment of commodity products, but at a rate approximately one-third lower than normal. During 2015 the plant produced 346 thousand tonnes of concentrate, which is 1,176 thousand tonnes lower than in 2014. The main reason for this decline in production was the inability to ship finished products due to the disruptions to rail transport services and damage to the railway infrastructure.
- The supply of raw materials to Azovstal and Ilyich Steel, which together represented approximately 78 per cent., 77 per cent. and 80 per cent. of the Group's total crude steel production in 2014, 2015 and the first half of 2016, respectively, was also disrupted at the end of July 2014 when railway lines were partially destroyed due to military action in the Donetsk region. Further, the area of conflict expanded in August-September 2014 towards the south-eastern part of the Donetsk region, up to approximately 20 kilometres east of the city of Mariupol, where Azovstal and Ilyich Steel are located. Ilyich Steel also suffered minor property damage to its sinter plant from artillery fire, although this has not had a material effect on production. In late December 2014, the railway bridge which connected these plants with the Mariupol port was destroyed and in January 2015, the supply of industrial water to Azovstal was temporarily interrupted when the electricity supply to the pumping stations was damaged by shelling. Supplies of iron ore, coking coal and coal were constrained during the period from January to March 2015. In addition, natural gas supplies to the steel plants in Mariupol were interrupted on 12-14 June 2015 after artillery shelling damaged a key gas pipeline. As a result, in 2015 production of crude steel declined by 239 thousand tonnes period on period to 3,206 thousand tonnes at Azovstal and by 899 thousand tonnes year on year to 2,645 thousand tonnes at Ilyich Steel. In the first half of 2016 production of crude steel increased by 121 thousand tonnes year-on-year to 1,809 thousand tonnes at Azovstal and by 65 thousand tonnes year-on-year to 1,427 thousand tonnes at Ilyich Steel.

See further "*—Damage to the rail network and other forms of infrastructure as a result of the ongoing conflict in eastern Ukraine has, and will continue to, adversely affect the Group's business and results of operations*".

Although most of the Group's Ukrainian employees continue to work at the above facilities, the Group may face the risk of a mass exodus of its workers or other interruptions to its labour supply should the armed conflict escalate. If significant numbers of workers leave their jobs or are unable to work, operational shutdowns may occur, potentially on a long-term basis.

See also "*—The actions of the self-proclaimed authorities of the so-called DPR and LPR are unpredictable, and the Group may face asset seizures, expropriation, illegal fiscal claims and other claims and actions negatively affecting its assets and operations*".

Damage to the rail network and other forms of infrastructure as a result of the ongoing conflict in eastern Ukraine has, and will continue to, adversely affect the Group's business and results of operations

The Group currently relies substantially on the rail freight network operated by Ukrzaliznytsya for transportation of its raw materials and finished products. As noted above, Ukraine's transportation infrastructure has been damaged as a result of military action and sabotage, which has affected and may further affect the Group's production. See "*—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition*".

Since July 2014, Ukrzaliznytsya, the Ukrainian state-owned railway authority, has restricted the transportation of cargo through a number of railway stations in the Donetsk region due to damage to the railway network caused by military action in the area. As a result of this, Metinvest-SMC, Metinvest Holding LLC, Avdiivka Coke, Yenakiieve Steel and Donetsk Coke were unable to deliver steel, iron ore and coal products under some of their trade contracts with Metinvest International and certain of their Ukrainian and Russian customers. The Ukrainian Chamber of Commerce has officially certified to these companies that a force majeure event has occurred in relation to their respective contractual obligations. The Ukrainian Chamber of Commerce's certification serves as a basis for the release of Metinvest-SMC, Metinvest Holding LLC, Avdiivka Coke, Yenakiieve I&SW and Donetsk Coke from liability under the relevant trade contracts while the force majeure circumstances persist. Should the military action persist or escalate, the Group may experience further difficulties delivering steel, iron ore and coal products between its plants and to certain of its other customers should the conflict zone expand to cover the railway routes used for such deliveries. An escalation in the conflict could also result in the closure of the border between Ukraine and the Russian Federation, which would likely hinder the transportation of raw materials and finished products between the

two countries and on trade routes passing through the Russian Federation. Railway tariffs for freight also increase periodically, resulting in corresponding increases in transportation costs.

In addition to the rail network, the Group depends on other forms of infrastructure that are also subject to damage due to military action. For example, the Group's coke's plants in Avdiivka Coke and Yenakiieve I&SW depend on water supply from the Severskiy Donets – Donbas Canal, and any interruption to the supply of water may affect coke and blast-furnace production, which in turn could have a material adverse effect on the entire steel production chain. The Group also faces significant logistical constraints in delivering iron ore to steel mills located within territories which the Ukrainian authorities do not control as a result of the conflict, as well as persistent bottlenecks at some of the major railway routes to Mariupol, including Kamysh-Zarya–Volnovakha.

The actions of the self-proclaimed authorities of the so-called DPR and LPR are unpredictable, and the Group may face asset seizures, expropriation, illegal fiscal claims or other claims or actions negatively affecting its assets and operations

Certain parts of the Donetsk and Luhansk regions in eastern Ukraine were seized by militia in 2014, who proclaimed them to be, respectively, the "Donetsk People's Republic" (**DPR**) and the "Luhansk People's Republic" (**LPR**), and are not under Ukraine's control to date. The self-proclaimed authorities of DPR and LPR seized ("nationalised") certain state- and privately owned businesses and assets on those territories and have made the businesses operating there subject to various fiscal, regulatory and other requirements which contravene Ukrainian legislation. Although the Group's assets were largely unaffected by such action, there can be no assurance that this will not occur while these territories remain outside Ukraine's control. This may further negatively affect the Group's production assets located in these territories.

A political solution to the crisis in eastern Ukraine may not be achieved in the near future or at all. A risk exists that any political solution may entail the creation of an unprecedented legal regime in such parts of the Donetsk and Luhansk regions. As a result, businesses operating in these regions, including members of the Group, may encounter operational and regulatory problems and their production may suffer accordingly.

The Group's assets may be subject to seizure or expropriation by the Ukrainian authorities

The Ukrainian authorities could seize or expropriate the Group's assets without appropriate compensation, limit compensatory payments or deny due process to defend itself against state measures. Pursuant to Ukrainian law, the authorities can exercise these eminent domain powers with respect to the Group's assets in the event such action is deemed by the relevant authorities to be required in order to protect public interests, in response to an emergency situation or in the event a Group member grossly violates applicable law. Any compensation that is paid may be lower than the price for which the expropriated assets could have been sold in the open market, or litigation may arise as to the fair market value of the assets, which could delay the payment of any compensation, or no compensation may be paid for the seized assets, each of which could have a material adverse effect on the Group's business, results of operations and financial condition.

Restrictions on coking coal supplies to Ukrainian metallurgical companies may adversely affect the Group's steel production business

In connection with its steel production business, the Group purchases from third party suppliers certain raw materials, primarily coking coal. In 2015 and the first half of 2016, the Group purchased approximately 23 per cent. and 38 per cent., respectively, of its coking coal requirements from suppliers in the Russian Federation.

Since November 2015, there have been reports of restrictions on the shipment of coking coal from the Russian Federation to Ukrainian metallurgical companies, including members of the Group, and, although there has been no public announcement of an actual embargo by the Russian authorities, members of the Group frequently encounter delays in obtaining the necessary clearances from the Russian customs authority in respect of coking coal shipments from the Russian Federation.

If the Russian Federation continues to restrict the shipment of coking coal to Ukrainian metallurgical companies, members of the Group will need to secure coking coal supplies from different producers to maintain the current scale of steel production. If members of the Group are unable to secure alternative coking coal supplies or such supplies are substantially delayed or cost substantially more, the Group's business, results of operations and financial condition may be materially adversely affected.

The Russian Federation may introduce an import embargo on the Group's steel and other products

On 27 June 2014, the President of Ukraine signed the economic part of the Ukraine–European Union Association Agreement, effective from 1 January 2016 (the **Association Agreement**). The Association Agreement was ratified by the Ukrainian Parliament and the European Parliament on 16 September 2014. On 13 August 2015, the Government of the Russian Federation adopted decree No. 842 that prohibits the import of agricultural products, raw materials and foodstuffs originating from Ukraine as a response to the implementation by Ukraine of the economic part of the Association Agreement. These prohibitions on Ukraine came into force in the Russian Federation with effect from 1 January 2016.

Currently, the Russian Federation does not maintain any import restrictions on the Group's products other than antidumping duties. However, there can be no assurance that in the future the Russian Federation will not introduce an import embargo on the Group's steel or other products, as it has done in relation to Ukrainian agricultural produce, which might adversely affect the Group's business, results of operations and financial condition. See also "*—Trade-related legal proceedings and agreements may require the Group to decrease exports of its steel products and adversely affect the Group's business*" and "*Industry Steel Industry—Metinvest's Markets for Steel Products—Trade Restrictions*".

The Group's financial performance is dependent on the global price of and demand for steel products

The Group's business is cyclical because the major industries in which the majority of its steel customers operate, including the construction, automotive, engineering and oil and gas recovery and processing industries, are themselves cyclical and sensitive to changes in general economic conditions. The demand for steel products is thus generally correlated with macroeconomic fluctuations in the economies in which steel producers sell products, which are in turn affected by global economic conditions. Particular economic and market factors may also have a significant effect on the Group's operations, such as the recent global economic downturn which led to a decrease in production by the Group's customers, resulting in a decrease in demand for the Group's products. The prices of steel products are influenced by many factors, including demand, worldwide production capacity, capacity utilisation rates, raw material costs, exchange rates, trade barriers and improvements in steel making processes, and are subject to substantial fluctuation. Since 2011, prices have been declining, averaging U.S.\$561 per tonne in 2012, U.S.\$510 per tonne in 2013, U.S.\$480 per tonne in 2014 and U.S.\$327 per tonne in 2015. In the first six months of 2016 prices recovered somewhat, increasing to U.S.\$367 per tonne, but remained volatile. See also "*Industry—Steel Industry—Global Overview*".

The Group's financial performance is dependent on world market prices of iron ore and coal

The Group sells iron ore and coal to third parties. Cyclical and other changes in world market prices for these commodities could affect the results of the Group's mining activities. Changes in these prices result from factors that are beyond the Group's control, such as fluctuations in global supply and demand (particularly as a result of the prevailing level of worldwide demand for steel products) and transportation costs. Prices of these commodities have varied significantly in the past and could vary significantly in the future and are also positively correlated with demand from steel producers. See also "*Industry*", "*Management Discussion and Analysis—Factors Affecting Metinvest's Results of Operations—World Market Prices of Iron Ore*" and "*Management Discussion and Analysis—Factors Affecting Metinvest's Results of Operations—World Market Prices of Demand and Price for Steel in the Markets in which Metinvest Operate*". According to Bloomberg, the benchmark price of 62 per cent. Fe iron ore fines CFR China increased marginally to U.S.\$136 per dry tonne in 2013 compared to U.S.\$129 in 2012, after which the price fell to U.S.\$97 and U.S.\$56 per dry tonne in 2014 and 2015, respectively. In the middle of December 2015 the price fell to a multi-year low of U.S.\$38.3 per dry tonne. According to Bloomberg, in the first quarter of 2016, the price increased for the first time quarter-on-quarter since the fourth quarter of 2013 to a quarterly average of U.S.\$49 per dry tonne compared to U.S.\$47 per dry tonne in the fourth quarter of 2015. In the second quarter of 2016 the price increased by 14 per cent. to U.S.\$55 per dry tonne compared to U.S.\$49 in the first quarter 2016.

The price of coal has generally been decreasing since 2012. The contract price (the average of the quarterly contract price values) for hard coking coal FOB Australia decreased to U.S.\$159 per tonne in 2013 compared to U.S.\$210 per tonne in 2012 and continued its fall in 2014 and 2015 to U.S.\$126 and U.S.\$102 per tonne, respectively, according to Bloomberg. In the first quarter of 2016, the price decreased by 9.0 per cent. quarter-on-quarter to U.S.\$81 per tonne and decreased by 30.8 per cent. year-on-year, compared to the first quarter of 2015 when the price was U.S.\$117 per tonne. In the second quarter of 2016, the price increased by 3.7 per cent. quarter-on-quarter to U.S.\$84 per tonne, which nevertheless represents a decrease of 23.6 per cent. year-on year from U.S.\$110 per tonne in the second quarter of 2015.

See also "Industry—Iron Ore Mining and Processing Industry—Global Overview".

Any significant increase in global supplies or decrease in global demand for iron ore and coal could reduce the prices for the Group's products, and any such resulting decline in the prices of the commodities the Group sells to third parties may materially adversely affect the Group's business, results of operations and financial condition.

The Group's mining and metallurgical business depends on permits issued by the Government and such permits may be withheld, revoked or not renewed

Metinvest's special permits must be renewed before their expiration date. An extension may be refused on a number of grounds, including, in case of subsoil permits, failure to comply with the conditions of the special permit or agreement between permit owner and the State Geology Service; any restriction of subsoil use by an authorized body; a failure to supply the necessary documents or the submission of false data; if the law-enforcement and financial monitoring authorities are notified that the applicant is engaged in the financing of terrorism; if applicant is in arrears in paying taxes and duties; if the Ministry of Ecology and Natural Sources refuses to approve the extension of the permit; if the applicant does not carry out its subsoil work programme; or if the competent bodies discover violations in subsoil use which cannot be remedied. Moreover, on 15 October 2014, the law of Ukraine "On Temporary Measures that are Effective for the Period of Anti-Terrorist Operations" (the **ATO Law**) became effective. The ATO Law establishes that licences and permits issued to legal entities that carry out their business activities on the territory of the anti-terrorist operations which expire during these operations shall be prolonged for the duration of the operations. Currently, there is no official position of the central state executive bodies as to whether the abovementioned provision of the ATO Law guarantees the automatic re-issuance of the permit documentation (for instance, due to a change of the registered address or name of a permit holder), nor is it clear that the local authorities will adopt a consistent position. There is no guarantee that those Metinvest companies that are located or that have assets within the conflict zone and are required to renew certain permit documents will be able to do so or that the state authorities will not challenge the validity of non-renewed permits after the completion of anti-terrorist operations.

There can be no assurance that Metinvest will be able to comply with all applicable regulations at all times.

Fluctuations in currencies may adversely affect the Group's financial condition and results of operations

The functional currency of the majority of the members of the Group located in Ukraine is the Hryvna. The functional currencies of the Issuer and its non-Ukrainian subsidiaries are the U.S. dollar, pound sterling, the Euro and Bulgarian lev. On consolidation, income statements and cash flows of the Group's subsidiaries for which the U.S. dollar is not the functional currency are translated into U.S. dollars, the presentation currency for the Group, using monthly average exchange rates during the year. Assets and liabilities are translated into U.S. dollars at the official exchange rate as of the relevant respective balance sheet dates. The exchange rate between the Hryvna and the U.S. dollar has historically fluctuated, and the translation effect of such fluctuations could have a material adverse effect on the Group's consolidated results of operations.

Risks relating to Ilyich Steel

Between 2010 and 2016 the Group acquired, through a series of transactions, a 99.3 per cent. effective interest in Ilyich Steel. A part of the consideration payable to the transferor of Ilyich Steel remains outstanding. While the Group is not liable for payment of the outstanding amount, a default by the payor on its remaining obligations could result in the Group's title to its interest in Ilyich Steel being challenged. The payor has advised the management of the Group that it believes the risk of any such successful challenge to be remote.

Transfer pricing rules may potentially affect the Group's results of operations

Ukrainian transfer pricing rules apply to a wide range of cross-border transactions, most typically regulating pricing for goods and services sold or purchased to or from related parties.

The Tax Code contains transfer pricing rules (effective since September 2013) that require liabilities to tax on certain transactions to be calculated on the basis of prices set on an arm's length (market) basis.

The Group's historical and current trading relationships, including sales between businesses in each of its segments, could fall within the scope of the transfer pricing rules. In particular, if the Group's foreign counterparties that do not have a permanent establishment in Ukraine are located in a designated "low-tax" jurisdiction, the Ukrainian tax authorities may apply the transfer pricing rules to transactions between those members of the Group that are tax resident in Ukraine and their foreign counterparties, regardless of whether they are related parties.

Trade-related legal proceedings and agreements may require the Group to decrease exports of its steel products and adversely affect the Group's business

All of the Group's principal steel producing subsidiaries (except for the re-rollers Ferriera Valsider, Metinvest Trammetal, Spartan UK and Promet Steel) are located in Ukraine. As a major Ukrainian steel producer, which obtained approximately 80 per cent. and 79 per cent. of its revenue from sales of metallurgical products in the twelve months ended 31 December 2015 and the six months ended 30 June 2016, respectively, outside Ukraine, the Group is subject to protective tariffs, duties and quotas imposed by certain countries into which the Group exports its steel products, which could reduce its competitiveness in, and limit its access to, certain markets. Although WTO members are expected to abolish all quantitative restrictions on trade flows with Ukraine, as quantitative restrictions are prohibited under the WTO rules, WTO members may still impose measures such as anti-dumping measures, safeguard measures and countervailing duties within the parameters established by the WTO rules. Reportedly, several steel importing countries (some of which are WTO members), including the Russian Federation, the United States, Canada, Indonesia, Brazil, Thailand and Mexico, currently have anti-dumping measures in place with respect to certain steel imports from Ukraine. In mid-December 2015, the Russian Federation signed a decree suspending its CIS Free Trade Agreement with respect to Ukraine from 1 January 2016, as a result of which all rolled steel flat and long products manufactured by the Group (except for heavy plates and regular pipes) may be subject to import customs duty in Russia. See also "*—The Russian Federation may introduce an import embargo on the Group's steel and other products*" and "*Industry Steel Industry—Metinvest's Markets for Steel Products—Trade Restrictions*".

The Group does not carry insurance coverage of all operational risks and may become subject to higher insurance premiums

The Group's operations may be affected by a number of risks, including terrorist acts and military-related events, in particular, as a result of the ongoing military conflict and acts of sabotage in parts of Ukraine, for which full insurance cover is either not available or not available on commercially reasonable terms. For example, the Group has not purchased sabotage, military action or terrorist insurance cover. In addition, the severity and frequency of various events, such as accidents and other mishaps, business interruptions or potential damage to its facilities, property and equipment caused by inclement weather, human error, pollution, labour disputes and natural catastrophes, may result in losses or expose the Group to liabilities in excess of its insurance coverage. There can be no assurance that its insurance coverage will be sufficient to cover losses arising from any, or all, of such events, or that it will be able to renew existing insurance cover on commercially reasonable terms, if at all. In addition, the Group's insurance policies are subject to commercially negotiated deductibles, exclusions and limitations, and the Group will only receive insurance proceeds in respect of a claim made to the extent that its insurers have the funds to make payment. Therefore, insurance may not cover all losses incurred by the Group and no assurance is given that the Group will not suffer losses beyond the limits of, or outside the cover provided by, its insurance policies. Should an incident occur in relation to which the Group has no insurance coverage or inadequate insurance coverage, the Group could lose the capital invested in, and anticipated future revenue relating to, any property that is damaged or destroyed and, in certain cases, the Group may remain liable for financial obligations related to the impacted property. Similarly, in the event that any assessments are made against the Group in excess of any related insurance coverage that it may maintain, its assets could be subject to attachment, confiscation or restraint under various judicial procedures. Any of these occurrences could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may incur liabilities in connection with its pension plans

The Group has pension plans under which it is required to provide agreed benefits to current and former employees. As at 30 June 2016, the value of the Group's unfunded defined benefit obligations was U.S.\$337 million and the change in value recognised in the consolidated statement of cash flows was negative U.S.\$9 million for the six months then ended. The Group may not be able to meet its obligations under unfunded benefit obligations. Furthermore, the Group's net liabilities under the defined benefit plans may be significantly affected by changes in the discount rate, the social security rate, the rate of increase in salaries and pension contributions, changes in demographic variables or other events and circumstances. Changes to local legislation and regulation relating to defined benefit plan funding requirements may result in significant deviations in the timing and size of the expected cash contributions under such plans. Although the Cabinet of Ministers of Ukraine recently issued a decree regulating pension entitlements which is expected to reduce the Group's benefit obligations, there can be no assurance that the Group will not incur additional liabilities relating to its pension plans, and these additional liabilities could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's liquidity can be affected by delays in the repayment or non-repayment of VAT by the Ukrainian tax authorities

As exporters which do not charge VAT on sales that can be offset against the purchase of goods and services, the Group's Ukrainian businesses rely on the timely repayment by the Government of VAT incurred in order to ensure steady cash flows and their continued ability to invest in their businesses. The Group has experienced significant delays in obtaining VAT repayments from the Government which has resulted in, and may in the future result in, decreases in its liquidity and material financial losses, including foreign exchange losses. Members of the Group have been compelled to use the Ukrainian courts to enforce VAT repayments by the Government. This has significantly delayed recovery beyond the normal 90-day period. The Group's gross Ukrainian VAT receivable balance as at 30 June 2016 was U.S.\$196 million (31 December 2015: U.S.\$148 million; 31 December 2014: U.S.\$225 million). The Hryvna devalued relative to the U.S. dollar from UAH 15.77 to U.S.\$1.00 as at 31 December 2014 to UAH 24.00 to U.S.\$1.00 as at 31 December 2015 and further to UAH 24.85 to U.S.\$1.00 as 30 June 2016, resulting in translation losses of U.S.\$65 million and U.S.\$4 million, respectively, on the VAT balances expressed in U.S. dollars during this period. The Group's management believes that the balance of UAH126 million which is the subject of claims in the Ukrainian courts is ultimately likely to be recovered. However, there is a risk that VAT owed to the Group will not be paid promptly due to the Government's weak financial position, which could result in a further decrease in the Group's liquidity and financial losses depending on the terms of repayment imposed by the Government and, as the Group reports its financial results and position in U.S. dollars, the prevailing exchange rate when the repayments are made. The Group has incurred, and may continue to incur, exchange rate losses as expressed in U.S. dollars from further delays in obtaining VAT refunds and/or from discounts to the face value of any bonds that may be issued by the Government in the future for settlement of VAT receivables outstanding, and, as a result, may temporarily reduce levels of investment by the Group, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Metinvest's success depends on its ability to compete effectively in the steel industry

The steel industry is characterised by intense competition. Metinvest competes with a number of other large steel companies in Ukraine, Russia and other countries, including China, which is developing as a significant export market for steel products. Metinvest's principal competitors in steel production include foreign and domestic competitors, including ArcelorMittal S.A. (**ArcelorMittal**), which controls PJSC ArcelorMittal Krivyi Rih in Ukraine, and OJSC Magnitogorsk Iron & Steel Works (**MMK**), OJSC Novolipetsk Steel Mill (**NLMK**), OJSC Severstal (**Severstal**), JSC HC Metalloinvest (**Metalloinvest**), OJSC Mechel (**Mechel**) and Evraz plc and its subsidiaries (**Evraz**). Metinvest's steel business competes primarily on the basis of price, quality and the ability to meet customers' product specifications and delivery schedules.

Metinvest expects that its competitors will continue to improve their production while also reducing costs. A number of Metinvest's competitors are undertaking modernisation and expansion plans, which may make them more efficient or allow them to develop new products. In addition, while Metinvest has relatively low operating costs compared with steel producers in more developed countries, it has slightly higher operating costs than the world's lowest cost producers. Metinvest also faces price-based competition from steel producers in other emerging market countries, including Russia in particular. Competition from foreign steel producers, or foreign direct investment in Metinvest's domestic competitors, may also result in losses of market share for Metinvest. Increased competition from Ukrainian or international steel producers could result in more competitive pricing. In the future, steel producers may also increasingly compete with producers of substitute materials, such as plastics and ceramics, particularly in certain consumer industries, such as the automotive, construction and packaging industries. The highly competitive nature of the steel industry combined with excess production capacity for some steel products has exerted, and may in the future continue to exert, downward pressure on prices of certain of Metinvest's steel products.

In addition, Metinvest's competitive position may be affected by further consolidation in the steel industry. While there are still a significant number of small companies operating in the steel sector worldwide, the 1990s were marked by significant consolidation within the steel industry, through mergers and acquisitions involving, among others, the global market leader ArcelorMittal, ThyssenKrupp Stahl and JFE. These and many other large international steel companies have greater financial resources and more extensive global operations than Metinvest, as well as more technologically advanced steel production facilities (in particular, more basic oxygen furnaces and fewer of the less efficient open-hearth furnaces). ArcelorMittal and some other large competitors may, in the future, use their substantial resources to enter into purchase agreements with Metinvest's customers, which may result in a loss of market share for Metinvest. While the rapid rise in Chinese steel production since 2004 has generally reduced the level of consolidation in the steel industry on a global basis, greater consolidation in the Chinese market is a stated aim of the Chinese government. The Russian steel industry has also experienced increased consolidation,

including the formation of the Evraz Holding Group. Major Russian steel producers have expanded their operations in Ukraine by acquiring interests in Ukrainian steel companies. In 2008, Evraz Holding Group acquired several steel, coke and iron ore producing assets from Privat Group, a Ukrainian business group controlling, among other assets, various steel companies. In early 2010, a group of Russian investors including the Carbofer Group, a Swiss-based company co-owned by Russian businessman Alexander Katunin, acquired over 50.0 per cent. of the share capital of Industrial Union of Donbas (**ISD**), a Ukrainian metallurgical company. Metinvest cannot guarantee that its market share will not decrease if competitors further modernise and improve their plants and machinery, which may materially adversely affect Metinvest's business, results of operations and financial condition.

Estimates of Metinvest's mining reserves and resources are subject to assumptions and uncertainties and estimates of its resources are speculative

Metinvest's iron ore reserves and resources data contained in these Listing Particulars, unless otherwise stated, are taken from analyses prepared in accordance with the methods described in "*Business Description—Reserves*", by reference to estimates provided by SRK in its Reserves Report dated 31 March 2010, prepared in accordance with the JORC Code. Iron ore reserves and resources are quoted as at 1 January 2010. Where indicated, these figures should be read together with production data for the period since 1 January 2010 to illustrate estimated reserves and resources as at 30 June 2016. However, such estimates do not constitute a reserves and resources report prepared in accordance with JORC standards. Furthermore, changes in pricing for iron ore and coal since the date of the relevant Reserves Report will have an impact on reported reserves. With respect to Metinvest's iron ore reserves and resources information contained in these Listing Particulars, Metinvest has not, and does not intend to, engage independent experts to prepare a reserve report in accordance with SEC standards in respect of any of its iron ore deposits. If such an independent report were to be prepared, it could potentially estimate Metinvest's reserves and resources to be materially lower and more adverse than it currently estimates. If the information on which Metinvest's resources and reserves estimates rely is incorrect, or if, due to the inherent uncertainty regarding resources and reserves, these estimates are found to be materially different to the current estimates, Metinvest may experience delays and/or increased operating costs, and the economic viability of its projects may be adversely affected.

Information relating to Metinvest's coal deposits located in the United States has been prepared by reference to estimates provided by Cardno in its Reserves Report dated 31 March 2010, prepared under SEC standards. Metinvest's coal deposits located in Ukraine have not yet been evaluated in accordance with international methodologies. Information relating to those coal deposits has been prepared on the basis of State Approved Reserves Classification Systems (**SARCS**) as currently applied in the CIS countries, which differ from international methodologies and the standards applied by the SEC, among others. See "*Business Description—Reserves*". The estimates of Metinvest's iron ore and coal reserves and resources were based on interpretations of geological data obtained from sampling techniques and projected rates of production. Sampling techniques and projections are inherently uncertain and variances in reserves and resources estimates under different methodologies may be difficult to determine and evaluate.

In determining the feasibility of developing and operating its Ukrainian coal mines, Metinvest uses estimates of coal reserves that are based on its legal right to mine specified coal mines pursuant to its state licences, the state's classification of the available reserves and Metinvest's internal analysis of the available reserves. Metinvest estimates its reserves for each of its coal mines as at 31 December of each year in accordance with the guidelines prescribed by Ukrainian law by taking the original amount of industrial reserves estimated by the state when that coal mine's license was originally issued and deducting (i) the amount of industrial reserve coal extracted from the mine in each subsequent year and losses incurred upon coal extraction and (ii) any industrial reserves that it subsequently determines to have been improperly classified as industrial reserves and by adding (A) any additional industrial reserves that it has discovered during the course of mining or (B) any additional industrial reserves that it has acquired from third parties or from the state. This methodology differs significantly from both (i) the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council and the Society for Petroleum Evaluation Engineers and (ii) the reserves classifications permitted by the SEC, in particular with respect of the manner in which and the extent to which commercial factors are taken into account in calculating reserves. Metinvest relies exclusively on the state's initial estimates of its coal mine reserves when the licences were issued and its subsequent adjustments as set forth above after taking into account its knowledge, experience and industry practice, without the input of third party reserves engineers or the benefit of further reviews by the state's reserve engineers. Therefore, Metinvest's coal reserves estimates may require revision based upon actual production experience, changes in operating or extraction costs, changes in world coal prices and other factors that Metinvest is unable to foresee. As a result, Metinvest's estimates of its coal reserves that appear valid when made may change significantly in the future when new information becomes available.

No assurance can be given that the indicated amount of mining reserves will be recovered, or will be recovered at the prices assumed. Estimates are based on limited sampling and, consequently, are uncertain because the samples may not be representative of the entire mineral resource. As a better understanding of the mineral resource is obtained, the resource and reserve estimates may change significantly, either positively or negatively.

For these reasons, estimates and classifications of reserves and resources prepared by different engineers or by the same engineers at different times may vary substantially. Actual commodity tonnage recovered from identified reserves and resources and revenue and expenditures with respect to Metinvest's reserves and resources may vary materially from estimates. Accordingly, these reserve and resource estimates may not accurately reflect Metinvest's actual reserves and resources. Any inaccuracy in the estimates related to Metinvest's reserves and resources could result in lower than expected revenue, higher than expected costs, decreased profitability, decreased sale price on disposal and asset impairment.

Metinvest's mining and steel manufacturing operations are subject to a number of operational risks and hazards, including the significant risk of disruption or damage to persons and property

Metinvest's mining and steel manufacturing operations, like those of other mining and metal companies, are subject to a number of risks and hazards, including industrial accidents, the unavailability of equipment (whether due to equipment failure, the need for unscheduled maintenance or otherwise), unusual or unexpected geological conditions, environmental hazards, labour disputes, changes in the regulatory environment, extreme weather conditions (especially in winter) and other natural phenomena. For example, in November 2011, a fire occurred at Azovstal plate mill, causing property damage and partial loss of production for approximately four weeks. In January 2014, a fire occurred in the cold rolling workshop of Zaporizhstal, causing property damage and temporary partial loss of production.

Metinvest has six open-pit and three underground iron ore mines and seven underground coal mines (two of which were conserved) in Ukraine. Metinvest also has three active open-pit and ten active underground coal mines in the United States. Additional hazards associated with underground mining include underground fires and explosions, including those caused by flammable gas; cave-ins or ground falls; discharges of gases and toxic chemicals; flooding; sinkhole formation and ground subsidence; and other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine. Hazards associated with open-pit mining include accidents involving the operation of open-pit mining and rock transportation equipment and the preparation and ignition of large scale open-pit blasting operations, collapses of the open-pit wall, flooding of the open-pit, production disruptions due to weather and hazards associated with the disposal of mineralised waste water, such as groundwater and waterway contamination.

In addition, some of Metinvest's facilities in the Donetsk and Luhansk regions of Ukraine have been affected by ongoing military action in those regions, which has compounded some of the risks and hazards inherent to mining and steel operations. For example, in August 2014 Yenakiieve I&SW's production shops sustained artillery damage. Although there were no casualties or material damage to the plant, management decided that continuing operations at the plant in its damaged state would create unacceptable risks to the lives and health of the plant's workers and local residents, and therefore decided to suspend operations at the plant in order to protect them. Metinvest has other facilities located in the conflict zone, which have incurred and may continue to incur damage as a result of the ongoing military action in the region. Due to the hazardous nature of mining and steel operations, damage to these facilities (whether or not material in itself) could endanger the health and safety of Metinvest's workers and local residents. As a result, any further damage to Metinvest's facilities as a result of continuing or escalating military action in eastern Ukraine could lead to further shutdowns and/or suspensions of operations at such plants in order to protect workers and local residents, which could have material and adverse effects on Metinvest's business, financial condition, results of operations and prospects. See also "*Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition*".

In 2014 and 2015 and in the six months ended 30 June 2016, respectively, Metinvest experienced 129, 97 and 49 accidents, which are defined as lost time injuries that prevent the employee from working for at least one day, and four, nine and two work related fatalities, respectively, at its Ukrainian facilities. See also "*Business Description—Health and Safety*".

The occurrence of any of these events could result in material mine or plant shutdowns or periods of reduced production. Although Metinvest has business interruption insurance in place, including "inter-dependency" coverage for its key companies, an interruption in production capability may require Metinvest to make large capital expenditures to remedy the situation. Such occurrences could also result in material damage to, or the destruction of, mineral properties or production facilities, human exposure to pollution, personal injury or death, environmental and

natural resource damage, delays in mining, delays in shipment, reduced sales, increased costs, the need to incur significant capital expenditures to remedy the situation, other monetary losses and possible legal liability which may materially adversely affect Metinvest's business, results of operations and financial condition.

Metinvest is dependent on third party suppliers for a portion of its raw materials

Metinvest sources a significant portion of the raw materials it requires for the production of steel, including all of its coke, iron ore concentrate and pellets requirements, from its iron ore and coke facilities. However, it relies on third parties for the remainder of its raw materials, including 79 per cent. of its coking coal requirements by volume in the six months ended 30 June 2016, and all of the ferroalloys and refractory materials used in the production of steel in the same period. The percentage of Metinvest's coking coal requirements supplied by third parties has steadily increased, from 62 per cent. in 2010 to 79 per cent. in the six months ended 30 June 2016, primarily due to the higher cost of sales from internal coal supplies but also because it is easier to source the appropriate quality of coal required for Metinvest's operations from third parties. The ongoing conflict in the Donetsk and Luhansk regions of Ukraine, which has resulted in disruptions to the supply of coal from Krasnodon Coal to Metinvest's other facilities, also contributed. See also "*Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition*". Any continuing or escalating military action in eastern Ukraine, public protests, unrest or political instability could lead to further disruptions to Metinvest's supplies of raw materials, and thereby further increase its dependence on third party suppliers.

In 2013, the Government approved the introduction of quotas for the import of coking coal into Ukraine in the amount of 10.2 million tonnes for the year ended 31 December 2013 and restricted inbound shipments of coke. In May 2013, quotas for 4.15 million tonnes were allocated to various Ukrainian companies, including 2.2 million tonnes or 53 per cent. to Metinvest's Ukrainian operations, 1 million tonnes or 24.9 per cent. to companies within the ISD Group and 0.4 million tonnes or 9.6 per cent. to companies within the Evraz Group. At the end of 2013, the Government adopted a resolution approving the list of products subject to export and import quotas in 2014. This resolution did not introduce quotas for the import of coke and coking coal into Ukraine in 2014. However, there can be no assurance that such quotas will not be introduced in the future and, if such quotas are introduced, that Metinvest will be allotted sufficient quota allocations to meet its operational requirements, or any quota allocations at all. Should this occur, Metinvest may be forced to scale back its operations, which may materially adversely affect its business, results of operations and financial condition.

The availability of raw materials from third party suppliers may be negatively affected by a number of factors largely beyond Metinvest's control, including interruptions in production by suppliers (including as a result of the ongoing military action in the Donetsk and Luhansk regions of Ukraine or force majeure events), the allocation of raw materials by suppliers to other customers, the introduction of import quotas for such raw materials by the Government, price fluctuations and transport costs. Metinvest may not always be able to adjust its prices to recover the costs of increases in the prices of raw materials from third party suppliers, which may materially adversely affect Metinvest's business, results of operations and financial condition. See also "*The externally purchased raw materials Metinvest uses to produce steel, such as coking coal, scrap metal and ferroalloys are subject to price fluctuations that could increase Metinvest's costs of production*".

The externally purchased raw materials Metinvest uses to produce steel, such as coking coal, scrap metal and ferroalloys, are subject to price fluctuations that could increase Metinvest's costs of production

Metinvest purchases certain raw materials for steel production, including coking coal, ferrous scrap metal and ferroalloys, from third parties. Prices for these materials have fluctuated significantly in the past. Prices are affected by cyclical, seasonal and other market factors, including periodic shortages, freight costs, speculation by brokers and export markets, and protective actions by the Government. While Metinvest's coal, coke and iron ore businesses produce a significant part of the raw materials required by its steel production business, for some of its raw materials Metinvest remains subject to longer-term price fluctuations and shortages which are beyond its control.

Historically, prices for coking coal, ferroalloys, scrap metal and other important raw materials have increased as a result of global changes in supply of, and demand for, these materials. Prices for most of the raw materials that Metinvest uses increased regularly until late 2008 following price increases for steel, reflecting increased global demand for these products from steel producers. Increases in raw materials costs may outpace increases in the average selling prices for steel products and Metinvest's ability to appropriately react through normal price changes. For example, in the fourth quarter of 2008, although prices for raw materials generally decreased following decreases in demand from steel producers, profit margins contracted due to a time lag of up to three months between the market acceptance of reduced selling prices for finished steel products and the decrease in raw material prices.

Steel prices collapsed in 2009, during the global economic recession, falling by 48 per cent. year-on-year to U.S.\$390 per tonne. Average annual prices recovered in 2010 to U.S.\$526 per tonne and in 2011 to U.S.\$635 per tonne, peaking at U.S.\$681 per tonne in August 2011, but this still remained below the average annual price for 2008. Since 2011, prices have been declining, averaging U.S.\$561 per tonne in 2012, U.S.\$510 per tonne in 2013, U.S.\$480 per tonne in 2014 and U.S.\$327 per tonne in 2015. In the first six months of 2016 prices increased to U.S.\$367 per tonne, but remained volatile. If prices for steel products fall further in the future, Metinvest may be exposed to further reductions in its profit margins resulting from delays in the reduction of raw material prices, which may materially adversely affect its business, results of operations and financial condition.

Metinvest's operations are subject to environmental laws and regulations that may be difficult and costly to comply with, and future changes in or unanticipated breaches of, such laws and regulations could require Metinvest to incur increased costs

Metinvest operates in an industry that is hazardous to the environment and its operations and properties are subject to environmental, health and safety and other laws and regulations. For instance, mining operations generate large amounts of pollutants and waste, some of which are hazardous to the environment, such as benzopyrene, oxides of sulphur and nitrogen, ammonium sulphates, nitrites and sludges (including sludges containing chrome, copper, nickel and zinc). In addition, mining operations involve the storage of overburden and tailings and the use of hazardous materials such as explosives. The discharge, storage and disposal of hazardous waste are subject to a number of laws and regulations relating to environmental protection in the jurisdictions in which Metinvest operates.

The environmental, health and safety and other laws and regulations to which Metinvest's mining operations are subject may also require clean-ups of contamination and reclamation, such as requirements for cleaning up highly hazardous waste oil. In addition, pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

A significant part of Metinvest's operations are located in Ukraine. Under the current environmental protection system, Metinvest must determine, in respect of each pollutant, the amount of discharge that it makes into the atmosphere or water, and the amount of waste that it produces. Based on the amounts of pollutants that it discharges, Metinvest is required to pay on a quarterly basis an ecology tax calculated separately for each pollutant. Any increase in the rate of the ecology tax and/or the amounts of pollutants generated by Metinvest's Ukrainian operations (whether or not as a result of an expansion of its operations or an increase in its production) may increase Metinvest's operating expenses and/or require it to make additional capital expenditures for equipment to reduce emissions. Metinvest has not generally been indemnified against environmental liabilities or any required land reclamation expenses of its acquired businesses that may arise from activities that occurred prior to the acquisition of such businesses.

Environmental legislation in Ukraine is currently weaker and less stringently enforced than in the EU or the United States. However, Ukraine's integration into the world economy and increasing relations with the EU may lead Ukraine to accelerate the process of adopting more comprehensive legislation that reflects more stringent European environmental standards. In particular, it is expected that the Ukrainian environmental legislation will become more stringent in the next few years as the relevant Ukrainian legislation is approximated to EU regulatory norms as part of the implementation of the Association Agreement and the Deep and Comprehensive Free Trade Agreement (DCFTA) between Ukraine and the EU. See also "*Risks Relating to Ukraine—A failure to develop relations with the EU might have negative effects on the Ukrainian economy and Metinvest's business*". Based on the applicable regulatory requirements, certain Metinvest companies, including Ingulets GOK (located in Ukraine) and United Coal (located in the United States), have created general reserves which may be used to cover environmental liabilities and compliance costs, although these reserves may not be sufficient.

Future changes in environmental laws or in the enforcement of such laws may require Metinvest to make significant capital expenditures to modify production processes, install pollution control equipment, perform site clean-ups, curtail or cease certain operations, pay fees, fines or make other payments for discharges or other breaches of environmental standards or otherwise alter aspects of Metinvest's operations, which may materially adversely affect Metinvest's business, results of operations and financial condition.

In the event of an environmental investigation, if a production facility is found to have violated environmental standards, the relevant regulatory authorities may issue an order halting certain processes at that facility. Suspension of production at one or more of Metinvest's facilities due to the imposition of such order may materially adversely affect its business, results of operations and financial condition.

As certain Group's assets are located in the parts of the Donetsk and Luhansk regions which have been seized by separatist armed groups and are not under Ukrainian control, there is no assurance that the Group may or will comply with the environmental law requirements in respect of such assets. See also "*Risks Relating to the Group—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition*" and "*Risks Relating to the Group—The actions of the self-proclaimed authorities of the so-called DPR and LPR are unpredictable, and the Group may face asset seizures, expropriation, illegal fiscal claims or other claims or actions negatively affecting its assets and operations*". In addition, Group companies located within the conflict zone may face difficulties with the re-issuance or renewal of the permit documentation required for compliance with the environmental legislation. See also "*Risks Relating to the Group—The Group's mining and metallurgical business depends on permits issued by the Government and such permits may be withheld, revoked or not renewed*".

Metinvest's compliance with health and safety laws may require increased capital expenditures, and non-compliance may subject Metinvest to significant penalties

A violation of health and safety laws relating to a mine or plant, or failure to comply with the instructions of the relevant health and safety authorities, could lead to, amongst other things, the temporary shut down of all or part of the mine or plant; the loss of the right to mine or operate a plant; or the imposition of costly compliance procedures. It is expected that the health and safety requirements applicable to Metinvest's Ukrainian facilities will become more stringent in the next few years as the relevant Ukrainian legislation is approximated to EU regulatory norms as part of the implementation of the Association Agreement and DCFTA. See also "*Risks Relating to Ukraine—A failure to develop relations with the EU might have negative effects on the Ukrainian economy and Metinvest's business*". If the health and safety authorities require Metinvest to shut down all or part of a mine or plant or to implement costly compliance measures, whether pursuant to existing or new health and safety laws and regulations, or the more stringent enforcement of existing laws and regulations, such measures could materially adversely affect Metinvest's business, results of operations and financial condition. In addition, Metinvest's stated objective of enhancing health and safety compliance at its facilities in line with international best practice may entail significant costs, which may materially adversely affect Metinvest's business, results of operations and financial condition.

Metinvest's operations are associated with greenhouse gas emissions which are implicated in the development of climate change phenomena. Ongoing policy and regulatory efforts to combat climate change may entail additional costs for Metinvest

Ongoing international negotiations and national policy frameworks which seek to reduce greenhouse gas emissions may have an impact on Metinvest's results of operations. Ukraine is a signatory to the United Nations Framework Convention on Climate Change, otherwise known as the "Kyoto Protocol", and a new international climate change treaty that was agreed in Paris during the United Nations Framework Convention on Climate Change in 2015, due to become effective when at least 55 countries representing at least 55 per cent. of global greenhouse gas emissions ratify it through their respective domestic legal processes. These policy measures seek to reduce the emission of greenhouse gases and may therefore result in increases in Metinvest's cost of operations. Metinvest also has operations outside of Ukraine, and is therefore also potentially exposed to the cost implications of other countries' policies to regulate the effect of greenhouse gases. Furthermore, to the extent that policies designed to combat the effect of climate change promote the use of renewable energy sources over other non-renewable sources, this may have an impact on third party demand for Metinvest's coal. These factors may have a material adverse effect on Metinvest's business, results of operations and financial condition.

Metinvest may receive contaminated scrap metal

To supplement its use of iron ore and concentrate, Metinvest includes scrap metal in the charge it processes into steel. Some of the scrap metal which Metinvest sources from external suppliers may be contaminated due to the Chernobyl disaster in Ukraine in 1986. As a result of strict monitoring procedures, management assesses the risk of shipments of contaminated scrap metal passing into Metinvest's plants as very low. However, any use of contaminated scrap metal could result in losses and liabilities, including with respect to medical claims and work stoppages, which may materially adversely affect Metinvest's business, results of operations and financial condition.

Metinvest benefits from limitations on the export of scrap metal that may be eliminated in the future

The price that Metinvest pays for scrap metal in Ukraine is generally favourable. Favourable scrap metal prices are due in part to high duties on the export of Ukrainian scrap metal and generally high costs of transporting scrap metal over long distances. In the event that Ukrainian export restrictions on scrap were to be removed, the prices that Metinvest pays for scrap metal could increase, which may materially adversely affect Metinvest's business, results of operations and financial condition.

Title to Metinvest's mineral properties or production facilities, or to any privatised company acquired by Metinvest, may be challenged

Some of the properties and facilities that Metinvest has acquired may be subject to prior claims or unregistered agreements, and title may be affected by defects undetected at the time of acquisition. There can be no assurance that Metinvest's title to these properties will not be challenged. In addition, competitors may from time to time also seek to deny Metinvest's rights to develop certain natural resource deposits by challenging its compliance with tender rules and procedures or compliance with the terms of relevant licences or permits.

Most of Metinvest's steelmaking and mining assets in Ukraine consist of companies that have been privatised, and Metinvest may seek to acquire additional companies that have been privatised. Privatisations in some former Soviet republics (including Ukraine) have been subject to political controversy and legal challenge or reversal, including the re-privatisation (by way of re-nationalisation and re-sale by tender) of OJSC Kryvorizhstal (now PJSC "ArcelorMittal Kryvyi Rih"), Ukraine's largest steel mill, in 2005.

Privatisation legislation in Ukraine is vague, internally inconsistent and in conflict with other elements of Ukrainian legislation. As a result, most, if not all, privatisations are arguably deficient and vulnerable to challenge, including through selective action by governmental authorities. While Metinvest believes that it has complied with applicable legislation and regulations with respect to the acquisitions of its assets, if any of Metinvest's acquisitions are successfully challenged as having been improperly conducted and Metinvest is unable successfully to defend itself, Metinvest may lose its ownership interests, which may materially adversely affect Metinvest's business, results of operations and financial condition.

Metinvest's competitive position and future prospects are heavily dependent on its senior management team's experience and expertise

Metinvest's ability to maintain its competitive position and to implement its business strategy and to carry out its day to day activities is dependent to a significant extent on the services of its senior management team. However, there can be no assurance that these individuals will continue to make their services available to Metinvest in the future. The loss of the services of members of Metinvest's senior management team or an inability to attract and retain additional or replacement senior management personnel could have a material adverse effect on Metinvest's business, results of operations and financial condition. Moreover, competition, particularly in Ukraine, for personnel with relevant expertise is intense due to the relatively small number of available qualified individuals, and therefore Metinvest's ability to retain its existing senior management personnel and attract additional suitably qualified senior management personnel may be limited. As a result of these factors, the departure of key members of Metinvest's senior management team could materially adversely affect Metinvest's business, results of operations and financial condition.

If Metinvest is unable to obtain or maintain quality certifications for its facilities, it may lose existing customers or fail to attract new customers

In order to expand its sales of higher quality steel products, Metinvest will need to maintain existing and may need to obtain additional quality certifications. Consumers of high quality steel, particularly those in the EU and the United States, often require that their suppliers have these certifications before commencing new supplier trials. In addition, Metinvest may need to undertake further measures in order to maintain the competitiveness of its products.

Most of Metinvest's operating facilities are certified as complying with, among others, ISO 9001, ISO 14001 and OHSAS 18001 standards and most of its major products are certified by leading international classification societies, including Lloyd's Register, Germanischer Lloyd, Det Norske Veritas, TÜV NORD CERT GmbH and others. These certifications are widely recognised. Metinvest's certified products include slabs, billets, plates and shapes and bars. If Metinvest's certifications are cancelled or approvals withdrawn, its ability to continue to serve its targeted markets or to retain customers may be impaired.

Metinvest's subsidiaries in Ukraine are in many cases one of the largest employers in their respective regions, which may subject Metinvest to social and political pressures

Metinvest's subsidiaries are in many instances among the largest employers in the regions and cities where they operate. While under Ukrainian legislation Metinvest does not have any specific social obligations or responsibilities in relation to these regions or to the trade unions to which most of Metinvest's employees belong, Metinvest's ability to reduce its workforce may nevertheless be subject to local political and social considerations.

In addition, the majority of Metinvest's employees in Ukraine belong to the Federation of Trade Unions of Ukraine and are generally employed under labour agreements entered into for an indefinite period of time. While Metinvest's management believes that its current relations with the trade unions are satisfactory, no assurance can be given that work stoppages will not occur. Work stoppages could reduce production and negatively affect Metinvest's profitability. Any inability to make scheduled or unanticipated reductions in its workforce, or any long-lasting work stoppages caused by strikes or labour disputes could materially adversely affect Metinvest's business, results of operations and financial condition.

Metinvest's operating subsidiaries have minority shareholders

Metinvest owns less than 100.0 per cent. of the shares in some of its production subsidiaries based in Ukraine, with the remaining equity being held by a large number of individual minority shareholders. In particular, as of the date of these Listing Particulars, minority shareholders hold between 9.8 per cent. and 0.2 per cent. in the share capitals of Azovstal, Yenakiieve I&SW, Khartsyzsk Pipe, Ilyich Steel, Avdiivka Coke, Northern GOK, Central GOK, Ingulets GOK, Makiivka Steel, Komsomolske Flux and Krasnodon Coal. Under the Law of Ukraine on Joint Stock Companies any proposal by a shareholder or shareholders who in aggregate own 5.0 per cent. or more of the company's shares must be included into the agenda of the company's general shareholders' meeting. The governing authorities of Metinvest's operating subsidiaries, including their shareholders' meetings, supervisory councils and management boards, have in the past made and continue to make strategic and operational decisions and approve various business transactions which may be challenged by minority shareholders under Ukrainian law.

Following the Third Scheme, Metinvest may not be able to refinance its indebtedness

The 2014 Financial Statements and the 2015 Financial Statement note in an 'emphasis of matter' that Metinvest has been negatively affected, and may continue to be affected for the foreseeable future, by the continuing political and economic uncertainties in Ukraine. The 2014 Financial Statements and the 2015 Financial Statements also contain an additional 'emphasis of matter' to the effect that the current political and economic uncertainties in Ukraine increase uncertainties regarding Metinvest's assessment of the revaluation of property, plant and equipment and the recoverable amount of property, plant and equipment and goodwill under impairment testing. The 2016 Interim Financial Statements note that Metinvest's ability to continue as a going concern is critically dependent on the willingness of its lenders not to demand early repayment of borrowings in default, the ability of Metinvest to negotiate with the lenders a mutually acceptable and feasible debt repayment schedule and the absence of any escalation of the conflict in eastern Ukraine.

In addition, the ongoing civil disturbances, political instability and military action in certain parts of eastern Ukraine have resulted in decreased demand from the international investor base for investment in Ukraine, hampering the ability of Ukrainian companies and banks to obtain funding from the international capital and loan markets. See further "*Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition*". Any continuing or escalating military action in eastern Ukraine could further hamper the ability of Ukrainian companies and banks to obtain such funding, and there can be no assurance that demand for investment in Ukrainian companies and banks will return to their previous levels after the geopolitical situation in Ukraine has stabilised.

The terms and conditions on which future funding or refinancing may be made available may not be acceptable or funding or refinancing may not be available at all, and in the most severe cases, they may materially adversely affect Metinvest's business, results of operations and financial condition.

The Issuer and the Group are exposed to risks in connection with interest rate changes and associated hedging and interest rate fluctuations could adversely affect the Group's results of operations

The Issuer and the Group are exposed to risks associated with changes in variable interest rates, as certain of their credit facilities bear interest at a floating rate, such as the PXF Facilities Agreement. Therefore, an increase or decrease in interest rates would affect their current interest expenses and their future refinancing costs.

The realisation of any of these risks could have a material adverse effect on the business, financial condition and results of operations of the Issuer and the Group, which could in turn adversely affect the Issuer's ability to fulfill its obligations under the Notes or cause the market price of the Notes to decline.

Some transactions of Metinvest's Ukrainian subsidiaries, including most of the Guarantors, may be subject to specific corporate approval requirements

Transactions of Metinvest's Ukrainian subsidiaries which are joint stock companies, including all of the Guarantors other than Metalen (Avdiivka Coke, Ilyich Steel, Ingulets GOK, Khartsyzsk Pipe, Northern GOK, Central GOK, Azovstal and Yenakiieve I&SW), are subject to specific corporate approval requirements applicable to "transactions with interested parties" and "material transactions".

An "**interested party transaction**" is a transaction in which an interested party:

- is the company's counterparty or is a member of the executive body of the company's counterparty;
- is a representative or intermediary of a party (except for the representation of a company by its officers);
- is remunerated by the company (or its officers) or another party to the transaction in return for undertaking the transaction; and/or
- acquires any property as a result of such transaction.

An "**interested party**" is any of the following:

- an officer of the company (being a member of the management board, supervisory board, audit committee or any other company's body), or a person affiliated with any such officer; or
- a shareholder who alone or together with its affiliated parties holds 25 per cent. or more of the company's shares, and shareholder's affiliated persons (except for the cases when such shareholder holds either directly or indirectly 100 per cent. of the company's shares); or
- a legal entity in which any of the abovementioned persons serve as an officer; or
- other persons defined in the company's charter.

An "interested party transaction" is subject to (i) the verification of its commercial terms that should be on an arms-length basis (**customary market terms**) as certified by an independent licensed auditor or valuator retained by the company's supervisory board or executive body, and (ii) a prior approval (or, failing such approval, a post-execution ratification) by the company's supervisory board or general shareholders' meeting, in each case with mandatory abstention of the member or shareholder that is an interested party. The company's charter may establish additional grounds for a transaction to be regarded as an "interested party transaction" and, accordingly, to require the above specified verification and approval.

An "interested party transaction" must be approved by the company's general shareholders' meeting if:

- the company's charter does not provide for the establishment of the supervisory board;
- all members of the supervisory board are interested parties;
- the transaction's value (where applicable, the market value of the property or services which are subject of the transaction) exceeds 10 per cent. of the value of the company's assets based on the company's most recent annual financial statements; or
- the supervisory board either rejected the transaction or failed to approve the transaction within 30 days from receipt of all necessary information.

A transaction is defined as a "material transaction" if its value (where applicable, the market value of the property or services which are subject of such transaction) equals or exceeds 10 per cent. of the value of the company's assets based on the company's most recent annual financial statements. Such transaction requires an approval of the supervisory board of the company (if the transaction's value does not exceed 25 per cent. of the company's assets) or the general meeting of shareholders (if the transaction's value exceeds 25 per cent. of the company's assets).

Risks Relating to Ukraine

As noted above, Ukraine is currently experiencing significant civil disturbances and political instability, with ongoing military action in some parts of the Donetsk and Luhansk regions. See further "Risks Relating to the Group—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition".

The ongoing crisis in eastern Ukraine has had, and is likely to continue to have, negative economic consequences

The Government's attempts to re-establish control of areas of eastern Ukraine where militia is operating have resulted in a significant increase in Ukraine's defence expenditure. If the conflict re-escalates, such expenditure will continue to strain the general resources of the Government and the Government's finances and negatively affect Ukraine's economy. Furthermore, the conflict has led to a significant loss of production in an important industrial area of Ukraine, with industrial output declining 31.5 per cent. in the Donetsk and 42 per cent. in the Luhansk Oblast regions in 2014, as compared to 2013. In 2015, industrial production decreased by 13.4 per cent., as compared to 2014. The conflict also led to a decline in GDP caused by disruption of business in the conflict areas, deterioration of relations with Russia, a reduction of foreign direct investment and disruption of the Government's privatisation programme. The crisis has exacerbated the negative economic trends experienced by Ukraine in recent years. In 2014, Ukraine's GDP declined by 6.8 per cent. and in 2015 Ukraine's GDP declined by a further 9.9 per cent. In 2015, Hryvna depreciated against the U.S. dollar by 1.8 per cent. and depreciated against the Euro by 1.5 per cent. In the period from January to March 2014, the Hryvna depreciated against the U.S. dollar by 37.1 per cent. and further depreciated against the euro by 36.5 per cent. This, along with the associated loss of tax revenue and the increased military and social welfare expenditure, has had, and continues to have, a very significant detrimental effect on the Ukrainian economy and financial position as a whole. The conflict has also had far-reaching adverse effects on foreign direct investment in the regions directly affected by the conflict in particular and Ukraine as a whole, as well as on the Government's economic reform programme. Any or all of these factors could have a material adverse effect on Ukraine's economy, which could in turn have a material adverse effect on Metinvest's business, results of operations, and financial condition.

Ukraine's economy is vulnerable to fluctuations in the global economy

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and the imposition of import tariffs by the United States, the EU, Russia or by other major export markets. In particular, a deterioration in global economic and financial conditions as well as a decrease in domestic demand resulting from civil disturbances and political uncertainty in Ukraine has affected industrial output, which declined by 13.4 per cent. in 2015, according to SSSU. Although in the first half of 2016, industrial output increased by 1.8 per cent. as compared to the same period in 2015, there is no assurance that this growth will continue and be sustainable. Any negative developments in the global economy may have negative effects on the economy of Ukraine, which in turn may have a material adverse effect on Metinvest's business, results of operations and financial condition and on the trading price of the Notes.

In addition, Ukraine's economy is also subject to the risk of economic slowdown in Russia (Russia's GDP in the first half of 2016 declined by 1.2 per cent., according to the Russian Federal State Statistics Service). Ukraine's real GDP in 2013 remained on the same level as in 2012 and shrank by 6.6 per cent. and 9.9 per cent. in 2014 and 2015, respectively, according to the SSSU, mostly due to a fall in the value of investments and a worsening of the trade balance with Russia. The worsening of the trade balance was mainly attributable to the economic pressure that Russia exerted on Ukraine while the Government was negotiating the signing of the Association Agreement with the EU. See "*Any further unfavourable changes in Ukraine's relationship with Russia may adversely affect the Ukrainian economy and thus Metinvest's business*" and "*Ukraine is subject to ongoing political instability or uncertainty*".

Further, during times of financial crisis, companies operating in emerging markets can face particularly severe liquidity constraints as foreign funding sources are withdrawn. Prior to the global financial crisis, relatively easy access to liquidity, both from within Ukraine and internationally, was a significant factor facilitating growth in Ukraine's GDP. If the global macroeconomic situation fails to improve or if conditions in Ukraine do not improve, this could lead to prolonged unavailability of external funding or could impact commodity prices and global trade flows. Ukraine's overall economic and financial position in the short and medium term could also be negatively affected, which could in turn have a material adverse effect on Metinvest's business, results of operations, and financial condition.

Investments in emerging market countries such as Ukraine carry risks not typically associated with risks in more mature markets

A significant part of Metinvest's operations are located in Ukraine. Investments in emerging markets such as Ukraine are subject to greater risk than investments in more mature markets, including in some cases significant political, social, economic and legal risks. Although some progress has been made since independence in 1991 to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. As a consequence, there are risks associated with investments in emerging markets and, specifically, Ukraine, that are not typically associated with investing in more mature markets. The availability of credit to entities operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole. Consequently, any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within such markets. Investors should also note that emerging economies such as Ukraine are subject to rapid change and that the information set out in these Listing Particulars may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investments in emerging markets such as Ukraine are only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Ukraine is subject to ongoing political instability or uncertainty

Since obtaining independence in 1991, Ukraine has undergone substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. In parallel with this transformation, Ukraine is transitioning from a centrally planned economy to a market economy. However, this process of economic transition is not complete. Historically, a lack of political consensus in Verkhovna Rada (the Parliament of Ukraine) has made it difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster economic reform and financial stability.

Following the 2004 "Orange Revolution", Ukraine saw the rise of President Victor Yushchenko and his ally Prime Minister Yuliya Tymoshenko. The later rivalry between these two political leaders and the lack of reform, in combination with the worldwide economic crisis, enabled Victor Yanukovich to obtain the post of President in 2010. During the Yanukovich presidency, the political situation in Ukraine deteriorated as a number of former government officials and politicians who were in opposition to Viktor Yanukovich, including former Prime Minister Yuliya Tymoshenko and former Minister of Internal Affairs Yuriy Lutsenko, were imprisoned for their alleged misconduct during service in government. In 2010, during the first year of Mr. Yanukovich's presidency, the 2004 Constitutional reform, which had provided for a significant transfer of power from the President to the Verkhovna Rada and the Cabinet of Ministers, was reversed by a ruling of the Constitutional Court of Ukraine, allegedly adopted under pressure from President Yanukovich. Following the October 2012 Parliamentary elections, a majority of the Verkhovna Rada, and the Government headed by Prime Minister Mykola Azarov, were closely aligned with President Yanukovich.

In November 2013, the Azarov Government announced its decision to suspend preparations for the signing of the Association Agreement, which had been due to take place that month. This contradicted the previously announced public position of President Yanukovich and the Azarov Government to support closer political and economic ties with the EU. Mass rallies took place in Kyiv and other cities of Ukraine expressing strong public support for the political association and economic integration of Ukraine with the EU. In December 2013, the Presidents of Russia and Ukraine announced a package of economic support for Ukraine by Russia. Although the agreements themselves have not been made public, the two Presidents announced (i) the intention of Russia to subscribe for up to U.S.\$15 billion of Ukrainian sovereign debt before the end of 2014 and (ii) a substantial reduction in the price of gas to be supplied by PJSC Gazprom (**Gazprom**) to National Joint-Stock Company "Naftogaz of Ukraine" (**Naftogaz**) from the beginning of 2014 until the end of 2019. This public announcement was seen by protesters as a shift away from the movement towards closer relations with the EU and the west. On 24 December 2013, Russia made its first payment of U.S.\$3 billion for newly issued Ukrainian sovereign Eurobonds.

As a result of mounting political pressure, Prime Minister Mykola Azarov resigned on 28 January 2014. Following the escalation of civil unrest in Kyiv and elsewhere and the deaths of numerous protestors, on 21 February 2014 the Verkhovna Rada passed a law restoring the 2004 Constitutional reform. On 22 February 2014, the Verkhovna Rada declared that President Yanukovich had vacated his office in an unconstitutional manner, and scheduled extraordinary presidential elections to be held on 25 May 2014. At the end of February 2014, Victor Yanukovich

fled from Ukraine to Russia. The pro-Yanukovych parliament coalition broke up and Oleksandr Turchynov, one of the then-leaders of the opposition, was appointed the new Chairman of Parliament and acting President. A new Government was formed with Mr. Arseniy Yatseniuk appointed acting Prime Minister. The legal consequences of former President Yanukovych vacating his office were not regulated by Ukrainian legislation, and for this reason Mr. Turchynov's acts might be challenged by his political opponents on the grounds of legal uncertainty and/or as a result of a subsequent change in power, which may result in further political instability. In addition, the 2014 Constitutional reform might be challenged on the grounds of procedural irregularity, which could lead to further political uncertainty in Ukraine.

Those of Victor Yanukovych's political opponents who had been sentenced to prison during his presidency were released and all legal proceedings against them were dismissed. On 26 February 2014, Switzerland, Austria and Liechtenstein resolved to freeze the assets and bank accounts of up to 20 Ukrainians (including the ousted president Viktor Yanukovych and his son) after Ukraine's new leaders announced that billions of dollars were missing.

On 16 March 2014, a "referendum", backed by the Russian military, was held in Crimea, pursuant to which it was reported that a majority of those who voted were in favour of joining the Russian Federation as a federal subject. This "referendum" was held in breach of the requirements of the Constitution of Ukraine concerning changes to the territory of Ukraine. On 18 March 2014, the Russian Federation and the Republic of Crimea signed an agreement accepting the Republic of Crimea into the Russian Federation. On 21 March 2014, the Russian parliament passed legislation extending the effect of Russian laws and state authorities to the territory of Crimea. These events in Crimea and the resulting change in Crimea's legal status prompted a negative reaction from the international community, with the EU, the United States and Ukraine, amongst others, refusing to recognise the legality of the referendum in Crimea.

On 25 May 2014, Mr. Poroshenko was elected President of Ukraine. In late August 2014, President Poroshenko exercised his constitutional right to dissolve the Parliament and called for extraordinary Parliamentary elections to be held on 26 October 2014, in which pro-European parties won the majority of seats. The newly elected Government, headed by Arseniy Yatseniuk, received strong support from the EU, the United States, the G7 and other key international institutions. However, the strained relations between the new President and the Government led to accusations of failure in tackling corruption and the resignation of a number of ministers. On 14 April 2016, the second Yatseniuk Government was dismissed. On the same day, Volodymyr Groysman, a former Vinnytsia city mayor, Minister of Regional Development in the first Yatseniuk Government and Speaker of the Parliament during the second Yatseniuk Government, was elected Prime Minister. Allegedly, Mr. Groysman was closely aligned to President Poroshenko, which may lead to further tensions among the President, the Government and the Parliament.

Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences. A number of factors could adversely affect political stability in Ukraine. These could include:

- lack of agreement within the factions and among individual deputies in the Parliament;
- disputes between factions supporting the President and the Government and their opponents on major policy issues, including Ukraine's foreign, energy and cultural policies;
- court action taken by opposition parliamentarians against decrees and other actions of the President or the Government or the Parliament; or
- court action by the President against Parliamentary or governmental resolutions or actions.

If political instability continues, it may have further negative effects on the Ukrainian economy and, as a result, a material adverse effect on Metinvest's business, results of operations and financial condition. Such instability could also cause trading in the Notes to be volatile or adversely affect the trading price of the Notes. See also "*Risks Relating to the Group—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition*".

Ukraine has experienced, and may continue to experience, significant economic instability

From 2000 until the first half of 2008, Ukraine experienced rapid growth in its GDP, with higher tax collections and increased stability of the Hryvna providing some degree of economic soundness. This growth was driven mainly by a rapid increase in foreign demand for Ukrainian products, rising commodity prices on external markets and the availability of foreign financing. While positively affecting the pace of Ukrainian economic growth in those years,

these factors made the Ukrainian economy overly vulnerable to adverse external shocks. Thus, the Ukrainian economy was one of the most heavily affected by the global financial and economic crisis that began in 2008, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. In 2008, due largely to the global financial crisis, Ukrainian economic growth declined and in 2009, the economy contracted by 14.8 per cent., according to SSSU. The situation globally has in certain cases stabilised since, and Ukraine's economy started to recover, with GDP growing by approximately 4.1 per cent. and 5.2 per cent., respectively, in the years 2010 and 2011, according to SSSU. However, GDP growth slowed to 0.2 per cent. in 2012 and remained at the same level in 2013 as in 2012. GDP decreased by 6.6 per cent. and 9.9 per cent. in 2014 and 2015, respectively, as compared to the same periods of the previous year, according to the SSSU. In the first and second quarters of 2016 GDP increased by 0.1 per cent. and 1.4 per cent., respectively, according to the SSSU. A deterioration in the global economic situation may lead to a decline in the Ukrainian economy, and, as a result, may have a material adverse effect on Metinvest's business, results of operations and financial condition.

The Ukrainian economy has been characterised by the following features, which may have a significant adverse effect on the investment climate in Ukraine and, in turn, may be a significant detriment to Metinvest's operations:

- high interest rates;
- decreasing prices in the natural resource sector;
- high levels of budget deficit;
- a relatively weak banking system providing limited liquidity to Ukrainian enterprises;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- tax evasion;
- a large black and grey-market economy;
- significant capital flight;
- high unemployment and underemployment; and
- the impoverishment of a large portion of the Ukrainian population.

In addition, the recent significant civil disturbances and political instability in Ukraine and the ongoing military action in some parts of the Donetsk and Luhansk regions of Ukraine have materially and adversely affected and may continue to affect Ukraine's economy. Ukraine's real GDP shrank by 6.6 per cent. and 9.9 per cent. in 2014 and 2015, respectively, according to the SSSU, mostly due to a fall in the value of investments and a worsening of the trade balance. In June 2016, the NBU forecast GDP would increase by 1.1 per cent. in 2016. The worsening of the trade balance is mainly attributable to the economic pressure that Russia exerted on Ukraine while the Government was negotiating the signing of an Association Agreement with the EU. For the six months ended 30 June 2016, exports of Ukrainian goods to Russia decreased by 35 per cent., as compared to the corresponding period in 2015. On 14 August 2014, the Ukrainian Parliament adopted the Law of Ukraine "On Sanctions", which provides for special economic and other restrictive measures (sanctions) against foreign states, foreign legal entities and individuals involved in activities threatening the national security, sovereignty and territorial integrity of Ukraine or the constitutional rights and freedoms of its citizens. In accordance with this law, on 16 September 2015, the President of Ukraine issued a decree introducing sanctions and other restrictions with respect to 105 legal entities and 388 individuals for a period of one year. These sanctions and restrictions were prolonged for a year and expanded to cover additional legal entities and individuals on 19 March 2016 and 17 October 2016, respectively. In addition to continuing to update its list of sanctioned entities and individuals, which include, among others, Russian businesses and individuals closely related to the Kremlin, the Ukrainian government has introduced a number of other restrictions against the Russian Federation. These sanctions and restrictions, Russia's counter-measures, and any further restrictive measures which may be introduced by the Russian Government against Ukraine, Ukrainian businesses and/or individuals, might have a material adverse effect on Metinvest's business, results of operations and financial condition. See also "*—Ukraine's economy is vulnerable to fluctuations in the global economy*", and "*—Any further unfavourable changes in Ukraine's relationship with Russia may adversely affect the Ukrainian economy and thus Metinvest's business*".

Although the Government has generally been committed to economic reform in recent years, the actual implementation of reforms has been impeded by a lack of political consensus, controversies over privatisation (including the privatisation of land in the agricultural sector and the privatisation of large industrial enterprises), restructuring of the energy sector, and the removal of exemptions and privileges for certain state owned enterprises or for certain industry sectors.

Failure to achieve the political consensus necessary to support and implement such reforms and any resulting instability could adversely affect the country's macroeconomic indices and economic growth. Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in these Listing Particulars will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have negative effect on the Ukrainian economy, which could in turn have a material adverse effect on Metinvest's business, results of operations and financial condition.

Restricted access to international capital markets may adversely affect the Ukrainian economy

Ukraine's internal debt market remains illiquid and underdeveloped as compared with markets in most Western countries. In the aftermath of the emerging market crisis in the autumn of 1998, and until the second half of 2002, loans from multinational organisations such as the EBRD, the World Bank, the EU and the IMF comprised Ukraine's only significant sources of external financing. From 2003 until 2008, the international capital markets were Ukraine's main source of external financing but they ceased to be available from mid-2008 until September 2010 due to the global economic and financial crisis. As a result, Ukraine sought financing from the International Monetary Fund (the **IMF**), which provided stand-by arrangements in 2008 and 2010. On 27 March 2014, the IMF agreed a staff-level agreement with the Ukrainian leadership on opening a two-year stand-by agreement (the **2014 SBA**) worth between U.S.\$14 billion and U.S.\$18 billion. The EU and Japan declared they would issue aid of EUR 1.6 billion and U.S.\$1.5 billion, respectively, after Ukraine signs the agreement with IMF. On 27 March 2014, the United States Congress approved a financial aid package to Ukraine. The bill provides U.S.\$1 billion in loan guarantees to Ukraine, and U.S.\$150 million in financial aid to Kyiv. On 7 May 2014, Ukraine received the first tranche of U.S.\$3.2 billion under the arrangement with IMF. On 26 May 2014, the Government signed loan agreements worth a total of U.S.\$1.5 billion with the World Bank. On 29 August 2014, the Executive Board of the IMF approved the 2014 SBA second tranche worth SDR 914.67 million (U.S.\$1.39 billion). On 11 March 2015 the Executive Board of the IMF approved a four-year extended arrangement under the Extended Fund Facility for Ukraine worth about U.S.\$17.5 billion and was approved under the IMF's exceptional access policy. The Board also took note of Ukraine's decision to cancel the 2014 SBA. On 13 March and 4 August 2015, Ukraine received first two tranches from IMF worth U.S.\$5 billion and 1.7 billion, respectively under the new extended program. On 14 September 2016, the Executive Board of the IMF approved the 2014 SBA second tranche worth SDR 716.11 million (U.S.\$1.00 billion) which was received by Ukraine later that month.

In January and April 2014, Moody's downgraded Ukraine's sovereign rating from Caa1 to Caa2 and then further to Caa3 with a negative outlook. On 11 July 2014, Standard & Poor's Ratings Services revised its outlook on Ukraine from negative to stable. At the same time, S&P affirmed 'CCC/C' long- and short-term foreign currency sovereign credit ratings and 'B-/B' long- and short-term local currency sovereign credit ratings on Ukraine. The long-term Ukraine national scale rating at 'uaBB+' was also confirmed. Fitch Ratings on 22 August 2014, downgraded Ukraine's Long-term local currency Issuer Default Rating (IDR) to 'CCC' from 'B-' and affirmed its Long-term foreign currency IDR at 'CCC'. The issue ratings on Ukraine's senior unsecured local currency bonds were downgraded to 'CCC' from 'B-' while the senior unsecured foreign currency bonds were affirmed at 'CCC'. While Ukraine was able to successfully complete three Eurobond issues in the aggregate amount of U.S.\$5.25 billion; borrow a syndicated loan in the amount of U.S.\$750 million and raise U.S.\$3 billion through the sale of a Eurobond issue guaranteed by the U.S. Agency for International Development since 1 January 2013 (the **U.S.-Backed Eurobonds**), if Ukraine's access to international debt markets were to become limited, the Government would have to rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and maintain foreign exchange reserves. On 10 June 2016, S&P Global Ratings affirmed its 'B-/B' long- and short-term local and foreign currency sovereign credit ratings on Ukraine. The outlooks on the long-term foreign and local currency ratings are stable. Ukraine's newly appointed government has pushed through key reforms, including a gas price hike, paving the way for the disbursement of a delayed financing tranche from the International Monetary Fund in September 2016.

The future stability of the Ukrainian economy continues to be largely dependent upon economic reforms and the effectiveness of economic, financial and monetary measures as well as cooperation with international financial institutions to avoid the possible default.

Further external borrowings from multilateral organisations such as the IMF, the EBRD, the World Bank or the EU may be contingent upon Ukraine's satisfaction of certain requirements including:

- implementing strategic, institutional and structural reforms;
- managing the budget deficit in order to restore confidence in fiscal sector sustainability;
- reducing tax and budgetary arrears and indebtedness for electricity and gas; and
- improving the sovereign debt credit ratings.

If Ukraine is unable to meet these requirements, multilateral organisations may withhold or suspend their funding. A failure by official creditors and of multilateral organisations such as the EBRD, the World Bank or the EU to grant adequate financing combined with any inability to access the international capital markets and syndicated loan markets may put pressure on Ukraine's budget and foreign exchange reserves and have a material adverse effect the Ukrainian economy and, as a result, on Metinvest's business, results of operations and financial condition.

As at 1 July 2016, Ukraine's international reserves amounted to U.S.\$14 billion in foreign exchange reserves. At the same time, Ukraine faces significant external repayments in 2016, in particular, sizeable short-term external repayments, including by corporate and banking sectors (according to the NBU, as at 1 April 2016 short-term external debt is U.S.\$47.6 billion, including U.S.\$29/7 billion of long-term debt to repay within one year).

In December 2013, Russia subscribed for U.S.\$3 billion Ukrainian sovereign bonds due December 2015. According to press reports, Ukraine gave an undertaking to Russia as part of this subscription to ensure that the total volume of Ukraine's state debt and state guaranteed debt would not at any time exceed an amount equal to 60 per cent. of the annual nominal Ukraine's GDP; should such covenant or any other covenant in Ukraine's bond and/or debt documentation be breached, there is a risk that Ukraine might be required to repay such debt (and any other debts that may be subject to a cross-default provision) at short notice, which could have a material adverse effect on the Ukrainian economy as a whole and, as a result, on Metinvest's business, results of operations and financial condition. The Law Debenture Trust Corporation p.l.c. acting as trustee under the above sovereign bonds filed a claim in February 2016 against Ukraine in relation to the repayment of this debt. On 27 May 2016 Ukraine filed its objections to this claim. As of the date of these Listing Particulars this case is still being considered by the High Court of Justice in London, England.

Although the financing obtained through sale of the U.S.-Backed Eurobonds in May 2014 and the two tranches of the loan received by Ukraine under the 2014 SBA have reduced Ukraine's refinancing risk, Ukraine's ability to refinance its debt could come under pressure once again if (i) relations between Russia and Ukraine deteriorate, or (ii) access to the international markets remains restricted in the medium term, and/or no additional external financing is secured.

Any further unfavourable changes in Ukraine's relationship with Russia may adversely affect the Ukrainian economy and thus Metinvest's business

Ukraine's economy relies heavily on its trade flows with Russia (and, to a lesser extent, the other countries of the former Soviet Union, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy-related exports through Russia)). In addition, a large share of Ukraine's services receipts comprises transit charges for oil, gas and ammonia from Russia. In the six months ended 30 June 2016, approximately 9.2 per cent. of all Ukrainian exports of goods were made to Russia, according to the SSSU.

However, relations between Ukraine and Russia are strained due to:

- the annexation of the Crimean peninsula by the Russian Federation;
- the military action in certain districts of the Donetsk and Luhansk regions in the eastern Ukraine;
- ongoing disagreements over the prices and methods of payment for gas delivered by the Russian gas monopolist Gazprom to, or for transportation through, Ukraine;
- issues relating to the delineation of the Russia-Ukraine maritime border; and

- Russian bans on imports of food products from Ukraine and anti-dumping investigations conducted by Russian authorities in relation to certain Ukrainian goods.

When Mr. Yanukovych declared his intention to sign the Association Agreement with the EU in 2013, pressure was placed on Russia-Ukraine bilateral relations, which included the threat of restrictive trade measures by Russia. As a result, the Association Agreement was not signed and exports of Ukrainian goods to Russia decreased by 14.6 per cent. in 2013 as compared to 2012. In December 2013, the presidents of Russia and Ukraine agreed on a package of economic support for Ukraine to be provided by Russia in the amount of U.S.\$15 billion. See "*—Ukraine is subject to ongoing political instability or uncertainty*". On 24 December 2013, Russia made its first payment of U.S.\$3 billion for Ukraine's newly issued sovereign Eurobonds. However, following an escalation of civil disturbances in Ukraine, the second issue of Eurobonds planned for 18 February 2014 was cancelled. Following the signing of political provisions of the Association Agreement on 21 March 2014, the economic part of the treaty was signed on 27 June 2014, which will come into force after Ukraine and each of the 28 member countries of the EU ratifies it. On 16 September 2014, both the Ukrainian and the European Parliaments voted to ratify the Association Agreement. See "*—A failure to develop relations with the EU might have negative effects on the Ukrainian economy and Metinvest's business*".

By the end of February 2014, pro-Russian disturbances had erupted in Crimea and certain eastern regions of Ukraine putting further strain on Russia-Ukraine bilateral relations. See also "*— Ukraine is subject to ongoing political instability or uncertainty*" and "*Risks Relating to the Group—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition*" for further detail. For the six months ended 30 June 2016, exports of Ukrainian goods to Russia decreased by 35 per cent. as compared to the corresponding period in 2015. The foregoing events may have a long-standing impact on trade and other aspects of Ukraine's bilateral relations with Russia and could lead to the imposition of trade and other punitive measures by Russia. These factors, in turn, could have a material adverse effect on the Ukrainian economy.

Russia has in the past threatened to cut off the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and maintain low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. In 2013, the price of gas purchased from Gazprom by Naftogaz was U.S.\$268.5 per 1,000 cubic metres in the first quarter of 2014. Following the conflict between Ukraine and Russia over the Crimean peninsula, Gazprom decided not to continue to implement the agreed discount on gas prices for Ukraine. Gazprom set the price of gas at U.S.\$385.50 per 1,000 cubic meters from 1 April 2014. On 2 April 2014, the Russian government unilaterally annulled an agreement signed in 2010 on the temporary stationing of the Russian Black Sea Fleet in the territory of Ukraine, thus cancelling the discount for gas export duties. From 2 April 2014, the price of Russian gas for Ukraine has been set at U.S.\$485.5 per 1,000 cubic meters. Ukraine started to import gas from Poland and Hungary in April and May 2014. On 28 April 2014, the gas transport operators of Ukraine and Slovakia (Ukrtransgaz and Eustream) signed a memorandum on reverse gas supplies, and on 2 September 2014, Slovakia commenced its gas supplies to Ukraine. On 16 June 2014, Gazprom suspended gas supplies to Ukraine and introduced an advance payment system. Naftogaz submitted a claim to the Arbitration Institute of the Stockholm Chamber of Commerce for the establishment of a fair price for gas supplied to Ukraine by Gazprom, while Gazprom filed a claim for U.S.\$4.5 billion concerning non-payment for gas by Naftogaz. On 26 September 2014, a Hungarian gas network operator suspended supplies to Ukraine due to the Russian-Ukrainian conflict. Reportedly, in March 2016, European Commission offered to Ukraine and Russia to hold a new round of talks to resolve the gas crisis.

In addition, in May 2011, it was reported that Russia plans to divert approximately 20 billion cubic metres of gas per annum from Ukraine's gas transit system to the Nord Stream pipeline bypassing Ukraine. The Nord Stream pipeline commenced commercial operations in November 2011. Moreover, in October 2016 Russia and Turkey signed an agreement for the construction of the TurkStream. For the first six months ended 30 June 2016, transit of natural gas through Ukraine amounted to 37.6 billion cubic meters - an increase of 31 per cent. compared to the same period in 2015. Ukraine is seeking to minimise any potential adverse effect of Nord Stream to Naftogaz and the Ukrainian economy in general, including through assurances on transport volumes. Such efforts may not be successful and any decreases in the volumes of gas transportation (due to the operation of Nord Stream, or the launch of TurkStream and other pipelines bypassing Ukraine), further increases in the prices of natural gas supplied to Ukraine by Russia or other developments could adversely affect Naftogaz's future results of operations, reducing the revenue that the state budget receives from Naftogaz or increasing Naftogaz's need for support.

According to publicly available sources, in January 2013, Gazprom submitted a demand for payment of U.S.\$7 billion in respect of gas not purchased by Naftogaz in 2012 under the "take or pay" provisions of the Gas Agreements. Naftogaz paid for all gas actually delivered by Gazprom in 2012 and does not accept the validity of the

demand by Gazprom in respect of the allegedly uncollected volumes. In accordance with the terms of the gas supply contract, Naftogaz has proposed discussions with Gazprom in order to resolve this issue.

These and any further changes in Ukraine's relations with Russia, in particular any changes adversely affecting supplies of energy resources from Russia to Ukraine or Ukraine's revenues derived from transit charges for Russian oil and gas, may have negative effects on certain sectors of the Ukrainian economy, which could in turn have a material adverse effect on Metinvest's business, results of operations and financial condition.

A failure to develop relations with the EU might have negative effects on the Ukrainian economy and Metinvest's business

Ukraine aims to achieve a closer relationship with the EU, which has recognised it as a market economy since December 2005. The EU accounted for 32.8 per cent. and 31.6 per cent. of all Ukrainian exports in 2014 and 2015, respectively, according to the SSSU, making it the third largest external trade partner of Ukraine after Russia and Asian countries. In the first half of 2016, the EU remained one of Ukraine's largest external trade partners, accounting for 39.9 per cent. of all Ukrainian exports, according to the data of Ministry of Economic Development and Trade.

Following extensive negotiations on the free trade area between Ukraine and the EU from 2008, the parties achieved progress in the harmonisation of, among others, trade in goods (including in relation to instruments of trade protection, tariffs, technical barriers in trade, sanitary and customs issues), intellectual property, rules relating to the origin of goods, sustainable development and trade, trade in services, and public procurement.

In 2013, former President Yanukovich and his Government announced their decision to suspend preparations for the signing of the Association Agreement but in February 2014, Ukraine's new government headed by acting Prime Minister Arseniy Yatseniuk resumed negotiations and both the political and economic parts of the Association Agreement, including the DCFTA, had been signed by June 2014. In September 2014, both the Ukrainian and the European Parliaments voted to ratify the Association Agreement and Ukraine began the process of implementation which entails, among other things, the incremental approximation of Ukrainian legislation to EU regulatory norms in areas including transport, energy, environment, and health and safety. The DFCTA is intended to substantially integrate the EU and Ukraine markets by dismantling import duties and banning other trade restrictions, albeit with specific limitations and transitional periods in "sensitive" areas, such as trade in agricultural products. It will also partially integrate public procurement markets.

Since 1 January 2016, the DCFTA has been provisionally applied pending the ratification of the Association Agreement by all EU Member States. As of the date of these Listing Particulars, The Netherlands is the only country left to finalise the ratifying process. On 6 April 2016, an advisory Dutch referendum on the EU-Ukraine Association Agreement was held. According to the voting results, a majority of the Dutch people who participated in the referendum voted against ratification. Although the referendum had an advisory effect only, the Dutch government has announced that further negotiations on the text of the Association Agreement will be required. As of the date of these Listing Particulars, the EU and Ukraine have rejected any further negotiations of the agreement, which would entail re-ratification by all EU Member States.

Should Ukraine fail to develop its relations with the EU, or should such developments be protracted or regressed, this may have negative effect on the Ukrainian economy, which could in turn have a material adverse effect on Metinvest's business, results of operations and financial condition, and impose risks associated with Metinvest's further development and growth plans.

The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy

The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy. The recent global financial crisis has led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others due in part, to high levels of deposit withdrawals. The crisis has prompted the Government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. The Government's policy has been to intervene in support only of banks whose size is such that their failure would create systemic risk for the Ukrainian economy. Despite progress with the restructuring and recapitalisation of Ukrainian banks, problems with asset quality and indebtedness persist. In 2014 a number of Ukrainian banks, including Finance and Credit Bank, Nadra Bank and VAB Bank, carried out restructuring of their outstanding eurobonds. In 2015, Hryvna depreciated against US dollar by 1.8 per cent. and depreciated against euro

by 1.5 per cent. In the period from January to March 2014, the Hryvna depreciated against the U.S. dollar by 37.1 per cent. and further depreciated against the euro by 36.5 per cent. As at 1 January 2013, following a change in the methodology used to account for non-performing loans, the NBU calculated loans in the "high risk" and "default" categories as a percentage of the aggregate loan portfolio of Ukrainian banks. According to the NBU, the proportion of loans represented by non-performing loans was 19.0 per cent. and 28.0 per cent. as at 31 December 2014 and 31 December 2015, respectively, and 30.4 per cent. as at 30 June 2016. The future increase in the share of non-performing loans in banks' loan portfolios, or a failure to decrease this share, could place additional strain on the banking system. The fragile condition of the Ukrainian banking system has also been the main factor in restricting the availability of domestic credit required by domestic businesses to continue to grow their operations. Troubled domestic banks are in many cases unwilling or unable to lend to domestic businesses in need of renewed or increased funding. A continuing stagnation of credit conditions within Ukraine, resulting from bank profitability remaining low and the anticipated recovery being slow to materialise, is likely to continue to have a negative effect on Ukraine's GDP growth. Furthermore, increased domestic borrowing by the Government is likely to reduce the availability of domestic credit for Ukrainian businesses, exacerbating the effect on GDP levels. In addition, depreciation of the Hryvna can have a negative effect on bank balance sheets.

While Russian banks retain a strong presence in Ukraine, several European banks have reduced their exposure in Ukraine in recent years including Commerzbank, Austria's Erste Group Bank, Swedish bank Swedbank, Italy's Intesa Sanpaolo and the Bank of Cyprus. This is largely due to the high risk of doing business in Ukraine, high credit risk, a high ratio of non-performing loans and exchange rate risk. The recent political changes may affect the presence of Russian banks in Ukraine. See also "*Any further unfavourable changes in Ukraine's relationship with Russia may adversely affect the Ukrainian economy and thus Metinvest's business.*"

The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks, increased liquidity constraints, growth in the share of weak and unsatisfactory loans, the need for the Government to inject more capital into the banking system and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could affect the Ukrainian economy and could have a material adverse effect on Metinvest's business, results of operations and financial condition.

The Ukrainian currency is subject to volatility and depreciation

In view of the high degree of dollarisation of the Ukrainian economy and the reliance of Ukrainian borrowers on external markets for financing, Ukraine has become increasingly exposed to the risk of Hryvna exchange rate fluctuations. Between September 2008 and December 2016, the interbank U.S. dollar/Hryvna exchange rate has fluctuated significantly, between a low of U.S.\$1.00 to UAH4.70 and a high of U.S.\$1.00 to UAH30.01. The NBU sought to address the Hryvna instability by taking administrative measures (including certain foreign exchange market restrictions), and used approximately U.S.\$3.9 billion and U.S.\$10.4 billion of its foreign exchange reserves to support the Ukrainian currency in 2008 and 2009, respectively. In 2010, due to increased supply, and resulting surplus, of foreign currency in the market, the Hryvna appreciated against the U.S. dollar by 0.3 per cent. and depreciated against the euro by 7.7 per cent. In 2011, the Hryvna depreciated against the U.S. dollar by 0.4 per cent. and appreciated against the euro by 2.6 per cent. compared to 1 January 2011. In 2012, the Hryvna depreciated against the dollar by 0.04 per cent. and depreciated against the euro by 2.32 per cent. In both 2012 and 2013, the average official Hryvna to U.S. dollar exchange rate was UAH7.99 to U.S.\$1.00. As a result of political and economic disruption in Ukraine, it depreciated sharply in 2014, from UAH7.99 to U.S.\$1.00 at the start of the year to a high of UAH15.76 to U.S.\$1.00 on 31 December. In 2015 the Hryvna continued to depreciate as compared to 2014. In 2016 exchange rate for the Hryvna has undergone less fluctuations, floating from UAH24.00 to U.S.\$1.00 at the beginning of the year to a UAH24.85 to U.S.\$1.00 on 30 June 2016.

Due to a change in policy, the NBU has limited its intervention through the sale of international reserves. The NBU also adopted measures to limit foreign currency transactions in the shadow economy. A significant worsening of external conditions, in particular in the Euro-zone, could lead to increased Hryvna volatility. Based on the amendments to the law on the NBU in November 2012, the NBU ordered Ukrainian companies with foreign currency income to mandatorily exchange 50 per cent. of their foreign currency proceeds into local currency. In August 2014, the NBU extended the mandatory exchange requirement to 100 per cent. of foreign currency proceeds, but subsequently decreased it to 75 per cent. of foreign currency proceeds in September 2014, and to 65 per cent. in June 2016. Although the NBU eased certain currency control restrictions in 2016, it may pursue such process as necessary to support the Hryvna and may use further currency control measures in the future, if deemed necessary. Any further currency fluctuations may negatively affect the Ukrainian economy in general and, which could in turn have a material adverse effect on Metinvest's business, results of operations and financial condition, and impose risks associated with Metinvest's further development and growth plans.

Ukrainian tax law and practices are not fully developed and are subject to frequent change and re-interpretation, which may create an uncertain environment for investment and business activity

Ukrainian tax legislation is subject to frequent changes and amendments, which may result in either a more favourable environment or unforeseen complexities for Metinvest. For example, with effect from 1 January 2011, the Ukrainian tax system was significantly reformed by the adoption of the Tax Code. Although the Tax Code is viewed by the Government as a significant step in the implementation of the tax reform aimed at modernising and simplifying the Ukrainian tax system, the Tax Code has attracted wide public criticism and opposition from private entrepreneurs throughout Ukraine. Apart from the Tax Code, the system of taxation is frequently varied by interpretations issued by the tax authorities. There may be significant uncertainty in the future as to the implementation or interpretation of the new legislation. Furthermore, the complicated process of tax inspections and the contradictory rules on when they should be held reduce predictability for the taxpayers. In August 2016, the Ukrainian tax authorities claimed that Ingulets GOK is not fully in compliance with the law with respect to corporate income tax and VAT and issued and delivered to Ingulets GOK a tax decision indicating the amounts of approximately UAH 1.5 billion (approximately U.S.\$ 60 million) payables and approximately UAH 3.5 billion (approximately U.S.\$ 140 million) of improperly calculated losses. Ingulets GOK appealed this decision in a higher tax authority, and should this appeal be unsuccessful, it will challenge this decision in a court.

Due to the budget deficit, taxpayers may not receive VAT refunds to which they are entitled or may not be able to offset them against future tax liabilities because of the absence of an effective legislative mechanism to offset the amounts of the VAT refund against taxes and duties. The difficulties in obtaining VAT refunds remain an obstacle to investment in the export-oriented sectors of economy. On 1 January 2015, amendments to the Tax Code came into effect, *inter alia*, introducing the concept of a special VAT account to be automatically opened for a VAT payer with the Treasury, which may lead to a requirement for VAT payers to hold specific amounts of funds in such accounts.

On 1 April 2014, an amendment to the Tax Code came into effect whereby the subsoil tax rate increased to 5 per cent. of the value of certain ore minerals. Further, on 15 September 2014 a draft amendment to the Tax Code was lodged in the Ukrainian Parliament which envisaged, *inter alia*, an increase in the subsoil tax rate for iron ore to 8 per cent. of the value of such ore. These factors negatively impact the predictability of the country's taxation system and, therefore, have an adverse effect on business activity and, consequently, may adversely affect Metinvest's business, results of operations and financial condition or prospects and impose risks associated with Metinvest's further development and growth plans.

See also "*Risks Relating to the Group—Transfer pricing rules may potentially affect the Group's results of operations*".

A failure to carry out constitutional reforms might have negative effects on the Ukrainian economy and the Group's business

On 12 February 2015, a new ceasefire agreement (the **Minsk Protocol**) brokered by France and Germany was agreed in Minsk by Ukrainian and Russian representatives, as well as representatives of the self-proclaimed DPR and LPR. The Minsk Protocol envisaged constitutional reform, with the adoption of amendments to the Constitution of Ukraine. On 16 July 2015, the Ukrainian Parliament voted in favour of sending a draft law on amendments to the Constitution of Ukraine on the decentralisation of power (the **Draft Law**) to the Constitutional Court of Ukraine (the **CCU**). Upon the CCU's holding that the Draft Law complies with the Constitution, on 31 August 2015, the Ukrainian Parliament gave its preliminary approval of the Draft Law. As of the date of these Listing Particulars the adoption of the Draft Law by the Ukrainian Parliament was pending. The Draft Law envisages granting local communities powers to collect taxes and allocate budgets themselves. The oblast (region) and raion (district) state administrations will be dissolved and prefects representing the state at a local level would be appointed. Powers of the dissolved regional and district state administrations would be transferred to the level of village, town, and city authorities. The Draft Law also provides that prefects will oversee compliance by the local self-governing authorities with the Constitution of Ukraine and the laws of Ukraine. Along with local government reform, the Draft Law restates certain provisions of the Constitution of Ukraine on administrative and territorial structures. In particular, the Draft Law contains a requirement according to which the terms and procedures for the creation, liquidation, changes in boundaries of and the naming and re-naming of administrative units must be regulated by law. Additionally, the proposed amendments provide for a specific procedure for the implementation of local self-government in several districts of the Donetsk and Luhansk regions, which will be regulated by a separate law. A failure to carry out the constitutional reforms envisaged by the Minsk Protocol may have a negative impact on the Ukrainian economy and the Group's business.

Ukraine's developing legal system creates risks and uncertainties for investors in Ukraine and for participants in the Ukrainian economy

Since independence in 1991, as Ukraine has been transforming from a planned to a market-based economy, the Ukrainian legal system has also been developing to support this transformation. Ukraine's legal system is, however, in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to:

- inconsistencies between the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- different and sometimes controversial practices of interpreting and applying laws within Ukraine;
- the relative inexperience of judges and courts in interpreting Ukrainian legislation, specifically in dealings with business and corporate law;
- corruption within the judiciary; and
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions.

Furthermore, several fundamental Ukrainian laws either have only recently become effective or are still pending hearing or adoption by the Ukrainian Parliament. The recent origin of much of Ukrainian legislation, the lack of consensus regarding the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with economic development place the enforceability and underlying constitutionality of certain laws in doubt. This results in ambiguities, inconsistencies and anomalies within Ukraine's legal and regulatory framework. In addition, Ukrainian laws often contemplate implementing regulations, but these regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions contemplated by the underlying laws, which results in a lack of clarity and an increasing number of conflicts with regulatory authorities. There are uncertainties relating to Ukraine's judicial system, which may make legal recourse and enforcement against Metinvest difficult or impossible. See also "*The judiciary's lack of independence and overall experience, difficulty in enforcing court decisions and governmental discretion in enforcing claims could prevent Metinvest or investors from obtaining effective redress in court proceedings*". These and other factors that have an impact on Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

In addition, Ukrainian corporate laws and regulations contain ambiguities, imprecision and inconsistencies which can make it difficult to comply with them. As a result, Metinvest's transactions might not be in compliance with all corporate requirements, procedures or formalities. Such non-compliance may result in fines, warnings from governmental authorities, orders to remedy the violations, inability to increase share capital of a joint stock company, mandatory winding-up proceedings or requests to unwind a transaction. Although Metinvest does not expect that any party would seek to review or modify any of these transactions or challenge any such irregularities, there can be no assurance that this will not occur. Any successful challenge of Metinvest's transactions could have a material adverse effect on Metinvest's business, results of operations and financial condition.

Moreover, Ukrainian legislation governing the operation of businesses with assets in the Donetsk and Luhansk regions which have been seized by militia and are not under Ukrainian control is poorly drafted and inconsistent and often fails timely to address the regulatory issues arising in respect of logistics, transportation, supplies, trade and other business and commercial dealings in these territories. As a result, the Group may experience difficulties in ensuring legal compliance in respect of its assets and operations in these territories (including, without limitation, in respect of permits and environmental and health safety regulations), and there can be no guarantee that the Group will not be subject to challenges or claims by the Ukrainian regulatory authorities as a result.

Official economic data and third-party information in these Listing Particulars may not be reliable

Official statistics and other data published by Ukrainian state authorities and other third party information may not be as complete or reliable as those of more developed countries. Official economic and other data and third party information may also be produced on different bases than those used in more developed countries, and may not fully conform with international standards. Furthermore, standards of accuracy of statistical data may vary from agency

to agency and from period to period due to the application of different methodologies. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated otherwise, the macroeconomic data presented in these Listing Particulars has not been restated to reflect such inflation and, as a result, period to period comparisons may not be meaningful. Specifically, investors should be aware that certain statistical information and other data contained in this document have been extracted from official governmental sources in Ukraine and were not prepared or independently verified in connection with preparation of these Listing Particulars. Metinvest accepts responsibility only for the correct extraction and reproduction of such information. These factors may negatively impact the predictability of Ukraine's economy and could have a material adverse effect on Metinvest's business, results of operations and financial condition.

Ukraine's physical infrastructure is in poor condition, which may lead to disruptions in Metinvest's business or an increase in its costs

Ukraine's physical infrastructure, including its power generation, transmission and communication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. In addition, the recent military action in the Donetsk and Luhansk regions of Ukraine has had an adverse effect on infrastructure in the region, in particular, on the railway infrastructure and electricity transmission lines. See also "*—Risks Relating to the Group —Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition*". The Government has been implementing plans to develop the nation's rail, electricity and telephone systems, which may result in increased charges and tariffs whilst failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine's physical infrastructure has an adverse effect on the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and can interrupt business operations. Any further deterioration in Ukraine's physical infrastructure could have a material adverse effect on Metinvest's business, results of operations and financial condition.

Ukraine may not be able to maintain access to foreign trade and investment

Cumulative foreign direct investment remains low for a country the size of Ukraine. As a result of a significant shortage of internal financial resources, Ukraine has sought to attract foreign investment as an important contributor to economic growth and structural reform. However, the pace and amount of foreign direct investment in Ukraine has been adversely affected by overly complex and inconsistent legislation and non-transparent procedures, including in the areas of privatisation, government intervention and taxation, and by perceived corruption. Cumulative foreign direct investment amounted to U.S.\$58.2 billion in 2013, U.S. \$45.9 billion in 2014 and U.S. \$43.4 billion in 2015, according to the SSSU. Investments made in Ukraine to date have primarily been in the following sectors: industry, financial services, real estate, engineering, trade and repair of cars and household goods. The current political crisis has had a negative impact on trade relations with Russia, resulting in a decreases of approximately 48 per cent. and 35 per cent. in the volume of exports of Ukrainian goods to Russia in 2015 and in the six months ended on 30 June 2016, respectively, as compared to the corresponding period in the previous year, and is expected to have a negative impact on foreign direct investment in 2016. See also "*—Any further unfavourable changes in Ukraine's relationship with Russia may adversely affect the Ukrainian economy and thus Metinvest's business*".

Any increase in the perceived risks associated with investing in Ukraine and tightening of the foreign investment regulations could dampen foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain attractive to foreign trade and investment. For example, between 2005 and 2010 the Government took steps to challenge, reverse or cancel a number of privatisations. Privatisation remains relatively low and, in current market conditions with depressed local asset prices, is unlikely to be substantially increased, and any future attempts to re-nationalize previously privatised enterprises could adversely affect the climate for foreign direct investment and have an adverse effect on the economy of Ukraine which, in turn, may have a material adverse effect on Metinvest's business, results of operations and financial condition.

Corruption and money laundering may have an adverse effect on the Ukrainian economy

Independent analysts, including the Financial Action Task Force on Money Laundering (FATF) and Transparency International, an anti-corruption body based in the UK, have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in February 2015, the NBU and other state authorities, as well as various entities performing financial transactions, are required to closely monitor certain financial transactions for evidence of money laundering. The new set of anti-corruption laws was adopted in October 2014. Although the new legislation and institutional system are expected to

facilitate anti-corruption efforts in Ukraine, there can be no assurance that the laws will be effectively applied and implemented by the relevant supervising authorities. Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the Ukrainian economy, which could in turn have a material adverse effect on Metinvest's business, results of operations and financial condition.

The judiciary's lack of independence and overall experience, difficulty in enforcing court decisions and governmental discretion in enforcing claims could prevent Metinvest or investors from obtaining effective redress in court proceedings

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. The system of constitutional jurisdiction is too complicated to ensure the smooth and effective removal of discrepancies between the Constitution of Ukraine on the one hand, and various laws of Ukraine on the other hand.

The court system is understaffed and underfunded. Because Ukraine is a civil law jurisdiction, judicial decisions generally (with the exception of the decisions of the Supreme Court of Ukraine) have no precedential effect on subsequent decisions, and courts are generally not bound by earlier decisions taken under the same or similar circumstances, which can result in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. In September 2016, a new law on the judicial system became effective. Although the law is intended to simplify the court system, it may take some time to be duly implemented. During the transition period, claimants may experience difficulties in protecting their rights, and the process of judicial review may become slower.

Enforcement of court orders and judgments can, in practice, be very difficult in Ukraine. The State Enforcement Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Enforcement procedures are often very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Enforcement Service has limited authority to enforce court orders and judgments quickly and efficiently. Ukrainian enforcement agencies are bound by the method of enforcement envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court may reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. In practice, the procedures employed by the State Enforcement Service do not always comply with the applicable legal requirements, resulting in delays to or failures in enforcement of court orders and judgments.

On 5 January 2017, the concept of private enforcement officers (private bailiffs) became effective. Private enforcement officers will be allowed to enforce certain types of court decisions, however, it may take some time before enforcement proceedings by private enforcement officer are fully operational and effective.

These uncertainties also extend to other rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors and, in certain cases, the courts may not enforce these rights. In addition, court claims are often used in the furtherance of political aims. Metinvest may be subject to such claims and may not be able to receive a fair trial. Finally, court orders are not always enforced or followed by law enforcement institutions.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. The uncertainties of the Ukrainian judicial system could have a negative effect on the Ukrainian economy and on Metinvest's business, results of operations and financial condition.

Ukraine's competition legislation is complex, often uncertain and its application may be inconsistent

Metinvest has been growing its business and international presence through the establishment of subsidiaries and acquisition of interests in companies and of other assets within and outside of Ukraine. Certain of these transactions were subject to prior approvals of the Anti-monopoly Committee of Ukraine (the **AMC**) under the applicable competition legislation. Metinvest believes that it has complied with the requirements of Ukrainian competition legislation in all material respects, and Metinvest has not received any notice or order from the AMC which would indicate otherwise. However, Ukrainian competition legislation is complex, sometimes uncertain or contradictory, and lacks sufficient detail and precision. Such complexities of Ukrainian competition legislation make it difficult to achieve absolute compliance. The AMC may take a view that some of the applicable requirements were not fully

complied with or that some of the AMC filings or notifications were not complete or entirely accurate. Any failure to obtain AMC approvals could result in penalties including administrative sanctions and fines of up to 5 per cent. of the relevant group's consolidated revenue for the financial year immediately preceding the year in which the fine is imposed. Transactions which are found to have led to the creation of a monopoly or substantially reduced competition in the relevant market or part thereof, or any other concentration may be declared null and void. Although Metinvest believes that none of its relevant transactions has led to the creation of a monopoly or substantially reduced competition in the relevant market in Ukraine there is a risk that certain defects and inconsistencies of Ukrainian competition legislation may lead to adverse findings in relation to Metinvest's prior acquisitions which could result in administrative sanctions or fines being imposed or divestiture of acquired assets being ordered against Metinvest provided that the AMC is not restricted from taking actions by the applicable Ukrainian statutory limitations. This could have a material adverse effect Metinvest's business, results of operations and financial condition.

Disclosure and reporting requirements and fiduciary duties remain less developed than those of more developed countries

Disclosure, reporting requirements and anti-fraud legislation in Ukraine have only recently been adapted to the requirements of the market economy and remain untested. Most Ukrainian companies do not have corporate governance procedures that are in line with Western standards. The concept of fiduciary duties of management of board members to their companies or shareholders is not as developed in Ukraine as it is in the United States or Western Europe, and currently applies only to members of the governing bodies of joint stock companies and, in particular, banks. While Metinvest considers that it has adequate corporate governance and internal reporting procedures in place, violations of disclosure and reporting requirements or breaches of fiduciary duties by the company's Ukrainian subsidiaries or their management could significantly affect the receipt of material information or result in inappropriate management decisions, which in turn may have a material adverse effect on Metinvest's business, results of operations and financial condition.

Risks Relating to the Notes, the Guarantees and the Collateral

During the Initial Period, certain portions of interest on the Notes may be paid in PIK Notes rather than cash, or not at all

During the Initial Period, the Issuer is only required to pay 2.793 per cent. per annum of interest in cash. The remaining interest will be paid in accordance with the Cash Sweep, but only if and to the extent there is cash available under the Cash Sweep. The Issuer is required to pay under the Cash Sweep if and to the extent there is sufficient cash available first, up to 6.5795 per cent. per annum of interest with cash (or if there is insufficient cash under the Cash Sweep, increase the principal amount of the Notes by issuing PIK Notes in lieu of paying such cash interest), second to redeem all PIK Notes previously issued at their principal amount, and third to pay up to 1.5025 per cent. per annum of "catch-up" interest with cash. To the extent there is insufficient cash, the "catch-up" interest is not payable and no PIK Notes will be issued in lieu thereof. There can be no assurance that sufficient (or any) cash would be available to pay interest on the Notes under the Cash Sweep. See Condition 5 (*Interest, PIK and Cash Sweep*).

The availability of cash under the Cash Sweep is dependent on the Group's average cash balances over a three month calculation period. The Notes and the PXF Facility Agreement allow the Group to utilise cash that would otherwise be swept in the Cash Sweep for certain other permitted uses, and such uses would reduce the amount available under the Cash Sweep. Furthermore, a portion of the cash available under the Cash Sweep will be paid to holders of the UCC Seller Notes (or any debt that restructures or refinances the UCC Seller Notes). Therefore during the Initial Period there can be no assurance that the Noteholders will receive any interest payments under the Cash Sweep, and the resulting issuance of PIK Notes would increase the amount of the Issuer's indebtedness and increase the risks associated with the Issuer's higher level of indebtedness.

The Group's substantial leverage and debt service obligations could adversely affect its business and prevent the Issuer from fulfilling its obligations with respect to the Notes and the Guarantors with respect to the Guarantees

The Group cannot guarantee that it will be able to generate enough cash flow from operations to service its debt obligations, including under the Notes. After the issuance of the Notes and the settlement of the Third Scheme, the Group will remain highly leveraged.

The degree to which the Group will be leveraged following the issuance of the Notes and the settlement of the Third Scheme could have important consequences to the Noteholders, including, but not limited to:

- making it more difficult for the Group to satisfy its obligations with respect to the Notes and its other debt and liabilities;
- making the Group vulnerable to, and reducing its flexibility to respond to, general adverse economic and industry conditions;
- requiring the Group to dedicate a substantial portion of its cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures or other general corporate purposes;
- limiting the Group's flexibility in planning for, or reacting to, changes in its business and the competitive environment and industry in which it operates;
- placing the Group at a competitive disadvantage as compared to its competitors that are not as highly leveraged; and
- limiting the Group's ability to borrow additional funds or raise equity capital in the future and increasing the cost of any such additional financings.

Any of these or other consequences or events could have a material adverse effect on the Group's ability to satisfy its debt obligations, including the Notes. The Group's ability to make payments on and refinance its indebtedness and to fund working capital expenditures and other expenses will depend on its future operating performance and ability to generate cash from operations. Its ability to generate cash from operations is subject, in large part, to general economic, competitive, legislative and regulatory factors and other factors that are beyond its control. The Group may not be able to generate sufficient cash flow from operations nor obtain enough capital to service its debt or fund planned capital expenditures.

The Group will require a significant amount of cash to service its debt and sustain its operations. The Group's ability to generate or raise sufficient cash depends on many factors beyond its control

The Group's ability to make principal or interest payments when due on its indebtedness, including the PXF Facility Agreement and its obligations under the Notes, and to fund its ongoing operations, will depend on its future performance and ability to generate cash, which is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "Risk Factors", many of which are beyond its control.

If the Group is unable to generate sufficient cash flows from operations and other capital resources to pay its debt obligations or meet other liquidity needs, it may be required to refinance or restructure its indebtedness. If the Group is unable to refinance or restructure all or a portion of its indebtedness or obtain such refinancing or restructuring on terms acceptable to it, the Group may be forced to, among others:

- reduce or delay its business activities, planned acquisitions and capital expenditures;
- sell assets;
- raise additional debt or equity financing; or
- restructure or refinance all or a portion of its debt, including the Notes, on or before maturity.

If any of the above were to occur, the holders of debt of the Group may be able to accelerate such debt and, to the extent such debt is secured, foreclose on its assets. The type, timing and terms of any future financing, restructuring, asset sales or other capital raising transactions will depend on the Group's cash needs and the prevailing conditions in the financial markets. There can be no assurance that the Group will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In such an event, the Group may not have sufficient cash or sources of cash to repay all of its debt. In addition, the terms of the PXF Facility Agreement, the Notes and the Intercreditor Agreement may limit the Group's ability to pursue any of these measures.

The Issuer is a holding company and is completely dependent on cash flow from its operating subsidiaries to service its indebtedness, including the Notes

The Issuer is a holding company and its primary assets consist of its shares in its subsidiaries and cash in its bank accounts. The Issuer has no revenue generating operations of its own, and therefore the Issuer's cash flow and ability to service its indebtedness, including the Notes, will depend primarily on the operating performance and financial condition of its operating subsidiaries and the receipt by the Issuer of funds from such subsidiaries in the form of interest payments, dividends or otherwise. Because the debt service of the Notes is completely dependent upon the cash flows of the Issuer's operating subsidiaries, there may be no cash under the Cash Sweep available for distribution to the Noteholders on certain Interest Payment Dates and/or the Issuer may be unable to make required interest and principal payments on the Notes.

The operating performance and financial condition of the Issuer's operating subsidiaries and the ability of such subsidiaries to provide funds to the Issuer by way of interest payments, dividends or otherwise will in turn depend, to some extent, on general economics, financial, competitive, market and other factors, many of which are beyond the Issuer's control. The Issuer's operating subsidiaries may not generate income and cash flow sufficient to enable the Issuer to make any payments on the Notes through the Cash Sweep or meet the payment obligations on the Notes. Presently, the NBU has restricted cross border payments of dividends by Ukrainian companies. Foreign investors are allowed to repatriate dividends for 2014 and 2015 only up to the higher of U.S.\$1 million or ten per cent. of the total amount of dividends to be paid to such foreign investors, and up to U.S.\$5 million per calendar month in any event. This restriction will remain effective until the Ukrainian banking and financial systems become stable and the NBU adopts a separate regulation.

Furthermore, there can be no assurance that the currency control regulations currently in place will not be extended or expanded in a manner that would further prevent the Issuer's subsidiaries from providing funds to the Issuer.

The terms of other agreements to which the Issuer and its subsidiaries may be or may become subject may restrict the ability of its subsidiaries to provide funds to the Issuer. In addition, the Issuer and its subsidiaries may incur other debt in the future that may contain financial or other covenants more restrictive than those contained in the Trust Deed governing the Notes.

The inability of members of the Group to transfer cash to the Issuer may mean that, even though the Group, in aggregate, may have sufficient resources to meet its obligations, it may not be permitted to make the necessary transfers in order to make payments to the Issuer. Finally, the subsidiaries of the Issuer that do not guarantee the Notes have no obligation to make payments with respect to any of the Notes.

The Group is subject to restrictive debt covenants that may limit its ability to finance future operations and capital needs and to pursue business opportunities and activities

The Notes will restrict, among other things, the Group's ability to:

- incur or guarantee additional debt and issue certain preferred stock (including a requirement to maintain the amount of hedging obligations below certain levels);
- make certain restricted payments, including dividends or other distributions and sponsorship and charitable payments;
- prepay or redeem subordinated debt before its maturity;
- make certain investments;
- engage in certain transactions with affiliates;
- create or permit certain liens to exist;
- sell, lease or transfer certain assets (including a requirement to apply certain asset sale proceeds for debt service rather than re-investment);
- sell, lease or transfer certain assets of members of the Collateral Group to other members of the Group or, in some cases, within the Collateral Group;

- guarantee certain debt of the Issuer or any Guarantor without also guaranteeing the Notes, and the Issuer is required to ensure that the Guarantor coverage level in terms of Adjusted EBITDA (excluding share in EBITDA of joint ventures) and total assets is maintained above certain levels;
- create certain restrictions on the ability of subsidiaries of the Issuer to pay dividends, make loans or transfer assets to the Issuer or another subsidiary;
- make capital expenditures above certain levels;
- amend or refinance certain debt of Metinvest U.S., Inc. and certain of its subsidiaries;
- merge or consolidate the Issuer or any Guarantor with other entities or transfer all or substantially all of the Issuer's or a Guarantor's assets; and
- impair the security interests for the benefit of the Noteholders.

All of these limitations will be subject to certain exceptions and qualifications. See Condition 4 (*Covenants*). Despite these exceptions and qualifications, the covenants to which the Group is subject could limit its ability to finance future operations and capital needs and its ability to pursue business opportunities and activities that may be in its interest. The PXF Facility Agreement will contain similar and additional covenant restrictions, including certain financial covenants.

In addition, the Group's ability to comply with these covenants and restrictions may be affected by events beyond its control. These include prevailing economic, financial and industry conditions. If the Group breaches any of these covenants or restrictions under the Notes, it could also result in a cross-default to the PXF Facility Agreement, and the relevant lenders could elect to declare the debt, together with accrued and unpaid interest and other fees, if any, immediately due and payable and proceed against any collateral securing that debt. An event of default under certain financial covenants in the PXF Facility Agreement that is not waived within 90 days would also result in an event of default under the Notes. If the debt under the PXF Facility Agreement, the Notes or the Guarantees or any other material financing arrangement that the Group enters into were to be accelerated, the Group's assets may be insufficient to repay in full the Notes and its other debt. Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions also may be accelerated or become payable on demand. In these circumstances, the Group's assets may not be sufficient to repay in full that indebtedness and its other indebtedness then outstanding, including the Notes. In addition, if the Group is unable to repay those amounts, its creditors could proceed against any collateral granted to them to secure repayment of those amounts. See Condition 10 (*Events of Default*) and "*Description of Indebtedness and the Third Scheme—Restructuring—PXF Facility Agreement—Events of Default*".

Despite its substantial leverage, the Group may incur more debt, which could adversely affect the Group's business and prevent the Issuer and the Guarantors from fulfilling their obligations with respect to the Notes and the Guarantees

The terms of the Conditions will permit the Group to incur substantial additional debt, including in respect of borrowings under the PXF Facility Agreement which will share the Collateral securing the Notes on a *pari passu* basis. The PXF Facility will also be secured on assets other than the Collateral and therefore have a priority claim over enforcement proceeds from those assets. In addition, the Conditions allow a significant amount of debt, including an unlimited amount of trade finance facilities debt and certain other debt, to be incurred by non-guarantor subsidiaries that would be structurally senior to the Notes and that would also be allowed to be secured on assets other than the Collateral, giving such debt a priority claim over enforcement proceeds from those assets ahead of the Notes.

On 4 January 2017, Metinvest restructured subordinated notes issued on 30 April 2009 by United Coal Company LLC and Metinvest U.S. Inc., as amended from time to time (the **UCC Seller Notes**) and the guarantee from the Issuer contained in the Issuer guaranty agreement (the **Seller Notes Restructuring**). See "*Description of Indebtedness and the Third Scheme—Current Indebtedness—Seller Notes*". The UCC Seller Notes and related guarantee by the Issuer are secured by other assets that do not secure the Notes and therefore have a priority claim over enforcement proceeds from those assets. If further defaults occur under the UCC Seller Notes, any acceleration of the UCC Seller Notes (i) would entitle the holders of the UCC Seller Notes (acting through their representative) to enforce the security for the UCC Seller Notes, (ii) could result in a cross-default under the terms of the Notes and the PXF Facility Agreement and (iii) could result in a call under the Issuer's subordinated guarantee. The occurrence of any of these events could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer, the Guarantors or Metinvest.

The Notes will be structurally subordinated to the liabilities and preference shares (if any) of the Issuer's non-guarantor subsidiaries

Generally, claims of creditors of the Issuer's non-guarantor subsidiaries, including trade creditors, and claims of preference shareholders (if any) of such non-guarantor subsidiaries, will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the claims of creditors of its parent entity, including claims by the Noteholders under the Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganisation, administration or other bankruptcy or insolvency proceeding of any of the Issuer's non-guarantor subsidiaries, holders of such non-guarantor subsidiaries' indebtedness, including holders of third party debt which such non-guarantor subsidiaries have guaranteed, and trade creditors of such non-guarantor subsidiaries will generally be entitled to payment of their claims from the assets of those non-guarantor subsidiaries before any assets are made available for distribution to those non-guarantor subsidiaries' parent entity. As such, the Notes and each Guarantee will each be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of the non-guarantor subsidiaries. See also "*—The Issuer is a holding company and is completely dependent on cash flow from its operating subsidiaries to service its indebtedness, including the Notes*".

The value of the Collateral securing senior secured indebtedness, including the Notes, may not be sufficient to satisfy obligations under the Notes

No appraisal of the value of the security securing the Notes has been made, and the fair market value of the Collateral is subject to fluctuations based on factors that include, among others, general economic conditions and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including, but not limited to, the actual fair market value of the Collateral at such time, the timing and the manner of the sale and the availability of buyers. By its nature, portions of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, there can be no assurance that there will be a market for the sale of the Collateral, or, if such a market exists, that there will not be a substantial delay in its sale. In addition, the share pledges over the shares of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the security may not be sold in a timely or orderly manner. The proceeds from any sale or liquidation of the security will generally be used to repay all senior secured indebtedness, including the outstanding amounts under the Notes and the PXF Facility Agreement on a pro rata basis (other than in relation to a pledge of equipment pledged by Central GOK which will be applied to repay the Notes in priority), and may not be sufficient to pay the obligations under the Notes. See also "*—It may be difficult to realise the value of the Collateral*".

The PXF Facility Agreement is also secured over the same assets that secure the Notes, and the Noteholders may not control certain decisions regarding the Collateral. The Intermediate Holdco Share Pledge and the OpCo Share Pledges may be enforced only in limited circumstances

The PXF Facility Agreement will be secured by security interests in the Collateral on a *pari passu* basis with the Notes (other than a pledge of equipment by Central GOK which secures the Notes in priority to the PXF Facility Agreement). The rights of the Noteholders with respect to the Collateral will be subject to the Intercreditor Agreement. Under the Intercreditor Agreement, enforcement actions that may be taken with respect to the Collateral will be controlled by the Common Security Agent. The Common Security Agent is required to take enforcement action upon receiving instructions from an instructing group of (i) lenders representing more than 75 per cent. of the aggregate participations in the aggregate outstanding principal amount of borrowings under the PXF Facility Agreement, (ii) holders representing 50.1 per cent. or more of the aggregate outstanding principal amount of the Notes or (iii) holders holding at least 50.1 per cent. of the aggregate outstanding principal amount of the Notes and the aggregate participations in the aggregate outstanding principal amount of borrowings under the PXF Facility Agreement. Accordingly, upon an event of a default, actions relating to enforcement of the security may not be controlled by the Noteholders. The lenders under the PXF Facility Agreement may have interests that are different from the Noteholders and they may, subject to the terms of the Intercreditor Agreement, elect to pursue their remedies under the security documents at a time when it would be disadvantageous for the Noteholders to do so. Delays in enforcement could decrease or eliminate recovery values.

Furthermore, the Intermediate Holdco Share Pledge and the OpCo Share Pledges may be enforced only in limited circumstances. Not all events of default under the Notes will trigger enforcement of the Intermediate Holdco Share Pledge and the OpCo Share Pledges. Instead, such enforcement is only triggered upon the occurrence of more limited events stated in the Intercreditor Agreement. See "Intermediate Holdco Collateral Enforcement Event" and "OpCo Collateral Enforcement Event" definitions set out in "*Description of Indebtedness and the Third Scheme—Restructuring—The Intercreditor Agreement*".

The security interests in the Collateral will be granted to the Common Security Agent rather than directly to the Noteholders

The security interests in the Collateral that will secure the Issuer's obligations under the Notes and the obligations of the Guarantors under the Guarantees will not be granted directly to the Noteholders but will be granted only in favour of the Common Security Agent. The Trust Deed provides (along with the Intercreditor Agreement) that only the Common Security Agent has the right to enforce the security documents. As a consequence, the Noteholders will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee, who will (subject to the provisions of the Conditions) provide instructions to the Common Security Agent in respect of the Collateral.

The grant of Collateral to secure the Notes might be challenged or voidable in an insolvency proceeding

The grant of Collateral may be voidable by the grantor or by an insolvency trustee, liquidator, receiver or administrator or by other creditors, or may be otherwise set aside by a court, or be unenforceable if certain events or circumstances exist or occur, including, among others, if the grantor is deemed to be insolvent at the time of the grant, or if the grant permits the secured parties to receive a greater recovery than if the grant had not been given and an insolvency proceeding in respect of the grantor is commenced within a legally specified "clawback" period (which could be significant) following the grant. To the extent that the grant of any security interest is voided, the holders of Notes would lose the benefit of the security interest.

The Guarantees and security interests over the Collateral will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defences that may limit their validity and enforceability

The Noteholders may not be able to enforce, the Guarantees and security interests over the Collateral due to restrictions on the validity and enforceability of security interests and guarantees under Ukrainian and Dutch laws.

Under Ukrainian and under Dutch laws, it is uncertain whether guarantees and security interests can be granted to a party other than the creditor of the claim purported to be secured by such guarantees or security interests. For that reason, the Intercreditor Agreement and the Intermediate Holdco Guarantee Agreement refer to a parallel debt structure, whereby the debtors, including the Intermediate Holdco, irrevocably and unconditionally undertake to pay to the Common Security Agent sums equal to and in the currency of each amount payable by each debtor to each of the secured parties under each of the Debt Documents.

This parallel debt structure creates a separate and independent claim of the Common Security Agent against the debtors, including the Intermediate Holdco which can be secured by a guarantee or security interest over the Collateral. Accordingly, the Common Security Agent will act in its own capacity as creditor acting in its own name pursuant to the parallel debt, and not as a representative of any other creditors. It is expressly agreed in a parallel debt provision included in the Intercreditor Agreement that the obligations of the Debtors to the Common Security Agent under the Intercreditor Agreement shall be decreased to the extent that the other secured parties have received (and are able to retain) payment in full of the corresponding amount under the other provisions of the Debt Documents and any amount due and payable by the relevant Debtor to the other secured parties under those provisions shall be decreased to the extent that the Common Security Agent has received (and is able to retain) payment in full of the corresponding amount. There is no established court practice in Ukraine or The Netherlands in respect of a parallel debt structure and, the Group cannot assure the Noteholders that it will mitigate or eliminate the risk of unenforceability under Ukrainian or Dutch laws.

The claims of Noteholders under the Guarantees and the Collateral may be limited under Ukrainian and Dutch laws in the event that one or more of the Guarantors or security providers is declared bankrupt.

For example, Ukrainian bankruptcy law may prohibit the Ukrainian Guarantors from making payments pursuant to the Surety Agreements or any inter-company loan agreement(s) under which a part of the proceeds may be distributed to the Ukrainian subsidiaries of the Issuer, including the Ukrainian Guarantors. Ukrainian bankruptcy law differs from the bankruptcy laws of the United Kingdom and the United States and is subject to varying interpretations. Currently, there is insufficient precedent to be able to predict how claims of the Noteholders would be resolved in the event of the bankruptcy of one or more of the Ukrainian Guarantors. In the event of the bankruptcy of a Ukrainian Guarantor, the Noteholders' claims under the Surety Agreements would be treated as claims of unsecured creditors, and would be effectively subordinated to, among others, the following obligations:

- obligations secured on such Ukrainian Guarantor's assets;

- severance pay, employment-related obligations and payment of wages to that Ukrainian Guarantor's employees;
- expenditures associated with the conduct of the bankruptcy proceedings and work of the liquidation commission;
- claims arising under insurance agreements;
- obligations arising as a result of causing harm to life or health of individuals, as well as mandatory pension and social security contributions; and
- obligations in respect of payment of taxes and other mandatory charges (including claims of the respective governmental authorities managing the state reserve fund).

In the event of the bankruptcy of one or more of the Ukrainian Guarantors, Ukrainian bankruptcy law may materially adversely affect their ability to make payments to the Noteholders. In particular, a receiver appointed to conduct sanation (solvency restoration) proceedings in respect of a Ukrainian Guarantor has the power to prevent that Ukrainian Guarantor from performing its obligations under the Surety Agreements within three months of commencement of the sanation proceedings, on the following grounds: (i) if the receiver considers that the Ukrainian Guarantor would incur losses as a result of such performance; (ii) the term of the Surety Agreements is longer than one year; and/or (iii) if the receiver considers that such performance would hamper the restoration of the Ukrainian Guarantor's solvency. Also, to the extent the insolvency proceedings were commenced against a Ukrainian Guarantor within one year since the date of the relevant Ukrainian Guarantee or any amendment thereof, the Ukrainian Guarantee or any amendment thereof may be challenged or revoked in the course of liquidation proceedings in respect of the Ukrainian Guarantor if the court concludes, in particular, that: (i) the Guarantee was entered by the Ukrainian Guarantor without any relevant consideration provided by the beneficiary of the Ukrainian Guarantee; (ii) the Ukrainian Guarantee led to the Ukrainian Guarantor's insolvency or to its inability, in full or in part, to discharge its payment obligations towards another creditor; or (iii) the Ukrainian Guarantor made a payment under the Guarantee on a day when the total claims of its creditors exceeded the value of its assets.

Furthermore, any Ukrainian Guarantor that falls under the definition of "a business entity that has social or other value, or special status" under Ukrainian bankruptcy legislation may be subjected to a special bankruptcy procedure, whereby additional claims may have priority over the claims of the Noteholders, and the relevant municipal and/or state authorities would be entitled to intervene in the bankruptcy proceedings, which may be delayed as a result.

A statutory moratorium introduced upon the commencement of a Pledgor's bankruptcy proceedings will preclude enforcement of security interests over the Collateral owned by that Pledgor, and such Collateral will not be realised to satisfy the secured claims until the Pledgor's liquidation is ordered by the court. Although such Collateral will form part of the Pledgor's liquidation estate, Ukrainian law provides that proceeds from the Collateral's realisation are to be used to satisfy the secured claims only (i.e., claims under the Notes and the PXF Facility Agreement).

Under Dutch law, the receipt of any payment made by the Intermediate Holdco under the Guarantee or security interest may be adversely affected by specific or general defences available to debtors under Dutch law in respect of the validity, binding effect and enforceability of such Guarantee granted pursuant to the Intermediate Holdco Guarantee Agreement or security interest.

Pursuant to Article 2:7 of the Dutch Civil Code (*Burgerlijk Wetboek*), any legal act (*rechtshandeling*) entered into by a legal entity may be nullified by the legal entity itself or its trustee in bankruptcy (*curator*) if the objects of that entity were transgressed by that legal act (*rechtshandeling*) and the other party knew or should have known this without independent investigation (*wist of zonder eigen onderzoek moest weten*). The Dutch Supreme Court (*Hoge Raad der Nederlanden*) has ruled that in determining whether the objects of a legal entity are transgressed, not only the description of the objects in that legal entity's articles of association (*statuten*) alone is not decisive, but all (relevant) circumstances must be taken into account, in particular whether the legal act (*rechtshandeling*) is in the legal entity's corporate interests (*vennootschappelijk belang*) and to its benefit and whether the subsistence of the legal entity is jeopardised by the legal act (*rechtshandeling*).

A corporate resolution approving the issuance of a guarantee by the Intermediate Holdco or any form of security to be granted by the Issuer or the Intermediate Holdco may be suspended or voided by the Enterprise Chamber of the Court of Appeal in Amsterdam (*Ondernemingskamer van het Gerechtshof Amsterdam*) on the motion of one or more holders of shares or depository receipts issued for shares in such company who, solely or jointly, represent at least one-tenth of the issued capital or who are entitled to an amount of in shares or depository receipts issued therefor with a nominal value of €225,000 or such lesser amount as is provided by the articles of association

(*statuten*) of the Intermediate Holdco, and persons who are authorised to do so by the relevant articles of association or under an agreement with the Intermediate Holdco. The right to file such motion is further vested in an association of employees (*vereniging van werknemers*) which has amongst its members persons working for the enterprise and which has at least two years full legal capacity, and, for reasons of public interest, the advocate general at the Court of Appeal in Amsterdam. Likewise, the guarantee or security itself may be upheld by the Enterprise Chamber, although actual payment under it may be suspended or voided. Alternatively, the corporate resolution could be suspended or voided by the competent District Court at the request of a party that has a material interest.

Pursuant to Dutch law, payment under a guarantee or a security document may be withheld under doctrines of reasonableness and fairness (*redelijkheid en billijkheid*), force majeure (*niet toerekenbare tekortkoming*) and unforeseen circumstances (*onvoorziene omstandigheden*) and other defences afforded by Dutch law to obligors generally. Other general defences include claims that a guarantee or security interest should be avoided because it was entered into through undue influence (*misbruik van omstandigheden*), fraud (*bedrog*), duress (*bedreiging*) or error (*dwaling*). Furthermore, under Dutch law, a party to an agreement may under certain circumstances suspend performance of its obligations under such agreement pursuant to the principle of *exceptio non-adimpleti contractus* or otherwise.

Dutch law contains specific provisions dealing with fraudulent conveyance both in and outside of bankruptcy, the so-called *actio pauliana* provisions. The *actio pauliana* offers creditors protection against a decrease in their means of recovery. A legal act performed by a person (including, without limitations, an agreement pursuant to which it guarantees the performance of the obligations of a third party and any other legal act having similar effect) can be challenged in or outside bankruptcy of the relevant person and may be nullified by the trustee in bankruptcy (*curator*) in a bankruptcy of the relevant person or by any of the creditors of the relevant person outside bankruptcy, if (i) the person performed such acts without an obligation to do so (*onverplicht*), (ii) the creditor concerned or, in the case of the person's bankruptcy, any creditor, was prejudiced in its means of recovery as a consequence of the legal act, and (iii) at the time the act was performed both the person and the counterparty to the transaction knew or should have known that one or more of its creditors (existing or future) would be prejudiced in their means of recovery, unless the act was entered into for no consideration (*om niet*).

Even payments that were due and payable to a creditor may be successfully contested by the trustee in bankruptcy if (i) the recipient of payment knew that a petition for bankruptcy had already been filed at the time the payment was made or (ii) the debtor and the recipient of payment intentionally agreed to grant the creditor a benefit over the other creditors.

To the extent a new Guarantor is added in another jurisdiction, there may be restrictions under the laws of that jurisdiction on enforceability of the Guarantee. Enforcement of each Guarantee would be subject to certain generally available defences. Local laws and defences may vary, and may include those that relate to corporate benefit (*ultra vires*), fraudulent conveyance or transfer (*actio pauliana*), voidable preference, financial assistance, corporate purpose, liability in tort, subordination and capital maintenance or similar laws and concepts. They may also include regulations or defences which affect the rights of creditors generally.

The validity of the Surety Agreements could be challenged

Each of the Surety Agreements creates a suretyship (in Ukrainian, *poruka*) for the purposes of Ukrainian law. From the standpoint of Ukrainian law, a suretyship is an ancillary undertaking in relation to the underlying obligations of the Notes and the Trust Deed and, therefore, if those obligations are invalid, the suretyship under the Surety Agreements will also be invalid under Ukrainian law. Furthermore, if the underlying obligations are amended so as to increase the scope of responsibility of the provider of the suretyship or are assigned, the prior consent of the provider of the suretyship must be obtained to ensure the continued validity of the suretyship under the Surety Agreements. For the avoidance of doubt, the obligations of the providers of suretyships under the Surety Agreements shall not constitute a guarantee obligation (in Ukrainian, *garantiya*) as that term is interpreted under Ukrainian law.

Under the Law of Ukraine "On Financial Services and the State Regulation of the Markets of Financial Services" dated 12 July 2001, suretyships are considered "financial services", which may only be rendered by a duly licensed bank or other financial institution or, as an exception, by a non-financial institution when expressly permitted by a law of Ukraine or the National Commission of Ukraine on the Regulation of the Markets of Financial Services (the **Financial Services Commission**). Although the Financial Services Commission's regulations permit non-financial institutions to issue suretyships, such permission is subject to compliance by the provider of a suretyship with anti-money laundering requirements and procedures. Ukrainian companies often conclude suretyship agreements, and neither the Financial Services Commission nor Ukrainian courts have as yet recognised such practice as invalid. As a result, to the extent that the provider of a suretyship is deemed to fail to comply with such requirements and

procedures, it may be regarded as lacking capacity to enter into and/or to perform under the Surety Agreement. Although the Group is unaware of any established practice of the Ukrainian courts whereby suretyship agreements such as the Surety Agreements would be declared invalid specifically due to the provider of the suretyship failing to comply with any requirements or procedures of anti-money laundering legislation, the Group cannot foreclose this possibility.

Ukrainian currency control regulations may impact the Ukrainian Guarantors' and Pledgors' ability to make cross-border payments and the Common Security Agent's ability to repatriate proceeds of enforcement of the Collateral from Ukraine

The NBU is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation. Ukrainian currency controls and practice are subject to change, with the NBU exercising considerable autonomy in interpretation and practice.

Although no licence from the NBU or other Ukrainian state authority was required for any Ukrainian Guarantor to enter into the Surety Agreements, or for any Pledgor to enter into a pledge agreement over certain assets, or for the Guarantee or such pledge agreement to be valid and legally binding, each Ukrainian Guarantor and each Pledgor would need to obtain an individual licence (a **Cross-Border Payment Licence**) from the NBU in order to make cross-border payments pursuant to the Guarantee or such pledge agreement. However, the NBU does not issue Cross-Border Payment Licences in advance or for contingent payments when the amount and date of a cross-border payment are not known.

As a contingency measure aimed at the stabilisation of the Ukrainian currency market, the NBU prohibited the carrying out of payments by Ukrainian residents pursuant to Cross-Border Payment Licences in an amount exceeding U.S.\$50,000 per month. There can be no assurance that this prohibition will not be in effect at the time a Ukrainian Guarantor or Pledgor is required to make a payment under the Guarantee or the pledge agreement. If the requisite Cross-Border Payment Licence is not granted for any reason, the Guarantees and pledge agreements would still remain valid and enforceable, thus it is possible that a Ukrainian Guarantor or Pledgor would be permitted to make cross-border payments thereunder pursuant to an appropriate order of a Ukrainian court (enforcing a foreign arbitral award or adopted as a result of review of the merits of the dispute) which expressly requires that the Ukrainian Guarantor or Pledgor to make such cross border payment. However, there is no court practice to confirm this position.

The ability of the Ukrainian Guarantors to make cross border payments under the Surety Agreements may be further impeded by Ukrainian currency control regulations restricting a Ukrainian resident entity's ability to purchase or borrow foreign currency in order to make payments under a suretyship issued with respect to obligations of a foreign debtor, such as the Issuer. It is uncertain whether a Ukrainian Guarantor may purchase foreign currency funds on the basis of a Cross-Border Payment Licence obtained by it for the purpose of making a payment under its Guarantee. Accordingly, unless such regulations are amended accordingly by the date of the payment, each Ukrainian Guarantor would need to use its otherwise available foreign currency funds (such as proceeds from foreign trade operations). However, the amount of own foreign currency funds available to a Ukrainian Guarantor for making such payments may be limited due to the requirement for the compulsory sale of a portion of foreign currency proceeds of Ukrainian exporters in the amount of 65 per cent. of foreign currency proceeds received from abroad, which is in effect until 15 June 2017 and which may be further extended by the NBU in its discretion. Similar currency control restrictions may apply to the Pledgors' cross-border payments pursuant to the pledge agreements.

Ukrainian currency control regulations require that, prior to the making of any payment under the Surety Agreements, the Ukrainian Guarantor would need to obtain the "documents confirming that the principal debtor has in fact failed to discharge the obligations which are secured" by the Surety Agreements. It is possible that this requirement would be deemed satisfied if the Ukrainian Guarantor were to obtain a default notice and/or a payment demand from the Trustee under the Surety Agreements. However, Ukrainian legislation provides no guidance as to what such documents should be.

If enforcement of the Collateral generates any Ukrainian currency proceeds, Ukrainian currency control regulations may restrict the Common Security Agent from converting such Ukrainian currency proceeds into foreign currency for purposes of repatriation from Ukraine.

Upon enforcement of the OpCo Security Assignment, the relevant Ukrainian payer (Ingulets GOK, Ilyich Steel or Central GOK, as the case may be) may be prevented from paying the relevant intercompany receivables to, or to the order of, the Common Security Agent until and unless changes to the relevant intercompany loan agreement have been registered with the NBU (except, arguably, where such payment is expressly authorised by an order of

Ukrainian court enforcing a foreign arbitral award or adopted as a result of review of the merits of the dispute; however, there is no court practice to confirm this position).

The proportion of consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures) and total assets of Metinvest accounted for by the Guarantors could decrease in the future and could become less than the proportion accounted for on the Issue Date

The total assets and combined EBITDA of the Guarantors accounted for approximately 55 per cent. and 94 per cent. of Metinvest's consolidated total assets and consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures), respectively, as of and for the six months ended 30 June 2016. There is a requirement under the Conditions that the Guarantors maintain a certain level of aggregate percentage contributions to the Issuer's consolidated total assets and consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures) such that other subsidiaries must become Guarantors under the Notes if such aggregate percentage contributions fall below 45 per cent. and 70 per cent. of the Issuer's consolidated total assets and consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures), respectively, tested annually. Therefore, if the total assets and combined EBITDA of the Guarantors decrease from current levels but remain at or higher than 45 per cent. and 70 per cent., respectively, the Conditions do not require additional Guarantors. However, such decrease in the total assets and the combined EBITDA of the Guarantors could still have a material adverse effect on the Group.

In addition, if the total assets and the combined EBITDA of the non-guarantor subsidiaries increase, including through the transfer of assets or sales from the Guarantors, the acquisition of additional assets by the non-guarantor subsidiaries or the acquisition of new non-guarantor subsidiaries, the total assets and the combined EBITDA of the Guarantors may decrease as a percentage of the Issuer's consolidated total assets and the consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures). However, so long as total assets and the combined EBITDA of the Guarantors remain at or higher than 45 per cent. and 70 per cent., respectively, the Conditions do not require additional Guarantors. Furthermore, if the Guarantors' aggregate percentage contributions fall below 45 per cent. and 70 per cent. of the Issuer's consolidated total assets and consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures) and consequently other subsidiaries become additional Guarantors, the Conditions allow the Guarantees of such additional Guarantors to be released if, after such release, the total assets and combined EBITDA of the remaining Guarantors is at least 55 per cent. and 75 per cent. of the Issuer's consolidated total assets and consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures), respectively.

The Noteholders will be structurally subordinated to creditors of non-guarantor subsidiaries and those creditors will have greater access to such non-guarantor subsidiaries' combined EBITDA and total assets to service the obligations owed to them. See also "*—The Notes will be structurally subordinated to the liabilities and preference shares (if any) of the Issuer's non-guarantor subsidiaries*".

The seizure, expropriation or nationalisation of the Group's assets or resultant permanent cessation of business or winding up would not constitute an event of default under the Notes in certain circumstances

There is a risk that certain of the Group's assets could be seized, expropriated or nationalised by the Ukrainian authorities and/or militia, which could also result in the cessation of business and/or winding up of certain Group entities. The occurrence of any of these events with respect to certain Group entities would not trigger an event of default under the Notes to the extent that the affected Group entities constitute, individually or in the aggregate, less than 15 per cent. of the Group's consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures). Moreover, the temporary cessation of business of certain Group entities in connection with armed hostilities would also not result in an event of default under the Notes without regard to their percentage contribution to the Group's consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures). See Conditions 10(a)(v), 10(a)(viii) and 10(a)(ix) (*Events of Default*). Consequently, the Group could lose a material part of its assets or a material part of its business could cease or be wound up without triggering an event of default under the Notes. See "*—The actions of the self-proclaimed authorities of the so-called DPR and LPR are unpredictable, and the Group may face asset seizures, expropriation, illegal fiscal claims or other claims or actions negatively affecting its assets and operations*" and "*—The Group's assets may be subject to seizure or expropriation by the Ukrainian authorities*".

It may be difficult to realise the value of the Collateral

The Collateral will secure obligations under the Notes, the PXF Facility Agreement and certain additional indebtedness to the extent permitted by the Notes, the PXF Facility Agreement and the Intercreditor Agreement. See also "*Description of Indebtedness and the Third Scheme—Restructuring*". There can be no assurance that the Collateral could be sold in a timely manner, if at all. The realisation of the security interests in the Collateral might also be subject to practical problems generally associated with the realisation of security interests in collateral.

The Collateral securing the Notes will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Conditions and/or the Intercreditor Agreement. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the Notes, as well as the ability of the Common Security Agent to realise or foreclose on such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or characterisation under the laws of certain jurisdictions. Specifically, the Collateral is located in The Netherlands and Ukraine, and the multijurisdictional nature of any enforcement of the Collateral may limit the realisable value of the Collateral. For example, the bankruptcy, insolvency, administrative and other laws of the various jurisdictions may be materially different from, or conflict with, each other, including in the areas of rights of creditors, priority of government and other creditors, ability to obtain post-petition interest and duration of the proceedings.

In addition, the business of the Group requires a variety of national, state and local permits and licences. The continued operation of assets that comprise part of the Collateral and which depend on the maintenance of such permits and licences may be prohibited. The Group's business is subject to regulations, permitting, safety and other requirements and may be adversely affected if the Group is unable to comply with existing regulations or such requirements or changes in applicable regulations or such requirements. In the event of foreclosure, the transfer of such permits and licences may be prohibited or may require the Group to incur significant cost and expense. Further, the Group cannot assure Noteholders that the applicable governmental authorities will consent to the transfer of all such permits. If the regulatory approvals required for such transfers are not obtained or are delayed, the foreclosure may be delayed, a temporary shutdown of operations may result and the value of the Collateral may be significantly decreased.

Each of these factors or any challenge to the validity of any arrangements governing creditors' rights under the Collateral could reduce the proceeds realised upon enforcement of such Collateral. Consequently, there can be no assurance that the proceeds from the sale of the Collateral, if successful, will be sufficient to satisfy the Group's obligations under the Notes.

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Notes and the Guarantees will be released automatically and under which the Guarantees will be released automatically, without consent of the Noteholders or the Trustee

Under various circumstances, the Collateral securing the Notes and the Guarantees will be released automatically, including:

- where the Notes have been redeemed, or purchased and cancelled, in whole, but not in part;
- in the case of a Guarantor that is released from its Guarantee in accordance with the Conditions, the release of the property, assets and capital stock of such Guarantor;
- pursuant to an extraordinary resolution of the Noteholders;
- as provided in the no impairment of security covenant in the Conditions;
- to effectuate a merger, consolidation or a similar transaction in accordance with the Conditions;
- upon a release of the lien that resulted in the creation of the lien under the Conditions;
- in connection with any sale or other disposition of the Collateral, directly or indirectly, to any person other than the Issuer or any subsidiary of the Issuer, if the sale or other disposition, and the application of the disposal proceeds therefrom, does not violate the asset sales covenant or the maintenance of the Collateral Group covenant in the Conditions;
- in the case of the OpCo Share Pledges, to take such steps that are necessary to implement the unwinding of the Intermediate Holdco in accordance with the Intercreditor Agreement (the **Intermediate Holdco Unwind**), provided that it is followed by a substantially concurrent retaking of a lien of at least equivalent ranking over the same assets by the Issuer in favour of the Common Security Agent and in accordance with the security documents;
- in the case of the OpCo Share Pledges and OpCo Security Assignments, in accordance with the Intercreditor Agreement;

- in the case of the Intermediate Holdco Share Pledge and the Intermediate Holdco Security Assignment, in accordance with the Intercreditor Agreement;
- in connection with a substantially simultaneous incurrence of debt permitted under the Conditions, the proceeds of which are applied to fully prepay and redeem the outstanding obligations under the PXF Facility Agreement and the Notes; or
- to the extent otherwise permitted by the Intercreditor Agreement, any additional intercreditor agreement and the security documents.

Even though the Noteholders share the Collateral securing the Notes rateably with the lenders under the PXF Facility Agreement (other than a pledge of equipment by Central GOK which secures the Notes in priority to the PXF Facility Agreement), under certain circumstances, the creditors under the PXF Facility Agreement will control enforcement actions with respect to the Collateral through the Common Security Agent, whether or not the Noteholders agree with those actions.

Under various circumstances, the Guarantee of a Guarantor will be released, including:

- upon any sale, exchange, transfer or other disposition of capital stock of such Guarantor or any holding company of such Guarantor to a person that is not the Issuer or a subsidiary (which sale, exchange, transfer or other disposition is not prohibited by the Conditions) and the Guarantor ceases to be a subsidiary as a result of the sale, exchange, transfer or other disposition;
- upon any sale, exchange, transfer or other disposition of all or substantially all of the assets of such Guarantor (including by way of merger, consolidation, amalgamation or combination) to a person that is not the Issuer or a subsidiary (which sale, exchange, transfer or other disposition is not prohibited by the Conditions);
- upon the reorganisation (whether by way of merger or accession) of the relevant Guarantor pursuant to which such Guarantor accedes to or is merged into the Issuer or another Guarantor;
- in connection with a substantially simultaneous incurrence of debt permitted under the Conditions, the proceeds of which are applied to fully prepay and redeem the outstanding obligations under the PXF Facility Agreement and the Notes;
- with respect to the Guarantee of the Intermediate Holdco, in connection with the Intermediate Holdco Unwind;
- to the extent otherwise permitted by the Intercreditor Agreement, any additional intercreditor agreement and the security documents;
- where the Notes have been redeemed, or purchased and cancelled, in whole, but not in part;
- pursuant to an extraordinary resolution of the Noteholders;
- as a result of a transaction permitted by the merger covenant in the Conditions;
- with respect to the Guarantee of an additional Guarantor that was required to accede after the Issue Date in order to maintain the Guarantors' aggregate percentage contributions to the Issuer's consolidated total assets and consolidated Adjusted EBITDA above a certain level, such additional Guarantee may be released under certain circumstances pursuant to the Conditions; or
- with respect to the Guarantee of any Guarantor that, as a result of guaranteeing certain other debt of the Issuer or a Guarantor, was required to provide such Guarantee pursuant to the Conditions, upon such Guarantor being unconditionally released and discharged from its liability with respect to the debt giving rise to the requirement to provide such Guarantee so long as no potential event of default or event of default would arise as a result and no other debt is at that time guaranteed by the relevant Guarantor that would result in the requirement that such Guarantor provide a Guarantee pursuant to the Conditions.

In addition, the Guarantees and the Collateral will be subject to release upon a distressed disposal as contemplated under the Intercreditor Agreement.

The Issuer and the Guarantors will have control over the Collateral securing the Notes, and the sale of particular assets could reduce the pool of assets securing the Notes.

The security documents will allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes. So long as no default or event of default under the Notes would result therefrom, the Issuers and the Guarantors may, among other things, without any release or consent by the Common Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, abandoning or otherwise disposing of Collateral and making ordinary course cash payments, including repayments of indebtedness.

The gross-up obligation under the Conditions and the Surety Agreements may not be enforceable

Payments by any of the Ukrainian Guarantors under the Conditions and the Surety Agreements to a non-resident legal entity may be subject to withholding tax at the rate of 15 per cent., except when such payments are not effectively connected with a permanent establishment of the non-resident entity situated in Ukraine. See "*Taxation—Ukraine—Payment under the Surety Agreements*". In the event of the imposition of such tax, the Conditions and the Surety Agreements oblige the Ukrainian Guarantors to pay additional amounts such that the recipient receives the amount due to them had no such withholding been required. Ukrainian law generally prohibits payment of tax for another person and contractual provisions requiring such payment and, in particular, gross-up provisions. In May 2012, the State Tax Service of Ukraine issued a letter expressing the position that clauses in agreements between Ukrainian residents and their foreign counterparties providing for the payment of an amount compensating a foreign counterparty for the withholding of tax in Ukraine contradict certain provisions of Ukrainian legislation that prohibit a Ukrainian resident from assuming a foreign counterparty's tax payment obligation. Therefore, there is a risk that such restriction would also apply to gross-up obligations of the Ukrainian Guarantors under the Conditions and the Surety Agreements. As a result, the gross-up provisions in the Conditions and the Surety Agreements could be found null and void and, therefore, unenforceable against the Ukrainian Guarantors.

Payments under the Surety Agreements may be subject to withholding tax and an investor may not be able to obtain relief under a double tax treaty if a tax residency certificate is not provided to the Ukrainian Guarantors before the payment

In general, payments under the Surety Agreements (including payments in respect of interest, default interest, indemnities etc.) by the Ukrainian Guarantors to a non-resident payee (such as the Trustee or any Noteholder) are subject to Ukrainian withholding tax at the rate of 15 per cent., subject to any reduction or full exemption pursuant to the terms of an applicable double tax treaty. Based on a fair interpretation of applicable Ukrainian tax legislation, such Ukrainian withholding tax should not apply to the payments under the Surety Agreements in respect of, and equal to, the nominal amount of the Notes. Under the terms of the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains signed on 10 February 1993 and in force from 11 August 1993 (the **UK/Ukraine Double Tax Treaty**), payments to the Trustee for the benefit of the Noteholders under the Surety Agreements may be exempt from withholding tax in Ukraine, provided that certain conditions set forth in the UK/Ukraine Double Tax Treaty and under applicable Ukrainian law are duly satisfied, in particular, the Trustee is regarded as the "beneficial owner" of such payments. See also "*Taxation—Ukraine—Payments under the Surety Agreements*". However, there can be no assurance that the exemption from withholding tax under the UK/Ukraine Double Tax Treaty is, or will continue to be, available. If, at any point in the future, the Trustee fails to satisfy the "beneficial ownership" test in respect of payments under the Surety Agreements, the Noteholders may still benefit from the reduced withholding tax rate or exemption from Ukrainian withholding tax if there is an effective double tax treaty of their residence jurisdiction with Ukraine and all conditions for application of such treaty relief are met. In particular, in order to benefit from the provision of such double tax treaty, a Noteholder must provide the Ukrainian Guarantors with a tax residency certificate issued by the competent authorities of the treaty state before the payment by the Ukrainian Guarantors under the Surety Agreements. If the investor fails to provide the Guarantors with the residency certificate, any benefits of the double tax treaty will not be available in the course of the payment and payment to him may be subject to 15 per cent. withholding tax in Ukraine. See also "*Taxation—Ukraine—Payments under the Surety Agreements*".

The Issuer may not be able to finance a redemption at the option of the Noteholders upon a change of control

Upon the occurrence of certain events constituting a change of control as set out in the Conditions, the Issuer would be required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101 per cent. of the principal amount thereof on the date of purchase plus accrued and unpaid interest to, but excluding, the date of purchase, if any. If a change of control were to occur, the Group cannot be assured that it would have sufficient funds available at such time, or that it would have sufficient funds to provide to the Issuer to pay the purchase price

of the outstanding Notes or that the restrictions in the PXF Facility Agreement, the Notes, the Intercreditor Agreement or the Group's other existing contractual obligations would allow the Group to make such required repurchases. A change of control may result in an obligation to mandatorily prepay the PXF Facility Agreement and other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such other indebtedness, even if the change of control itself does not. The ability of the Issuer to receive cash from its subsidiaries to allow them to pay cash to the Noteholders following the occurrence of a change of control, may be limited by the Issuer's and the Group's then existing financial resources. Sufficient funds may not be available when necessary to make any required repurchases. If an event constituting a change of control occurs at a time when the Group is prohibited from providing funds to the Issuer for the purpose of repurchasing the Notes, the Group may seek the consent of the lenders under such indebtedness to the purchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuer will remain prohibited from repurchasing any Notes. In addition, the Group expects that it would require third-party financing to make an offer to repurchase the Notes, upon a change of control. The Group cannot be assured that it would be able to obtain such financing. Any failure by the Issuer to offer to purchase the Notes would constitute a default under the Notes, which would, in turn, constitute a default under the PXF Facility Agreement and certain other indebtedness.

The change of control provision contained in the Notes may not necessarily afford the holders of Notes protection in the event of certain important corporate events, including a reorganisation, restructuring, merger or other similar transaction involving the Group that may adversely affect the holders of Notes, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Notes. Except as described in the Conditions, the Notes will not contain provisions that would require the Issuer to offer to repurchase or redeem the Notes in the event of a reorganisation, restructuring, merger, recapitalisation or similar transaction.

Applicable law and other limitations on the enforceability of the Collateral may adversely affect its validity and enforceability

The obligations of the Issuer under the Notes and of the Guarantors under the Guarantees will be, subject to the restrictions and limitations detailed herein, secured by the Collateral as described in these Listing Particulars. The Collateral may be subject to claims that it should be limited or subordinated in favour of existing or future creditors under applicable law.

Enforcement of the Collateral against the Issuer and the Guarantors will be subject to certain defences available to security providers generally. These laws and defences include those that relate to insolvency, voidable preference, financial assistance, corporate purpose or benefit, the preservation of share capital, thin capitalisation and defences affecting the rights of creditors generally. This will limit the ability of the Noteholders to enforce the Collateral, including the OpCo Share Pledges and the Intermediate Holdco Share Pledge.

The insolvency laws of The Netherlands and Ukraine may not be as favourable as the U.S. bankruptcy laws and may preclude the Noteholders from recovering payments due on the Notes

The Netherlands

The Issuer and the Intermediate Holdco are incorporated under the laws of The Netherlands and have their statutory seat (*statutaire zetel*) in The Netherlands. Consequently, in the event of a bankruptcy or insolvency event with respect to the Issuer or the Intermediate Holdco, primary proceedings would likely be initiated in The Netherlands.

There are two primary insolvency regimes under Dutch law. The first, suspension of payments (*surseance van betaling*), is intended to facilitate the reorganisation of a debtor's debts and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is designed to liquidate and distribute the assets of a debtor to its creditors.

Upon request by the debtor, the court will grant a provisional suspension. A definitive suspension will generally be granted in a creditors' meeting called for that purpose, unless a qualified minority (more than one-quarter in amount of claims held by creditors present or represented at the creditors' meeting or one-third in number of creditors present or represented at such creditors' meeting) of the unsecured non-preferential creditors withholds its consent or if there is no prospect that the debtor will in the future be able to pay its debts as they fall due (in which case the debtor will generally be declared bankrupt). During a suspension of payments, unsecured and non-preferential creditors will be precluded from attempting to recover their claims from the assets of the debtor. A suspension of payments is subject to exceptions, the most important of which excludes secured creditors and preferential creditors (such as tax and social security authorities and employees) from the application of the suspension. This implies that

during suspension of payments proceedings secured creditors may proceed against the assets that secure their claims to satisfy their claims, and preferential creditors are also not barred from seeking to recover their claims. However, the court may order a "cooling down period" (*afkoelingsperiode*) for a maximum period of four months during which enforcement actions by secured or preferential creditors are barred. In a suspension of payments, a composition (*akkoord*) may be offered by the debtor to its creditors. Such a composition will be binding on all unsecured and non-preferential creditors, irrespective of whether they voted in favour or against it or whether they were represented at the creditor's meeting called for the purpose of voting on the composition plan, if (i) it is approved by more than 50 per cent. in number of the general unsecured and non-preferential creditors present or represented at the creditor's meeting, representing at least 50 per cent. in amount of the general unsecured and non-preferential claims admitted for voting purposes and (ii) it is subsequently ratified (*gehomologeerd*) by the court. Consequently, Dutch insolvency laws could reduce the recovery of the Noteholders (for example as a result of a composition).

Under Dutch law, a debtor can be declared bankrupt when it is no longer able to pay its debts when due. The bankruptcy can be requested by a creditor of a claim that is due and payable but left unpaid when there is at least one other creditor. The debtor can also request the application of bankruptcy proceedings itself. Under Dutch bankruptcy proceedings, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor's creditors in accordance with the respective rank and priority of their claims. The general principle of Dutch bankruptcy law is the so-called *paritas creditorum* (principle of equal treatment) which means that all creditors have an equal right to payment and that the proceeds of bankruptcy proceedings shall be distributed in proportion to the size of their claims. However, certain creditors (such as secured creditors and tax and social security authorities) may have special rights that take priority over the rights of other creditors. Consequently, Dutch insolvency laws could reduce your potential recovery in Dutch bankruptcy proceedings. The claim of a creditor may be limited depending on the date the claim becomes due and payable in accordance with its terms. Generally, claims of the Noteholders that were not due and payable by their terms on the date of a bankruptcy of the Issuer or the Intermediate Holdco will be accelerated and become due and payable as of that date. Each of these claims will have to be submitted to the trustee in bankruptcy (*curator*) to be verified. "Verification" under Dutch law means that the trustee verifies the existence and the value of the claim and whether and to what extent it may be admitted in the bankruptcy proceedings. The claim of a creditor may be limited depending on the date the claim becomes due and payable in accordance with its terms. Each claim will have to be submitted to the trustee in bankruptcy of the Issuer or the trustee in bankruptcy of the Intermediate Holdco for verification. Creditors that wish to dispute the valuation of their claims by the relevant trustee in bankruptcy will need to commence a court proceeding. These verification procedures could result in the Noteholders receiving a right to recover less than the principal amount of their Notes. In addition, in a Dutch bankruptcy in practice usually no or little funds remain available for the payment of unsecured and non-preferential creditors. Finally, bankruptcy proceedings may also end by a composition much like a composition in suspension of payment proceedings. This may also reduce the recovery of the Noteholders.

Ukraine

There are two primary insolvency regimes under Ukrainian law. The first, pre-trial rehabilitation of the debtor, is intended to facilitate the reorganisation of a debtor's debts and enable the debtor to continue as a going concern. The second, judicial bankruptcy proceedings, provides for solvency renewals proceedings (*sanatation*) of the debtor or its liquidation depending on the decision of the creditors.

A debtor or a creditor is entitled to initiate the debtor's financial rehabilitation procedure prior to commencement of the debtor's bankruptcy in court. The procedure for the debtor's rehabilitation can be determined in an agreement between the debtor and the creditor.

A pre-trial rehabilitation may be commenced if the following conditions are satisfied:

- the written consent of the debtor's owner (or the debtor's supervising authority) has been obtained;
- the written consent of creditors whose aggregate claims exceed 50 per cent. of the debtor's debts according to the debtor's financial statements has been obtained; and
- the approval of the solvency rehabilitation plan by all secured creditors and the general creditors meeting has been obtained.

The general creditors meeting is called upon written notice of the debtor sent to the creditors. The debtor or a representative of the creditors must file with the court at the location of the debtor an application for approval of the debtor's rehabilitation plan within five calendar days from the date of its approval by the creditors. Upon approval of the debtor's rehabilitation plan by the court, the court imposes a moratorium prohibiting satisfaction of creditors'

claims during the procedure of the debtor's rehabilitation, which cannot last longer than 12 months. During the pre-trial rehabilitation of the debtor, the debtor's bankruptcy cannot be commenced in court.

A bankruptcy petition may be presented to a Ukrainian commercial court ("*hospodarsky sud*") at the location of the debtor by any creditor (other than a fully secured creditor), the debtor itself, tax and certain other state agencies acting as creditors. A creditor (an individual or a business entity) that holds an incontestable claim against the debtor may initiate bankruptcy proceedings against the debtor, if the amount of the claim is not less than 300 minimum monthly salaries and the claim remains unsatisfied by the debtor for at least three months after the expiration of the term established for its initial satisfaction. As of the date of these Listing Particulars, the minimum monthly salary in Ukraine is UAH 3,200.

Once bankruptcy proceedings have been triggered, any creditor (except a fully secured creditor) may, within 30 days of the formal publication on the official website of the Supreme Commercial Court of Ukraine of the commencement of the bankruptcy proceedings against the debtor, submit a participation petition substantiating its claims against the debtor. Creditors whose claims matured prior to commencement of the bankruptcy proceedings and were submitted after the expiration of the 30 day period do not have a right to participate or vote in the creditors' committee and their claims will be satisfied in the sixth order of priority.

A creditor whose claims are fully secured by collateral is deemed to be a secured creditor and may not initiate bankruptcy proceedings. If a secured creditor considers that its claims are not fully secured, or if the collateral is lost or is missing, the secured creditor can initiate the bankruptcy proceedings or participate as a creditor with respect to the unsecured part of its claims or all its claims.

The judicial bankruptcy proceedings in Ukraine may include the following stages:

- special proceedings for the disposal of the debtor's assets (the assets administration proceedings);
- solvency renewal proceedings;
- amicable agreement; and
- liquidation proceedings.

Under the assets administration proceedings, the Ukrainian commercial court appoints a bankruptcy administrator ("*rozporядnyk mayna*"), who will supervise and approve the disposal of the debtor's assets. The court imposes a moratorium on the discharge of the claims of the debtor's creditors that arose before the date of the initiation of the bankruptcy proceedings. In the assets administration proceedings, the bankruptcy administrator (i.e. an individual registered as a private entrepreneur and licensed to act as the administrator of the debtor's assets, the solvency renewal administrator or the liquidator at each respective stage of the bankruptcy proceedings) identifies the creditors; prepares the register of the creditors and the amounts claimed from the debtor for further approval by the court; and organises the general meeting of the debtor's creditors, which in turn appoints the creditors' committee (the **committee**). Once elected, the committee is entitled to initiate solvency renewal proceedings or the liquidation proceedings against the debtor; to agree to the terms and conditions of the solvency renewal plan and apply to the court for its approval; to request the court to appoint an assets administrator, solvency renewal administrator and liquidator, or to apply for their replacement; to agree on the terms and conditions of the amicable agreement and to apply to the court for its approval; and to decide on other practical issues of the bankruptcy proceedings. The creditors participating in the general meeting of creditors or in meetings of the committee are allocated a number of votes determined *pro rata* based on their respective claims, and they make their decisions by a majority of votes. Assets administration proceedings may last 115 calendar days and may be further extended by the court for two months upon a request of the bankruptcy administrator, the committee or the debtor.

Solvency renewal proceedings may be introduced by the court as the next stage of the bankruptcy proceedings for a period of six months, and may be extended for another 12 months upon a request of the committee or the solvency renewal administrator. After ruling on the introduction of solvency renewal proceedings, the court appoints a solvency renewal administrator, who acts as the head of the debtor. For the period of the solvency renewal proceedings, other managing bodies of the debtor are not able to exercise their statutory powers. The solvency renewal administrator must submit solvency renewal plan, approved by the creditors' committee, to the court for approval within three months after the solvency renewal administrator is appointed. The solvency renewal plan may include the corporate restructuring of the debtor, sale of its assets, recovery of the receivables, debt restructuring, restructuring of assets, write-off of indebtedness and other means of renewing the debtor's solvency. The solvency renewal plan may also provide for the "*replacement of assets*", a procedure according to which a part of the debtor's assets and obligations can be transferred to a newly established entity created by the debtor. The shares of such

newly created entity can be entered into the debtor's books and further sold through auction. If the solvency renewal administrator fails to provide the solvency renewal plan to the court for approval within six months from the day of commencement of the solvency renewal proceedings, the court may recognize the debtor as the bankrupt and commence the liquidation proceedings (i.e., the final stage of the bankruptcy proceedings).

The liquidation proceedings may also be instituted by the court upon request of the committee, immediately after the assets administration proceedings, omitting the solvency renewal proceedings or after the solvency renewal proceedings if the debtor fails to restore its solvency in accordance with its solvency renewal plan. Upon the commencement of liquidation proceedings, the court appoints a liquidator, who acts as the head of the debtor. For the period of the liquidation proceedings other managing bodies of the debtor are not able to exercise their statutory powers. In the liquidation proceedings the liquidator must determine the liquidation value of the debtor's liquidation estate, sell the debtor's assets and pay off the debt to the creditors in the order of priority established by the law. Upon completion of the liquidation proceedings, the liquidator prepares a report, as well as a liquidation balance sheet of the debtor, and provides them to the court for consideration and approval. Based on the results of the liquidation proceedings the court may approve the report and the liquidation balance sheet of the debtor, dissolve the debtor and terminate the bankruptcy proceedings. The term of liquidation proceedings cannot exceed 12 months from the day of commencement.

At any stage of the bankruptcy proceedings the creditors and the debtor may enter into an amicable agreement with a view to restructuring and/or writing-off of the debt. However, first priority debt cannot be written off or restructured, and debt arising from mandatory pension and social security contributions cannot be written off by an amicable agreement. The amicable agreement is subject to approval by the committee, all secured creditors and the court and becomes effective from the day the court approves the amicable agreement. Upon approval of the amicable agreement, the court terminates the bankruptcy proceedings.

The insolvency and other laws of The Netherlands and Ukraine may not be as favourable to the interests of the Noteholders as creditors as the laws of the United States or other jurisdictions with which such holders may be familiar.

Foreign judgments may not be enforceable against the Issuer and the Intermediate Holdco

The Notes, the Surety Agreements and the Trust Deed are governed by English law. Disputes arising under the Notes, the Trust Deed and the Surety Agreements are subject to settlement by arbitration in accordance with the LCIA Arbitration Rules subject to a right in favour of the Trustee and the Noteholders to refer any dispute to a court of law in England or such other court of competent jurisdiction (if any). Since both The Netherlands and the United Kingdom are parties to the New York Convention, arbitral awards obtained in the United Kingdom in a dispute with respect to which the parties have validly agreed that it shall be settled by arbitration and duly obtained on the basis of the submission to arbitration by such parties may be enforced by the courts of The Netherlands pursuant and subject to the terms of the New York Convention and subject to compliance with applicable Dutch procedural requirements and the Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*).

Each of the Issuer and the Intermediate Holdco is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or *B.V.*) incorporated under the laws of The Netherlands. It may be difficult for investors to enforce against the Issuer or the Intermediate Holdco judgments obtained in courts outside The Netherlands. Where there is no treaty on the recognition and enforcement of judgments between a country and The Netherlands, as is the case for Ukraine and the United States (other than for arbitral awards), a judgment rendered by a court of such country (a **Foreign Court**) will not be enforced by a Dutch court. In order to obtain a judgment which is enforceable in The Netherlands, the claim must be relitigated before a competent Dutch court. However, if a party in whose favour a final judgment is rendered by a Foreign Court brings a new suit in a competent Dutch court, such party may submit to such Dutch court the final judgment that has been rendered by the Foreign Court. If the Dutch court finds that the jurisdiction of the Foreign Court has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, uphold such final judgment and regard it as conclusive evidence, without substantive re-examination or re-litigation on the merits of the subject matter thereof, unless such judgment contravenes public order in The Netherlands. See "*Enforceability of Judgments*".

Foreign judgments may not be enforceable against the Ukrainian Guarantors

The Notes, the Surety Agreements and the Trust Deed are governed by English law. Disputes arising under the Notes, the Trust Deed and the Surety Agreements are subject to settlement by arbitration in accordance with the LCIA Arbitration Rules subject to a right in favour of the Trustee and the Noteholders to refer any dispute to a court of law in England or such other court of competent jurisdiction (if any). Since both Ukraine and the

United Kingdom are parties to the New York Convention, the arbitral awards obtained in the United Kingdom may be enforced in Ukraine under provisions of the New York Convention and subject to compliance with applicable Ukrainian procedural requirements.

Ukrainian legislation contains a vague and imprecise provision which may be interpreted as requiring that any dispute between a Ukrainian legal entity and its foreign counterparty which concerns the interpretation or implementation of the Ukrainian legislation which governs foreign economic activities may be referred to, and reviewed by, a competent court of Ukraine only. There is no official interpretation of this provision, and management is unaware of any precedent whereby this provision has been applied or enforced in practice. Based on a fair reading of the legislation, it appears that this provision should under no circumstances apply to a dispute between the Guarantors and the Trustee or a Noteholder concerning a contractual or factual matter which does not raise issues under, or is not governed by, Ukrainian law (such as a dispute concerning the determination of the scope or content of a party's rights or obligations under the Notes, the Surety Agreements and the Trust Deed).

Courts in Ukraine may refuse to recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party and only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and the United Kingdom or the United States. Accordingly, the Noteholders and other parties to the relevant transaction documents may not be able to enforce their rights thereunder.

In the absence of such treaty, the courts of Ukraine may only recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. Ukrainian law does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or established court practice in this respect. Accordingly, there could be no assurance that the Ukrainian courts will recognise or enforce a judgment rendered by United States or United Kingdom courts on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the applicable Ukrainian legislation.

Since Ukraine is a party to the New York Convention, a foreign arbitral award obtained in a state which is also a party to the New York Convention would be enforceable in Ukraine, subject to the terms of the New York Convention and subject to compliance with applicable procedural requirements. See *"Enforceability of Judgments"*.

The enforcement of foreign judgments with respect to Guarantors located in, or that have assets located in, the parts of the Donetsk and Luhansk regions seized by militia and not controlled by Ukraine may be significantly more complicated or impossible. Ukraine's courts do not operate in these territories and Ukraine's state enforcement agencies may not have access to such assets. There can be no assurance that such access or enforcement action may become feasible until and unless Ukraine restores full control over these territories. See *"—Risks Relating to the Group—Civil disturbances, political instability and armed conflict have negatively impacted and may continue to negatively affect the Group's business, results of operations and financial condition"* and *"—Risks Relating to Ukraine—Ukraine is subject to ongoing political instability or uncertainty"*.

The Conditions of the Notes provide flexibility for value to leave the Group through the making of charitable and sponsorship payments, including to affiliated entities

The Group has in the past made, and expects to continue to make charitable and sponsorship payments. In 2014, 2015 and the first half of 2016, the Group's aggregate sponsorship and other charitable payments were approximately U.S.\$39 million, approximately U.S.\$17 million and approximately U.S.\$2 million respectively, some of which was paid to related parties. The Conditions allow the Group to make sponsorship and charitable payments up to U.S.\$20 million per year or otherwise under its Dividend Allocation limit. See *"Description of Indebtedness and the Third Scheme – Restructuring – the Intercreditor Agreement – Cash sweep"*. The making of sponsorship and charitable payments will result in value leaving the Group which would otherwise be available to the Group to service its obligations under the Notes and meet its other obligations.

Any sale, purchase or exchange of Notes may become subject to the Financial Transaction Tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's proposal, the FTT

could apply in certain circumstances to persons both within and outside the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

The Notes may not have an active trading market, which may have an adverse impact on the value of the Notes

An active trading market for the Notes may not develop. The Notes have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes are expected to be listed on the Official List and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that the Noteholders will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value. In addition, liquidity may be limited if the Issuer makes large allocations to a limited number of investors.

The trading prices of emerging market debt are subject to substantial volatility

Historically, the markets for emerging market debt have been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on the Noteholders.

As the Global Note Certificates are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantors

The Notes will be represented by the Global Note Certificates except in certain limited circumstances described therein. The Unrestricted Global Note Certificate and the Restricted Global Note Certificate will be deposited with the Common Depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Note Certificates, investors will not be entitled to receive definitive certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Note Certificates. While the Notes are represented by the Global Note Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantors will discharge their payment obligations under the Notes by making payments to the Common Depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Note Certificates must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and the Guarantors have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificates.

Holders of beneficial interests in the Global Note Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

The Financial Statements have been prepared on a consolidated basis and may be of limited use in assessing the financial position of the Guarantors

The Issuer has requested, and the Irish Stock Exchange has granted, a derogation under Rule 3.3(3)(c) of the ISE Global Exchange Market Listing and Admission to Trading Rules from the requirement for guarantors to include their individual financial statements in these Listing Particulars. The accounts of the Guarantors have been included in the consolidated Financial Statements of the Issuer, and have not been presented separately herein. However, the Financial Statements include the consolidated accounts of both the Guarantors and the non-guarantor subsidiaries and, as the Guarantors represented 94 per cent. of the Issuer's consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures) and 55 per cent. of the Issuer's consolidated total assets as at and for the six months

ended 30 June 2016, the Financial Statements may be of limited use in assessing the financial position of the Guarantors. See also "*Unaudited Supplemental Information on the Guarantors*".

The Noteholders may not be able to recover in civil proceedings for U.S. securities law violations

The Issuers and the Guarantors and most of their respective subsidiaries are organised outside the United States, and the Group's business is conducted primarily outside the United States. The directors, managers and/or executive officers of the Issuer and the Guarantors are non-residents of the United States. In addition, as a majority of the assets of the Issuers and the Guarantors and their respective subsidiaries and those of their directors and executive officers are located outside of the United States, the Noteholders may be unable to enforce judgments obtained in the U.S. courts against them. Moreover, actions of the Issuer and the Guarantors may not be subject to the provisions of the federal securities laws of the United States. The United States is not currently bound by a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters with The Netherlands or Ukraine. There is, therefore, doubt as to the enforceability in The Netherlands or Ukraine of U.S. securities laws in an action to enforce a U.S. judgment in such jurisdictions. In addition, the enforcement in The Netherlands or Ukraine of any judgment obtained in a U.S. court, whether or not predicated solely upon U.S. federal securities laws, will be subject to certain conditions. There is also doubt that a court in The Netherlands or Ukraine would have the requisite power or authority to grant remedies sought in an original action brought in such jurisdictions on the basis of U.S. securities laws violations. For further information see "*Enforcement of Judgments*".

The interests of the Group's controlling shareholders may be inconsistent with the interests of holders of Notes

The interests of the Group's principal shareholders, in certain circumstances, may conflict with the interests of holders of Notes. The Group's principal shareholders have, directly or indirectly, the power, among other things, to affect the Group's legal and capital structure and day to day operations, as well as the ability to elect and change its management and to approve any other changes to its operations. For example, the Group's principal shareholders could cause the Group to incur additional indebtedness, to sell certain material assets or make dividend distributions, in each case, so long as the Notes, the PXF Facility Agreement and the Intercreditor Agreement so permit. The interests of the Group's principal shareholders could conflict with interests of holders of Notes, particularly if the Group encounters financial difficulties or are unable to pay its debts when due. The Group's principal shareholders could also have an interest in pursuing acquisitions, divestitures, financings, dividend distributions or other transactions that, in their judgment, could enhance their equity investments although such transactions might involve risks to the holders of Notes. In addition, the Group's principal shareholders may currently or in the future own businesses that directly compete with business of the Group.

DISTRIBUTION OF THE NOTES

The Notes will be issued and distributed to the Notes Scheme Creditors in accordance with the terms of the Scheme and the Distribution Agreement as part of the entitlements of such Notes Scheme Creditors pursuant to the Scheme. The Notes will be issued in an amount which will be specified in an Irish Stock Exchange's announcement on or around the Scheme Settlement Date under the Scheme. Subject to the below, the Issuer will not receive any proceeds from the issuance of the Notes.

Distributions of Notes to Notes Scheme Creditors

Notes will only be distributed on the Scheme Settlement Date to a Notes Scheme Creditor that has complied with the terms of the Scheme including, among other things, (i) confirming that it is a person who is eligible to receive the Notes pursuant to the Scheme and the Distribution Agreement (or nominating a designated recipient who is so eligible); and (ii) providing the Information Agent with settlement instructions including, among other things, details of the relevant Clearstream or Euroclear account to which such Notes are to be credited.

Undistributed Notes held on trust

Pursuant to the terms of the Scheme and the Distribution Agreement, the Holding Period Trustee will hold any undistributed Notes (including any PIK Notes issued in relation to those Notes, cash interest and any other cash amounts paid in respect of those Notes) on trust for the benefit of any Notes Scheme Creditor until the earlier of the date on which such Notes Scheme Creditor (i) provides the Information Agent with valid settlement instructions; and (ii) the date falling 24 months after the Scheme Settlement Date.

Any Notes (including any PIK Notes issued in relation to those Notes) held by the Holding Period Trustee on trust for the benefit of any Notes Scheme Creditor in respect of which settlement instructions have not been provided to and received by the Issuer and the Information Agent prior to the date falling 24 months after the Scheme Settlement Date will be cancelled. Any cash interest and any other cash amounts paid in respect of such Notes will be returned to the Issuer.

Sale of Notes and distribution of cash proceeds to Notes Scheme Creditors

If a Notes Scheme Creditor (i) provides the Information Agent with valid settlement instructions; and (ii) confirms that it is not a person who is eligible to receive the Notes pursuant to the Scheme and the Distribution Agreement (and does not nominate a designated recipient who is so eligible) that Notes Scheme Creditor will be ineligible to receive the Notes and instead its Notes (and any PIK Notes issued in relation to those Notes) will be sold in the market by an agent of the Holding Period Trustee as soon as reasonably practicable and in accordance with the terms of the Distribution Agreement. The proceeds of sale of those Notes (and any PIK Notes issued in relation to those Notes) and any cash interest or other cash amounts paid in respect of those Notes will be credited to the cash account specified by the Notes Scheme Creditor in its settlement instructions.

If the selling agent is unable to sell such Notes (and any PIK Notes issued in relation to those Notes) on the later of (i) one month following receipt by the Information Agent of the settlement instructions in relation to those Notes; and (ii) the date falling 24 months after the Scheme Settlement Date, such Notes (and any PIK Notes issued in relation to those Notes) will be cancelled. The cash interest and any other cash amounts paid in respect of such Notes and any PIK Notes issued in relation to those Notes will be credited to the cash account specified by the Notes Scheme Creditor in its settlement instructions.

EXCHANGE RATES

The following tables set forth, for the periods indicated, the average and period-end official rates set by the NBU, in each case for the purchase of Hryvna, expressed in Hryvna per U.S. dollar.

Year Ended 31 December	High	Low	Average⁽¹⁾	Period End
			<i>(Hryvna per U.S. dollar)</i>	
2011	7.99	7.93	7.97	7.99
2012	7.99	7.98	7.99	7.99
2013	7.99	7.99	7.99	7.99
2014	15.85	7.99	11.87	15.77
2015	30.01	15.75	21.81	24.00
2016	27.25	23.27	25.59	27.19

Notes:

(1) Calculated based on the exchange rates for each banking day of the period and the number of banking days in the period.

2016-2017	High	Low	Average⁽¹⁾	Period End
			<i>(Hryvna per U.S. dollar)</i>	
January	25.15	23.27	24.32	25.15
February	27.25	25.45	26.38	27.05
March	27.09	25.52	26.38	26.22
April	26.22	25.19	25.60	25.19
May	25.45	25.10	25.22	25.17
June	25.14	24.85	24.96	24.85
July	24.86	24.79	24.82	24.80
August	25.65	24.78	25.06	25.65
September	26.85	25.77	26.25	25.91
October	25.94	25.50	25.75	25.50
November	26.35	25.52	25.70	25.60
December	27.19	25.56	26.23	27.19
January ⁽²⁾	27.25	26.29	26.93	27.25

Notes:

(1) Calculated based on the exchange rates for each banking day of the period and the number of banking days in the period.

(2) Up to and including 13 January 2017.

Metinvest's reporting currency is U.S. dollars. Certain financial data that has not been derived from the Financial Statements has been translated from Hryvna into U.S. dollars at the rate of UAH 24.85 to U.S.\$1.00 on 30 June 2016, UAH 24.00 to U.S.\$1.00 on 31 December 2015 and UAH 15.77 to U.S.\$1.00 on 31 December 2014, based on the official rate reported by the NBU on those dates (after rounding adjustments), for the reader's convenience. No representation is made that the Hryvna or dollar amounts referred to herein could have been converted into dollars or Hryvna, as the case may be, at any particular exchange rate or at all. The NBU's Hryvna/dollar exchange rate as reported on 13 January 2017 (after rounding adjustments), was UAH 27.25 to U.S.\$1.00.

CAPITALISATION

The following table sets forth Issuer's consolidated capitalisation as at 30 June 2016. The table below should be read in conjunction with "Selected Consolidated Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the 2016 Interim Financial Statements included elsewhere in these Listing Particulars.

	As at 30 June 2016
	<i>(unaudited)</i>
	<i>(millions of U.S. dollars)</i>
Current loans and borrowings	2,892
Non-current loans and borrowings	—
Sellers' Notes, current portion	89
Sellers' Notes, non-current portion	—
TOTAL DEBT	2,981
TOTAL EQUITY	3,936
TOTAL CAPITALISATION⁽¹⁾	6,917

Notes:

(1) Total capitalisation represents total debt and total equity.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected financial information set forth below should be read in conjunction with the section headed "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements included elsewhere in these Listing Particulars. The Financial Statements have been prepared in accordance with IFRS as adopted by the European Union. The selected income statement and cash flow information set forth below for the years ended 31 December 2014 and 2015 and for the six months ended 30 June 2015 and 2016, and selected balance sheet information as at 31 December 2014 and 2015 and as at 30 June 2015 and 2016 has been extracted from the Financial Statements which are included elsewhere in these Listing Particulars. The selected financial information set forth below is qualified in its entirety by reference to the Financial Statements. See also "Presentation of Certain Information—Financial Information".

	Year ended 31 December		Six months ended 30 June	
	2014	2015	2015	2016
			(unaudited)	
INCOME STATEMENT INFORMATION				
Revenue	10,565	6,832	3,650	2,880
Cost of sales.....	(8,240)	(6,087)	(3,047)	(2,240)
Gross Profit.....	2,325	745	603	640
Distribution costs.....	(1,063)	(920)	(463)	(347)
General and administrative expenses.....	(287)	(211)	(96)	(82)
Other (expenses)/income, net.....	130	(300)	47	(5)
Operating profit	1,105	(686)	91	206
Finance income	25	26	11	13
Finance costs	(902)	(635)	(374)	(178)
Share of result of associates and joint venture.....	142	131	99	70
Profit / (loss) before income tax	370	(1,164)	(173)	111
Income tax (expense)/benefit	(211)	161	7	(21)
Profit / (loss) for the period.....	159	(1,003)	(166)	90
Profit is attributable to:				
Owners of the Company.....	116	(988)	(167)	87
Non-controlling interests.....	43	(15)	1	3
Profit/(Loss) for the period.....	159	(1,003)	(166)	90

	Year Ended 31 December		Six Months Ended 30 June	
	2014	2015	2015	2016
			(unaudited)	
BALANCE SHEET INFORMATION				
ASSETS				
Total non-current assets	9,068	6,805	6,805	6,373
Total current assets.....	3,488	2,377	2,377	2,657
TOTAL ASSETS.....	12,556	9,182	9,182	9,030
EQUITY				
Equity attributable to the owners of the Company	6,563	3,886	3,886	3,796
Non-controlling interest	199	138	138	140
TOTAL EQUITY	6,762	4,024	4,024	3,936
LIABILITIES				
Total non-current liabilities.....	2,922	786	786	751
Total current liabilities	2,872	4,372	4,372	4,343
TOTAL LIABILITIES	5,794	5,158	5,158	5,094
TOTAL LIABILITIES AND EQUITY	12,556	9,182	9,182	9,030

	Year Ended 31 December		Six Months Ended 30 June	
	2014	2015	2015	2016
			<i>(unaudited)</i>	
STATEMENT OF CASH FLOWS INFORMATION				
Net cash from operating activities	1,489	625	354	163
Net cash used in investing activities	(559)	(237)	(94)	(109)
Net cash used in financing activities.....	(1,542)	(309)	(212)	(50)
Effect of exchange rate changes on cash and cash equivalents.....	(57)	(13)	(11)	(1)
Net (decrease)/increase in cash and cash equivalents.....	(669)	66	37	3

	Year Ended 31 December		Six Months Ended 30 June	
	2014	2015	2015	2016
			<i>(unaudited)</i>	
ADJUSTED EBITDA				
Profit / (loss) before income tax.....	370	(1,164)	(173)	111
Reconciling items:				
Depreciation and amortisation	850	615	295	268
Reversal of impairment / (impairment) of property, plant and equipment and intangible assets.....	315	364	165	—
Finance income	(25)	(26)	(11)	(13)
Finance costs	902	635	374	178
Share of result of associates and share of depreciation, amortisation, tax and finance income and costs of joint ventures	158	81	39	40
Goodwill impairment	102	74	39	—
Foreign exchange gains less losses, net	—	(115)	(104)	(3)
Other reconciling items	30	49	(1)	(1)
Adjusted EBITDA (including share in EBITDA of joint ventures).....	2,702	513	623	580
Share in EBITDA of joint ventures	300	212	138	110
Adjusted EBITDA (excluding share in EBITDA of joint ventures)	2,402	301	485	470

UNAUDITED SUPPLEMENTAL INFORMATION ON THE GUARANTORS

The Issuer's obligations under the Notes will be guaranteed on a joint and several basis by the Guarantors. The following tables set forth the revenue, Adjusted EBITDA (calculated as profit, excluding the share in EBITDA of joint ventures, before income tax, finance income and costs, depreciation and amortisation, impairment or devaluation of property, plant and equipment, foreign exchange gains and losses, share of results of associates and other non-core expenses), net assets and total assets of the Guarantors and the non-guarantor subsidiaries (in absolute terms and expressed as a percentage of the consolidated revenues, Adjusted EBITDA, net assets and total assets of the Issuer) as at and for the six months ended 30 June 2016 and the year ended 31 December 2015, reflecting, in each case, intercompany eliminations. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and related notes thereto included elsewhere in these Listing Particulars.

As at and for the Six Months Ended 30 June 2016								
	Issuer		Guarantors		Non-Guarantors		Total	
	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%
REVENUE								
Combined standalone revenue	—	0%	2,254	37%	3,813	63%	6,067	100%
Intercompany eliminations.....	—	—	(2,026)	—	(1,161)	—	(3,187)	—
Consolidated revenue	—	0%	228	8%	2,652	92%	2,880	100%
ADJUSTED EBITDA (INCLUDING SHARE IN EBITDA OF JOINT VENTURES)								
Consolidated Adjusted EBITDA ⁽¹⁾	105	18%	443	76%	33	6%	580	100%
ADJUSTED EBITDA (EXCLUDING SHARE IN EBITDA OF JOINT VENTURES)								
Consolidated Adjusted EBITDA ⁽¹⁾	(5)	(1)%	443	94%	33	7%	470	100%
NET ASSETS								
Combined standalone assets.....	7,055	52%	4,040	30%	2,492	18%	13,587	100%
Intercompany eliminations.....	(9,168)	—	(99)	—	(383)	—	(9,650)	—
Consolidated net assets	(2,113)	54%	3,941	100%	2,109	54%	3,938	100%
TOTAL ASSETS								
Consolidated total assets	673	7%	4,977	55%	3,381	37%	9,030	100%

Notes:

- (1) Consolidated Adjusted EBITDA was derived from combined standalone revenue.

As at and for the Year Ended 31 December 2015								
	Issuer		Guarantors		Non-Guarantors		Total	
	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%
REVENUE								
Combined standalone revenue	0	0%	5,089	35%	9,646	65%	14,735	100%
Intercompany eliminations.....	0	—	(4,655)	—	(3,247)	—	7,902	—
Consolidated revenue	0	0%	434	6%	6,399	94%	6,832	100%
ADJUSTED EBITDA (INCLUDING SHARE IN EBITDA OF JOINT VENTURES)								
Consolidated Adjusted EBITDA ⁽¹⁾	192	38%	616	120%	(295)	(58)%	513	100%
ADJUSTED EBITDA (EXCLUDING SHARE IN EBITDA OF JOINT VENTURES)								
Consolidated Adjusted EBITDA ⁽¹⁾	(19)	(6)%	616	205%	(295)	(98)%	301	100%

As at and for the Year Ended 31 December 2015								
	Issuer		Guarantors		Non-Guarantors		Total	
	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%
NET ASSETS								
Combined standalone assets.....	7,135	52%	4,112	30%	2,426	18%	13,683	100%
Intercompany eliminations.....	(9,240)	—	126	—	(545)	—	(9,659)	—
Consolidated net assets	(2,105)	(52)%	4,248	106%	1,881	47%	4,024	100%
TOTAL ASSETS								
Consolidated total assets	616	7%	5,363	58%	3,203	35%	9,182	100%

Notes:

(1) Consolidated Adjusted EBITDA was derived from combined standalone revenue.

As at and for the Six Months Ended 30 June 2016										
Guarantor	Revenue		Adjusted EBITDA (including share in EBITDA of joint ventures)		Adjusted EBITDA (excluding share in EBITDA of joint ventures)		Net Assets		Total Assets	
	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%
Avdiivka Coke.....	41	1.4%	26	4.6%	26	5.6%	237	6.0%	274	3.0%
Azovstal.....	102	3.5%	72	12.3%	72	15.2%	1,162	29.5%	1,394	15.4%
Central GOK	0	0.0%	25	4.4%	25	5.4%	82	2.1%	119	1.3%
Ilyich Steel.....	66	2.3%	94	16.2%	94	20.0%	996	25.3%	1,325	14.7%
Ingulets GOK	0	0.0%	84	14.5%	84	17.9%	586	14.9%	664	7.4%
Khartsyzsk Pipe.....	0	0.0%	(2)	(0.4)%	(2)	(0.5)%	61	1.6%	67	0.7%
Metalen.....	0	0.0%	1	0.2%	1	0.3%	77	2.0%	89	1.0%
Northern GOK.....	0	0.0%	112	19.3%	112	23.8%	602	15.3%	705	7.8%
Yenakieve I&SW	18	0.6%	30	5.2%	30	6.4%	137	3.5%	339	3.8%
Total.....	228	7.9%	443	76.3%⁽¹⁾	443	94.1%⁽¹⁾	3,941	100.1%	4,977	55.1%

Note:

(1) Consolidated Adjusted EBITDA was derived from combined standalone revenue.

As at and for the Year Ended 31 December 2015										
Guarantor	Revenue		Adjusted EBITDA (including share in EBITDA of joint ventures)		Adjusted EBITDA (excluding share in EBITDA of joint ventures)		Net Assets		Total Assets	
	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%	(million U.S.\$)	%
Avdiivka Coke.....	31	0.4%	71	13.9%	71	23.7%	248	6.2%	290	3.2%
Azovstal.....	183	2.7%	90	17.5%	90	29.8%	1,239	30.8%	1,482	16.1%
Central GOK	0	0.0%	62	12.2%	62	20.8%	82	2.0%	128	1.4%
Ilyich Steel.....	154	2.3%	74	14.4%	74	24.6%	1,034	25.7%	1,377	15.0%
Ingulets GOK	3	0.0%	134	26.1%	134	44.4%	688	17.1%	783	8.5%
Khartsyzsk Pipe.....	25	0.4%	13	2.6%	13	4.4%	64	1.6%	72	0.8%
Metalen.....	0	0.0%	3	0.6%	3	1.1%	83	2.1%	96	1.0%
Northern GOK.....	1	0.0%	131	25.6%	131	43.6%	673	16.7%	802	8.7%
Yenakieve I&SW	37	0.5%	37	7.2%	37	12.3%	137	3.4%	335	3.6%
Total.....	434	6.3%	616	120.1%⁽¹⁾	616	204.6%⁽¹⁾	4,248	105.6%	5,363	58.4%

Note:

(1) Consolidated Adjusted EBITDA was derived from combined standalone revenue.

UNAUDITED TRADING UPDATE FOR THE FIRST NINE MONTHS OF 2016

On 9 December 2016, the Issuer published a trading update for the nine months ended 30 September 2016. The information in this trading update has been prepared based on preliminary financial results. Intragroup transactions have been eliminated in consolidation. The results contained in the trading update may differ from financial statements prepared in accordance with IFRS. The numbers below have not been audited or reviewed.

The following table presents Metinvest's total revenue, Adjusted EBITDA (as determined based on the formula in the footnote to the table below), capital expenditures, total debt, cash and cash equivalents and net debt for the nine months ended 30 September 2015 and 2016.

	As at and for the Nine Months Ended 30 September		
	2016	2015	Change
	<i>(millions of U.S. dollars, except percentages)</i>		<i>(%, except percentage points)</i>
Revenue	4,568	5,397	(15)%
Adjusted EBITDA (including share in EBITDA of joint ventures) ⁽¹⁾	989	816	21%
EBITDA margin (including share in EBITDA of joint ventures)	22%	15%	7 percentage points
Capital expenditures ⁽²⁾	199	191	4%
Total debt	2,907	2,946	(1)%
Cash and cash equivalents ⁽³⁾	239	180	33%
Net debt ⁽⁴⁾	2,668	2,766	(4)%

Note:

- (1) Adjusted EBITDA is calculated as earnings before income tax, financial 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.
- (2) Capital expenditures are calculated on an accrual basis (recognition).
- (3) 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.
- (4) Net debt is calculated as the sum of long-term and short-term loans and borrowings and seller notes less cash and cash equivalents.

The following table presents a geographic breakdown of Metinvest's external revenue for these periods (based on the location of the customer).

	As at and for the Nine Months Ended 30 September					
	2016		2015		Change	
	<i>(millions of U.S. dollars)</i>	<i>(% of revenue)</i>	<i>(millions of U.S. dollars)</i>	<i>(% of revenue)</i>	<i>(millions of U.S. dollars)</i>	<i>%</i>
Total revenues	4,568	100%	5,397	100%	(828)	(15)%
Ukraine	1,148	25%	1,204	22%	(56)	(5)%
Europe	1,624	36%	1,804	33%	(180)	(10)%
MENA	735	16%	1,041	19%	(306)	(29)%
CIS (excluding Ukraine)	409	9%	460	9%	(51)	(11)%
Southeast Asia	356	8%	646	12%	(291)	(45)%
North America	244	5%	191	4%	53	28%
Other Regions	53	1%	51	1%	2	5%

The following table shows geographical split of sales in the Metallurgical segment for these periods.

	As at and for the Nine Months Ended 30 September									
	2016			2015			Change			
	(millions of U.S. dollars)	(% of revenues)	(thousand tonnes)	(millions of U.S. dollars)	(% of revenues)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)
Total sales	3,681	100%	9,349	4,256	100%	9,505	(575)	(156)	(14)%	(2)%
Ukraine	806	22%	1,858	844	20%	1,827	(38)	31	(5)%	2%
Europe	1,448	39%	3,541	1,668	39%	3,597	(220)	(56)	(13)%	(2)%
MENA	734	20%	2,147	1,011	24%	2,443	(277)	(296)	(27)%	(12)%
CIS (excluding Ukraine)	409	11%	838	460	11%	887	(51)	(49)	(11)%	(6)%
Southeast Asia	67	2%	203	116	3%	262	(50)	(59)	(43)%	(22)%
North America	164	4%	610	106	2%	367	58	243	55%	66%
Other regions	53	1%	151	51	1%	122	2	29	5%	24%

The following table shows product sales split in the Metallurgical segment for these periods.

	As at and for the Nine Months Ended 30 September									
	2016			2015			Change			
	(millions of U.S. dollars)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)	(due to price)	(due to volume)
Semi-finished products	528	1,946	692	2,091	(164)	(145)	(24)%	(17)%	(7)%	
Pig iron	260	1,073	293	1,039	(34)	34	(11)%	(15)%		3%
incl. pig iron from Zaporizhstal	27	120	56	185	(30)	(65)	(52)%	(17)%		(35)%
Slabs	186	594	213	564	(27)	30	(13)%	(18)%		5%
Square billets	83	279	186	488	(104)	(209)	(56)%	(13)%		(43)%
Finished products	2,742	6,561	3,083	6,404	(341)	157	(11)%	(14)%		2%
Flat products	2,139	5,125	2,490	5,228	(351)	(103)	(14)%	(12)%		(2)%
incl. flat products from Zaporizhstal	702	1,955	869	2,077	(193)	(122)	(22)%	(16)%		(6)%
Long products	603	1,435	530	1,111	73	324	14%	(15)%		29%
Tubular products		1	63	65	(62)	(64)	(99)%	0%		(98)%
Coke	118	842	212	1,010	(93)	(168)	(44)%	(28)%	(17)%	
Other products and services	292	-	270	-	22	-	8%	-	-	
Total sales	3,681	9,349	4,256	9,505	(575)	(156)	(14)%	(12)%	(2)%	

The following table shows geographical split of sales in the Mining segment for these periods.

	As at and for the Nine Months Ended 30 September									
	2016			2015			Change			
	(millions of U.S. dollars)	(% of revenues)	(thousand tonnes)	(millions of U.S. dollars)	(% of revenues)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)
Total sales	887	100%	15,544	1,140	100%	16,570	(253)	(1,026)	(22)%	(6)%
Ukraine	342	39%	6,324	360	32%	5,170	(18)	1,154	(5)%	22%
Europe	175	20%	3,005	135	12%	2,187	40	818	29%	37%
MENA	1	0%	14	30	3%	372	(29)	(358)	(97)%	(96)%
CIS (excluding Ukraine)	-	-	-	-	-	-	-	-	-	-
Southeast Asia	289	33%	5,152	530	46%	7,870	(241)	(2,718)	(45)%	(35)%
North America	80	9%	1,049	85	7%	970	(5)	78	(6)%	8%
Other regions	-	-	-	-	-	-	-	-	-	-

The following table shows product sales split in the Mining segment for these periods.

	As at and for the Nine Months Ended 30 September								
	2016		2015		Change				
	(millions of U.S. dollars)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)	(millions of U.S. dollars)	(thousand tonnes)	(millions of U.S. dollars)	(due to price)	(due to volume)
Iron ore products....	718	14,196	914	15,230	(196)	(1,034)	(21)%	(15)%	(7)%
Merchant iron									
ore concentrate.....	436	9,838	489	9,515	(53)	323	(11)%	(14)%	3%
Pellets.....	282	4,358	424	5,714	(143)	(1,356)	(34)%	(10)%	(24)%
Coking coal									
concentrate.....	107	1,347	132	1,340	(25)	7	(19)%	(20)%	1%
Other products									
and services	63	-	95	-	(32)	-	(34)%	-	-
Total sales.....	887	15,544	1,140	16,570	(253)	(1,026)	(22)%	(16)%	(6)%

The following table shows EBITDA split between segments for the nine months ended 30 September 2015 and 2016.

	As at and for the Nine Months Ended 30 September					
	2016		2015		Change	
	(millions of U.S. dollars)	(% of revenues)	(millions of U.S. dollars)	(% of revenues)	(millions of U.S. dollars)	(percentage points)
Metallurgical segment	650	17%	524	12%	126	5
incl. Joint Ventures.....	124		136		(12)	
Mining segment.....	439	28%	334	15%	105	13
incl. Joint Ventures.....	73		58		16	
Corporate overheads and eliminations	(100)		(43)		(57)	
Total EBITDA	989	22%	816	15%	173	7

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of Issuer's financial condition and results of operations should be read in conjunction with the Financial Statements, the notes thereto and the other information included elsewhere in these Listing Particulars. This section contains forward-looking statements that involve risks and uncertainties. The Issuer's actual results may differ materially from those discussed in such forward looking statements due to various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

Metinvest is the largest vertically integrated mining and steel business in Ukraine, operating assets in each stage of the production chain from iron ore mining and processing, coking coal mining and coke production, through to semi-finished and finished steel production, pipe rolling and coil production as well as the production of other value-added products.

For the six months ended 30 June 2016, Issuer's consolidated revenue and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) amounted to U.S.\$2.9 billion and U.S.\$580 million, respectively. By comparison, Issuer's consolidated revenue and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) amounted to U.S.\$3.7 billion and U.S.\$623 million, respectively, for the six months ended 30 June 2015.

For the year ended 31 December 2015, Issuer's consolidated revenue and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) amounted to U.S.\$6.8 billion and U.S.\$513 million, respectively. By comparison, Issuer's consolidated revenue and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) amounted to U.S.\$10.6 billion and U.S.\$2,702 million, respectively, for the year ended 31 December 2014.

Metinvest's business is divided for financial reporting purpose into two segments: the metallurgical segment and the mining segment. In the year ended 31 December 2015, the mining segment accounted for 15 per cent. of Metinvest's consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures), while the metallurgical segment accounted for 85 per cent. of its consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures). For the six months ended 30 June 2016, the mining segment accounted for 39 per cent. of Metinvest's consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures), while the metallurgical segment accounted for 61 per cent. of its consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures).

- **Metallurgical segment.** In the year ended 31 December 2015, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$5.4 billion and U.S.\$486 million, respectively, compared to U.S.\$8.2 billion and U.S.\$1,123 million, respectively, in the year ended 31 December 2014. In the six months ended 30 June 2016, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$2.3 billion and U.S.\$401 million, respectively, compared to U.S.\$2.8 billion and U.S.\$421 million, respectively, in the six months ended 30 June 2015. The metallurgical segment's principal products include: finished steel products, such as flat and long steel products and pipes; semi-finished steel products, such as slabs and billets; pig iron; and coke. In the year ended 31 December 2015, finished steel products comprised approximately 74 per cent. of Metinvest's total steel sales volumes, compared to 78 per cent. in the previous year. In the six months ended 30 June 2016, finished steel products comprised approximately 79 per cent. of Metinvest's total steel sales volumes, compared to 77 per cent. in the six months ended 30 June 2015.
- **Mining segment.** In the year ended 31 December 2015, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$1.4 billion and U.S.\$88 million, respectively, compared to U.S.\$2.4 billion and U.S.\$1,754 million, respectively, in the year ended 31 December 2014. In the six months ended 30 June 2016, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$0.6 billion and U.S.\$255 million, respectively, compared to U.S.\$0.8 billion and U.S.\$218 million, respectively, in the six months ended 30 June 2015. Metinvest's key products in this segment are merchant iron ore concentrate and pellets and coking coal concentrate.

Reorganisation and Formation of Metinvest

The Issuer was incorporated under the laws of The Netherlands on 21 May 2001. In October 2004, as part of a comprehensive reorganisation of the SCM Group, the Issuer became the ultimate holding company for Metinvest.

As part of a shareholders' agreement between the SCM Group and SMART Group (as described in more detail in "*Shareholders and Related Party Transactions—Shareholders' Agreement*"), the SCM Group agreed to sell and/or contribute its remaining interests in Metinvest entities and certain other equity investments to the Issuer, in consideration for the acquisition by SMART Group of certain additional rights over the management of Metinvest. Due to the complexity of the transaction, it was executed in several stages between 2007 and 2014 and was finally completed in July 2014. Pursuant to the shareholders agreement, SMART Group contributed to the statutory capital of Metinvest 100 per cent. of the shares in Trosilia Holdings Ltd (Cyprus), which indirectly owns 44.78 per cent. of the shares in Southern GOK and directly owns 16.07 per cent. of Northern GOK and 14.14 per cent. of Ingulets GOK. In consideration for the contribution of Trosilia Holdings Limited (Cyprus), SMART Group received a number of additional rights with respect to Metinvest, including the right to veto certain matters within the remit of the Supervisory Board and General Shareholders' Meeting of the Issuer; the right to appoint three of the ten Supervisory Board members of the Issuer (the other seven members of the Supervisory Board being appointed by a joint meeting of the SCM Group and Clarendale Limited); and the right to appoint one of the Issuer's two directors (the other director, who serves as the CEO of the Issuer and the Group, being appointed by a joint meeting of the SCM Group and Clarendale Limited). Furthermore, an additional class B share was issued in July 2014 for the benefit of SMART Group. As a result, SCM Cyprus' interest in the Issuer is now 71.24 per cent. and SMART Group companies' interest amounts to 23.76 per cent. See "*Recent acquisitions and disposals*". The remaining 5.00 per cent. interest in the Issuer has been acquired from the previous owners of Ilyich Group for the benefit of the SCM Group and SMART Group. It is the intention of SCM and SMART to dispose of the remaining 5.00 per cent. interest in due course (after receiving respective governmental approvals, if necessary), such that the ultimate interest of the SCM Group in the Issuer shall be 75.00 per cent. minus 1 share; and the ultimate interest of SMART Group in the Issuer shall be 25.00 per cent. plus 1 share.

Until November 2007, 100 per cent. of the Issuer's shares were owned by SCM Group which is turn ultimately beneficially owned by Mr. Rinat Akhmetov. See also "*Shareholders and Related Party Transactions*" and "*Business Description—History*" for further information on Metinvest's ownership.

Summary of Acquisitions and Disposals

Metinvest has sought to develop a vertically integrated steel and mining business through the purchase of assets that it believes offer significant upside potential, particularly in light of Metinvest's plan to implement improved working practices and operational methods.

The following is a summary of the terms of Metinvest's principal steel and mining acquisitions and disposals in the period under review. The acquired entities were consolidated in Metinvest's financial statements from the date on which Metinvest acquired, directly or indirectly, an interest of more than one half of the voting rights in an entity or otherwise obtained power to govern the financial and operating policies of an entity so as to obtain economic benefits. Acquisitions were accounted for using the purchase method of accounting. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. Where a business combination is achieved in stages, the previously held interest in the acquired business is included in the cost of business combination at fair value as of the acquisition date, with any resulting gains recognised in the consolidated income statement. Costs directly related to the acquisition of subsidiaries are recognised in the consolidated income statement in the period when the costs are incurred and the services are received.

Acquisitions and disposals in 2014

- **MetalUkr.** On 12 February 2014, MetalUkr Holding Limited (Cyprus), which is wholly owned by the Issuer, transferred 78.31 per cent. of Northern Iron Ore Enrichment Works, 99.48 per cent. of Central Iron Ore Enrichment Works (increasing the Issuer's interest to 99.56 per cent.), 0.25 per cent. of Azovstal Iron and Steel Works (increasing the Issuer's interest to 74.5 per cent.) and 1.21 per cent. of Khartsyzsk Pipe (increasing the Issuer's interest to 93.0 per cent.) to the Issuer as part of the ongoing restructuring of its business to improve its business transparency and management efficiency. The transaction did not involve any transfer of cash and has not affected the Group's consolidated cash flow.

- *Share Issue by Northern GOK.* On 14 February 2014, 14,752,200 additional ordinary shares in Northern GOK were issued for a nominal amount of UAH 3,688,050 to existing shareholders. Following this issue, the share capital of Northern GOK is UAH 579,707,000. The share issue raised approximately UAH 118 million, which was allocated to the continuing construction of a crushing and transfer complex at Pervomaysk quarry and to increase the working capital of Northern GOK.
- *Share Issue by Central GOK.* On 19 February 2014, 14,729,000 additional ordinary shares in Central GOK were issued for a nominal amount of UAH 3,682,250 to existing shareholders. As a result of the issue, the share capital of Central GOK is UAH 296,635,000. Proceeds from the share issue were intended to be used to replenish Central GOK's working capital and to finance projects, including the development of sand containing iron, to repair diesel engines and the repair and maintenance of railway tracks.
- *Acquisition of Additional Blocks of shares.* In July 2014, Metinvest acquired 1.89 per cent. of the share capital of Northern GOK from SCM Holdings for U.S.\$74.9 million. Also in June 2014, Metinvest acquired 0.79 per cent. of the share capital of Southern GOK for U.S.\$24.7 million.

Acquisitions and disposals in 2015

- There were no acquisitions or disposals in 2015.

Acquisitions and disposals in the six months ended 30 June 2016

- In January 2016, Metinvest transferred its entire interest in the share capital of BKI Cyprus to a third party buyer for U.S.\$6 million.

Factors Affecting Metinvest's Results of Operations

Impact of the conflict in Ukraine

The situation in Ukraine deteriorated in late 2013 and early 2014 following protests in Kyiv. Since April 2014, parts of the Donetsk and Luhansk regions have experienced significant conflict. Some, although not the majority, of Metinvest's assets are located in these regions. Since then a number of Metinvest's production facilities in Ukraine have experienced serious problems with their production and supply chains, resulting in temporary suspensions of production. Furthermore, railway infrastructure in Eastern Ukraine has sustained damage caused by shelling and sabotage in the course of the ongoing military action in the region. This has resulted in disruptions in the supply of raw materials to a number of Metinvest's facilities' and consequently reduced operations at Avdiivka Coke, Donetsk Coke, Azovstal, I&SW, Krasnodon Coal and Komsomolske Flux, as well as the temporary suspension of operations at Khartsyzsk Pipe, Donetsk Coke and Yenakiieve Steel. On 11 February 2015, as a result of prolonged discussions between the conflicting parties (in collaboration with European and Russian leaders), the second Minsk agreements were signed to bring about a ceasefire and stop the conflict. Since then, military activity has substantially diminished, although the situation remains unstable. Together with other companies of the SCM Group, Metinvest restored logistics routes to steel plants of Mariupol and the supply of electricity to Avdiivka Coke. Despite the restoration of some logistical routes, Metinvest continues supplying part of its raw materials by coastal shipments. Metinvest continues to restore the supply of raw materials to other assets located in the conflict area. Logistical problems remain one of the biggest challenges to date. Between January 2016 and May 2016, two railway lines were operating in the conflict zone (Skotovataya-Yasinovataya and Nikitovka-Mayorskaya). However, since the end of May Nikitovka-Mayorskaya railroad (which serviced approximately 25 per cent. of all volumes transported to and from the conflict zone) had been blocked due to the intensification of shelling. This affected deliveries of raw materials in the region and production output decreased as a direct result of this blockage. In June, railway operations were terminated in these areas not under the Ukrainian's government control as Donetsk Railways banned freight transportation. Railway operations have since been resumed. Further interruptions in rail operations may happen in the future. Management believes it is taking appropriate measures to support the sustainability of Metinvest's business in the current circumstances. However, the final resolution and the effects of the political and economic crisis are difficult to predict and they may have further negative implications for both the Ukrainian economy and Metinvest's business. See further "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

World market prices of iron ore

Iron ore prices are influenced by fluctuations in global supply and demand, as well as by transportation costs. Iron ore prices have varied significantly in the past and could vary significantly in the future and are also positively correlated with demand from steel producers. For example, iron ore prices collapsed in 2009, primarily due to lower commodity demand caused by the global financial crisis. While demand for iron ore in the developed world remained subdued following the decline in 2009, strong growth in demand in developing economies, combined with limited supply, resulted in an increase in world iron ore prices in 2010-2011. Since 2011 iron ore prices have tended to fall, mainly due to a growing imbalance between supply and demand caused by substantial increases in seaborne iron ore supplies (mainly from Australia and Brazil).

According to Bloomberg, the benchmark price of 62 per cent. Fe iron ore CFR China increased marginally to U.S.\$136 per dry tonne in 2013 compared to U.S.\$129 in 2012, after which the price fell to U.S.\$97 per dry tonne and U.S.\$56 per dry tonne, respectively, in 2014 and 2015. During mid-December 2015 the price fell to a multiyear low of U.S.\$38.3 per dry tonne. According to Bloomberg, prices increased for the first time quarter-on-quarter since the fourth quarter of 2013 to a quarterly average of U.S.\$49 per dry tonne in the first quarter of 2016, compared to U.S.\$47 per dry tonne in the fourth quarter of 2015. In the second quarter of 2016 the price increased by 14 per cent. to U.S.\$56 per dry tonne, compared to U.S.\$49 in the first quarter 2016. This increase was caused by several factors, including: economy stimulus measures adopted by the Chinese government (including increasing the budget deficit from 2.3 per cent. to 3.0 per cent. and issuing approximately U.S.\$700 billion of new loans in the first quarter of 2016 – a 26 per cent. year-on-year increase); an increase in the liquidity of the iron ore derivatives market; a seasonal demand increase; an increase in steel production ahead of expected substantial restrictions on the activities of polluting industries during the world horticultural exhibition in Hebei province in China; and increased demand from steel producers following announcements of investment in infrastructure projects in China. From the supply side, the most crucial factor affecting prices was a non-binding agreement between two big iron ore producers – Vale and FMG – to create a joint venture. Supply disruptions in Australia and Brazil caused by monsoons and a suspension of supplies from Samarco also impacted iron ore prices.

Until March 2010, worldwide prices for iron ore were set based on a benchmark price which was determined in part based on the outcome of negotiations between the world's largest steel manufacturers and the world's largest iron ore mining companies. Metinvest was not a party to these negotiations. In early 2010, the system of annual contracts and benchmark prices that had existed since the 1960s was replaced with new short term pricing mechanisms linked to the spot market. Prior to this change iron ore prices were first agreed between one of the major iron ore producers and a steelmaker during annual negotiations. The agreed price then became a benchmark followed by the rest of the industry for a year. However, the strong growth in the size of the internationally traded iron ore market prompted the development of a large spot market for the product. In March 2010, BHP Billiton negotiated the first settlement with Asian customers on the basis of shorter-term landed price contracts. This practice, which used spot-linked quarterly contracts rather than annual contracts, was soon adopted by Vale and Rio Tinto. The share of spot market sales as against contract-based settlement has been gradually increasing since 2010. For instance, approximately 22 per cent. of Rio Tinto's sales in 2015 were priced with reference to the prior quarter's average index lagged by one month. The remainder was sold either on the current quarter average, the current monthly average or on the spot market. However, various pricing schemes based on the previous dynamics of spot prices (including different time lags) are also being used. The current pricing system uses hybrids of quarterly and spot pricing, and it is expected that the global spot market for seaborne iron ore will continue to grow, bringing a gradual shift from contract to spot sales. See also "*Industry—Iron Ore Mining and Processing Industry—Global Overview*".

Demand and price for steel in the markets in which Metinvest operates

The steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, steel imports and protective trade measures. Steel prices tend to be volatile, responding to supply and demand and fluctuating in response to general and industry-specific economic conditions. Between 2002 and 2008, annual average prices for billets rose by over 350 per cent. on the basis of FOB Black Sea exports, from U.S.\$166 per tonne in 2002 to U.S.\$749 per tonne in 2008, according to Metal Expert, driven to a significant extent by demand from China. Prices then collapsed in 2009, during the global economic recession, falling by 48 per cent. year-on-year to U.S.\$390 per tonne. Average annual prices recovered in 2010 to U.S.\$526 per tonne and in 2011 to U.S.\$635 per tonne, peaking at U.S.\$681 per tonne in August 2011, but this still remained below the average annual price for 2008. Since 2011, prices had been declining, averaging U.S.\$561 per tonne in 2012, U.S.\$510 per tonne in 2013, U.S.\$480 per tonne in 2014 and U.S.\$327 per tonne in 2015. In the first half of 2016, steel prices started to grow amid economy stimulus measures introduced by the Chinese government and subsequent liquidity improvement and restocking by traders, raw material price increases, the adoption of a new five-year development plan by the Chinese government, production cuts at the end of 2015 and seasonal demand growth. These factors spurred price increases in all regions. The price

of billets, on the basis of FOB Black Sea exports, increased by 1 per cent. from U.S.\$265 per tonne in the fourth quarter of 2015 to U.S.\$267 per tonne in the first quarter of 2016. In the second quarter of 2016 the price of billets surged by 34 per cent. to U.S.\$358 per tonne.

Since the 2008 peak, the recovery in steel industry volumes has been uneven. Demand continued to grow in China, even in 2009, when most of the world was in recession. However, growth in demand from China has slowed in 2010-2012 from the unsustainable growth rates that were encountered in the years leading up to the crisis. In 2013, steel demand in China increased by 11 per cent. due to the increased growth in property sector. In 2014 and 2015, steel demand has been decreasing in China, although it was still higher compared to 2008. Demand has so far failed to recover to pre-crisis levels in Europe, North America and Japan, although most of the rest of Asia, including the Middle East, has experienced a full recovery. See also "*Industry—Steel Industry—Global Overview*".

Raw materials

Metinvest's principal raw materials for steel production are coal, coke, iron ore materials (including sintering iron ore, iron ore concentrate, iron ore pellets and sinter), scrap metal, dolomite, dolomite fluxes and ferroalloys and refractory materials. While Metinvest's steel production business sources a significant portion of these raw materials, including most of its coke requirements and all of its iron ore concentrate and pellets requirements from Metinvest's coke and iron ore businesses, it relies on third parties for the remainder of its raw materials.

In the six months ended 30 June 2016, Metinvest purchased from third parties 79 per cent. of its coking coal requirements, 100 per cent. of its PCI coal and other coal requirements, 26 per cent. of its coke requirements and all of the ferroalloys and refractory materials used in the production of steel in the same period. In the year ended 31 December 2015, Metinvest purchased from third parties 78 per cent. of its coking coal requirements, 100 per cent. of its PCI coal and other coal requirements, 27 per cent. of its coke requirements, and all of the ferroalloys and refractory materials used in the production of steel in the same period. In the year ended 31 December 2014, Metinvest purchased from third parties 67 per cent. of its coking coal requirements, 100 per cent. of its PCI coal and other coal requirements, 22 per cent. of its coke requirements, and all of the ferroalloys and refractory materials used in the production of steel in the same period.

The percentage of Metinvest's coking coal requirements supplied by third parties has changed, from 67 per cent. in 2014 to 79 per cent. in the six months ended 30 June 2016, primarily due to the higher cost of sales from internal coal supplies but also because it is easier to source the appropriate quality of coal required for Metinvest's operations from third parties. The ongoing conflict in the Donetsk and Luhansk regions of Ukraine, which has resulted in disruptions to the supply of coal from Krasnodon Coal to Metinvest's other facilities, was also a contributory factor. The percentage of Metinvest's coke requirements supplied by third parties has also changed, from 22 per cent. in 2014 to 27 per cent. in the six months ended 30 June 2016 due to raw materials supply constraints and unstable operations at Metinvest's coke producing assets amid the conflict in eastern Ukraine. See also "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*". Prices of all of the above-mentioned raw materials are affected by cyclical, seasonal and other market factors, including periodic shortages, freight costs, speculation by brokers and export markets. Therefore, with respect to some of its raw materials, Metinvest remains subject to longer-term price fluctuations and shortages which are beyond its control. See "*Risk Factors—Risks Relating to Metinvest—The externally purchased raw materials Metinvest uses to produce steel, such as coking coal, scrap metal and ferroalloys are subject to price fluctuations that could increase Metinvest's costs of production*". In the period under review, Metinvest benefited from a high level of self-sufficiency in raw materials, which shielded it from fluctuations in prices for its principal raw materials, periods of shortages of raw materials and supply failures in Ukraine and potential resulting decrease in steel production.

Cyclicality

Metinvest's business is cyclical because the industries in which the majority of its steel customers operate, including the construction, automotive, oil and gas and engineering industries, are themselves cyclical and sensitive to changes in general economic conditions. The steel industry is currently suffering from significant overcapacity. According to Metinvest's estimates (which are based on the WSA data), in 2015 the global steel industry had excess crude steel capacity of approximately 697 million tonnes per year, implying capacity utilisation of 69.9 per cent. While Metinvest benefited from the business cycle in late 2007 and 2008, steel prices collapsed in 2009, reflecting a significant decrease in demand for steel products as a result of the global economic downturn.

The timing and extent of price recovery and return to prior levels cannot be predicted. For example, although billet prices recovered in 2010 and 2011, they still fell short of the average annual price for 2008, and decreased again in 2012-2015. An eventual recovery in steel prices will probably depend on a broad recovery from the recent global economic downturn and a more favourable supply-demand balance, although the length and nature of business cycles affecting the steel industry have historically been unpredictable. The demand for steel products is thus generally correlated with macroeconomic fluctuations in the economies in which steel producers sell products, which are in turn affected by global economic conditions.

Currency exchange rates

Metinvest's sales outside Ukraine generate foreign currency earnings. As Metinvest exports a significant portion of its production, for which it is paid in U.S. dollars and Euros, it is exposed to (and may benefit from) currency exchange rate fluctuations. Metinvest's finance costs are denominated primarily in foreign currencies, principally in U.S. dollars. However, a substantial portion of Metinvest's operating costs (in particular, wages, salaries, electricity and transportation services within Ukraine) are incurred in Hryvna. Therefore, depreciation of the Ukrainian Hryvna against the U.S. dollar has a positive effect on Metinvest's results of operations in the periods in which it occurs.

The table below shows the nominal exchange rate and real effective exchange rate for Hryvna in 2014, 2015 and the first half of 2016.

	Year Ended 31 December		Six Months Ended 30 June
	2014	2015	2016
Average nominal exchange rate (Hryvna per dollar) ⁽¹⁾	11.87	21.81	25.54
Nominal exchange rate (Hryvna per dollar) at period end ⁽²⁾	15.77	24.00	24.85
Average nominal exchange rate (Hryvna per euro) ⁽¹⁾	15.68	24.19	28.50
Nominal exchange rate (Hryvna per euro) at period end ⁽²⁾	19.23	26.22	27.56
Change in real effective exchange rate ⁽³⁾	(21.3)%	7.9%	N/A

Notes:

- (1) Average of the official exchange rates set by the NBU during the relevant period.
- (2) The official exchange rates set by the NBU as at 31 December 2014 and 2015, 30 June 2016 as relevant.
- (3) Effective exchange rate is a multilateral exchange rate which is a weighted average of exchange rates of domestic and foreign currencies, with the weight for each foreign country equal to its share in trade. It measures the average price of a home good relative to the average price of goods of trading partners, using the share of trade with each country as the weight for that country.

The Hryvna remained relatively stable against the U.S. dollar from the fourth quarter of 2009 to the end of 2013. In 2014, the Hryvna depreciated from UAH7.99 to U.S.\$1.00 at the start of the year to UAH15.77 to U.S.\$1.00 at the end of the year. In 2015, the Hryvna continued to depreciate against the U.S. dollar, reaching a historical peak of UAH30.01 to U.S.\$1.00 on 26 February 2015, but later stabilising, bringing the yearly average to UAH21.81 to U.S.\$1.00. In the six months ended 30 June 2016, the Hryvna depreciated further against the U.S. dollar to the average for the period of UAH25.54 to U.S.\$1.00. See also "*Risk Factors—Risks Relating to Metinvest—Fluctuations in currencies may adversely affect Metinvest's financial condition and results of operations*". This had a short-term positive impact on Metinvest's overall profitability given that a portion of its costs is UAH based while its sales are largely US dollar denominated.

Macroeconomic trends in Ukraine

Most of Metinvest's operations are based in Ukraine and it generates a significant proportion of its sales in Ukraine. In each of the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, Metinvest generated 24 per cent. of its consolidated revenue from sales to customers in Ukraine. As a result, Ukrainian macroeconomic trends, including the overall decline or growth in the economy, significantly influence its performance.

The table below summarises certain key macroeconomic indicators relating to the Ukrainian economy in 2014 and 2015 and the six months ended 30 June 2016.

	Year Ended 31 December		Six Months Ended 30 June
	2014	2015	2016
GDP growth ⁽²⁾	(6.6)%	(9.9)%	0.8%
Consumer price index.....	12.1%	48.7%	18.1%

	Year Ended 31 December		Six Months Ended 30 June
	2014	2015	2016
Producer price index	17.1%	36.0%	15.0%
Unemployment rate ⁽³⁾	9.3%	9.1%	9.4%

Source: SSSU, World Bank

Notes:

- (1) 2014 and 2015 data is from the SSCU, 2016 data is from the World Bank.
- (2) GDP growth is estimated by the World Bank.
- (3) Calculated under the International Labour Organisation's methodology.

The growth of the Ukrainian economy between 2000 and 2008 resulted in greater domestic consumption of steel and also resulted in increases in the costs of raw materials and energy due to greater demand. When the global economic and financial situation began to deteriorate in 2008, the effect on Ukraine's economy was particularly severe, with consumption of steel products (including flat, long and certain semi-finished products, but excluding pipes, according to Metal Expert). After the decrease in 2009, consumption of steel products in Ukraine increased in 2010 and 2011, reaching 8.4 million tonnes in 2011. However, starting from 2012 consumption of steel products in Ukraine has been falling. Domestic consumption of steel products declined to 7.9 million tonnes (or by 6 per cent. year-on-year) in 2012, to 7.2 million tonnes (or by 9 per cent. year-on-year) in 2013, to 5.6 million tonnes (or by 22 per cent. year-on-year) in 2014 and to 4.0 million tonnes in 2015 (or by 28 per cent. year-on-year), according to Metal Expert. The trend has reversed in 2016, and in the first half of 2016, the apparent consumption of steel products in Ukraine amounted to 2.4 million tonnes, an increase of 37 per cent. as compared to the first half of 2015.

Implementation of cost reduction

Metinvest's management has historically focused on implementing measures aimed at reducing the cost of producing its steel products and implementing an efficient corporate and management structure and maximising the utilisation of its assets. These measures include, among other things: optimising its production facilities through the closing of open hearth production and the closing of a blooming mill; decreasing consumption coefficients through technological and organisational improvements at its steel making and rolling facilities; and increasing use of low-cost materials such as slagging scrap instead of iron ore concentrate. Metinvest's ability to continue to reduce costs will impact, among other things, its profitability and capacity plans.

Financial Statements Discussed

Abbreviated consolidated financial statements of the Issuer as at and for the years ended 31 December 2014 and 2015 presented in these Listing Particulars have been prepared in accordance with IFRS. Unaudited condensed consolidated financial statements for the six months ended 30 June 2016 presented in these Listing Particulars have been prepared in accordance with IAS 34 "Interim Financial Statements", as adopted by the European Union. The 2014 Financial Statements and the 2015 Financial Statements have been audited by the Issuer's independent auditors, PricewaterhouseCoopers Accountants N.V. (**PricewaterhouseCoopers**). See also "*Selected Consolidated Financial Information*". The audit reports on the 2014 Financial Statements and the 2015 Financial Statements contain an emphasis of matter relating to an uncertainty in the financial statements with respect to the political and economic uncertainties in Ukraine. See "*Risk Factors—Risks Relating to the Group—Metinvest is currently unable to refinance its indebtedness due to funding conditions affecting Ukrainian borrowers*".

Components of Principal Income Statement Items

Revenue

Metinvest's revenue is generated from the sales of its steel, iron ore, coal and coke products and resales of products manufactured by related parties as well as certain third parties.

Cost of sales

Metinvest's cost of sales consists primarily of costs of raw materials, costs of energy materials, payroll and related expenses for employees at its production facilities, depreciation and amortisation, impairment of property, plant and equipment, expenses in relation to repairs and maintenance, outsourcing, taxes and other costs.

Distribution costs

Metinvest's distribution costs consist largely of transportation costs, salaries paid to sales and distribution employees, commissions paid by Metinvest's European subsidiaries to third party sales agents and trade offices for their services and cost of materials.

General and administrative expenses

Metinvest's general and administrative expenses consist largely of salaries paid to administrative employees, consultancy fees, auditors, legal and banking services expenses, insurance costs and lease payments.

Other operating income and expenses

Metinvest's other operating income and expenses consist primarily of sponsorship and other charity expenses, operating foreign exchange gains less losses, maintenance of social infrastructure, gain or loss on disposal of property, plant and equipment, impairments of goodwill and trade and other accounts receivable. Social infrastructure expenses and sponsorship and other charity expenses include such items as maintenance of medical centres and recreational centres.

Finance income

Metinvest's finance income includes interest income on bank deposits and loans issued, imputed interest on other financial instruments and other finance income.

Finance costs

Metinvest's finance costs include interest expense on its bank borrowings and debt securities, finance foreign exchange net losses, interest cost on retirement benefit obligations and other finance costs.

Results of Operations for the Six Months Ended 30 June 2015 and 2016

The following table presents Metinvest's income statement data for the six months ended 30 June 2015 and 2016 in absolute terms and as a percentage of revenue as well as period to period comparisons for these periods of 2015 and 2016.

	Six Months Ended 30 June					
	2015		2016		2016 v 2015	
	(millions of U.S. dollars, except percentages)					
Revenue	3,650	100%	2,880	100%	(770)	(21)%
Cost of sales.....	(3,047)	(83)%	(2,240)	(78)%	807	(26)%
Gross profit	603	17%	640	22%	37	6%
Distribution costs.....	(463)	(13)%	(347)	(12)%	116	(25)%
General and administrative expenses....	(96)	(3)%	(82)	(3)%	14	(15)%
Other operating income/(expenses), net	47	1%	(5)	0%	(52)	(111)%
Operating profit.....	91	2%	206	7%	115	126%
Finance income	11	0%	13	0%	2	18%
Finance costs	(374)	(10)%	(178)	(6)%	196	(52)%
Share of result of associates	99	3%	70	2%	(29)	(29)%
Profit before income tax	(173)	(5)%	111	4%	284	(164)%
Income tax expense	7	0%	(21)	(1)%	(28)	(400)%
Profit for the year	(166)	(5)%	90	3%	256	(154)%

Revenue

Metinvest's total revenue decreased by U.S.\$770 million from U.S.\$3,650 million in the six months ended 30 June 2015 to U.S.\$2,880 million in the same period of 2016. External revenue of the metallurgical segment decreased by U.S.\$549 million year-on-year, while external revenue of the mining segment decreased by U.S.\$221 million year-on-year. This was mainly driven by lower sales prices of steel and iron ore products, which hit multi-year lows in the first quarter of 2016, although they had partially recovered in the second quarter of 2016. In addition, there was a decrease in sales volumes of square billets, pipes, coke and pellets primarily due to factors such as weak demand in key markets and unstable operations at Yenakieve Steel.

The following table presents Metinvest's total revenue by segment for the six months ended 30 June 2015 and 2016, as well as a geographic breakdown of Metinvest's external revenue for these periods (based on the location of the customer) in absolute terms and as a percentage of segment revenue.

	Six Months Ended 30 June					
	2015		2016		2016 v 2015	
		Share of total segment revenue		Share of total segment revenue		
	Amount		Amount		Change	% Change
	(millions of U.S. dollars, except percentages)					
Revenue by segment						
Metallurgical segment						
Sales – external						
Ukraine	512	18%	484	21%	(28)	(6)%
Europe	1,168	41%	957	41%	(211)	(18)%
Southeast Asia	111	4%	28	1%	(83)	(75)%
CIS (excl. Ukraine)	281	10%	226	10%	(54)	(19)%
Middle East and						
North Africa	704	25%	487	21%	(218)	(31)%
North America	31	1%	79	3%	48	153%
Other countries	32	1%	29	1%	(3)	(9)%
Total for external sales.....	2,839	99%	2,290	98%	(549)	(19)%
Sales to other segments	32	1%	38	2%	6	18%
Total for metallurgical segment	2,871	100%	2,328	100%	(543)	(19)%
Mining segment						
Sales – external						
Ukraine	229	15%	214	22%	(15)	(6)%
Europe	88	6%	79	8%	(9)	(11)%
Southeast Asia	416	28%	242	25%	(174)	(42)%
CIS (excl. Ukraine)	0	0%	0	0%	0	N/A
Middle East and						
North Africa	21	1%	1	0%	(20)	(96)%
North America	57	4%	54	5%	(3)	(6)%
Other countries	0	0%	0	0%	0	0%
Total for external sales.....	811	54%	590	60%	(221)	(27)%
Sales to other segments	690	46%	397	40%	(293)	(42)%
Total for mining segment	1,501	100%	987	100%	(514)	(34)%
Eliminations.....	(722)		(435)		287	(40)%
Total revenue	3,650		2,880		(770)	(21)%

External revenue from the metallurgical segment accounted for 80 per cent. of Metinvest's total revenue in the six months ended 30 June 2016 as compared to 78 per cent. of total revenue in the same period of 2015. External revenue from the mining segment accounted for 20 per cent. of Metinvest's total revenue in the six months ended 30 June 2016, as compared to 22 per cent. of total revenue in the same period of 2015.

Metallurgical segment revenue

The metallurgical segment generates revenue from sales of pig iron, steel and coke products and services. The metallurgical segment's external revenue decreased by 19 per cent. year-on-year to U.S.\$2,290 million in the six months ended 30 June 2016 compared to U.S.\$2,839 million in the same period of 2015. This was attributable to a decrease in revenue from sales of flat products of U.S.\$366 million; semi-finished products of U.S.\$144 million; tubular products of U.S.\$62 million; and coke of U.S.\$58 million. External revenue from sales of long products and other products and services increased by U.S.\$65 million and U.S.\$15 million, respectively.

The following table shows average price trends for Metinvest's principal steel products in the six months ended 30 June 2015 and 2016.

	Six Months Ended 30 June	
	2015	2016
	Effective Average External Sale Prices for Metinvest's Steel Products ⁽¹⁾	
	(U.S. dollars per tonne ⁽²⁾)	
Semi-finished products:		
Pig iron	299	225
Slabs	398	281
Square billets	400	287
Finished products:		
Flat products	487	389
Long products	492	405

Notes:

- (1) Prices include transportation costs and costs of brokerage and other services related to the sales of Metinvest's products. Prices reflect the terms of the sales contracts and were not adjusted for any specific terms of delivery of Metinvest's products.
- (2) Revenue denominated in Hryvna was converted into U.S. dollars using the averages of the Hryvna to U.S. dollar exchange rates published by the NBU for 2015 and 2016.

The following table shows the breakdown of Metinvest's metallurgical segment external revenue in the six months ended 30 June 2015 and 2016.

	Six Months Ended 30 June					
	2015		2016		2016 v 2015	
		Percentage of external segment revenue		Percentage of external segment revenue		
	Amount		Amount		Change	% Change
	(millions of U.S. dollars, except percentages)					
Semi finished products:						
Pig iron	170	6%	144	6%	(26)	(15)%
<i>incl. pig iron from Zaporizhstal</i>	40	1%	15	1%	(25)	(62)%
Slabs	144	5%	96	4%	(48)	(33)%
Square billets	131	5%	62	3%	(70)	(53)%
Total for semi finished products.....	446	16%	302	13%	(144)	(32)%
Finished products:						
Flat products.....	1,730	61%	1,364	60%	(366)	(21)%
<i>incl. flat products from Zaporizhstal .</i>	623	22%	454	20%	(169)	(27)%
Long products.....	301	11%	367	16%	65	22%
Tubular products	63	2%	0	0%	(62)	(99)%
Total for finished products.....	2,094	74%	1,731	76%	(363)	(17)%
Coke.....	136	5%	78	3%	(58)	(43)%
Other products and services.....	164	6%	179	8%	15	9%
Total	2,839	100%	2,290	100%	(549)	(19)%

In the six months ended 30 June 2016, revenue from sales of pig iron decreased by 15 per cent. (or U.S.\$26 million) year-on-year to U.S.\$144 million, due to a 25 per cent. slump in the effective average selling price, which was partially offset by a 12 per cent. increase in sales volumes. Sales volumes of pig iron increased by 70 thousand tonnes year-on-year to 639 thousand tonnes in the six months ended 30 June 2016 due to higher overall production, while resales of Zaporizhstal's pig iron decreased by 50 thousand tonnes year-on-year to 74 thousand tonnes in the six months ended 30 June 2016. Sales volumes to Southeast Asia increased by 24 thousand tonnes year-on-year due to shipments to a new client in Bangladesh. Sales volumes to North America increased by 221 thousand tonnes year-on-year due to a new long-term contract with one of customers in the United States. To fulfil its obligations under this contract, Metinvest redirected 73 thousand tonnes from Europe and 69 thousand tonnes from the Middle East and North Africa.

In the six months ended 30 June 2016, revenue from sales of slabs decreased by 33 per cent. (or U.S.\$48 million) year-on-year to U.S.\$96 million, driven by a 30 per cent. decrease in the effective average selling price and a 6 per cent. decrease in sales volumes. Volumes decreased by 20 thousand tonnes year-on-year to 343 thousand tonnes in the six months ended 30 June 2016, due to lower sales to Europe, Southeast Asia and other regions, while sales to the Middle East and North Africa (mainly Turkey) increased by 14 thousand tonnes year-on-year due to higher sales to a key client. The decline in the effective average selling price followed the benchmark for slabs FOB Black Sea, which decreased by 6 per cent. year-on-year.

In the six months ended 30 June 2016, revenue from sales of square billets decreased by 53 per cent. (or U.S.\$70 million) year-on-year to U.S.\$62 million due to a 34 per cent. decrease in sales volumes and a 28 per cent. decrease in the effective average selling price. Sales volumes of square billets decreased by 113 thousand tonnes year-on-year to 215 thousand tonnes in the six months ended 30 June 2016, mainly due to an increase in long product output. Sales to the Middle East and North Africa decreased by 143 thousand tonnes year-on-year. Meanwhile, sales to Europe increased by 19 thousand tonnes year-on-year. Sales to other regions increased by 20 thousand tonnes year-on-year due to a one-off sale at a higher price in the first quarter of 2016. The effective average selling price followed the benchmark for billet FOB Black Sea quotations, which decreased by 15 per cent. year-on-year.

In the six months ended 30 June 2016, revenue from sales of flat products decreased by 21 per cent. (or U.S.\$366 million) year-on-year to U.S.\$1,364 million, mainly due to a lower average selling price. Flat product sales volumes remained almost unchanged year-on-year at 3,507 thousand tonnes in the six months ended 30 June 2016. Zaporizhstal's share of total sales volumes of flat products remained flat year-on-year at 39 per cent. in the six months ended 30 June 2016. Sales to Ukraine increased by 43 thousand tonnes year-on-year driven by higher sales of galvanized and polymer coated sheets on the local market in the first quarter of 2016. Sales to the CIS (excluding Ukraine) rose by 82 thousand tonnes year-on-year, driven mainly by higher sales to Russia during the six months ended 30 June 2016 compared with lower sales in the corresponding period of 2015 when that market was less attractive than others. Sales to the Middle East and North Africa increased by 67 thousand tonnes year-on-year due to higher sales of galvanized flat products to the Middle East and ongoing sales in Algeria and Egypt. Sales to Europe decreased by 99 thousand tonnes year-on-year due to weaker demand. Sales to Southeast Asia decreased by 152 thousand tonnes year-on-year due to a number of factors, including strong competition from Chinese producers, a lower effective average selling price, antidumping duties imposed by the Government of Pakistan and the redirection of volumes to other markets. The effective average selling price followed the dynamics of the benchmark for HRC FOB Black Sea quotations, which decreased by 8 per cent. year-on-year.

In the six months ended 30 June 2016, revenue from sales of long products increased by 22 per cent. (or U.S.\$65 million) year-on-year to U.S.\$367 million. This was caused by a 48 per cent. increase in sales volumes, partially offset by a 18 per cent. decline in the effective average selling price. Volumes increased by 293 thousand tonnes year-on-year to 905 thousand tonnes in the six months ended 30 June 2016, driven by a recovery in demand and higher overall production. As such, sales to all regions other than the CIS (excluding Ukraine) increased. The negative price trend in all markets for long products was due to lowering scrap and billet quotations.

In the six months ended 30 June 2016, revenue from sales of tubular products decreased by 99 per cent. (or U.S.\$62 million) year-on-year to U.S.\$0.5 million as Khartsyzsk Pipe has been idle since June 2015 due to a lack of customer orders.

For the six months ended 30 June 2015 and 2016, the metallurgical segment's sales to the mining segment amounted to U.S.\$32 million and U.S.\$38 million, respectively.

Revenue from sales to customers in Ukraine decreased by 6 per cent. year-on-year from U.S.\$512 million in the six months ended 30 June 2015 to U.S.\$484 million in the six months ended 30 June 2016, while sales volumes increased by 9 per cent. year-on-year from 1,062 thousand tonnes in the six months ended 30 June 2015 to 1,153 thousand tonnes in the six months ended 30 June 2016. This was mainly due to lower sales of coke caused by lower sales to a key client and lower selling prices of steel products, which followed benchmark trends.

Revenue from sales to customers in the CIS (excluding Ukraine) decreased by 19 per cent. year-on-year due to lower sales of long and tubular products. Revenue from sales to customers in Europe decreased by 18 per cent. year-on-year mainly due to lower sales of pig iron, slabs and flat products. Revenue from sales to customers in the Middle East and North Africa decreased by 31 per cent. year-on-year due to lower sales of pig iron, square billets and flat products. Revenue from sales to customers in Southeast Asia decreased by 75 per cent. year-on-year due to lower sales of slabs and flat products. Revenue from sales to customers in North America increased by 153 per cent. year-on-year due to higher sales of pig iron. Revenue from sales to customers in other regions decreased by 9 per cent. year-on-year.

Mining segment revenue

Mining segment revenue includes revenue from sales of iron ore, coal and other products and services. The mining segment's external revenue decreased by 27 per cent. year-on-year to U.S.\$590 million in the six months ended 30 June 2016 compared to U.S.\$811 million in the same period of 2015, mainly because of a slump in prices of iron ore products and coking coal concentrate, as well as lower sales volumes of pellets, partially offset by higher sales volumes of iron ore concentrate.

The following table shows average price trends for Metinvest's principal iron ore and coal products in the six months ended 30 June 2015 and 2016.

	Six Months Ended 30 June	
	2015	2016
	Effective Average External Sale Prices for Metinvest's Iron Ore and Coal Products ⁽¹⁾ (U.S. dollars per tonne) ⁽²⁾	
Iron ore concentrate.....	52	42
Pellets	76	61
Coking coal concentrate.....	104	81

Notes:

- (1) Prices include transportation costs and costs of brokerage and other services related to the sales of Metinvest's products. Prices reflect the terms of the sales contracts and were not adjusted for any specific terms of delivery of Metinvest's products.
- (2) Revenue denominated in Hryvna was converted into U.S. dollars using the monthly averages of the Hryvna to U.S. dollar exchange rates published by the NBU for 2015 and 2016.

In the six months ended 30 June 2016, the effective average price for iron ore concentrate (calculated as total revenue from sales of iron ore concentrate divided by sales volumes) decreased by 20 per cent. year-on-year to U.S.\$42 per tonne from U.S.\$52 per tonne in the same period of 2015. The effective average price for pellets decreased by 20 per cent. year-on-year to U.S.\$61 per tonne from U.S.\$76 per tonne in the same period of 2015. The effective average price for coking coal concentrate decreased by 22 per cent. year-on-year to U.S.\$81 per tonne from U.S.\$104 per tonne in the same period of 2015.

The following table shows the breakdown of Metinvest's mining segment external revenue in the six months ended 30 June 2015 and 2016.

	Six Months Ended 30 June					
	2015		2016		2016 v 2015	
	Amount	Share of total segment revenue	Amount	Share of total segment revenue	Change	% Change
	(millions of U.S. dollars, except percentages)					
Iron ore products:						
Iron ore concentrate	339	42%	301	51%	(37)	(11)%
Pellets	317	39%	174	29%	(143)	(45)%
Total for iron ore products.....	656	81%	475	81%	(181)	(28)%
Coking coal concentrate	90	11%	71	12%	(19)	(21)%
Other products and services.....	65	8%	44	7%	(21)	(32)%
Total	811	100%	590	100%	(221)	(27)%

In the six months ended 30 June 2016, revenue from sales of iron ore concentrate decreased by 11 per cent. year-on-year to U.S.\$301 million, caused by a 20 per cent. decrease in the effective average selling price, which was partially offset by a 12 per cent. increase in sales volumes. Volumes increased by 761 thousand tonnes year-on-year to 7,227 thousand tonnes in the six months ended 30 June 2016 due to destocking and higher production. Sales to Ukraine increased by 267 thousand tonnes year-on-year due to increased sales to a key client. Sales to Southeast Asia increased by 719 thousand tonnes year-on-year, while sales to Europe decreased by 224 thousand tonnes year-on-year following weak demand during the first quarter of 2016. The effective average selling price followed the benchmark for 62 per cent. Fe iron ore CFR China, which declined by 14 per cent. to an average of U.S.\$52 per tonne in the six months ended 30 June 2016 from an average of U.S.\$60 per tonne in the corresponding period of 2015.

In the six months ended 30 June 2016, revenue from sales of pellets decreased by 45 per cent. year-on-year to U.S.\$174 million due to a 32 per cent. decline in sales volumes and a 20 per cent. decline in the effective average selling price. Volumes decreased by 1,321 thousand tonnes year-on-year to 2,831 thousand tonnes in the six months ended 30 June 2016 due to lower production together with a decrease in premiums on certain markets. Sales to Southeast Asia and the Middle East and North Africa decreased by 2,323 thousand tonnes and 239 thousand tonnes year-on-year, respectively. Sales to Ukraine increased by 942 thousand tonnes year-on-year due to higher consumption by a key client. Sales to Europe increased by 298 thousand tonnes year-on-year due to a higher demand. The effective average selling price followed the benchmark for 62 per cent. Fe iron ore CFR China, which decreased by 14 per cent. year-on-year.

In the six months ended 30 June 2016, revenue from sales of coking coal concentrate decreased by 21 per cent. year-on-year to U.S.\$71 million, driven mainly by a 22 per cent. decrease in the effective average selling price, partially offset by a 2 per cent. increase in sales volumes. Volumes increased by 13 thousand tonnes year-on-year to 873 thousand tonnes in the six months ended 30 June 2016 due to higher sales to North America. The effective average selling price in Ukraine declined by 32 per cent. year-on-year following a decrease in the share of sales of a more expensive coal on this market. At the same time, the average quarterly contract price for hard coking coal in North America fell by 15 per cent. year-on-year, largely in line with the benchmark for hard coking coal FOB Australia, which decreased by 27 per cent. year-on-year.

For the six months ended 30 June 2015 and 2016, mining segment sales to the metallurgical segment amounted to U.S.\$690 million (46 per cent. of mining segment sales) and U.S.\$397 million (40 per cent. of mining segment sales), respectively.

Revenue from sales to customers in Ukraine decreased by 6 per cent. year-on-year from U.S.\$229 million in the six months ended 30 June 2015 to U.S.\$214 million in the six months ended 30 June 2016. This was primarily due to lower selling prices of iron ore products and coking coal concentrate, which was partially offset by higher sales volumes of iron ore products in this region as key local clients increased consumption.

Revenue from sales to customers in Europe decreased by 11 per cent. year-on-year due to a decrease in sales volumes of iron ore concentrate and lower selling prices of iron ore products. Revenue from sales to customers in Southeast Asia decreased by 42 per cent. year-on-year due to a decrease in sales volumes of pellets and lower selling prices of iron ore products. Revenue from sales to customers in North America decreased by 6 per cent. year-on-year due to lower selling prices of coking coal concentrate. Revenue from sales to customers in the Middle East and North Africa decreased by 96 per cent. year-on-year due to lower sales of pellets.

Operating Expenses

The table below sets out Metinvest's operating expenses by category for the six months ended 30 June 2015 and 2016 in absolute terms and as a percentage of total revenue.

	Six Months Ended 30 June			
	2015		2016	
	Amount	Share of total revenue	Amount	Share of total revenue
	<i>(millions of U.S. dollars, except percentages)</i>			
Cost of sales.....	(3,047)	(83)%	(2,240)	(78)%
Distribution costs.....	(463)	(13)%	(347)	(12)%
General and administrative expenses.....	(96)	(3)%	(82)	(3)%
Total operating expenses	(3,606)	(99)%	(2,669)	(93)%

Metinvest's cost of sales decreased by 26 per cent. year-on-year from U.S.\$3,047 million in the six months ended 30 June 2015 to U.S.\$2,240 million the six months ended 30 June 2016. This was primarily attributable to: (i) favourable movements in the USD/UAH exchange rate, which accounted for U.S.\$219 million or 27 per cent. of the total decrease in the cost of sales; (ii) a decrease in the cost of goods and services for resale of U.S.\$281 million (mainly goods from Zaporizhstal); (iii) no impairment charges accrued during the six months ended 30 June 2016, compared with U.S.\$165 million accrued in the corresponding period of 2015; (iv) a decrease in the cost of raw materials (excluding changes in work in progress and finished goods) of U.S.\$66 million as a result of lower prices of coal, scrap, iron ore and coke of U.S.\$163 million, which was partially offset by an increase in the consumption of these materials of U.S.\$97 million; (v) a decrease in the cost of energy of U.S.\$80 million due to lower consumption of natural gas and fuel of U.S.\$46 million and lower gas prices of U.S.\$51 million, which was partially offset by an increase in electricity tariffs in Hryvna of U.S.\$17 million; and (vi) a decrease in services and other costs of U.S.\$51 million mainly due to a reversal of provision for inventory impairment of U.S.\$43 million created

at the end of 2015 as a result of sales prices growth. Cost of sales as a share of total revenue decreased from 83 per cent. in the six months ended 30 June 2015 to 78 per cent. in the six months ended 30 June 2016.

Distribution costs decreased by 25 per cent. year-on-year from U.S.\$463 million in the six months ended 30 June 2015 to U.S.\$347 million in the six months ended 30 June 2016, and decreased as a share of total revenue from 13 per cent. in the six months ended 30 June 2015 to 12 per cent. in the six months ended 30 June 2016. The decrease in distribution costs was primarily attributable to lower freight costs (U.S.\$110 million) due to lower sea shipment volumes amid a change in sales structure and lower freight tariffs caused by decreased crude oil prices. In addition, favourable movements in the USD/UAH exchange rate, which mainly impacted railroad costs, wages and salaries, as well as other distribution costs incurred in Hryvna, accounted for U.S.\$30 million of the reduction in costs. These factors were partially offset by an increase in railroad costs of U.S.\$34 million due to higher transportation volumes and following an upward indexation in tariffs of 15 per cent. on 30 April 2016.

General and administrative expenses decreased by 15 per cent. year-on-year from U.S.\$96 million (3 per cent. of total revenue) in the six months ended 30 June 2015 to U.S.\$82 million (3 per cent. of total revenue) in the six months ended 30 June 2016, driven by favourable movements in the USD/UAH exchange rate, which mainly impacted wages and salaries, service fees and other expenses.

Other operating Income/(Expenses), Net

Other operating expense amounted to U.S.\$5 million compared with U.S.\$47 of other operating income in the same period of 2015. The reversal was mainly attributable to a decrease of U.S.\$100 million in net foreign exchange gains which was principally due to lower gains following a revaluation of trade receivables and trade payables. This was partially offset by no impairment of goodwill accrued in the six months ended 30 June 2016, compared with U.S.\$39 million accrued in the same period of 2015. As a share of total revenue, other operating income amounted to 0 per cent. in the six months ended 30 June 2016, compared with 1 per cent. in the same period of 2015.

Operating Profit and Adjusted EBITDA (including share in EBITDA of joint ventures)

Operating profit increased by 126 per cent. year-on-year to U.S.\$206 million in the six months ended 30 June 2016 from U.S.\$91 million in the six months ended 30 June 2015, while the operating margin increased by 5 percentage points year-on-year to 7 per cent.

Management assesses the performance of Metinvest's operating segments based on Adjusted EBITDA (including share in EBITDA of joint ventures). See "*Selected Consolidated Financial Information*" for a reconciliation of Adjusted EBITDA (including share in EBITDA of joint ventures) to profit before income tax.

Adjusted EBITDA (including share in EBITDA of joint ventures) decreased by 7 per cent. year-on-year from U.S.\$620 million for the six months ended 30 June 2015 (amounting to 17 per cent. of Metinvest's total revenue), to U.S.\$580 million for the six months ended 30 June 2016 (amounting to 20 per cent. of Metinvest's total revenue). The contribution of the metallurgical segment decreased by U.S.\$20 million. In addition, corporate overheads and eliminations increased by U.S.\$60 million. This was partially offset by an increase in the contribution of the mining segment of U.S.\$37 million.

The following table presents Adjusted EBITDA (including share in EBITDA of joint ventures) by segment for the six months ended 30 June 2015 and 2016.

	Six Months Ended 30 June				2016 v 2015	
	2015		2016			
	Amount	Percentage of total segment revenue	Amount	Percentage of total segment revenue	Change	% Change
(millions of U.S. dollars, except percentages)						
Metallurgical segment.....	421	15%	401	17%	(20)	(5)%
incl. Joint Venture	101	-	69	-	(32)	(32)%
Mining segment.....	218	15%	255	26%	37	17%
incl. Joint Venture	37	-	41	-	4	11%
Corporate overheads.....	(30)	-	(32)	-	(2)	7%
Eliminations.....	14	-	(44)	-	(58)	(414)%
Total.....	623	17%⁽¹⁾	580	20%⁽¹⁾	(43)	(7)%

Note:

(1) Percentage of Metinvest's total revenue.

In the six months ended 30 June 2016, the year-on-year reduction in consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) was primarily attributable to a decrease in sales prices of U.S.\$737 million and sales volumes of the mining segment of U.S.\$81 million. In addition, the contribution of the joint ventures to EBITDA declined by U.S.\$28 million mainly due to a decrease in the contribution from Zaporizhstal of U.S.\$32 million.

These factors were partially offset by:

- an increase in the sales volumes of the metallurgical segment (U.S.\$48 million);
- the favourable impact of the Hryvna devaluation (U.S.\$218 million);
- a decrease in other costs of U.S.\$286 million, mainly due to a decrease in the cost of goods and services for resale;
- a decrease in logistics costs of U.S.\$106 million mainly due to lower freight costs (U.S.\$110 million) and lower other expenses (U.S.\$30 million), partially offset by higher railway costs (U.S.\$34 million);
- lower spending on energy due to lower consumption of natural gas and fuel (U.S.\$46 million) and lower prices of natural gas (U.S.\$51 million), partially offset by increased electricity tariffs (U.S.\$17 million); and
- a decrease in the cost of raw materials due to lower market prices of coal, scrap, iron ore and coke (U.S.\$163 million), partially offset by higher consumption (U.S.\$97 million).

Metinvest's consolidated Adjusted EBITDA margin (including share in EBITDA of joint ventures) increased by 3 percentage points year-on-year to 20 per cent. in the six months ended 30 June 2016. The EBITDA margin of the metallurgical segment (including share in EBITDA of joint ventures) increased by 2 percentage points year-on-year to 17 per cent., while the EBITDA margin of the mining segment (including share in EBITDA of joint ventures) increased by 11 percentage points year-on-year to 26 per cent.

Finance income

Finance income increased from U.S.\$11 million in the six months ended 30 June 2015 to U.S.\$13 million in the six months ended 30 June 2016.

Finance costs

Finance costs decreased by 52 per cent. year-on-year from U.S.\$374 million in the six months ended 30 June 2015 to U.S.\$178 million in the six months ended 30 June 2016 primarily due to lower foreign exchange losses from financing activity incurred on intragroup loans and dividends. For details of current borrowings, see also "*Description of Indebtedness*".

Income tax expense

In accordance with the Tax Code of Ukraine, the current income tax rate in the country was 18 per cent. in 2015 and 2016. Metinvest's overall income tax rate derives from the rates applicable to profits in the jurisdictions where it operates (Ukraine, the United States and Europe).

In the six months ended 30 June 2016, income tax expense amounted to U.S.\$21 million, compared with a tax credit of U.S.\$7 million in the same period of 2015. This was principally driven by a year-on-year decrease in deferred tax credit of U.S.\$15 million and a year-on-year increase in current tax of U.S.\$12 million due to an increase in profits of some subsidiaries of the Group.

Pledges

As at 31 December 2015, trade and other receivables totalling U.S.\$99 million were pledged as collateral for borrowings compared to U.S.\$175 million as of 31 December 2014. As at 31 December 2015, inventories totalling U.S.\$69 million were pledged as collateral for borrowings compared to U.S.\$151 million as of 31 December 2014. As at 31 December 2015 and 2014 no buildings, plant and machinery were pledged to third parties as collateral for loans and borrowings.

Results of Operations for the Years Ended 31 December 2014 and 2015

The following table presents Metinvest's income statement data for the years ended 31 December 2014 and 2015, in absolute terms and as a percentage of revenue, as well as year-on-year comparisons for 2014 and 2015.

	Year Ended 31 December				2015 v 2014	
	2014		2015			
	(millions of U.S. dollars, except percentages)					
Revenue	10,565	100%	6,832	100%	(3,732)	(35)%
Cost of sales.....	(8,240)	(78)%	(6,087)	(89)%	2,153	(26)%
Gross profit	2,325	22%	745	11%	(1,579)	(68)%
Distribution costs.....	(1,063)	(10)%	(920)	(13)%	143	(13)%
General and administrative expenses	(287)	(3)%	(211)	(3)%	76	(26)%
Other operating income/(expenses), net	130	1%	(300)	(4)%	(430)	(331)%
Operating profit.....	1,105	10%	(686)	(10)%	(1,790)	(162)%
Finance income	25	0%	26	0%	1	4%
Finance costs	(902)	(9)%	(635)	(9)%	267	(30)%
Share of result of associates	142	1%	131	2%	(11)	(8)%
Profit before income tax	370	3%	(1,164)	(17)%	(1,533)	(415)%
Income tax expense	(211)	(2)%	161	2%	372	(176)%
Profit for the year	159	2%	(1,003)	(15)%	(1,161)	(732)%

Revenue

Metinvest's total revenue in 2015 amounted to U.S.\$6,832 million, a 35 per cent. decrease compared to revenue of U.S.\$10,565 million in 2014. This decrease was attributable to decreases in the external revenue of the metallurgical segment in the amount of U.S.\$2,758 million and of the mining segment in the amount of U.S.\$974 million, mainly driven by lower overall production of crude steel as a result of the conflict in Eastern Ukraine, lower output of total iron ore concentrate, weak demand in key markets and multi-year low prices of steel and iron ore products.

The following table presents Metinvest's total revenue by segment for 2014 and 2015, as well as a geographic breakdown of Metinvest's external revenue for these periods (based on the location of the customer) in absolute terms and as a percentage of segment revenue.

	Year Ended 31 December				2015 v 2014	
	2014		2015			
	Amount	Percentage of total segment revenue	Amount	Percentage of total segment revenue	Change	% Change
(millions of U.S. dollars, except percentages)						
Revenue by segment						
Metallurgical segment						
Sales – external						
Ukraine	1,578	19%	1,151	21%	(427)	(27)%
Europe	2,751	33%	2,090	38%	(661)	(24)%
Southeast Asia	516	6%	116	2%	(400)	(77)%
CIS (excl. Ukraine)	1,073	13%	602	11%	(471)	(44)%
Middle East and North Africa	1,872	23%	1,266	23%	(607)	(32)%
North America.....	281	3%	111	2%	(170)	(61)%
Other countries	94	1%	71	1%	(23)	(25)%
Total for external sales.....	8,165	99%	5,407	98%	(2,758)	(34)%
Sales to other segments	81	1%	109	2%	28	34%
Total for metallurgical segment.....	8,246	100%	5,516	100%	(2,730)	(33)%

Year Ended 31 December						
2014			2015		2015 v 2014	
Amount	Percentage of total segment revenue		Amount	Percentage of total segment revenue	Change	% Change
<i>(millions of U.S. dollars, except percentages)</i>						
Mining segment						
Sales – external						
Ukraine	918	22%	468	16%	(450)	(49)%
Europe	199	5%	165	6%	(34)	(17)%
Southeast Asia	1,150	28%	635	22%	(515)	(45)%
CIS (excl. Ukraine)	1	0%	0	0%	(1)	(100)%
Middle East and						
North Africa	0	0%	39	1%	39	0%
North America	124	3%	118	4%	(7)	(5)%
Other countries	7	0%	0	0%	(7)	(100)%
Total for external sales	2,400	59%	1,425	50%	(974)	(41)%
Sales to other segments	1,694	41%	1,436	50%	(258)	(15)%
Total for mining segment	4,094	100%	2,861	100%	(1,233)	(30)%
Eliminations	(1,775)		(1,545)		230	(13)%
Total revenue	10,565		6,832		(3,732)	(35)%

External revenue from the metallurgical segment accounted for 79 per cent. of Metinvest's total revenue in 2015 as compared to 77 per cent. of total revenue in 2014. External revenue from the mining segment accounted for 21 per cent. of Metinvest's total revenue in 2015, as compared to 23 per cent. of total revenue in 2014.

Metallurgical segment revenue

The metallurgical segment generates revenue from sales of pig iron, steel and coke products and services. The metallurgical segment's external revenue decreased by 34 per cent. to U.S.\$5,407 million in 2015 compared to U.S.\$8,165 million in 2014. This was attributable to a decrease of revenue from sales of flat products by U.S.\$1,467 million, long products by U.S.\$506 million, semi-finished products by U.S.\$443 million, tubular products by U.S.\$174 million, coke and chemical products by U.S.\$59 million and other products and services by U.S.\$110 million.

The following table shows average price trends for Metinvest's principal steel products in 2014 and 2015.

Year Ended 31 December		
2014		2015
Effective Average External Sale Prices for Metinvest's Steel Products ⁽¹⁾		
<i>(U.S. dollars per tonne)⁽²⁾</i>		
Semi-finished products:		
Pig iron	400	258
Slabs	527	350
Square billets	513	361
Finished products:		
Flat products	600	459
Long products	619	455
Tubular products	988	962

Notes:

- (1) Prices include transportation costs and costs of brokerage and other services related to the sales of Metinvest's products. Prices reflect the terms of the sales contracts and were not adjusted for any specific terms of delivery of Metinvest's products.
- (2) Revenue denominated in Hryvna was converted into U.S. dollars using the averages of the Hryvna to U.S. dollar exchange rates published by the NBU for 2014 and 2015.

The following table shows the breakdown of Metinvest's metallurgical segment external revenue in 2014 and 2015.

	Year Ended 31 December					
	2014		2015		2015 v 2014	
	Amount	Share of external segment revenue	Amount	Share of external segment revenue	Change	% Change
	<i>(millions of U.S. dollars, except percentages)</i>					
Semi finished products:						
Pig iron	490	6%	379	7%	(111)	(23)%
<i>incl. pig iron from Zaporizhstal</i>	40	0%	84	2%	45	113%
Slabs	483	6%	274	5%	(209)	(43)%
Square billets	351	4%	228	4%	(123)	(35)%
Total for semi finished products	1,324	16%	880	16%	(443)	(33)%
Finished products:						
Flat products	4,550	56%	3,084	57%	(1,467)	(32)%
<i>incl. flat products from Zaporizhstal</i>	1,557	19%	1,098	20%	(459)	(29)%
Long products	1,216	15%	710	13%	(506)	(42)%
Tubular products	237	3%	63	1%	(174)	(73)%
Total for finished products	6,004	74%	3,857	71%	(2,146)	(36)%
Coke and chemical products	463	6%	404	7%	(59)	(13)%
Other products and services	376	5%	265	5%	(110)	(29)%
Total	8,165	100%	5,407	100%	(2,758)	(34)%

In 2015, revenue from sales of pig iron decreased by 23 per cent. (or U.S.\$111 million) year-on-year to U.S.\$379 million. This was driven by a substantially lower effective average selling price, which decreased by 35 per cent. year-on-year. This decrease was partially offset by an increase in sales volumes, which grew by 20 per cent. year-on-year. Sales volumes of pig iron increased by 241 thousand tonnes year-on-year to 1,467 thousand tonnes. This increase was mainly due to re-sales of 332 thousand tonnes of Zaporizhstal's pig iron as a result of the surplus hot metal available after the major overhaul of blast furnace no. 4, which was completed in the second half of 2014. Given the unfavourable market prices in the United States, sales volumes were redirected to other, higher-margin markets, including Ukraine, Europe, the Middle East and North Africa, as well as other regions.

In 2015, revenue from sales of slabs decreased by 43 per cent. (or U.S.\$209 million) year-on-year to U.S.\$274 million due to a 34 per cent. decrease in the effective average selling price and a 15 per cent. decrease in sales volumes. Sales volumes of slabs decreased by 135 thousand tonnes year-on-year to 782 thousand tonnes, due to lower overall production volumes in the first half of 2015 and a lack of orders in the second half of 2015. This resulted in lower sales volumes to Europe and Southeast Asia. Sales volumes to the Middle East and North Africa region (mainly Turkey) increased by 177 thousand tonnes year-on-year, due to a rise in sales to a key client. The decline in the effective average selling price followed the benchmark for slabs (FOB Black Sea), which decreased by 39 per cent. year-on-year.

In 2015, sales of square billets decreased by 35 per cent. (or U.S.\$123 million) year-on-year to U.S.\$228 million, driven by a 30 per cent. decrease in the effective average selling price and an 8 per cent. decrease in sales volumes. Sales volumes of square billets decreased by 53 thousand tonnes year-on-year to 631 thousand tonnes. This decrease was mainly due to lower production volumes at Yenakieve Steel, which were caused by the halt of production from 7 February to 16 March 2015 due to the conflict in Eastern Ukraine, as well as limited supplies of raw materials and natural gas during 2015. The effective average selling price followed the benchmark for billet FOB Black Sea quotations, which plummeted by 32 per cent. year-on-year.

In 2015, revenue from sales of flat products decreased by 32 per cent. (or U.S.\$1,467 million) year-on-year to U.S.\$3,084 million due to a 24 per cent. decrease in the effective average selling price and a 11 per cent. decrease in sales volumes. Flat product sales volumes decreased by 857 thousand tonnes year-on-year to 6,726 thousand tonnes, driven mainly by a 13 per cent. decline in the output of flat products at Metinvest's operations in 2015. In addition, re-sale volumes of Zaporizhstal's flat products decreased by 135 thousand tonnes year-on-year. Sales volumes to all regions, except Europe, decreased. Sales volumes in Ukraine decreased by 198 thousand tonnes year-on-year as a result of weak demand in key steel-consuming industries, which was in turn due to the conflict in Eastern Ukraine and the overall economic slowdown in the country. Shipments to the CIS (excluding Ukraine) decreased by 51 thousand tonnes year-on-year, driven by lower sales to Russia. Sales volumes in the Middle East and North Africa and Southeast Asia decreased by 445 thousand tonnes and 452 thousand tonnes year-on-year,

respectively, due to lower overall production and stronger competition from Chinese producers. Sales volumes to Europe increased by 334 thousand tonnes year-on-year due to the customer capture through a back-to-back sales system and additional services provided. Sales volumes to Romania, Poland, Spain and Portugal increased following the opening of new sales offices in these countries. The effective average selling price was largely in line with the benchmark quotations for HRC FOB Black Sea, which had decreased by 35 per cent. year-on-year.

In 2015, revenue from sales of long products decreased by 42 per cent. (or U.S.\$506 million) year-on-year to U.S.\$710 million due to a 20 per cent. decline in sales volumes and a 27 per cent. decline in the effective average selling price. Sales volumes of long products decreased by 403 thousand tonnes year-on-year to 1,562 thousand tonnes. This was caused by lower production volumes due to the conflict in the Donetsk and Luhansk regions, problems with dispatching finished goods from the conflict region and difficulties in supplying square billets from Yenakieve Steel to Promet Steel in Bulgaria for further re-rolling.

In 2015, revenue from sales of tubular products decreased by 73 per cent. (or U.S.\$174 million) year-on-year to U.S.\$63 million. This was due to a pro rata decline in sales volumes (which decreased by 174 thousand tonnes year-on-year to 66 thousand tonnes) due to decreased orders.

For 2015 and 2014, the metallurgical segment's sales to the mining segment amounted to U.S.\$109 million and U.S.\$81 million, respectively.

Revenue from sales to customers in Ukraine decreased by 27 per cent. year-on-year from U.S.\$1,578 million in 2014 to U.S.\$1,151 million in 2015, while sales volumes decreased by 8 per cent. year-on-year from 3,254 thousand tonnes in 2014 to 2,983 thousand tonnes in 2015. This was mainly due to lower sales of finished steel and iron ore products caused by weak demand in major steel consuming sectors and lower selling prices, which followed benchmark trends.

At the same time, revenue from sales to customers in the CIS (excluding Ukraine) decreased by 44 per cent. year-on-year due to lower sales of flat, long and tubular products. Revenue from sales to customers in Europe decreased by 24 per cent. year-on-year, mainly due to reduced sales of slabs, flat and long products. Revenue from sales to customers in the Middle East and Northern Africa decreased by 32 per cent. year-on-year due to lower sales of square billets, flat and long products. Revenue from sales to customers in Southeast Asia decreased by 77 per cent. year-on-year due to reduced sales of slabs and flat products. Revenue from sales to customers in North America decreased by 61 per cent. year-on-year due to lower sales of pig iron. Revenue from sales to customers in other regions decreased by 25 per cent. year-on-year.

Mining segment revenue

Mining segment revenue includes revenue from sales of iron ore, coal and other products and services. The mining segment's external revenue decreased by 41 per cent. year-on-year to U.S.\$1,425 million in 2015 compared to U.S.\$2,400 million in 2014, mainly due to a slump in iron ore product prices and lower sales volumes.

The following table shows average price trends for Metinvest's principal iron ore and coal products in 2014 and 2015.

	Year Ended 31 December	
	2014	2015
Effective Average External Sale Prices for Metinvest's Iron Ore and Coal Products⁽¹⁾		
<i>(U.S. dollars per tonne)⁽²⁾</i>		
Iron ore concentrate.....	85	49
Pellets	116	72
Coking coal concentrate.....	96	93

Notes:

- (1) Prices include transportation costs and costs of brokerage and other services related to the sales of Metinvest's products. Prices reflect the terms of the sales contracts and were not adjusted for any specific terms of delivery of Metinvest's products.
- (2) Revenue denominated in Hryvna was converted into U.S. dollars using the monthly averages of the Hryvna to U.S. dollar exchange rates published by the NBU for 2014 and 2015.

In 2015, the effective average price for iron ore concentrate (calculated as total revenue from sales of iron ore concentrate divided by sales volumes) decreased by 43 per cent. year-on-year to U.S.\$49 per tonne from U.S.\$85 per tonne in 2014. The effective average price for pellets decreased by 38 per cent. year-on-year to U.S.\$72 per tonne from U.S.\$116 per tonne in 2014. The effective average price for coking coal concentrate decreased by 4 per cent. year-on-year to U.S.\$93 per tonne from U.S.\$96 per tonne in 2014.

The following table shows the breakdown of Metinvest's mining segment external revenue in 2014 and 2015.

	Year Ended 31 December					
	2014		2015		2015 v 2014	
	Amount	Share of total segment revenue	Amount	Share of total segment revenue	Change	% Change
<i>(millions of U.S. dollars, except percentages)</i>						
Iron ore products:						
Iron ore concentrate	1,156	48%	639	45%	(517)	(45)%
Pellets	972	41%	500	35%	(472)	(49)%
Total for iron ore products.....	2,128	89%	1,139	80%	(989)	(46)%
Coking coal concentrate	172	7%	179	13%	7	4%
Other products and services.....	101	4%	107	8%	6	6%
Total	2,400	100%	1,425	100%	(974)	(41)%

In 2015, revenue from sales of iron ore concentrate decreased by 45 per cent. year-on-year from U.S.\$1,156 million in 2014 to U.S.\$639 million in 2015 due to a 43 per cent. decrease in the effective average selling price and a 3 per cent. decrease in sales volumes. Sales volumes decreased by 412 thousand tonnes year-on-year to 13,159 thousand tonnes. Sales volumes in Ukraine and Europe fell by 1,062 thousand tonnes and 142 thousand tonnes year-on-year, respectively. As such, sales were redirected to Southeast Asia, where sales volumes increased by 792 thousand tonnes year-on-year. The effective average selling price followed the dynamics of the benchmark for 62 per cent. Fe iron ore CFR China, which decreased by 43 per cent. from U.S.\$97 per tonne in 2014 to U.S.\$56 per tonne in 2015.

In 2015, revenue from sales of pellets decreased by 49 per cent. year-on-year from U.S.\$972 million in 2014 to U.S.\$500 million in 2015, driven by a 38 per cent. decrease in the effective average selling price and a 17 per cent. decrease in sales volumes. Sales volumes decreased by 1,465 thousand tonnes year-on-year to 6,925 thousand tonnes, due to a 16 per cent. decline in pellet output in 2015 and destocking in 2014. Sales volumes in Ukraine decreased by 977 thousand tonnes year-on-year due to lower consumption by key Ukrainian customers, which was in turn due to the conflict in the Donetsk and Luhansk regions. Sales of pellets in Southeast Asia decreased by 1,666 thousand tonnes year-on-year due to lower production volumes. Sales volumes were partially redirected from Southeast Asia and Ukraine to other markets, including 681 thousand tonnes to Europe and 498 thousand tonnes to the Middle East and North Africa. The effective average selling price decreased in line with the benchmark 62 per cent. Fe iron ore CFR China, which plunged by 43 per cent. year-on-year.

In 2015, revenue from sales of coking coal concentrate increased by 4 per cent. year-on-year from U.S.\$172 million in 2014 to U.S.\$179 million in 2015. This was caused by an 8 per cent. increase in sales volumes, partially offset by a lower effective average selling price. Sales volumes increased by 147 thousand tonnes year-on-year to 1,933 thousand tonnes due to higher sales in North America. The effective average selling price in Ukraine surged 37 per cent. year-on-year following an increase in the share of a more expensive coal in sales to this country. The average quarterly contract price for hard coking coal in North America fell by 17 per cent. year-on-year, in line with the benchmark for hard coking coal FOB Australia, which decreased by 19 per cent. year-on-year.

For 2015 and 2014, mining segment sales to the metallurgical segment amounted to U.S.\$1,436 million (50 per cent. of mining segment sales) and U.S.\$1,694 million (41 per cent. of mining segment sales), respectively.

Revenue from sales to customers in Ukraine decreased by 49 per cent. year-on-year from U.S.\$918 million in 2014 to U.S.\$468 million in 2015, primarily due to lower selling prices of iron ore products. In addition, sales volumes in this region decreased by 22 per cent. year-on-year due to a halt in production by key two domestic clients for iron ore products as a result of the conflict in Eastern Ukraine.

Revenue from sales to customers in Europe decreased by 17 per cent. year-on-year due to a decrease in sales volumes of iron ore concentrate and lower selling prices of iron ore products. Revenue from sales to customers in Southeast Asia decreased by 45 per cent. year-on-year due to a decrease in sales volumes of pellets and lower

selling prices of iron ore products. Revenue from sales to customers in North America decreased by 5 per cent. year-on-year due to lower selling prices of coking coal concentrate.

Operating Expenses

The table below sets out Metinvest's operating expenses by category for 2014 and 2015 including as a percentage of total revenue.

	Year Ended 31 December			
	2014		2015	
	Amount	Share of total revenue	Amount	Share of total revenue
	<i>(millions of U.S. dollars, except percentages)</i>			
Cost of sales.....	(8,240)	(78)%	(6,087)	(89)%
Distribution costs.....	(1,063)	(10)%	(920)	(13)%
General and administrative expenses.....	(287)	(3)%	(211)	(3)%
Total operating expenses	(9,590)	(91)%	(7,218)	(105)%

Metinvest's cost of sales decreased by 26 per cent. year-on-year from U.S.\$8,240 million in 2014 to U.S.\$6,087 million 2015. This was primarily attributable to (i) favourable movements in the USD/UAH exchange rate, which accounted for U.S.\$1,410 million or 65 per cent. of the total decrease in the cost of sales, (ii) a reduction in the cost of raw materials (excluding changes in work in progress and finished goods) of U.S.\$454 million due to a decrease in consumption volumes (U.S.\$185 million) and lower prices (U.S.\$268 million), (iii) lower energy consumption and gas prices, accounting for U.S.\$286 million and U.S.\$96 million, respectively of the decrease, (iv) a decrease in the cost of goods and services for resale of U.S.\$411 million, mainly attributable to goods from Zaporizhstal. These factors were partially offset by: (a) an increase in electricity tariffs accounting for U.S.\$168 million increase of expenses, (b) an increase in depreciation and amortisation of U.S.\$123 million as a result of a revaluation of property, plant and equipment, (c) an increase in services and other costs of U.S.\$104 million, mainly due to inflation in Ukraine, and (d) an increase in impairment of property, plant and equipment of U.S.\$61 million, attributable mainly to United Coal. Cost of sales as a share of total revenue increased from 78 per cent. in 2014 to 89 per cent. in 2015.

Distribution costs decreased by 13 per cent. year-on-year from U.S.\$1,063 million in 2014 to U.S.\$920 million in 2015, and increased as a share of total revenue from 10 per cent. in 2014 to 13 per cent. in 2015. The decline in distribution costs was primarily attributable to the favourable impact of changes in the local currency exchange rate, which mainly impacted transportation costs, wages and salaries, as well as other distribution costs incurred in Hryvna (U.S.\$203 million). In addition, freight costs decreased by U.S.\$79 million due to lower freight tariffs resulting from decreased crude oil prices. These factors were partially offset by a 30 per cent. increase in railway tariffs since 31 January 2015 and increase in other transportation costs, resulting in an increase in expenses of U.S.\$34 million and U.S.\$58 million, respectively.

General and administrative expenses decreased by 26 per cent. year-on-year from U.S.\$287 million, representing 3 per cent. of total revenue in 2014 to U.S.\$211 million (3 per cent. of total revenue) in 2015, driven by favourable movements in the USD/UAH exchange rate, which mainly impacted wages and salaries, as well as service fees, a decrease in depreciation and amortisation costs and lower rent for the head office representing a decrease in expenses of U.S.\$92 million, U.S.\$10 million and U.S.\$3 million, respectively.

Other Operating Income/(Expenses), Net

Other operating expenses amounted to U.S.\$300 million in 2015, compared with U.S.\$130 million of other operating income in 2014. This was mainly driven by an increase in impairment of trade and other receivables of U.S.\$252 million, primarily due to the recognition of U.S.\$255 million of impairment of trade receivables of some key customers in the mining segment following further delays in payments beyond the originally expected dates and certain operational and financial issues for them. In addition, operating foreign exchange gains decreased by U.S.\$267 million year-on-year, as receivables denominated in hard currency declined while payables denominated in hard currency remained unchanged. These factors were partially offset by a decrease in impairment of goodwill of U.S.\$28 million year-on-year to U.S.\$74 million in 2015, all of which is attributable to United Coal, and the favourable impact of movements in foreign exchange rate on other items which amounted to U.S.\$54 million. As a share of total revenue, other operating expenses amounted to negative 4 per cent. in 2015, compared with positive 1 per cent. in 2014.

Operating Profit and Adjusted EBITDA (including share in EBITDA of joint ventures)

Operating losses amounted to U.S.\$686 million in 2015, compared with an operating profit of U.S.\$1,105 million in 2014. In 2015, the operating margin was negative and amounted to 10 per cent., compared with a positive operating margin of 10 per cent. in 2014.

Management assesses the performance of Metinvest's operating segments based on Adjusted EBITDA (including share in EBITDA of joint ventures). See "*Selected Consolidated Financial Information*" for reconciliation of Adjusted EBITDA (including share in EBITDA of joint ventures) to profit before income tax.

Adjusted EBITDA (including share in EBITDA of joint ventures) decreased by 81 per cent. year-on-year from U.S.\$2,702 million (or 26 per cent. of Metinvest's total revenue) during 2014, to U.S.\$513 million (or 8 per cent. of Metinvest's total revenue) during 2015. The contributions from the mining and metallurgical segments declined by U.S.\$1,666 million and U.S.\$637 million, respectively. This decrease was partially offset by a decrease in corporate overheads and eliminations of U.S.\$114 million.

The following table presents Adjusted EBITDA (including share in EBITDA of joint ventures) by segment for 2014 and 2015.

	Year Ended 31 December					
	2014		2015		2015 v 2014	
	Amount	Percentage of total segment revenue	Amount	Percentage of total segment revenue	Change	% Change
	<i>(millions of U.S. dollars, except percentages)</i>					
Metallurgical segment	1,123	14%	486	9%	(637)	(57)%
<i>incl. Joint Ventures</i>	182	-	153	-	(29)	(16)%
Mining segment.....	1,754	43%	88	3%	(1,666)	(95)%
<i>incl. Joint Ventures</i>	118	-	59	-	(59)	(50)%
Corporate overheads.....	(140)	-	(95)	-	45	(32)%
Eliminations.....	(35)	-	34	-	69	(197)%
Total	2,702	26%⁽¹⁾	513	8%⁽¹⁾	(2,189)	(81)%

Note:

(1) Percentage of Metinvest's total revenue.

In 2015, the year-on-year decrease in consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) was primarily attributable to a decrease in sales of U.S.\$3,732 million year-on-year due to a decrease in sales prices for steel, iron ore and coal products of U.S.\$2,455 million, and a decrease in sales volumes of (i) steel, coke and chemical products and (ii) iron ore and coal products of U.S.\$1,094 million and U.S.\$184 million, respectively. Other key drivers of the decline in EBITDA were:

- an increase in impairment of trade receivables of U.S.\$252 million, mainly attributable to certain key customers of the mining segment; and
- a U.S.\$88 million decrease in the contribution to EBITDA from the Group's joint ventures, due to a decrease in EBITDA of U.S.\$29 million and U.S.\$59 million, respectively at Zaporizhstal and at Southern GOK. The Group acquired a 45.9 per cent. stake in the share capital of Southern GOK in July 2014 and started consolidating its results in the third quarter of 2014.

These factors were partially offset by:

- the positive impact of the Hryvna devaluation (U.S.\$1,022 million);
- a decrease in the cost of raw materials due to lower market prices of coal, scrap, iron ore and coke and a decrease in their consumption, which contributed an additional U.S.\$268 million and U.S.\$185 million, respectively to Adjusted EBITDA (including share in EBITDA of joint ventures);

- lower spending on energy due to lower consumption and lower prices of natural gas, resulting in an additional U.S.\$286 million and U.S.\$96 million, respectively. This in turn was partially offset by an increase in electricity tariffs of U.S.\$168 million; and
- a decline in other costs of U.S.\$193 million, mainly due to a decrease in the cost of goods and services for resale.

Metinvest's consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) margin decreased by 18 percentage points year-on-year to 8 per cent. in 2015. The EBITDA margin of the mining segment decreased by 40 percentage points year-on-year to 3 per cent., while the EBITDA margin of the metallurgical segment decreased by 5 percentage points year-on-year to 9 per cent.

Finance income

Finance income increased from U.S.\$25 million in 2014 to U.S.\$26 million in 2015.

Finance costs

Finance costs decreased by 30 per cent. year-on-year from U.S.\$902 million in 2014 to U.S.\$635 million in 2015. The decrease was primarily due to a decrease of U.S.\$221 million in foreign exchange losses from financing activity, resulting from intragroup loans and dividends. In addition, interest expenses and imputed interest on the UCC Seller Notes decreased by U.S.\$28 million year-on-year due to a decrease in total debt of U.S.\$286 million during 2015. Interest expenses on pension obligations decreased by U.S.\$21 million year-on-year as a result of the hryvna depreciation. For details of current borrowings, see also "*Description of Indebtedness*".

Income tax expense

In accordance with the Tax Code of Ukraine, the current income tax rate in the country was 18 per cent. in 2015 and 2014. Metinvest's overall income tax rate derives from the rates applicable to profits in the jurisdictions where it operates (Ukraine, the US and countries in Europe).

In 2015, the Group had an income tax credit of U.S.\$161 million, compared with an income tax expense of U.S.\$211 million in 2014. This was principally driven by a decrease in current tax of U.S.\$170 million to U.S.\$28 million in 2015, due to lower production and profitability, as well as foreign exchange differences. In addition, deferred tax assets increased by U.S.\$202 million year-on-year to U.S.\$189 million in 2015, as the Group incurred losses in the previous reporting periods and final adjustments were made at the end of the year in line with legislation.

Cash flows

The following is a summary of Metinvest's cash flows for the periods indicated:

	Year Ended 31 December		Six Months Ended 30 June	
	2014	2015	2015	2016
	<i>(millions of U.S. dollars)</i>			
Net cash from operating activities	1,489	625	354	163
Net cash generated from/(used in) investing activities.....	(559)	(237)	(94)	(109)
Net cash used in financing activities.....	(1,542)	(309)	(212)	(50)
Effect of exchange rate changes on cash and cash equivalents.....	(57)	(13)	(11)	(1)
Net increase/(decrease) in cash	(669)	66	37	3

Net cash from operating activities

Metinvest generated U.S.\$163 million of cash from operating activities in the six months ended 30 June 2016, compared to U.S.\$354 million in the same period of 2015. The principal reason for this decrease was a change in working capital, which had a negative impact on net cash flow in the amount of U.S.\$253 million in the six months ended 30 June 2016. This was mainly due to an increase in trade and other accounts receivable of U.S.\$237 million following price growth since the beginning of the year, as well as an increase in recoverable VAT. In comparison, in the six months ended 30 June 2015, changes in working capital had a negative impact on the net cash flow in the amount of U.S.\$18 million. In addition, although profit before income tax increased by U.S.\$284 million year-on-year to U.S.\$111 million, operating cash flows before working capital changes decreased by U.S.\$63 million year-

on-year to U.S.\$420 million, due to non-cash adjustments. These factors were partially off-set by a decrease in income tax and interest paid of U.S. \$67 million and U.S.\$40 million year-on-year, respectively. Income tax refunded amounted to U.S.\$45 million in the six months ended 30 June 2016 as U.S.\$53 million of corporate income tax prepayment was reimbursed to certain Ukrainian subsidiaries of Metinvest B.V. during this period. Moreover, a new tax collection system was introduced on 1 January 2016. Under the new system tax prepayments have been abolished and tax is now paid quarterly based on the taxpayer's actual financial performance. Total interest paid also decreased year-on-year as starting 2016 Metinvest paid only 30 per cent. of accrued interest and capitalised the remaining 70 per cent. due to the Group's constrained liquidity crunch and in line with the First Moratorium Scheme (as defined below) and the Second Moratorium Scheme (as defined below) under the Notes and the standstills under the Existing PXF Facilities. For further details on the Issuer's schemes and standstills, see "*Description of Indebtedness and the Third Scheme—Previous schemes*" and "*Description of Indebtedness and the Third Scheme—The standstills*".

Metinvest generated U.S.\$625 million of cash from operating activities in 2015, compared to U.S.\$1,489 million in 2014. The main reason for the decrease was that operating cash flows before working capital changes decreased by U.S.\$1,581 million year-on-year to U.S.\$513 million. This was partially off-set by a year-on-year decrease in income tax paid and interest paid of U.S.\$314 million and U.S.\$35 million, respectively, as well as a positive change in working capital of U.S.\$351 million during the year. Income tax paid decreased by 89 per cent. year-on-year to U.S.\$39 million in 2015, mainly due to lower profitability following a collapse in prices of steel and iron ore products and a new tax collection procedure introduced in the first quarter of 2014 (when both the final payment for the fourth quarter of 2013 and the advance payment for the first quarter of 2014 were paid). The positive change in working capital was primarily attributable to an increase in accounts payable of U.S.\$215 million, as well as a decrease in inventories and accounts receivable of U.S.\$123 million and U.S.\$13 million, respectively.

Net cash generated from/(used in) investing activities

In the six months ended 30 June 2016, Metinvest used U.S.\$109 million of cash in investment activities, compared to U.S.\$94 million during the same period of 2015. Total cash used to purchase property, plant and equipment and intangible assets amounted to U.S.\$130 million, an increase of U.S.\$17 million year-on-year. Proceeds received from the sale of subsidiaries and associates amounted to U.S.\$6 million as the Group sold its entire investment in Black Iron (Cyprus) Limited.

Metinvest used U.S.\$237 million of cash in investing activities in 2015, compared to U.S.\$559 million in 2014, as several capital expenditure projects were suspended due to the conflict in Eastern Ukraine. Moreover, payments were deferred to further periods due to the restricted liquidity situation of the Group. Total cash used to purchase property, plant and equipment and intangible assets amounted to U.S.\$275 million in 2015, a decrease of U.S.\$274 million year-on-year.

Net cash used in financing activities

In the six months ended 30 June 2016, Metinvest used U.S.\$50 million of cash in financing activities, compared to U.S.\$212 million in the corresponding period of 2015. The decrease was primarily driven by a decrease in repayments of loans and borrowings. The total amount of loans and borrowings decreased by U.S.\$74 million year-on-year to U.S.\$8 million in the six months ended 30 June 2016, due to the deterioration of Metinvest's cash position and in light of its debt restructuring discussions, as well as the First Moratorium Scheme and the Second Moratorium Scheme under the Notes and the standstills under the Existing PXF Facilities. For further details on the Issuer's schemes and standstills, see "*Description of Indebtedness and the Third Scheme—Previous schemes*" and "*Description of Indebtedness and the Third Scheme—The standstills*". In addition, net repayments of trade finance amounted to U.S.\$33 million in the six months ended 30 June 2016, compared with U.S.\$94 million in the same period of 2015 as trade finance banks continued to withdraw lines of credit, decrease exposure limits and impose additional draw-down restrictions on the Group.

Metinvest used U.S.\$309 million of cash in financing activities in 2015, compared to U.S.\$1,542 million in 2014, mainly due to lower debt repayments following debt restructuring discussions with its creditors. As such, repayments of loans and borrowings decreased by U.S.\$817 million year-on-year to U.S.\$134 million. Net repayments of trade financing decreased by U.S.\$305 million year-on-year to U.S.\$179 million. In 2015, there were no dividends paid, no repayment of Sellers' Notes, and no settlement of non-controlling interests in subsidiaries, compared with payments amounting to U.S.\$553 million for these purposes in 2014. The only new proceeds from loans and borrowings received during 2015 was the final drawdown under the ECA facility of U.S.\$4 million, compared with U.S.\$446 million in 2014, which was received primarily under the shareholder loans.

Capital expenditures

Metinvest is implementing a capital expenditure programme aimed at modernising its production facilities to increase the efficiency of these facilities, to increase the share of value-added products in Metinvest's product mix and to maintain operations of its current facilities.

Historical capital expenditures

The following table summarises Metinvest's capital expenditures by segment for the periods indicated.

	Year Ended 31 December		Six Months Ended 30 June	
	2014	2015	2015	2016
	<i>(millions of U.S. dollars)</i>			
Metallurgical segment.....	276	137	49	61
Mining segment.....	304	136	63	53
Corporate overheads.....	33	12	5	2
Total.....	613	285	117	116

As a result of recent, significant civil disturbances and political instability in Ukraine and the ongoing military activity in some parts of the Donetsk and Luhansk regions of Ukraine, the Group's constrained liquidity, as well as the volatility of global steel and iron ore prices, Metinvest has been forced to scale back its capital investment programme. Metinvest has therefore postponed, slowed or suspended certain planned investments. Metinvest's focus has shifted to vital maintenance projects, as well as top-priority expansion projects that offer a fast return on capital invested.

Metinvest's total capital expenditures for the six months ended 30 June 2016 amounted to U.S.\$116 million (including corporate overheads of U.S.\$2 million), of which U.S.\$61 million was allocated to the metallurgical segment and U.S.\$53 million to the mining segment, compared to total capital expenditures of U.S.\$117 million (including U.S.\$5 million corporate overheads) for the six months ended 30 June 2015, of which U.S.\$49 million was allocated to the metallurgical segment and U.S.\$63 million to the mining segment.

Metinvest's total capital expenditures for 2015 amounted to U.S.\$285 million (including corporate overheads of U.S.\$12 million), of which U.S.\$137 million was allocated to the metallurgical segment and U.S.\$136 million to the mining segment, compared to total capital expenditures of U.S.\$613 million (including U.S.\$33 million corporate overheads) for 2014, of which U.S.\$276 million was allocated to the metallurgical segment and U.S.\$304 million to the mining segment.

Metallurgical segment

Between 1 January 2014 and 30 June 2016, Metinvest invested a total of U.S.\$474 million in its metallurgical segment's production facilities. These expenditures primarily related to the capital expenditure programme implemented by Metinvest at Ilyich Steel, Azovstal, and Yenakiieve I&SW. This included:

- the reconstruction of the sinter plant at Ilyich Steel, which started in 2014 and is expected to be completed in 2020, at a total cost of U.S.\$140 million (U.S.\$8 million of which had been spent by 30 June 2016);
- the major overhaul of the blast furnace No. 4 at Ilyich Steel, which started in the third quarter of 2015 and was completed in the second quarter of 2016, at a total cost of U.S.\$17 million (U.S.\$10 million of which had been spent by 30 June 2016);
- the reconstruction of the dust-trapping facilities in converter No. 2 at Ilyich Steel, which started in the first quarter of 2016 and is expected to be completed in 2017. The total budget is U.S.\$6 million (U.S.\$0.2 million of which had been spent by 30 June 2016);
- the construction of an accelerated cooling system at Azovstal's plate mill. The total budget is U.S.\$55 million (all of which had been spent by 30 June 2014);
- the replacement of a standby turbine air blower No. 3 at Azovstal, which started in 2011; the equipment was launched in the second quarter of 2016, with a total cost of U.S.\$14 million (U.S.\$7 million of which had been spent by 30 June 2016);

- the construction of a PCI system at Azovstal, which started in 2014; the construction of a PCI unit at the blast furnace No. 4 was approved as the first stage of the project and is expected to be completed in the fourth quarter of 2016, at a total cost of U.S.\$19 million (U.S.\$3 million of which had been spent by 30 June 2016);
- the major overhaul of the blast furnace No. 4 at Azovstal, which started in 2013 and completed in the third quarter of 2015, at a total cost of U.S.\$54 million (all of which had been spent by 30 June 2016);
- the construction of a PCI system at Yenakiieve I&SW, which started in 2012 and launched at blast furnace No. 5 in the first quarter of 2016 and blast furnace No. 3 in the second quarter of 2016, with a total cost of U.S.\$70 million (U.S.\$65 million of which had been spent by 30 June 2016);
- the construction of the infrastructure for a new air separation unit at Yenakiieve I&SW, which started in 2011 and is expected to be completed in 2017, with a total cost of U.S.\$28 million (U.S.\$26 million of which had been spent by 30 June 2016);
- construction of a standby turbine air blower for the blast furnace No. 3 and 5 at Yenakiieve I&SW, completed in the third quarter of 2014, with a total cost of U.S.\$18 million (all of which had been spent by the end of 2015); and
- the major overhaul of the basic oxygen furnace No. 1 at Yenakiieve I&SW including shell and off-gas ducts replacement, which started in 2013 and completed in the third quarter of 2014, with a total cost of U.S.\$9 million (all of which had been spent by the end of 2014).

Mining segment

Between 1 January 2014 and 30 June 2016, Metinvest invested a total of U.S.\$493 million in its mining segment's production facilities. This included:

- the construction of a crusher and conveyor system at the Pervomaysky quarry of Northern GOK, which started in 2010; the first facility was launched in the third quarter of 2016, while the second facility is expected to be completed in 2017. The total budget is U.S.\$172 million (U.S.\$140 million of which had been spent by 30 June 2016);
- the rebuilding of the Lurgi 278-B pelletising machine at Northern GOK, which started in 2008, but was suspended in the first quarter of 2015 due to a lack of funding. The total budget is U.S.\$78 million (U.S.\$65 million of which had been spent by 30 June 2016);
- the replacement of gas cleaning units of the Lurgi 552-B pelletising machine at Northern GOK, which started in the second quarter of 2012 and is expected to be completed in 2017. The total budget is U.S.\$8 million, U.S.\$6 million of which had been spent by 30 June 2016;
- the major overhaul of OK 306 pelletising machine at Northern GOK, which started in the first quarter of 2014 and was completed in the second quarter of 2015. The total budget is U.S.\$10 million (all of which had been spent by the end of 2015); and
- the construction of a crusher and conveyor system at Ingulets GOK, which started in 2013; the Vostochny conveyor line is expected to be completed in 2021, while the construction of the Zapadny conveyor line was suspended. The total budget is U.S.\$130 million (of which U.S.\$8 million had been spent by 30 June 2016).

Budgeted capital expenditures

The PXF Facility Agreement prohibits the Company and any member of the Group from the purchase of property, plant and equipment and intangible assets as shown in the financial statements of the Group prepared in accordance with the accounting principles (**Capital Expenditure**), except permitted capital expenditure.

Permitted Capital Expenditure includes:

- in respect of the year ending 31 December 2017: U.S.\$636 million; and

- in respect of the year ending 31 December 2018: U.S.\$651 million, provided that:
 - (1) the maximum amount of Capital Expenditures permitted in respect of the year ending 31 December 2017 shall automatically be increased on the Issue Date by an amount equal to x/y multiplied by U.S.\$100 million (where "y" equals the sum of (a) all interest accrued but unpaid on the Existing Notes and the Existing PXF Facilities for the period prior to 31 January 2016, *plus* (b) 70 per cent. of all interest accrued under the Existing PXF Facilities and the Existing Notes from and including 31 January 2016 to and excluding the Issue Date and where "x" equals the aggregate amount of the pre-restructuring PIK interest paid in cash on or prior to the Issue Date);
 - (2) the maximum amount of Capital Expenditures permitted in respect of the year ending 31 December 2018 shall automatically be increased by U.S.\$100 million on and from 1 January 2018 if the Issuer has paid in full in cash within any applicable grace period (i) the Cash-pay Interest Amount, (ii) the PIYC Interest Amount, (iii) the PIK Notes Redemption Amount (relating to any PIK Notes issued during the immediately preceding calendar year) and (iv) the Catch-Up Interest Amount, in all cases for the immediately preceding year, and
- in respect of the year ending 31 December 2019: U.S.\$775 million;
- in respect of the year ending 31 December 2020: U.S.\$836 million; and
- in respect of the year ending 31 December 2021: U.S.\$888 million,

provided that the maximum amount of Capital Expenditures permitted in respect of each of the years ending 31 December 2019, 2020 and 2021 shall automatically be decreased by U.S.\$100 million if any amounts of interest falling due on the Notes during such calendar year has not been paid in full and in cash within any applicable grace period in accordance with the Conditions.

Metinvest's capital expenditures in 2016 are expected to relate primarily to the following:

Metallurgical segment

- the construction of the infrastructure for a new air separation unit at Yenakiieve I&SW to produce oxygen, nitrogen and argon, which are required for steel production;
- the construction of a PCI system at Yenakiieve I&SW to eliminate the need for natural gas in the production process and to facilitate the more efficient use of coke;
- the major overhaul of blast furnace No. 4 at Azovstal to increase hot metal production volumes;
- the replacement of turbine air blower No. 3 at Azovstal to increase blowing parameters, which will raise blast furnace productivity and decrease coke consumption;
- the construction of PCI unit at blast furnace No. 4 at Azovstal to eliminate the need for natural gas in the production process and facilitate the more efficient use of coke;
- the construction of continuous casting machine No. 4 at Ilyich Steel to increase slab casting capacity, improve product quality and reduce costs;
- the major overhaul of blast furnace No. 4 at Ilyich Steel to maintain volume of hot metal production; and
- the reconstruction of the sinter plant at Ilyich Steel to comply with environmental requirements.

Mining segment

- the construction of a crusher and conveyor system at the Pervomaisky quarry of Northern GOK to enable capacity and production volumes to be maintained at current levels and to facilitate a reduction in the costs of iron ore production and transportation;
- the replacement of gas cleaning unit at Lurgi 552-B pellet plant at Northern GOK to comply with the maximum permissible concentrations of pollutants in the air and improve working conditions; and

- the construction of crusher and conveyor systems at the Vostochny conveyor line at Ingulets GOK to reduce operational and capital expenditures in iron ore mining and maintain production volumes.

See also "Business Description—Metallurgical Segment—Metallurgical Segment Investment Programme", "Business Description—Mining Segment—Iron Ore Business—Iron Ore Business Investment Programme" and "Business Description—Mining Segment—Coal Business—Coal Business Investment Programme".

Metinvest's actual capital expenditures may vary significantly from its estimates and depend on a variety of factors, including market conditions, levels of demand for Metinvest's products, the availability of funding, operating cash flow and other factors fully or partially outside Metinvest's control. See also "Risk Factors—Risks Relating to Metinvest—Metinvest's substantial capital investment programme may not be implemented on schedule or within budget".

Qualitative and Quantitative Disclosure About Market Risks

Financial risk management

The Group's activities expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Approximately 50 per cent. of Metinvest's sales were denominated in U.S. dollars during the six months ended 30 June 2016, with 9 per cent. being denominated in Hryvna but linked to the U.S. dollar. Approximately 14 per cent. of sales during the same period were denominated in Hryvna, with the remainder of sales being denominated in rubles, British pounds and euro.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through borrowings denominated in the relevant foreign currencies and different treasury operations such as forwards, swaps and other.

Foreign exchange risk is managed centrally by the Group treasury. The Group treasury has established a policy for managing foreign exchange risk. The Group treasury sets limits on the level of exposure by currency and the maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks except with the permission of the Group treasury.

In 2015, if the UAH had strengthened or weakened by 50 per cent. against the US dollar (with all other variables held constant), post-tax profit for the year would have been U.S.\$44 million (compared with U.S.\$190 million in 2014, factoring in a 50 per cent. change) higher or lower, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated trade receivables and foreign exchange gains/losses on translation of US dollar-denominated borrowings.

Price risk

Metinvest's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that Metinvest sells to third parties are also affected by supply and demand, as well as global and Ukrainian economic growth.

Adverse changes in respect of any of these factors may reduce the revenue that Metinvest receives from the sale of its steel or mined products.

Metinvest's exposure to commodity price risk associated with its purchases is limited as the Group is vertically integrated and is self sufficient for iron ore and certain portion of coking coal requirements.

No financial instruments are exposed to price risk.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings attracted at variable rates expose the Group to cash flow interest rate risk. Borrowings attracted at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2015 and 30 June 2016, 54 per cent. and 56 per cent. of the total borrowings, respectively, were provided to the Group at fixed rates (compared with 49 per cent. at 31 December 2014). During 2015 and 2014, the Group's borrowings at variable rate were denominated in USD and EUR.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

At 31 December 2015, if interest rates on USD and EUR denominated borrowings had been 1 per cent. higher/lower with all other variables held constant, post-tax profit for the year would have been U.S.\$11 million lower/higher (2014: U.S.\$13 million).

Credit risk

Credit risk is managed on a group-wide basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as from credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Management Board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable.

Cash is placed with major Ukrainian and reputable international financial institutions, which are considered (at the time of deposit) to have minimal risk of default.

The Group has policies in place to ensure that the provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the Group's major customers are located.

The maximum exposure to credit risk as at 31 December 2015 was U.S.\$1,410 million (compared with U.S.\$1,951 million in 2014), being the carrying value of long- and short- term loans issued and receivables and cash. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance. The Group does not hold any collateral as security.

Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets. Management does not expect any significant losses from non-performance by these counterparties.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Group treasury analyses the ageing of their assets and the maturity of their liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group reallocated resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

Capital risk management

Metinvest's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, Metinvest monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and Sellers' Notes less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

	Year Ended 31 December	
	2014	2015
Total borrowings	3,146	2,858
Sellers' Notes	86	88
Less: cash and cash equivalents	(114)	(180)
Net debt	3,118	2,766
Total equity	6,762	4,024
Total capital	9,880	6,790
Gearing ratio	32%	41%

Critical Accounting Policies

Metinvest makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the IFRS consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment, goodwill and other intangible assets. The Group and its subsidiaries are required to perform impairment tests for their assets or cash-generating units when there is indication that an asset or cash-generating unit may be impaired. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. For many of the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit. Therefore judgement is needed in determining a cash-generating unit.

Annually the Group assesses whether goodwill is impaired. This requires an estimation of the value in use/fair value less costs to sell of the cash-generating units or groups of cash-generating units to which goodwill is allocated. Allocation of goodwill to groups of cash-generating units requires significant judgement related to expected synergies. Estimating value in use/fair value less costs to sell requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. The estimates used to assess the impairments are impacted by the uncertainty caused by events in Eastern Ukraine and decline on the global commodity markets, including importantly future planned production and expected market prices.

Impairment of trade and other accounts receivable. Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of individual accounts. IAS 39 requires the estimate of an impairment loss which is computed as the difference between the carrying value of a receivable and the present value of the future cash flows discounted at the receivables effective interest rate.

During the 2015 the Group has recognised impairment of trade receivables from some of its key customers in the total amount of U.S.\$255 million. Factors taken into consideration by management when estimating the future cash flow included an ageing analysis of trade and other accounts receivable and the financial position of and collection history with the customer. In the current environment there is significant judgement in estimating the expected payment date, the discount rate and whether penalty interest will be collected.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. In particular, had the discount rates used (15 per cent. for U.S. dollar-denominated receivables for Ukrainian and CIS customers) been 1 per cent. higher, the impairment loss would have been U.S.\$3 million higher. Had the expected repayment dates be further delayed by 1 year, the impairment loss would have been U.S.\$29 million higher.

Additionally, the estimates used to assess the impairment of trade and other accounts receivable from certain Ukrainian customers are impacted by the uncertainty caused by events in Eastern Ukraine.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the long-term strategy and plans prepared by management. The strategy is based on management's expectations that are believed to be reasonable under the circumstances. In addition, a number of feasible tax planning opportunities are available to the Group to recover the deferred tax asset recognised.

Post-employment and other long-term employee benefits obligations. Management assesses post-employment and other long term employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State of Ukraine, the Group may not have full access to information and therefore assumptions regarding: when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees (depending on whether that ex-employee continues working in hazardous conditions) and the likelihood of employees transferring from State funded pension employment to Group funded pension employment. These factors could all have a significant impact on the Group's pension obligation.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and future salary and benefits increase rate. Any changes in these assumptions will impact the carrying amount of the Group's pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and which have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities.

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market terms, where there is no active market for such transactions, and also in estimating the timing of settlement of the balances due from related parties, where there is a history of prolongations. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combinations or equity investments, in the income statement. The basis for judgement is pricing of similar types of transactions with unrelated parties and an effective interest rate analysis.

Further, estimation of timing of settlement and recoverability of balances due from related parties requires judgement. The ability of shareholders and parties under their control to repay the amounts due to the Group is dependent to large extent on cash flows from the Group. Such cash flows in the current circumstances may be limited. Herewith, the Group is in net payable position with major groups of its related parties. No impairment was recognised in respect of balances due from related parties in the consolidated financial statements for the year ended 31 December 2015.

Revaluation of property, plant and equipment. On an annual basis management of the Group carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property, plant and equipment differ materially from the carrying amounts, further revaluation is performed involving independent evaluators.

As most of the Group's property, plant and equipment is of a specialised nature, its fair value is determined using depreciated replacement cost or, where it is available, the market value. For some assets which were revalued as of the date of the previous balance sheet, the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices or changes in foreign exchange rates.

When performing valuation using these methods, the key estimates and judgments applied by the independent evaluators, in collaboration with the Group's internal valuation team and technicians, are as follows: the choice of information sources for the construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc.); determination of comparatives for the replacement cost of certain equipment, as well as the corresponding adjustments required to take into account the differences in technical characteristics and the condition of new and existing equipment; the selection of market data when determining market value where it is available; and a determination of applicable cumulative price indices or changes in foreign exchange rates which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts.

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models, and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for goodwill impairment testing, except for discount rates which are specific to each of the Group's subsidiaries and are pre-tax discounts.

Changes in the above estimates and judgments could have a material effect on the fair value of property, plant and equipment. However, it is impracticable to quantify this effect due to the wide variety of assumptions and assets being valued. The estimates used to assess the fair value of property, plant and equipment are impacted by the uncertainty caused by events in Eastern Ukraine and decline on the global commodity markets, including planned production and expected market prices.

Remaining useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the technical characteristics, physical conditions, management's expectations on use of the respective assets and other factors.

Remaining useful lives for iron ore mining licences and coal reserves are estimated by management based on reserves' studies performed by independent experts. Results of such studies depend, inter alia, on the expert's assessment of geological conditions and the feasibility of extraction of mineral resources, which is in turn dependent on prices for iron ore and coking coal and the costs of such extraction.

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, United States of America and other countries. The functional currency of Metinvest B.V. was determined on the basis that: (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US Dollars. Management therefore determined the US Dollar as the functional currency of Metinvest B.V. Amount of loans and other payables of Metinvest B.V. totalled U.S.\$2,720 million and U.S.\$2,945 million as at 31 December 2015 and 2014, respectively, where potential foreign exchange gains/losses could arise should a different functional currency (UAH) be used.

INDUSTRY

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources which the Issuer believes to be reliable. The Issuer accepts responsibility for accurately reproducing such information, data and statistics, but accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

Steel Industry

Global Overview

Steel is one of the most important, multi-functional and adaptable materials in use today, and is generally considered to be a backbone of industrial development. Steel is highly versatile, as it is hot and cold formable, weldable, hard, recyclable and resistant to corrosion, water and heat. The industries in which steel is used include construction, oil and gas, transportation (including railways), engineering, automotive and consumer goods, including white goods.

The steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity, fluctuations in steel imports and protective trade measures. Steel prices tend to be volatile, responding to supply and demand and fluctuating in response to general and industry-specific economic conditions. Between 2002 and 2008, annual average prices rose by over 350 per cent. for billets on the basis of FOB Black Sea exports, from U.S.\$166 per tonne in 2002 to U.S.\$749 per tonne in 2008, according to Metal Expert, driven to a significant extent by demand from China. Prices then crashed in 2009, during the global economic recession, falling by 48 per cent. year-on-year to U.S.\$390 per tonne. Since the 2008 peak, the recovery in steel industry volumes has been uneven. Despite the recession across most of the world during 2009, demand continued to grow in China. However, during 2010-2012, growth in demand from China slowed from the unsustainable growth rates that were encountered in the years leading up to the crisis.

Average annual prices recovered in 2010 to U.S.\$526 per tonne and in 2011 to U.S.\$635 per tonne, peaking at U.S.\$681 per tonne in August 2011, but this still remained below the average annual price for 2008. Since 2011, prices have been falling, averaging U.S.\$561 per tonne in 2012, U.S.\$510 per tonne in 2013, U.S.\$480 per tonne in 2014 and U.S.\$327 per tonne in 2015. In the first six months of 2016 prices increased to U.S.\$367 per tonne, but remained volatile. In 2013, steel demand in China sustainably increased due to increased growth in the property sector. In 2014 and 2015 steel demand was decreasing in China, although levels of demand remain higher than in 2008. Demand has so far failed to recover to pre-crisis levels in Europe, North America and Japan, although most of the rest of Asia, including the Middle East, and Africa has experienced a full recovery. In the first half of 2016, steel prices started to grow amid economy stimulus measures introduced by the Chinese government and subsequent liquidity improvement and restocking by traders, raw material price increases, the adoption of a new five-year development plan by the Chinese government, production cuts at the end of 2015 and seasonal demand growth. These factors spurred price increases in all regions. The price of billets, on the basis of FOB Black Sea exports, increased by 1 per cent. from U.S.\$265 per tonne in the fourth quarter of 2015 to U.S.\$267 per tonne in the first quarter of 2016. In the second quarter of 2016 the price of billets surged by 34 per cent. to U.S.\$358 per tonne.

Steel production has historically been centred in the EU, Japan and the United States. The steel industry operates predominantly on a regional basis as a result of the high cost of transporting steel. However, despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs, duties and quotas, global imports and exports have generally increased in the last decade as production has shifted towards low-cost production regions such as China and Southeast Asia.

World steel production reached 1,670 million tonnes in 2014, an increase of 1.2 per cent., or 20 million tonnes, from production during 2013, according to the World Steel Association (the **WSA**). In 2015 world steel production decreased by 2.9 per cent. to 1,621 million. In the six months ended 30 June 2016, world steel production declined by 1.9 per cent. to 795 million tonnes compared to 810 million tonnes during the same period of the previous year. Production of steel in the CIS increased by 0.6 per cent. year-on-year to 51.1 million tonnes in the first six months of 2016, according to the WSA, from 50.8 million tonnes in the first six months of 2015. This increase was mainly caused by the increased production in Ukraine compared to the low base in 2015 that was almost fully offset by a decline in production in all other CIS countries.

Decreases in world steel production during 2015 and the first half of 2016 were driven by a contraction of steel production across all regions: production in 2015 compared to 2014 decreased by 2.3 per cent. in Asia, 8.4 per cent. in North America, 1.9 per cent. in the European Union and 4.3 per cent. in the CIS. In 2015, production within the CIS fell by 0.8 per cent. in Russia and 15.5 per cent. in Ukraine. Crude steel production in the CIS equalled

102 million tonnes in 2015, accounting for 6 per cent. of the total world crude steel production during that year. China, along with some other emerging countries, has remained the driving force in global steel production. In 2015, the production of crude steel in China decreased for the first time in decades and totalled 804 million tonnes, accounting for 50 per cent. of the total world steel production for that year and representing a decrease of 2.3 per cent. as compared to 2014. The production of crude steel in India increased by 2.6 per cent. in 2015 as compared to 2014 and reached 90 million tonnes, accounting for 6 per cent. of the total world steel production in 2015.

The following table sets out crude steel production data by country or region for the years 2010 to 2015 and for the first six months of 2015 and 2016.

	Crude steel production						Six months ended	
	Year Ended 31 December						30 June	
	2010	2011	2012	2013	2014	2015	2015	2016
	<i>(million tonnes)</i>							
China	639	702	731	822	823	804	404	400
EU28 ⁽¹⁾	173	178	169	166	169	166	88	83
Japan	110	108	107	111	111	105	53	52
United States	80	86	89	87	88	79	40	40
Russia	67	69	70	69	71	71	36	35
India	69	73	77	81	87	90	45	46
South Korea	59	69	69	66	72	70	35	33
Ukraine	33	35	33	33	27	23	11	12
Other Asia ⁽²⁾	42	44	42	44	47	45	15	14
Other Europe ⁽³⁾	34	39	40	39	38	36	17	18
Other	128	135	133	133	136	133	66	61
Total	1,433	1,538	1,560	1,650	1,670	1,621	810	795

Source: WSA

Notes:

- (1) Includes the current twenty-eight EU member states (EU28).
- (2) Excludes China, Japan, India and South Korea.
- (3) Excludes the current twenty-eight EU member states and all CIS countries.

According to the WSA, apparent world consumption of finished steel products is estimated to have increased slightly by 0.8 per cent. year-on-year in 2014. In 2015, apparent world consumption of finished steel products decreased by 3.0 per cent. year-on-year. In 2016, it is expected to contract by 0.8 per cent. The WSA's forecast in relation to apparent consumption of finished steel products by region is set out in the table below.

	Consumption of finished steel products					Growth rates, %			
	Year Ended 31 December								
	2013	2014	2015	2016 (F)	2017 (F)	2014	2015	2016 (F)	2017 (F)
	<i>(million tonnes)</i>								
EU28 ⁽¹⁾	142	149	153	155	158	5.0%	2.8%	1.4%	1.7%
Other Europe ⁽²⁾	37	37	40	41	43	0.5%	8.1%	3.0%	3.0%
CIS	59	56	50	46	48	-4.5%	-10.8%	-7.4%	4.6%
NAFTA	130	147	134	139	142	12.9%	-8.4%	3.2%	2.6%
Central & South America	51	49	45	43	44	-4.6%	-7.3%	-6.0%	3.2%
Africa	36	37	39	40	43	2.7%	4.3%	3.8%	6.5%
Middle East	52	54	53	54	56	3.6%	-1.0%	2.4%	4.0%
Asia & Oceania	1,027	1,018	985	968	959	-0.9%	-3.3%	-1.7%	-1.0%
of which China ⁽³⁾	735	711	672	645	626	-3.3%	-5.4%	-4.0%	-3.0%
Total	1,534	1,547	1,500	1,488	1,494	0.8%	-3.0%	-0.8%	0.4%

Source: WSA

Notes:

- (1) Includes the current twenty-eight EU member states.
- (2) Excludes the current twenty-eight EU member states and all CIS countries.
- (3) According to official statistics published by the National Bureau of Statistics, with forecasts made by the WSA. Official steel consumption statistics in China are produced by more than one organisation and, due to differences in methodology, figures produced by different organisations may not be comparable with one another or with steel consumption statistics produced by other countries.

Despite producing significant quantities of steel, the United States was a net importer of steel, while China, Japan and Russia were net exporters of steel, as was Ukraine in 2015, according to the WSA. The major traded steel products worldwide include semi-finished products, hot and cold-rolled sheets and coils, steel tubes and fittings, galvanised sheet, plates, wire rod, rebars, angles and sections.

The strategy and product mix of steel producers generally varies between producers in industrial countries and producers in emerging markets. Historically, commodity steel producers in industrial countries had limited export markets due to the high cost of transporting steel relative to the low value of commodity steel grades. In the second half of the twentieth century, producers in emerging markets began to compete with steel producers in industrial countries as they took advantage of the lower manufacturing costs in their countries to offset high transportation costs. In response, producers in Western Europe and Japan invested heavily in new technology and capacity to produce high value-added steel grades in order to differentiate their product portfolio and protect their margins by reducing their exposure to commodity steel prices. However, these similar and simultaneous investments resulted in production overcapacity and put pricing pressures on value-added segments. The fall in demand for steel as a result of the economic downturn starting in 2008, coupled with ongoing increases in capacity in China and other developing markets, has further increased production overcapacity and pricing pressures. According to WSA estimates, in 2015 the global steel industry had an excess carbon crude steel capacity of approximately 697 million tonnes per year, implying capacity utilisation of 69.9 per cent., albeit with some regional differences.

In addition, since the turn of the century, the growth and consolidation of both steel consumers and raw material suppliers has weakened the bargaining power of steel producers and put further pressure on their margins. Steel producers have responded with successive phases of industry consolidation. For example, in 2006, Arcelor and Mittal Steel merged, forming the world's largest steel company, ArcelorMittal, and in April 2007, India's Essar Group purchased the Algoma Steel Corporation and the Tata Group acquired the Corus Group (formed as a result of the 1999 merger between Koninklijke Hoogovens N.V. and British Steel Plc). Since 2008, the steel industry consolidation process has slowed down due to the global economic crisis and, in particular, the freezing of credit markets and the unavailability of financing to support transactions. However, some steel producers still consider acquisitions to be a key part of their strategy and achieving their business objectives. Some further consolidation has occurred in recent years and is expected to continue in the future. For example, consolidation of the steel industry continued in Ukraine in 2010 with Metinvest's acquisition of Ilyich Steel. Meanwhile in Japan, Nippon Steel Corporation and Sumitomo Metal Industries merged in 2012 to form Nippon Steel & Sumitomo Metal Corporation (NSSMC). China's steel industry is also undergoing a consolidation phase at the domestic level.

Consolidation has enabled steel companies to lower their production costs and has allowed for more stringent supply-side discipline, including through selective capacity closures. Despite the level of regional consolidation over the past decade increased, the global steel market remains highly fragmented. According to the WSA, in 2015 the five largest producers, being ArcelorMittal (97.1 million tonnes), Hesteel Group (47.7 million tonnes), NSSMC (46.4 million tonnes), POSCO (42.0 million tonnes) and Baosteel Group (34.9 million tonnes), accounted for approximately 17 per cent. of total worldwide steel production, with ArcelorMittal, the largest, accounting for approximately 6 per cent. of worldwide steel production.

Metinvest's Markets for Steel Products

Overview

As a global supplier of steel products, Metinvest operates on various regional markets, although its primary competitors are other CIS steel producers.

According to the WSA, in 2015, 101.5 million tonnes of crude steel were produced in the CIS (including 23.0 million tonnes of crude steel produced in Ukraine), representing a decrease of 4.3 per cent. from 106.1 million tonnes produced in 2014. Ukraine and Russia were, respectively the fifth- and seventh- largest exporters of steel products in 2015, with China, Japan, EU and South Korea occupying the top four positions and Germany the sixth. Combined exports from Ukraine and Russia were 47.4 million tonnes, gross of bilateral trade, compared to 111.6 million tonnes of exports from China, according to the WSA. In 2015, Ukraine was the world's tenth largest steel producer after China, Japan, India, the United States, Russia, South Korea, Germany, Brazil and Turkey and the fourth largest net exporter of steel products after China, Japan and Russia, according to the WSA.

In the first six months of 2016, CIS steel production totalled 51.1 million tonnes, a 0.6 per cent. increase compared to the same period of the previous year, according to the WSA. Ukrainian steel production totalled 12.4 million tonnes, a 10.3 per cent. increase compared to the low base of the same period in the previous year, according to the WSA. Russian steel production totalled 35.2 million tonnes, or 1.3 per cent. lower compared to the same period in the previous year.

CIS Steel Producers

Metinvest's competitors include the following CIS-based steel producers:

Evráz. Evraz is a vertically-integrated steel, mining and vanadium business with operations in the Russian Federation, Ukraine, the United States, Canada, the Czech Republic, Italy, Kazakhstan and South Africa. Evraz produced approximately 14.3 million tonnes of crude steel and 13.1 million tonnes of rolled products in 2015, and 6.7 million tonnes of crude steel and 6.2 million tonnes of rolled products in the first six months of 2016. Evraz's customers are located across the world, although approximately 43 per cent. of its revenues in 2015 were generated from customers in Russia and the CIS.

MMK. The Magnitogorsk Iron and Steel Works (**MMK**) Group is a vertically-integrated steel producer with operations located primarily in the Russian Federation, engaged in producing a range of steel products predominantly for the pipe, car manufacturing and machine-building industries. MMK produced approximately 12.2 million tonnes of crude steel and 11.2 million tonnes of rolled steel products in 2015, and 6.2 million tonnes of crude steel and 5.8 million tonnes of rolled steel products in the first six months of 2016. MMK sold approximately 76 per cent. of its steel products by volume to customers in Russia and the CIS in 2015. The key regions for MMK's export sales are the Middle East and Europe.

Severstal. Severstal is an international, vertically-integrated metals and mining company that sells steel and mining products to customers across the world. Severstal produced 11.5 million tonnes of crude steel and sold 10.8 million tonnes of steel products in 2015, and produced 5.7 million tonnes of crude steel and sold 5.2 million tonnes of steel products in the first six months of 2016. Severstal is a full production cycle operation that includes iron ore and coal mining enterprises, steel mills and rolled product plants as well as downstream production and distribution businesses. Crude steel production currently takes place in Russia, which is its core market.

NLMK. Novolipetsk Steel (**NLMK**) is a vertically-integrated steel producer with operations in Russia, the United States and Europe spanning mining, steelmaking and production of rolled products. In 2015, NLMK produced 15.9 million tonnes of crude steel and sold 15.9 million tonnes of metal products, whereas in the first six months of 2016 NLMK produced 8.2 million tonnes of crude steel and sold 8.1 million tonnes of metal products. NLMK's customers are located in over 70 countries.

Metalloinvest. Metalloinvest is a vertically-integrated iron ore mining and steel production business with assets located primarily in Russia. Metalloinvest produced 4.5 million tonnes of crude steel and 2.5 million tonnes of hot metal and shipped 6.0 million tonnes of steel products and pig iron in 2015. In the first six months of 2016 Metalloinvest produced 2.3 million tonnes of crude steel and 1.5 million tonnes of hot metal and shipped 3.3 million tonnes of steel products and pig iron in the first six months of 2016.

Mechel. Mechel is an integrated steel and mining group focused on the production of steel products, coal and iron ore. Mechel's assets are located in several regions of Russia, as well as in Lithuania and Ukraine. In 2015, Mechel produced approximately 4.3 million tonnes of crude steel and sold 4.3 million tonnes of rolled steel products (comprising long products, flat products, billets, hardware, forgings and stampings). In the first six months of 2016, it produced approximately 2.1 million tonnes of crude steel and sold 2.2 million tonnes of rolled steel products (comprising long products, flat products, billets and hardware). Mechel's customers are located across the world. Mechel operates its own ports and land-based logistics enterprises, which it uses to distribute its products to customers in Russia and the CIS, as well as Europe, Asia and the Middle East.

Ukrainian steel producers. The Ukrainian steel industry is characterised by a high level of competition. According to Metal Expert, published annual reports and interim results, and (with respect to Metinvest) management estimates, the three largest steel producers in Ukraine are: Metinvest, which produced 7.7 million tonnes of crude steel in 2015 and 4.2 million tonnes in the first six months of 2016; ArcelorMittal Kryvyi Rih, located in the Dnipropetrovsk region, which produced 6.1 million tonnes of crude steel in 2015 and 3.3 million tonnes in the first six months of 2016; and the Industrial Union of Donbas, which produced 3.0 million tonnes of crude steel in 2015 and 1.8 million tonnes in the first six months of 2016 at its Ukrainian steel operations, which include Alchevsk Iron & Steel Works (located in the Luhansk region) and Dneprovsky Iron & Steel Works (located in the Dnipropetrovsk region).

Export Markets

The Ukrainian steel industry is export-oriented. The Middle East and North Africa, Europe and the CIS are the primary export destinations for Ukrainian steel, accounting for approximately 47 per cent., 31 per cent., and 13 per cent. of exports in 2015, respectively, according to Metal Expert. Semi-finished steel products accounted for

approximately 45 per cent. of Ukrainian steel exports to all destinations in 2015, followed by flat products (which accounted for approximately 28 per cent. of exports), long products (which accounted for approximately 24 per cent. of exports) and tubular products (which accounted for approximately 3 per cent.), in each case according to Metal Expert. Total Ukrainian exports of semi-finished and finished steel products have fallen by approximately 37 per cent. between 2008 and 2015, according to Metal Expert.

Chinese and South East Asian Markets

China has the world's largest steel industry, both in terms of production and consumption. According to the WSA, China produced 804 million tonnes of crude steel in 2015, accounting for just under half of worldwide production. It also consumed 672 million tonnes of finished steel products in 2015, accounting for 45 per cent. of worldwide consumption, according to the WSA. The Asian market as a whole consumed 978 million tonnes of finished steel products, according to the WSA.

According to the WSA, the Chinese finished steel market has grown rapidly since 2000, with Chinese consumption increasing by 491.5 per cent. from 124 million tonnes in 2000 to 735 million tonnes in 2013 and falling to 711 tonnes and 672 tonnes in 2014 and 2015, respectively. Growth has slowed in China since 2009, when the government pushed through a major stimulus package in order to shield the country from the worst effects of the global recession. Growth exceeded 20 per cent. in 2009, but then slowed to 6.6 per cent. in 2010, 9.1 per cent. in 2011 and 2.9 per cent. in 2012. It accelerated to 11.4 per cent. in 2013 due to some rebound in the property sector, but subsequently decreased to negative 3.3 per cent. year-on-year in 2014 and continued its decrease by negative 5.4 per cent. in 2015. The demand for steel in other Asian countries recovered from a 15.1 per cent. fall in 2009 by rising by 17.1 per cent. in 2010, but growth slowed to 6.0 per cent. in 2011 and only partially recovered to 2.8 per cent. in 2012, 2.2 per cent. in 2013 and 5.0 per cent. in 2014. According to the WSA, year-on-year growth in demand in other Asian countries was 1.8 per cent. in 2015. The huge growth rates shown in 2000s are considered unsustainable, as the Chinese economy has been moving from steel-heavy industries to less steel-intensive industries.

European Market

The European steel market has not yet fully recovered from the economic downturn that started in 2008. Production of crude steel in Europe fell by 26.9 per cent. in 2009 and made a partial recovery of around 22.6 per cent. in 2010, accounting for 14.4 per cent. of worldwide production, according to the WSA. Production continued to increase in 2011, rising by 5.0 per cent., but fell again by 3.9 per cent. in 2012. Crude steel production decreased by 1.7 per cent. in 2013, increased by 1.3 per cent. in 2014 and decreased by 2.6 per cent. in 2015, reaching production volume of 202 million tonnes and accounting for 12.5 per cent. of worldwide production in 2015, according to the WSA. Consumption of steel in Europe has remained below pre-recession levels in recent years, according to the WSA. Consumption of finished steel products was 193 million tonnes in 2015, compared with 186 million tonnes in 2014 and 232 million tonnes at the 2007 peak.

Germany and Turkey are the largest consumers of finished steel products in Europe, representing 20.2 per cent. and 17.8 per cent. of consumption, respectively, in 2015, due to their prominent automotive, appliance and manufacturing industries, according to the WSA.

Middle Eastern and North African (MENA) Market

The Middle Eastern and North African steel market is relatively small in terms of production and consumption. In 2014, the Middle East produced 30 million tonnes of crude steel and North Africa produced 8 million tonnes, according to the WSA. In 2015, the Middle East produced 29 million tonnes and North Africa produced 7 million tonnes. Although production growth slowed in the Middle East during the global economic downturn, production did not decline as with most countries worldwide, according to the WSA. Between 2008 and 2014, production grew at an average annual rate of 10.3 per cent. in the Middle East, although it declined by 1.9 per cent. in 2015. Political instability has affected crude steel production in North Africa, where production has never returned to a pre-recession peak that exceeded 9 million tonnes in 2007.

Consumption in the MENA region continued to grow during the financial crisis, reflecting a trend toward greater steel consumption per capita in the region, according to the WSA. Consumption of steel products within MENA has been steadily increasing and reached 64.5 million tonnes in 2009, with an average growth rate of 9.4 per cent. for the 2000-2009 period. Consumption fell by 1.4 per cent. in 2010, but then grew continuously until 2014 when it reached 72.5 million tonnes. In 2015, consumption of steel products fell by 0.6 per cent. to 72.1 million tonnes. The growth and subsequent flattening are attributable mainly to comparable trends in the construction and property sector. The MENA region is a net importer of finished steel products. Net imports calculated by Metinvest internally

on the basis of WSA data on crude steel equivalent increased to 42.0 million tonnes in 2015, representing a 3.2 per cent. increase compared to 2014.

CIS Market (including Ukraine)

Apparent consumption of finished steel products in the CIS increased by 4.3 per cent. to 58 million tonnes in 2012 and by a further 1.7 per cent. to 59 million tonnes in 2013, from 55 million tonnes in 2011. In 2014 and 2015, it declined by 4.5 per cent. and 10.8 per cent., respectively, reaching 50 million tonnes.

Production of crude steel in the CIS has not yet recovered to pre-recession levels. It decreased by 2.1 per cent. in 2014, and again by 4.3 per cent. in 2015, to 102 million tonnes according to the WSA.

According to the WSA, consumption of finished steel products in the CIS is expected to decline by 7.4 per cent. to 46 million tonnes year-on-year, mainly due to decreased consumption in Russia.

Ukrainian Market

Domestic production and consumption of finished steel products has been significantly affected by the military conflict in the Donetsk and Luhansk regions that was ongoing during 2014 and 2015. According to the WSA, domestic production of crude steel decreased sharply by 17.1 per cent. from 32.8 million tonnes in 2013 to 27.2 million tonnes in 2014. In 2015, production continued to fall and decreased by 15.5 per cent. to 23.0 million tonnes. Domestic consumption of finished steel products declined from 5.6 million tonnes in 2013 to 4.3 million tonnes in 2014, representing a decrease of 23.5 per cent. In the following year, domestic consumption decreased again by 21.5 per cent. to 3.3 million tonnes.

Trade Restrictions

As a major Ukrainian steel producer which obtained 81.9 per cent. of its revenue from sales of metallurgical products in the six months ended 30 June 2016 outside Ukraine, and given the worldwide increase of protectionist measures, Metinvest may face trade restrictions in foreign markets relating to the sales of steel products originating in Ukraine. WTO members may impose trade restrictions such as anti-dumping duties, safeguard measures and countervailing duties within the parameters established by the WTO rules. Several steel-importing countries, including the Eurasian Economic Union (EAEU), the United States, Canada, Indonesia, Brazil, Thailand and Mexico, currently have trade restrictions in place with respect to certain steel imports from Ukraine. The most important of these measures in relation to Metinvest's business are set out below.

In June 2016, the European Commission formally initiated an anti-dumping investigation into imports of hot-rolled flat products into the EU originating, *inter alia*, in Ukraine. The Issuer expects the results of this investigation to be published in 2017. Metinvest has been fully cooperating with the European Commission in the framework of the present investigation in order to demonstrate that its sales into the EU market do not represent dumping and have not caused material injury to EU producers.

In January 2011, the Eurasian Economic Commission introduced five-year anti-dumping measures consisting of duties varying from 19.4 per cent. to 37.8 per cent. in relation to Ukrainian small- and medium-diameter steel pipes, including duties on oil and gas line pipes of up to 820 mm in diameter manufactured by Khartsyzsk Pipe, Ilyich Steel and other Ukrainian plants. As a result of a sunset review (completed in 2016) the duties will remain in force until 2021.

In May 2016, the Eurasian Economic Commission initiated an anti-dumping investigation in relation to imports of Ukrainian steel rebars that resulted in anti-dumping duties imposed on Yenakiieve Steel in the amount of 10.11 per cent. until March 2021.

In 2013 the US rolled over an anti-dumping duty in relation to imports of Ukrainian rebars in the amount of 41.69 per cent., until July 2018, and hot-rolled flat coils in the amount of 90.33 per cent., until February 2019. In 2015, the US International Trade Commission completed a sunset review in relation to an anti-dumping duty on certain cut-to-length carbon steel plates originating, *inter alia*, in Ukraine and extended duties of 81.43 per cent. for Azovstal and 155 per cent. for Ilyich Steel until 2020. In June 2014, the US International Trade Commission (the **USITC**) reviewed and eliminated an antidumping duty of 116.37 per cent. on carbon and certain alloy steel wire rods from Ukraine that had been in place since 2002.

In 2010, Canada imposed anti-dumping duties in relation to hot-rolled carbon steel plates and high-strength low-alloy steel plates originating in or exported from Ukraine, in the amount of 15 per cent. for Azovstal and other Metinvest companies and 21.3 per cent. for other Ukrainian steel exporters. Consequently, Metinvest companies are able to receive normal values for certain products, which means these products can be imported into Canada without the payment of anti-dumping duties, provided that the net export prices of these products are equal to or greater than their normal values. In February 2015, the Canadian International Trade Tribunal issued its expiry review, continuing its findings in respect of the Ukrainian exports and relieving certain types of steel plates from the payment of anti-dumping duties following Metinvest's submissions.

India has launched a number of trade investigations. At the end of 2015, a safeguard investigation in India was initiated in respect of hot-rolled coils resulting in the introduction of a safeguard duty in the amount of 20 per cent. in March 2016. This duty will gradually reduce to 10 per cent. and finally terminate in 2018. Additionally, since February 2016 India has been applying minimum import prices on a range of steel products. An anti-dumping investigation in relation to cold-rolled coils and sheets originating, *inter alia*, in Ukraine was initiated in April 2016. The investigation is pending and Metinvest has been actively assisting the investigation, which is expected to be completed in 2017. Finally, India notified the Ukrainian Government of its intention to initiate a countervailing duties investigation into imports of cold flat steel products originating in Ukraine. The Ukrainian Government and Metinvest have been actively participating in these discussions.

At the end of 2015, an anti-dumping investigation into imports of cold-rolled coils originating, *inter alia*, in Ukraine was initiated by Pakistan. In January 2016, the National Tariff Commission of Pakistan imposed preliminary duties in the range from 8.31 per cent. to 19.04 per cent. on imports of cold-rolled coils and sheets from exporters based in Ukraine, which were terminated in May 2016. The investigation is expected to be completed in 2016.

In May 2012, Brazil initiated an anti-dumping investigation in relation to heavy steel plates imported from, *inter alia*, Ukraine. Azovstal and Ilyich Steel made submissions in the investigation. In October 2013, a duty of U.S.\$261.79 per tonne was imposed on imports from Ukraine for a period of five years.

In June 2016, Mexico's Ministry of Economy started to review an anti-dumping duty imposed on imports of hot-rolled plates (applicable anti-dumping duty is 60 per cent.) and rebars (applicable anti-dumping duty is 41 per cent.). There is also a hot-rolled coils anti-dumping duty of 25 per cent. effective until 2020.

Thailand applies anti-dumping duties against imports of Ukrainian hot-rolled steel both in coils and not in coils. Since May 2003, Ilyich Steel products have been subject to duty in the amount of 32.17 per cent., and a result of a sunset review in 2015, this duty will remain until May 2020.

Malaysia's Ministry of International Trade & Industry initiated a safeguard investigation against hot-rolled coils in September 2015 and imposed a safeguard duty in the amount of 10.40 per cent. until July 2018.

Indonesia applies an anti-dumping duty on hot-rolled coils amounting to 12.33 per cent. until April 2019.

In May 2015, Egypt initiated a safeguard investigation resulting in an introduction of a steel rebar safeguard duty in the amount of 32.17 per cent. until October 2017.

Overview of the Steel Production Process

The primary components of steel production are coke production, iron-making, steel-making and steel-rolling. The following is a brief summary of these processes.

Coke Production

Coke is a solid product of the coal coking process. Coke contains 86 per cent. to 90 per cent. carbon and is used as the main fuel in blast furnaces. Coke is produced by heating coking coal that has been ground and dressed without excess air at temperatures of 1,100°C to 1,200°C (pyrolysis) for 16 to 18 hours in coke ovens. Once discharged from the ovens, coke is delivered to blast furnaces for use in iron making.

Other products of the coking process include coke-oven gas and various by-products made from the coke-oven gas. Coke-oven gas is used as gaseous fuel in other shops of steel plants and by-products are often supplied to chemical departments for further processing.

Iron Making

Prepared iron ore raw materials (sinter and pellets) and coke are used for hot metal production. Coke, natural gas, and pulverised coal serve as fuel for blast furnaces. Coke-oven gas, together with top gas from blast furnaces, is used as fuel for heating stoves. Sinter, pellets and coke are mixed and added into blast furnace from the top using skips. Fuel combustion, reduction of iron from oxides, carbonisation of iron with partial reduction of silicon and manganese, melting of all components of burden and slag-making all occur inside the blast furnace.

Hot metal is tapped into hot metal transfer ladles and delivered to the steel-making machinery to be converted into steel. Hot metal can also be delivered to a pig iron casting machine that produces pig iron for sale as a semi-finished product. Slag from blast furnaces is fed to slag processing units, where part of the slag is granulated in granulating units and the rest is processed into crushed rock and slag sand.

At many steel plants, top gas produced in the blast furnaces during the iron-making process is also used as a fuel for stoves, coke ovens, boilers, rolling mills and for other purposes.

Steel Making

Steel is produced from raw materials using one of three production techniques.

Oxygen converter process. The oxygen converter process is based on the interaction of process oxygen (practically pure oxygen) with impurities in liquid hot metal. Scrap and hot metal are charged into the vessel and oxygen is then blown via a lance into the vessel, oxidising carbon and other impurities (silicon, manganese, etc.). Metallurgical lime and fluorspar are fed into the vessel to form slag, which absorbs impurities during the steel making process. The oxygen converter process is generally the most modern and efficient means by which to produce large volumes of high-quality steel. This process accounted for 74.4 per cent. of the steel produced worldwide in 2015.

Electric arc furnaces. Electric arc furnaces produce steel by applying heat generated by electricity arcing between graphite electrodes and a metal bath. The main components of the electric arc furnace are a furnace shell with a tapping device and work opening, and a removable roof with electrodes and a tilting device. The steps in the electric arc furnace production process consist of charging, melting, oxidising or purifying, deoxidising or refining. The charge includes scrap, iron, ore, fluxes (lime, fluorspar), reducing agents (carbon) and ferroalloys. Further scrap may be added after the ignition of the electric arc and melting. Temperatures in the electric arc furnace may reach as high as 3,500°C in order to melt alloying components that are otherwise difficult to melt. During the refining stage, iron oxides contained in the slag react with the carbon of the bath, which has the effect of rinsing away impurities. The metallurgical process of the oxidation and reduction phases can be replaced by secondary metallurgical treatment further downstream in the production process. This process accounted for 25.1 per cent. of the steel produced worldwide in 2015.

Open-hearth process. Steel is produced in the open-hearth process by melting scrap and hot metal on the hearth of a combustion reverberating furnace bath. Scrap, flux and ore are charged into the furnace prior to heating. Fuel is burned in the furnace and the heat necessary to melt the raw materials is provided from the burning fuel. Hot metal is charged and slag is formed and flushed. During melting, the oxidation of carbon and other impurities (such as silicon and manganese) takes place. Metallurgical lime, fluorspar and brickbats are used to form slag, which absorbs impurities during the steel-making process. Open-hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, high levels of pollutants and relatively low productivity. Open-hearth furnaces are also less well suited for continuous casting than oxygen converters or electric arc converters, and as a result open-hearth furnaces generally work through the less efficient ingot-casting process. For a number of years, the general trend worldwide has been for open-hearth furnaces to be replaced by more efficient and environmentally cleaner oxygen converters and electric arc furnaces. This process accounted for 0.4 per cent. of the steel produced worldwide in 2015.

Steel Rolling

Cast steel is a relatively weak mass of coarse, uneven metal crystals or "grains". Rolling the steel makes this coarse grain structure re-crystallise into a much finer grain structure, giving greater toughness, shock resistance and tensile (stress) strength. Rolling is also the main method used to shape steel into different products. The rolling process consists of passing the steel between two rolls revolving at the same speed but in opposite directions. The gap between the rolls is less than the thickness of the steel being rolled, resulting in the steel being reduced in thickness and, at the same time, lengthened. In addition to hot rolling, in which the steel is rolled at a high temperature, steel may also be rolled at ambient temperatures, resulting in a different set of properties.

Iron Ore Mining and Processing Industry

Global Overview

The iron ore industry is closely linked to the steel industry. Iron ore is the core resource used in the steel production process.

The current situation in the global iron ore industry is characterised by a high degree of consolidation, with the "Big Four" producers (BHP Billiton, Vale, Rio Tinto and Fortescue) accounting for approximately 72 per cent. of the global iron ore trade in 2015 (according to Metinvest estimates and WSA data, excluding Samarco sales). According to Metinvest estimates, and published annual and interim reports of the producers, the ten-largest iron ore producers globally in 2015 were:

- Vale, which produced approximately 346 million tonnes of iron ore;
- Rio Tinto, which produced approximately 328 million tonnes of iron ore;
- BHP Billiton, which produced approximately 274 million tonnes of iron ore;
- Fortescue Metals Group, which produced approximately 167 million tonnes of iron ore;
- ArcelorMittal, which produced approximately 63 million tonnes of iron ore (own production, excluding supply under strategic long-term contracts);
- Anglo American, which produced approximately 54 million tonnes of iron ore;
- Metalloinvest, which produced approximately 39 million tonnes of iron ore;
- Metinvest, which produced 32 million tonnes of iron ore;
- Cliffs Natural Resources, which produced approximately 31 million tonnes of iron ore; and
- CSN, which produced approximately 28 million tonnes of iron ore.

The major iron ore-producing countries are Australia, Brazil and China. Management estimates that in 2015 Australia and Brazil together accounted for approximately 75 per cent. of global seaborne iron ore supply, exporting different kinds of iron ore products (pellets, lumps and fines). The majority of Chinese production is lower-quality iron ore (below 30 per cent. Fe), which requires further processing predominantly into concentrate with 64-66 per cent. Fe content, and caters primarily to the domestic Chinese steel mills. The key driver of the global steel market is China, which has accounted for nearly half of global steel consumption in recent years, according to the WSA. According to data provided by the Ministry of Development of Brazil, in 2014 and 2015 Brazil's exports of iron ore continued to grow by 4.5 per cent. and 6.3 per cent. year-on-year to 344.4 and to 366.2 million tonnes, respectively. Australian exports for the same periods also increased substantially: in 2014 and 2015, exports of iron ore from Australia increased by 23.8 per cent. and 6.9 per cent. to 717 and 767 million tonnes, respectively, according to the Australian Bureau of Statistics. China remains a net importer of iron ore, with total imports in 2015 increasing by 2.2 per cent. year-on-year to 953.4 million tonnes, according to the Customs General Administration of China, while domestic production of iron ore decreased by 8.8 per cent. year-on-year, according to the National Bureau of Statistics of China, further increasing China's dependence on iron ore imports. In the first six months of 2016, Australian exports rose by a further 5.3 per cent. year-on-year to 389.5 million tonnes and Brazilian exports increased by 5.7 per cent. to 177.3 million tonnes, while Chinese imports increased by 9.0 to 493.9 million tonnes.

The main importers of iron ore are the major steel-producing countries, including China, Japan, Germany and South Korea. Historically, Europe, Japan and China have been the major iron ore consumption centres. Following an economic slowdown in 2001 and a resulting reduction in iron ore demand, markets rebounded in 2002, with China and certain CIS countries showing significant increases in demand due to increased domestic steel production. Since then, global consumption of steel and iron ore has increased significantly. China has experienced the greatest growth in iron ore consumption, with an increase in iron ore imports of approximately 755.2 per cent. from 111.5 million tonnes in 2002, to 953.4 million tonnes in 2015, according to the Customs General Administration of China. Imports of iron ore by China accounted for about 63.2 per cent. of the world's total imports of iron ore in 2015, according to the WSA. In 2015, Europe (excluding the CIS) increased its imports of iron ore by 0.9 per cent. and Japan decreased iron ore imports by 3.9 per cent. Overall iron ore trade increased in 2015 by an estimated 5.0 per cent., with China's share of the total decreasing from 65.0 per cent. in 2014 to 63.2 per cent. in 2015.

The table below shows growing iron ore export volumes from Australia and Brazil and import volumes to China for the years 2013-2015 and the first six months of 2015 and 2016.

	Iron ore exports/imports				
	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Value for the period	Value for the period
			(million tonnes)		
Australia.....	579	717	767	370	389
Brazil.....	330	344	366	168	177
China.....	820	933	953	453	494

In early 2010, the system of annual contracts and benchmark prices that had existed since the 1960s was replaced with new short-term pricing mechanisms linked to the spot market. Prior to this change, iron ore prices were first agreed between one of the major iron ore producers and a steelmaker during annual negotiations. The agreed price then became a benchmark followed by the rest of the industry for a year. However, the strong growth in the size of the internationally traded iron ore market prompted the development of a large spot market for the product.

This emerging trend, coupled with the cumbersome and backward looking nature of the annual contract pricing system, gave rise to growing disparity between spot and contract prices. This placed major producers at a substantial disadvantage by allowing steelmakers to exploit price arbitrage opportunities between contract and spot sales. The move to revolutionise the obsolete pricing system was pioneered in March 2010 by BHP Billiton, which negotiated the first settlement with Asian customers on the basis of shorter-term landed price contracts. This practice, which used spot-linked quarterly contracts rather than annual contracts, was soon adopted by Vale and Rio Tinto. The share of spot market sales as against contract-based settlement has been gradually increasing since 2010 and currently amounts to approximately 80 per cent. of total sales. However, various pricing schemes based on the previous dynamics of spot prices (including different time lags) are also being used. The current pricing system uses hybrids of quarterly and spot pricing, and it is expected that the global spot market for seaborne iron ore will continue to grow, bringing a gradual but complete shift from contract to spot sales. Many commodities (crude oil, natural gas, thermal coal, copper) have shifted from contract sales to spot sales over the course of the past 10 to 20 years, increasing the liquidity of the commodity and derivatives markets.

Iron ore prices are influenced by fluctuations in global supply and demand and transportation costs. The price of these commodities have varied significantly in the past, could vary significantly in the future and are also positively correlated with demand from steel producers. For example, iron ore prices collapsed in 2009, primarily due to lower commodity demand caused by the global financial crisis. While demand for iron ore in the developed world remained subdued following the decline in 2009, strong growth in demand in developing economies combined with limited supply resulted in an increase in world prices for iron ore in 2010-2011. Since 2011, iron ore prices tended to fall, mainly due to the growing imbalance between supply and demand, which is in turn due to a substantial increase in seaborne iron ore supplies (mainly from Australia and Brazil).

According to Bloomberg, the benchmark price of 62 per cent. Fe iron ore fines CFR China increased marginally to U.S.\$136 per dry tonne in 2013 compared to U.S.\$129 in 2012, after which the price fell to U.S.\$97 and U.S.\$56 per dry tonne in 2014 and 2015, respectively. In the middle of December 2015 the price fell to a multi-year low of U.S.\$38.3 per dry tonne. According to Bloomberg, in the first quarter of 2016, the price increased for the first time quarter-on-quarter since the fourth quarter of 2013 to a quarterly average of U.S.\$49 per dry tonne compared to U.S.\$47 per dry tonne in the fourth quarter of 2015. In the second quarter of 2016 the price increased by 14 per cent. to U.S.\$55 per dry tonne compared to U.S.\$49 in the first quarter 2016. This increase was caused by several factors, including economy stimulus measures adopted by the Chinese government (including increasing the budget deficit from 2.3 per cent. to 3.0 per cent. and the issue of approximately U.S.\$700 billion of new loans in the first three months 2016, a 26 per cent. increase year-on-year), an increase in the liquidity of the iron ore derivatives market, a seasonal demand increase, a non-binding agreement between two big iron ore producers – Vale and FMG – to create a joint venture and an increase of steel production ahead of expected substantial restrictions on the activities of polluting industries in the period of the world horticultural exhibition in Hebei province in China and increased demand from steel producers amid announcements of infrastructure projects investments in China. Monsoon related disruptions in supplies from Australia and Brazil and suspension of supplies from Samarco also impacted iron ore prices.

The table below shows the spot (62 per cent. Fe fines CFR China) price averages by year for 2013-2015, as well as the averages and the year-to-date (YtD) averages for the first six months of 2015 and 2016.

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	(million tonnes)				
Daily spot price average, 62% Fe iron ore fines, U.S.\$ per dry tonne, CFR China.....	136	97	56	60	52

Source: Bloomberg

Metinvest's Iron Ore Markets and Competitors

Ukraine accounts for approximately 3.4 per cent. of the world's iron ore reserves, according to the January report by the USGS. According to the USGS, Ukraine has approximately 6.5 billion tonnes of iron ore reserves, containing around 2.3 billion tonnes of iron (according to the USGS, for Ukraine, reserves consist of the A+B categories of the former Soviet Union's reserves classification system). The largest iron ore deposits are located in the Kryvyi Rih iron ore basin, the Kremenchuk iron ore basin, the Bilozerskyi iron ore basin and the Kerch iron ore basin (the latter of which is located in disputed territory on the Crimean Peninsula. See "*Risk Factors—Risks Relating to Ukraine—Ukraine is subject to ongoing political instability or uncertainty*").

In 2015, Ukraine produced 76.1 million tonnes of saleable iron ore and was the world's sixth-largest iron ore producer after Australia, Brazil, China, India and Russia, according to Ukrainian Industry Expertise and Metinvest estimates. In the first six months of 2016, Ukraine produced 36.4 million tonnes of saleable iron ore, representing a decrease of 3.0 per cent. from the corresponding period of 2015, according to Ukrainian Industry Expertise.

The Ukrainian iron ore industry is partially domestically oriented. Ukraine exported 45.5 million tonnes of merchant iron ore products in 2015 and another 20.1 million tonnes in the first six months of 2016. Ukraine also imported 2.9 million tonnes of iron ore in 2015 and another 1.2 million tonnes in the first six months of 2016. China and Central and Eastern Europe are the main markets for Ukrainian exports. Russia is virtually the only source of Ukrainian imports.

The following table sets out information on the largest Ukrainian concentrate producers for the periods indicated. This table includes concentrates that are converted to pellets.

	Year ended 31 December				Six months ended 30 June					
	2013		2014		2015		2015		2016	
	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production
Northern GOK (Metinvest)	15,000	21%	13,420	19%	13,152	19%	6,317	19%	6,269	19%
Ingulets GOK (Metinvest)	15,344	21%	15,056	22%	12,903	19%	6,366	19%	6,901	21%
Poltava GOK (Ferrexpo)	13,201	18%	13,727	20%	14,378	21%	7,000	21%	7,330	22%
Southern GOK (Metinvest) ⁽¹⁾	10,937	15%	10,952	16%	11,389	17%	5,707	17%	5,406	16%
NGOK (ArcelorMittal Kryvyi Rih)	10,075	14%	9,913	14%	10,133	15%	4,991	15%	4,699	14%
Central GOK (Metinvest)	6,582	9%	6,412	9%	6,154	9%	3,123	9%	2,641	8%
Vostok Ruda	316	0%	185	0%	7	0%	7	0%	0	0%
Total	71,455	100%	69,665	100%	68,115	100%	34,853	100%	33,512	100%

Source: Metal Expert, Management estimates.

Note:

(1) Metinvest acquired a direct interest of 0.79 per cent. in Southern GOK in June 2014 and a 44.8 per cent. effective interest in July 2014.

The following table sets out information on the largest Ukrainian pellet producers for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2013		2014		2015		2015		2016	
	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production	thousan d tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production
Northern GOK (Metinvest)	10,838	46%	8,634	39%	7,690	36%	4,108	37%	4,651	40%
Poltava GOK (Ferrexpo)	10,633	45%	11,021	50%	11,662	54%	5,817	53%	5,723	49%

	Year ended 31 December						Six months ended 30 June			
	2013		2014		2015		2015		2016	
	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production	thousand tonnes	share of Ukrainian production
Central GOK (Metinvest)	2,314	10%	2,260	10%	2,306	11%	1,141	10%	1,198	10%
Total	23,785	100%	21,915	100%	21,657	100%	11,066	100%	11,572	100%

Source: Management estimates.

Iron ore producers

Metinvest's competitors include major CIS mining companies, such as Metalloinvest, NLMK, Evraz, Severstal and Eurasian Resources Group (**ERG**). Metalloinvest's mining division includes two mining and processing plants in Russia: Lebedinsky GOK and Mikhailovsky GOK. Other major mining and processing plants in the CIS include NLMK's Stoilensky GOK, Evraz's Kachkanarsky GOK, Severstal's Karelsky Okatysh, and ERG's Sokolov-Sarbai Mining Production Association (SSGPO).

Metalloinvest. Metalloinvest's mining division includes two mining and processing plants in Russia: Lebedinsky GOK and Mikhailovsky GOK. These plants produce iron ore concentrate with an iron content of 65-70 per cent., pellets of 63-67 per cent. and iron ore briquettes (hot briquetted iron) with an iron content of 90 per cent. Metalloinvest produced 39.5 million tonnes of iron ore (including iron ore concentrate and sinter ore) and 23.8 million tonnes of pellets in 2015 (that is 1.8 per cent. and 5.0 per cent. higher than in 2014, respectively). In 2015, Metalloinvest increased its production of hot briquetted iron by 3.1 per cent. to 5.4 million tonnes. Metalloinvest in 2015 mainly sold its iron ore products to the domestic market. Sales in Russia accounted for 66 per cent. of total sales, 19 per cent. of total iron ore sales were made to Europe and 10 per cent. to Asia.

NLMK. NLMK owns Stoilensky GOK, which produces iron ore concentrate with an iron ore content of 66.3 per cent. and sinter ore with an iron ore content of 52 per cent. In 2015, Stoilensky GOK produced 16.9 million tonnes of iron ore (including iron ore concentrate and sinter ore), or 2.4 per cent. more than in the previous year.

Evraz. The iron ore division of EVRAZ includes: the EVRAZ Sukha Balka ore enrichment plant, located in Ukraine, that produces lumpy ore with iron content varying from 50 per cent. to 60 per cent.; Evrazruda, which owns a number of ore-mining and ore-enrichment enterprises in the Kemerovo Region of Russia; and Kachkanarsky GOK, located in Sverdlovsk region of Russia, which produces sinter and pellets. In 2015, total production of iron ore products of EVRAZ was flat year-on-year and amounted to 20.4 million tonnes.

Severstal. Severstal iron ore assets include Karelsky Okatysh, the biggest iron ore producer in Russia, which produces pellets with iron content of 65-66 per cent. and Olenogorskiy GOK (Olcon), which produces iron ore concentrate with iron content of 65.7 per cent. In 2015, Karelsky Okatysh produced 10.6 million tonnes of pellets, with flat year-on-year growth. Olcon produced 4.1 million tonnes of iron ore concentrate in 2015 a 8.8 per cent. decrease compared to 2014.

Sokolov-Sarbai Mining Production Association (SSGPO). SSGPO is one of the largest iron ore mining and processing enterprises in Kazakhstan and is owned by Eurasian Resources Group. SSGPO's operations include the Sokolovsky, Sarbaisky, Kacharsky and Korzhinkolskiy iron ore open-pits, the Sokolovsky underground mine, dolomite and limestone open pits, as well as crushing, concentrating and pelletising facilities. SSGPO produces iron ore concentrate with an iron content of approximately 66 per cent. and pellets with an iron content of 63 per cent. Annual production capacity accounts for 8 million tonnes of iron ore concentrate and 7 million tonnes of pellets.

In addition to CIS iron ore producers in Russia and Kazakhstan, Metinvest's competitors include Ukrainian iron ore companies, such as Ferrexpo's Poltavsky GOK and Yeristovsky GOK.

Ferrexpo. Poltavsky GOK produces pellets with an iron content of 62 per cent. or 65 per cent. Poltavsky GOK produced 6.0 million tonnes of pellets in 2015 (down by 18 per cent. from 7.3 million tonnes in 2014). Yeristovsky GOK (also known as Ferrexpo Yeristovo Mining) is a new open-pit mine located in close proximity to Poltavsky GOK. The first ore was reached at the mine in the second half of 2012. Currently, ore extracted from Yeristovsky GOK is sent to Poltavsky GOK's processing complex to be used in the production of pellets. Yeristovsky GOK supplied ore to produce 5.2 million tonnes of pellets in 2015 (up by 52 per cent. from 3.4 million tonnes in 2014). Total concentrate production in 2015 from both GOKs equalled 14.4 million tonnes, a 4.7 per cent. increase compared to 2014. Total pellets production in 2015 from both GOKs and from purchased concentrate equalled 11.7 million tonnes, a 5.4 per cent. increase compared to 2014.

China is the world's largest consumer of raw materials for steel making. China had domestic iron ore reserves of approximately 23 billion tonnes, containing around 7.2 billion tonnes of iron and domestic production of approximately 1,381 million tonnes of iron ore in 2015, according to the National Bureau of Statistics of China. Chinese iron ore has generally much lower Fe content compared imported iron ore. Domestic production is high in cost and price responsive. By comparison, China imported 953 million tonnes of iron ore in 2015 and 498 million tonnes of ore in the first six months of 2016. Imports grew at an average annual rate of 7.2 per cent. between 2009 and 2015, after having grown by 27.6 per cent. per year, on average, from 2000 to 2009. In 2015, imports rose by 2.2 per cent. over 2014. In the first six months of 2016, the year-on-year growth rate was 9.8 per cent., according to the Customs General Administration of China.

According to Metinvest estimates, Chinese demand grew rapidly between 2001 and 2009 following increased investment into the construction sector and steel production, but growth decelerated in 2010 and averaged 7 per cent. per year between 2009 to 2013. China's iron ore demand decreased by 4.2 per cent. in 2014, bringing demand to 1,109 million tonnes of iron ore on a saleable basis and further decreased by 3.5 per cent. in 2015 to 1,071 million tonnes. China's iron ore demand is estimated to equal 533 million tonnes in the first half 2016, compared to 544 million tonnes in first half 2015 according to Metinvest estimates. Demand has decreased in 2014 and 2015, primarily due to decreased steel production. The growth in demand from China initially led to large price increases in the iron ore markets, as mining companies were caught unprepared to meet the increased domestic demand and consequent cost pressures were placed on steel companies without their own iron ore assets. However, the key consumer of iron ore - steel production in China - decreased for the first time in 2015 after many years of growth due to a construction sector crisis. Steel production overcapacity has forced steel producers to cut unprofitable and excess marginal capacities that are primary located in China. The Chinese government has announced plans to cut up to 100-150 million tonnes of steel capacities in 2016-2020. This equates 8-12.5 per cent. of the total end-2015 capacity in China.

Production Process

Iron ore in Ukraine is extracted from either open-pit or underground mines. After extraction, the ore is processed further in order to increase its iron concentration. The iron ore is then crushed to a powder-like consistency, and iron-rich particles are separated from the waste rock by magnetic separation to produce iron ore concentrate. The concentrate is then formed into pellets or sinter that is suitable for use as blast furnace feed.

Sinter Production

To produce sinter, iron ore, iron ore concentrate and iron-bearing materials (blast furnace dust, screenings of sinter and pellets, scale, waste and slime), flux (limestone) and coke breeze are weighed and mixed to form sinter burden. This sinter burden is then granulated and laid in two layers in sinter machines. The sinter burden becomes sinter at temperatures of 1,070°C to 1,200°C through the combustion of carbon from the coke breeze, while air is simultaneously drawn through the sinter burden by means of exhausters. After crushing, screening and cooling, the sinter is ready for delivery to blast furnaces.

Pellet Production

In the production of iron ore pellets, concentrate is mixed with water and other additives, such as magnetite ore. The resulting slurry is dried, mixed with binding agents and baked at approximately 1,300°C. After the pellets have been screened and undersized material removed, they are ready for use in blast furnaces.

Coal Mining and Coke Production

Overview

The main types of coal include thermal (steam) coal and metallurgical (coking and PCI) coal. Steam coal is used in electricity generation and industrial applications, while coking coal is used to manufacture coke for use in steel making and other metallurgical and non-metallurgical applications. Coking coal swells and cokes when heated in coking ovens to produce hard coke, whose characteristics are essential in steel making operations. Approximately 400-500 kilograms of coke is used per tonne of hot metal produced. Coke is sometimes supplemented by the direct injection of pulverised coal (pulverised coal injection, or PCI) to a blast furnace, at rates of 100-200 kilograms per tonne of hot metal. PCI uses less expensive steam and semi-soft coking coal to reduce costs.

According to the BP Energy Review, in 2015, the United States, Russia and China had the world's largest coal reserves of 237 billion tonnes, 157 and 114 billion tonnes, respectively. Ukraine has the world's seventh-largest coal reserves after the United States, Russia, China, Australia, India and Germany. The CIS countries have coal reserves of approximately 228 billion tonnes, including Ukraine's coal reserves of approximately 34 billion tonnes, accounting for 25.6 per cent. and 3.8 per cent. of the world's coal reserves, respectively, according to the BP Energy Review. North America has coal reserves of approximately 245 billion tonnes, accounting for 27.5 per cent. of the world's coal reserves, according to the BP Energy Review.

According to Ukrainian Industry Expertise, world production of coking coal (excluding PCI coal) started to rapidly increase in the beginning of the 21st century amid growing steel production in China as a key coking coal consumer. World coking coal production increased from 475 million tonnes in 2001 to 750 million tonnes in 2007. During the global crisis of 2008-2009, coking coal production decreased to 710 million tonnes, but increased by 10 per cent. in 2010. Growth in production of coking coal was slowing in 2011-2015 and equated to 0.6 per cent. in 2015. The 10 biggest coking coal-producing countries occupy 95 per cent. of the world coking coal production. China, Australia, the United States, Canada, Russia, Poland, Ukraine, India, Canada, Indonesia and Germany are the largest coking coal-producing countries according to Ukrainian Industry Expertise and Metinvest estimates. An increase in coking coal production amid decreasing steel production puts additional pressure on coking coal prices.

The world's largest metallurgical coal producers (excluding coal producers located in China) include BHP Billiton (including BHP Billiton-Mitsubishi Alliance), Teck, Anglo American and Rio Tinto.

According to Ukrainian Industry Expertise, the world's top coking coal net exporters in 2015 were Australia (185 million tonnes), the United States (43 million tonnes) and Canada (30 million tonnes). The world's top-three net coking coal importers were the People's Republic of China, Japan and India. These countries imported approximately 160 million tonnes of coking coal in 2015, comprising more than half of total coking coal imports. Given that most of the supply to the seaborne coking coal market is concentrated among the top-three exporting countries, any disruptions to operations, such as recurrent flooding in Queensland, Australia, are likely to cause major supply disruptions and cause coking coal prices rise in the short term. Vertically integrated steel producers, such as Metinvest, tend to be the less affected by such disruptions.

Following the decrease in coal prices as a result of the global economic downturn in 2008 and 2009, the prices for coal increased globally (including in the CIS) in 2010 and 2011, but since 2012 the price has been falling. The contract price (the average of the quarterly contract price values) for hard coking coal FOB Australia decreased to U.S.\$159 per tonne in 2013 compared to U.S.\$210 per tonne in 2012 and continued its fall in 2014 and 2015 to U.S.\$126 and U.S.\$102 per tonne, respectively, according to Bloomberg. In the first quarter of 2016, the price decreased by 9.0 per cent. quarter-on-quarter to U.S.\$81 per tonne and decreased by 30.8 per cent. year-on-year, compared to the first quarter of 2015 when the price was U.S.\$117 per tonne. In the second quarter of 2016, the price increased by 3.7 per cent. quarter-on-quarter to U.S.\$84 per tonne, but again decreased by 23.6 per cent. year-on-year from U.S.\$110 per tonne in the second quarter of 2015.

Coal market in Ukraine

Production of coking coal in Ukraine has been gradually drifting downwards for the last decade. During 2010-2012, coking coal production remained relatively flat at the level of approximately 25 million tonnes, however in 2013, it declined again by 4 per cent. The Ukrainian coking coal industry experienced a huge decrease in production volumes during 2014 and 2015, when coking coal production contracted by a factor of almost three. This significant loss of production volumes was mainly the result of the military conflict in Donetsk and Luhansk regions. Coking coal consumption also declined in the same periods as many coke and steel plants were impacted by the conflict. During the first six months of 2016, coking coal production in Ukraine increased by 21.6 per cent. to 5.2 million tonnes, compared to 4.3 million tonnes during similar period of 2015. This excludes coking coal from mines located within territories which the Ukrainian authorities do not control as a result of the conflict and that do not provide publicly available data (except for Krasnodon Coal). These mines accounted for approximately 25 per cent. of total coal production in 2014.

Increasing requirements for higher-quality coking coal and decreased production of domestic coal stimulated growth of coking coal imports to Ukraine. According to Ukrainian Industry Expertise, the share of coking coal imports in total coking coal consumption in Ukraine has been increasing since 2002 and amounted to approximately 45 per cent. in 2013. In 2014, when the conflict in Donetsk and Luhansk regions began, the share of coking coal imports increased to 52 per cent. in 2014 and 63 per cent. in 2015. In the first six months of 2016 the share of coking coal imports amounted to 68.7 per cent.

According to EnergoBusiness, published annual and interim reports of the producers, as well as management estimates (with respect to Metinvest), the five largest coking coal producers headquartered in the CIS are (in each case including non-CIS production): Evraz, which produced approximately 20.4 million tonnes of raw coking coal; Mechel, which produced approximately 23.1 million tonnes of raw coking coal; Severstal, which produced 13.5 million tonnes of raw coking coal; Metinvest, which produced 4.7 million tonnes of raw coking coal; and Coal Company "Pokrovs'ke" (Donetsksteel), which produced 4.4 million tonnes of raw coking coal in 2015.

The largest coking coal producers in Ukraine in 2015 were Coal Company "Pokrovs'ke" (Donetsksteel), Krasnolimanskaya mine and Krasnodon Coal (Metinvest). Each produced 4.3, 1.7 and 0.8 million tonnes of raw coking coal, respectively, according to Metinvest's management estimates, published company data and EnergoBusiness. The largest Ukrainian coke producers in 2015 were Metinvest and ArcelorMittal Kryvyi Rih, contributing approximately 41 per cent. and 16 per cent. of total production, respectively, according to Ukrkoks.

Production Process

Ukrainian coal is extracted by underground mining. After mining, depending on the ash content of the coal, the coal is processed in a preparation plant, where it is crushed and washed. All Ukrainian coking coal must be prepared before use in coke making. Coking coal is then transported to coke making plants and integrated steel plants for conversion to coke for use in the production of hot metal.

BUSINESS DESCRIPTION

Overview

Metinvest is the largest vertically integrated mining and steel business in Ukraine, operating assets in each stage of the production chain from iron ore mining and processing, coking coal mining and coke production, through to semi-finished and finished steel production, pipe rolling and coil production as well as the production of other value-added products. In the year ended 31 December 2015, Metinvest produced 32.2 million tonnes of iron ore concentrate, 7.7 million tonnes of crude steel and 3.2 million tonnes of coking coal. In the six months ended 30 June 2016, Metinvest produced 15.8 million tonnes of iron ore concentrate, 4.2 million tonnes of crude steel and 1.6 million tonnes of coking coal.

For the year ended 31 December 2015, Metinvest had consolidated revenue of U.S.\$6.8 billion and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) of U.S.\$0.5 billion, compared to consolidated revenue of U.S.\$10.6 billion and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) of U.S.\$2.7 billion for the year ended 31 December 2014. For the six months ended 30 June 2016, Metinvest had consolidated revenue of U.S.\$2.9 billion and consolidated Adjusted EBITDA (including share in EBITDA of joint ventures) of U.S.\$0.6 billion.

Based on 2015 production, Metinvest was one of the world's ten-largest iron ore producers, based on management estimates and published operating results of the largest iron ore producing companies, and the largest producer of iron ore and crude steel in Ukraine, according to Metal Expert. In addition, according to the World Steel Association, Metinvest was the 40th largest crude steel producer in the world in 2015. As at 31 December 2015, Metinvest ranked as the largest producer of crude steel in Ukraine and one of the largest crude steel producers in the CIS, according to Metal Expert.

Metinvest's business is divided for financial reporting purposes into two segments: the metallurgical segment and the mining segment. In the year ended 31 December 2015, the metallurgical segment accounted for 85 per cent. of Metinvest's consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures), while the mining segment accounted for 15 per cent. of its consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures). For the six months ended 30 June 2016, the metallurgical segment accounted for 61 per cent. of Metinvest's consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures), while the mining segment accounted for 39 per cent. of its consolidated Adjusted EBITDA (before corporate overheads and eliminations and including share in EBITDA of joint ventures).

- **Metallurgical segment.** In the year ended 31 December 2015, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$5.4 billion and U.S.\$486 million, respectively, compared to U.S.\$8.2 billion and U.S.\$1.1 billion, respectively, in the year ended 31 December 2014. In the six months ended 30 June 2016, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$2.3 billion and U.S.\$401 million, respectively, compared to U.S.\$2.8 billion and U.S.\$421 million, respectively, in the six months ended 30 June 2015. The metallurgical segment's principal products include: finished steel products, such as flat and long steel products and pipes; semi-finished steel products, such as slabs and billets; pig iron; and coke. In the year ended 31 December 2015, finished steel products comprised approximately 74 per cent. of Metinvest's total steel sales volumes, compared to 78 per cent. in the previous year. In the six months ended 30 June 2016, finished steel products comprised approximately 79 per cent. of Metinvest's total steel sales volumes, compared to 77 per cent. in the six months ended 30 June 2015. Metinvest has thirteen industrial assets in the metallurgical segment:
 - Ilyich Steel, the fourth-largest Ukrainian integrated steel producer, according to Metal Expert;
 - Azovstal, the third-largest Ukrainian steel producer, according to Metal Expert;
 - Yenakiieve I&SW, a fully integrated steel producer located in Ukraine;
 - Makiivka Steel, a producer of shapes and bars located in Ukraine;
 - Khartsyzsk Pipe, a producer of large diameter pipes located in Ukraine;
 - Ferriera Valsider, a producer of plates and coils located in Italy;

- Promet Steel, a producer of shapes and bars located in Bulgaria;
 - Metinvest Tramatel and Spartan UK, producers of plates located in Italy and in the United Kingdom, respectively;
 - Avdiivka Coke, Donetsk Coke and Zaporizhia Coke, producers of coke and chemicals located in Ukraine; and
 - Inkor Chemicals, a producer of refined naphthalene and phenol and cresol products located in Ukraine.
- **Mining segment.** In the year ended 31 December 2015, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$1.4 billion and U.S.\$0.1 billion, respectively, compared to U.S.\$2.4 billion and U.S.\$1.8 billion, respectively, in the year ended 31 December 2014. In the six months ended 30 June 2016, this segment's external revenue and Adjusted EBITDA (including share in EBITDA of joint ventures) were U.S.\$0.6 billion and U.S.\$255 million, respectively, compared to U.S.\$0.8 billion and U.S.\$218 million, respectively, in the six months ended 30 June 2015. Metinvest's key products in this segment are merchant iron ore concentrate and pellets and coking coal concentrate. Metinvest has six industrial assets in the mining segment, including three major iron ore enrichment works located in the Kryvyi Rih region of Ukraine:
 - Northern GOK and Ingulets GOK, the second- and the third- largest iron ore mining companies in Ukraine by production volume, according to Metal Expert;
 - Central GOK, the sixth- largest iron ore mining company in Ukraine by production volume, according to Metal Expert;
 - Komsomolske Flux, a producer of fluxing limestone located in the Donetsk region of Ukraine;
 - Krasnodon Coal, a producer of coking coal located in the Luhansk region of Ukraine; and
 - United Coal, a producer of coking coal based in the United States.

Metinvest's trading and logistical assets serve both segments. Metinvest sells steel, iron ore, coke and coal products to non-CIS international markets in Europe, the Middle East and North Africa and Southeast Asia through Metinvest International; to the Ukrainian market through Metinvest Ukraine and Metinvest-SMC; and to CIS markets (primarily the Russian Federation and Belarus) through Metinvest Ukraine, Metinvest Eurasia and Metinvest Distribution. In addition, Metinvest-Shipping, a company based in Mariupol, provides transportation and forwarding services for Metinvest's cargoes by railway and for their transshipment via sea ports, while Belgorodmetalloznab provides warehouse and transshipment services for Metinvest in the Russian Federation.

The ownership structure of Issuer is as follows: (i) 71.24 per cent. of the issued share capital is owned by SCM Cyprus, a holding company registered in Cyprus whose ultimate controlling shareholder is Mr. Rinat Akhmetov; (ii) 23.76 per cent. of the issued share capital is owned by SMART Group, a group of companies controlled directly or indirectly by Mr. Vadym Novynskyi; and (iii) the remaining 5 per cent. interest in the Issuer has been acquired for the benefit of SCM and the SMART Group. It is the intention of SCM and SMART Group to dispose of the remaining 5 per cent. interest (after receiving any required governmental approvals), such that the ultimate beneficial interest of SCM in the Issuer will be 75 per cent. minus 1 share, and the ultimate beneficial interest of SMART Group in the Issuer will be 25 per cent. plus 1 share. SCM Cyprus is a member of the SCM Group, which is one of Europe's leading industrial groups with controlling interests in over 100 companies, including Metinvest, as well as companies operating in the energy, finance, telecommunications, oil, clay mining, retail, real estate, media, agricultural, transportation and engineering sectors. SMART Group is a diversified holding company with holdings in metals and mining, oil and gas, banking, agriculture, ship building and real estate.

Competitive Strengths

Notwithstanding the impact of the ongoing civil disturbances and political instability in Ukraine and military activity in some parts of the Donetsk and Luhansk regions of Ukraine, Metinvest believes that it benefits from a number of structural competitive advantages which will assist it in delivering its strategy in the medium- to long-term. However, this is subject to the stabilisation of the situation in Ukraine.

- Vertically integrated business.** Vertical integration is a key element of Metinvest's strategy to secure access to raw materials for steel production (including coal to meet its energy needs) and to reduce overall unit production costs. Through vertical integration, Metinvest utilises significant internal sources of raw materials to reduce its exposure to fluctuating raw material prices. As at 31 December 2015, Metinvest had approximately 1,350 billion tonnes of proven and probable iron ore reserves (according to the Issuer's estimates), approximately 420 million tonnes of proven and probable coal reserves at Krasnodon Coal (according to the Issuer's estimates) and approximately 86 million tonnes of proven and probable coal reserves at United Coal (according to the Issuer's estimates). As at 30 June 2016, Metinvest was more than three times self-sufficient in iron ore and 43.0 per cent. self-sufficient in coking coal, calculated as actual coal concentrate production divided by actual consumption of coal concentrate, including coal consumption for PCI, to produce coke required for production of hot metal in the Metallurgical segment. Krasnodon Coal, one of Metinvest's key coking coal assets, was operating at reduced capacity as at 31 December 2015 as a result of the disruptions to rail transport services and damage to railway infrastructure caused by the recurrent military activity in some parts of the Donetsk and Luhansk regions of Ukraine. Metinvest expects that its self-sufficiency in coking coal should be restored after the end of the conflict. (See "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".) Metinvest sells iron ore and coke products that exceed its own production needs to third parties, which diversifies its revenue base. Metinvest believes that its ability to source raw materials internally or from affiliates provides it with greater stability of operations, better control of end-product quality and improved flexibility in planning its steel production. In addition, management believes that vertical integration enables Metinvest to achieve economies of scale and reduce per unit costs.
- Strong market position and increasing capacity.** Metinvest is one of the world's ten largest iron ore producers (excluding Chinese and Indian companies), based on management estimates and published operating results of the largest iron ore-producing companies. In addition, according to the World Steel Association, in 2015 Metinvest was the 40th largest crude steel producer in the world. Metinvest is the largest producer of iron ore and steel in Ukraine, having produced 47.3 per cent. of the aggregate volume of iron ore concentrate (total concentrate, including concentrate used for further reprocessing into pellets) and 33.4 per cent. of all steel produced in Ukraine in the year ended 31 December 2015, according to Metal Expert and the Issuer's estimates. In the year ended 31 December 2015, Metinvest was also the largest coke producer in Ukraine, with a 41 per cent. share of production, according to UkrKoks. Management believes that Metinvest's strong market position, combined with strong historical cash flow generation, will enable it to capitalise on the expected mid- to long-term growth of the export and Ukrainian markets for its products. Metinvest has actively sought to strengthen its market position globally and domestically through a number of acquisitions, which has resulted in increases in its annual iron ore concentrate production capacity by approximately 15 million tonnes; its annual flat products production capacity by 7.5 million tonnes; its annual long products production capacity by 4.0 million tonnes; and its annual raw coking coal production capacity by 9 million tonnes since 2007. The acquisition of Ilyich Steel enabled Metinvest to increase its annual crude steel production capacity to up to approximately 11 million tonnes (excluding capacity of open-hearth furnaces decommissioned in late 2014) and to strengthen its market position in Ukraine and globally.
- Low cost producer.** Management believes that Ukraine is one of the lowest-cost regions for steel production in the world, enabling Metinvest to benefit from lower production costs compared to some of its competitors elsewhere in the world. In particular, Metinvest benefits from:

 - Secure access to raw materials.* As at 31 December 2015, Metinvest was more than fully self-sufficient in iron ore for its steel producing assets, based on production capacity. Metinvest's iron ore assets are located close to its steel-producing assets, thus enabling it to benefit from a relatively secure supply of key raw materials and relatively low raw material transportation costs. However, Metinvest currently faces significant logistical constraints in delivering iron ore to steel mills located within territories which the Ukrainian authorities do not control as a result of the conflict, as well as persistent bottlenecks at some of the major railway routes to Mariupol, including Kamysh-Zarya–Volnovakha.
 - Low transportation and logistics costs with prime location of assets.* Metinvest's production facilities benefit from access to relatively low-cost sea and rail transport. Azovstal and Ilyich Steel are located in the port city of Mariupol on the Sea of Azov. Azovstal operates its own port facilities. Although military activity in some parts of the Donetsk and Luhansk regions of Ukraine

has adversely affected rail transportation in the region since 2014 (with damage to railway infrastructure, sabotage and blockades affecting deliveries of raw materials and finished products to and from Metinvest's Ukrainian plants), Metinvest's facilities benefited from favourable railway links before the conflict and management expects they will continue to do so once the conflict has ended and the damage to the railway infrastructure has been repaired. Yenakiieve Steel is located close to major rail junctions and within 200 kilometres of the Mariupol port. Metinvest controls most of its logistics: it owns and operates a number of railcars and has a long-term strategic partnership with a major private Ukrainian railway operator, Lemtrans, which increases its security of supply in view of the anticipated shortage of railcars in Ukraine. Metinvest's favourable geographic location also allows for the relatively inexpensive shipment of its products to domestic, CIS, Middle Eastern, North African and European markets. See also "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

- **Low labour costs.** Ukraine currently has relatively low labour costs, including lower pension obligations (which are paid by employers in the form of regular payroll-related contributions to the state pension fund), particularly when expressed in U.S.\$ and Euro as compared to some other steel producing countries and regions such as the United States, Western Europe, Japan and South Korea. In addition, Metinvest is continuously working to optimise its headcount.
- **Capital expenditures to maintain cost competitiveness.** Metinvest is investing in modern technology in order to reduce production costs and maintain its cost competitiveness. For instance, Metinvest launched a pulverised coal injection (**PCI**) unit and a new turbine air blower at the Ilyich Steel blast furnaces. At Yenakiieve Steel, Metinvest also commissioned a state-of-the-art blast furnace and started PCI injection into blast furnaces No. 5 and No. 3. These upgrades have already contributed to improvements in Metinvest's operating efficiency and reductions in its overall production costs and environmental footprint.
- **Growing geographical diversification.** Management believes that Metinvest is uniquely geographically positioned to benefit from access to the mature markets of Western Europe and North America, following its acquisitions in those regions in the last eight years. Management also believe this places Metinvest in a strong position to access the growing markets of Eastern Europe, the Middle East and North Africa. In the long term, Metinvest may also consider expanding its steel-making and rolling capacity.
- **Access to domestic and export markets with the potential for high growth in the long term and broad product range.** Management believes that Metinvest has a leading market position in a broad range of products and expects reasonable long-term growth in export and domestic markets, including sales of iron ore and coal for the global and Ukrainian steel-producing sectors, as well as bars, rebars and sections supplied to the construction sector, plates and coils for the machine-building sector, large diameter pipes for the oil and gas sector and rails for railway infrastructure development. Management also believes that Metinvest's diversified steel product range reduces Metinvest's exposure to fluctuations in demand for any particular steel product, and accordingly its dependence on the performance of any particular steel-consuming industry.
- **Diversified end customer base.** Metinvest exports a substantial portion of its steel products to more than 1,000 customers in over 75 countries, principally in Europe, the CIS, the Middle East, North Africa and South East Asia. Sales outside Ukraine accounted for 79 per cent. of Metinvest's total Metallurgical segment sales in the year ended 31 December 2015. Metinvest's customers operate in a number of industries, including steel-making, construction, engineering, oil and gas and automobile production. Management believes that Metinvest's diversified customer base contributes to the stability of its revenue base and margins, provides it with additional growth opportunities (in particular in the developing markets of the Middle East, South East Asia, the CIS and China) and reduces Metinvest's reliance on the economy of any single market or performance of any particular industry.
- **Experienced management team.** Metinvest's senior management team combines extensive industry and market experience with financial and management expertise, and includes individuals who have been involved in Metinvest's business for an average of between five and ten years. At the operational level, Metinvest has developed, and continues to refine, an improved management structure that is focused on enhancing accountability and decision-making processes. Equipped with international experience and advanced business qualifications, the management team's ability to improve the performance of the Issuer's assets is evidenced by Metinvest's increased operating efficiency implemented through various cost

reduction measures despite the highly volatile current operating environment (see *Management—Metinvest's General Director and Management Team*" below).

- **Strong corporate governance.** Metinvest recognises the importance of strong corporate governance and aims to develop its corporate structure in accordance with international best practices. The Issuer has a supervisory board (the **Supervisory Board**), which advises the Management Board and is responsible for approving a number of significant decisions related to the Group's operations, including Metinvest's long-term business strategy and annual business plans. The Supervisory Board currently consists of ten members, of whom seven are appointed by the joint meeting of System Capital Management Limited and Clarendale Limited, and three by companies of the SMART Group. In line with best practices in corporate governance, the Supervisory Board has several committees including the Strategy and Investments Committee, Audit and Finance Committee, Health, Safety & Environmental Committee and the Appointments and Compensations Committee and the Technological Sub-committee.

Strategy

Set out below is an overview of Metinvest's medium- to long-term strategy, which is subject to the stabilisation of the ongoing civil disturbances and political instability in Ukraine and the military action in some parts of the Donetsk and Luhansk regions of Ukraine (see "*Recent Developments*" for further detail).

- **Sustaining a competitive advantage in steel-making by increasing operational efficiency and vertical integration.** Metinvest intends to seek competitive advantage and to enhance its profitability and security of supply by increasing vertical integration through the following means.
 - ***Increasing operational efficiency and achieving best practices in steel-making through focused investments in advanced technologies.*** Metinvest plans to maximise the efficiency of its operating facilities and use of resources through the use of advanced know-how and operating efficiency projects to increase production volumes, improve quality, reduce emissions and costs, and enhance safety:
 - ***Investing in new, state-of-the-art steel-making technologies.*** Metinvest invests in new, state-of-the-art steel-making technologies. For example, Metinvest commissioned a PCI unit at Ilyich Steel in 2012 and started precommissioning a PCI unit at Yenakieve Steel and commenced a PCI project at Azovstal in 2016. Metinvest plans to reconstruct blast furnaces and commission PCI units at all of the Group's steel plants, which is expected to considerably reduce the consumption of natural gas and coke by replacing them with cheaper PCI coal (imported from Russia or other countries), help maintain furnace stability and improve the quality of hot iron. As a result of the implementation of PCI technology and the consequent decrease in coke consumption, Metinvest decommissioned three coke batteries at Azovstal. In 2015, Metinvest completed the installation of a state-of-the-art gas cleaning system at Azovstal's blast furnace No. 4, which brings emissions from the furnace in line with EU standards. Metinvest plans to continue to invest in energy-saving projects, including PCI technology. However, in order to sustain this strategy in the short term, Metinvest plans to prioritise fast-payback projects (such as PCI).
 - ***Further modernisation of the existing asset base.*** Metinvest intends to invest in existing assets to optimise production processes, the diversity of the product mix and its cost competitiveness. For example, Metinvest installed accelerated cooling at the Azovstal plate mill and constructed new turbine air blowers for blast furnaces at Ilyich Steel and Yenakieve Steel. As part of its modernisation programme, Metinvest has decommissioned inefficient open-hearth furnaces and implemented various operational improvements at Azovstal's converter shop, which allowed debottlenecking of its existing converter capacity and resulted in an increase in its productivity. Metinvest decommissioned six furnaces and halted an open-hearth production at Ilyich Steel in 2014, which led to a decrease of nitrogen compounds by approximately 68 per cent. and dust emissions by approximately 12 per cent. at the plant. Metinvest envisages casting all of its steel using continuous-casting machines and discontinuing the use of ingot casting. It also intends to upgrade steel rolling mills in order to reduce costs, optimise energy consumption, reduce emissions and enhance product quality. For example, modernisation of Ilyich Steel's cold rolling shop and hot strip mill should enable Metinvest to increase production and expand its product mix to include polymer coated sheets and other

products. Metinvest also plans to install or reconstruct heating furnaces at its steel plants to optimise energy consumption and reduce emissions.

- ***Continue improving Metinvest's self-sufficiency in raw materials.*** Metinvest seeks to increase and diversify its captive base for high-quality coking coal, which is an important factor in strengthening its vertical integration. Metinvest also seeks to pursue efficient supply strategies for other key raw materials including high-quality coking coal, PCI coal, ferroalloys and scrap. Due to the continuing civil disturbances and political instability in Ukraine and the resulting shortages in local coking coal supply, Metinvest plans, in the short term, to diversify its coal supply from outside Ukraine, including increasing amounts sourced from United Coal.
- ***Increase production capacity by growing organically and by pursuing selective acquisition opportunities.*** Metinvest seeks, in the long term, to increase its production capacity by growing organically and by pursuing selective acquisition opportunities. Metinvest intends to enhance its cost competitiveness by maximising the utilisation of its existing capacity, by expanding the capacity of its steel and coking coal production facilities and optimising production of iron ore concentrate. For example, a PCI unit launched at Ilyich Steel has contributed to improvements in Metinvest's operating efficiency and reductions in overall production costs and the facility's environmental footprint. Metinvest also plans to increase its cost efficiency by commissioning a PCI unit at Yenakiieve Steel and building a PCI unit at Azovstal, as noted above. In the long-term, Metinvest expects to continue its structured approach to acquisitions to facilitate its strategy of vertical integration and improving its steel product mix. In its core business areas, Metinvest may consider acquisition opportunities to gain access to additional sources of raw materials or to production facilities with higher-margin products.
- ***Establish and sustain a continuous improvement culture.*** Metinvest is committed to establishing a culture of continuous improvement. In 2015 and 2016, it continued implementing its Continuous Improvement Programme (CIP) based on Lean principles. The aim of the CIP is to train and incentivise employees to identify and eliminate inefficiencies. The targeted improvements focus on repair and maintenance optimisation, productivity, cost reduction, quality improvement and working capital optimisation. In 2015, the effect of operational improvements amounted to U.S.\$169 million in the Metallurgical segment and U.S.\$32 million in the Mining segment.
- ***Increase personnel productivity.*** Metinvest seeks to increase its operating efficiency by managing headcount, outsourcing non-core operations (such as repair and maintenance and other support functions) and streamlining administrative structures.
- ***Strengthening its position in key strategic markets.*** Metinvest intends to strengthen its position in key strategic markets by focusing on finished products and differentiating finished products for particular requirements. This is expected to result in broader product lines, increasing sales in markets with strong demand for finished products, and enhanced long-term customer relationships and service. Despite the continuing civil disturbances and political instability in Ukraine resulting in decreased activity and uncertainty in certain strategic markets, this strategic objective remains important for Metinvest.
- ***Increasing its focus on finished products.*** As part of its Technological Strategy, Metinvest plans to further improve the quality of its steel products and to increase production of heavy sections and coated coils, increasing its focus on products that yield higher margins and have higher barriers to entry.
- ***Increasing sales of steel products in the domestic and regional markets.*** Metinvest is well-positioned to capitalise on expected growth in demand for finished products in the domestic and regional markets in the long term. It intends to further strengthen its positions in these markets by expanding its distribution network and increasing its sales of higher margin, value-added finished products, which accounted for 73 per cent., 63 per cent. and 66 per cent. and of its product portfolio in the first six months of 2016 and the years ended 31 December 2015 and 2014, respectively. In particular, Metinvest is focused on increasing steel sales in Ukraine and neighbouring markets, where historically there has been a strong demand for finished products. Despite the slump in demand in the domestic market in 2015 to the lowest level since Ukraine became independent from the Soviet Union, the Ukrainian market remains important to Metinvest. In 2015, Metinvest established representative sales offices in Poland and Spain. These offices will focus on strengthening cooperation with Metinvest's local steel product customers in a more

responsive and efficient manner. Moreover, Metinvest intends to re-organise its sales channels in Ukraine in order to create a single sales channel for its buyers. As part of the reorganisation, Metinvest-SMC will become the core seller of steel products. Metinvest Ukraine, LLC, which previously managed wholesale deliveries to end customers, will focus on niche products.

- ***Building long-term customer relationships and delivering high-quality customer service worldwide.*** Metinvest seeks to become the preferred supplier of steel products for its key customers by building long-term relationships through long-term framework contracts, as well as targeting key industries and markets, integrating its products with end-users, providing customer technical support and strengthening the Metinvest brand by continuing to build a reputation for quality and reliability. Specifically, Metinvest was a co-founder of The Ukrainian Steel Construction Association (**UkrSCA**) in 2013. The creation of UkrSCA is intended to contribute to the development of the domestic steel market. Metinvest, as a member of the Ukrainian Steel Construction Centre (**USCC**), is actively involved in the expansion of the steel construction market. In addition, USCC has introduced European standard documentation which is compliant with EU construction standards. In 2015, Metinvest and Module-Ukraine, LLC, a leading Ukrainian producer of coated steel, concluded a long-term agreement to develop the colour-coated rolled steel market. Also, Metinvest commissioned a new shot blasting and priming facility at Metinvest Tramel, an Italian re-rolling operation of the Group specialising in the production of hot-rolled plates. The line was put into serial production following the completion of performance tests at the end of March 2016.
- ***Achieving business excellence through the systematic use of outstanding practices in managing the Group and achieving results.*** Metinvest seeks to manage its operations more efficiently by transforming its operating model, creating a unified corporate culture of employee commitment and efficient business processes and maintaining transparency of operations and corporate responsibility.
- ***Developing a new operating model.*** Metinvest believes that leveraging the advantages of integration is the key to market leadership. Metinvest aims to manage every link in the value chain: from mining and processing iron ore and coal to making and selling semi-finished and finished steel products. Metinvest established a new Operations Directorate based on its Mining and Metallurgical Segments on 1 September 2016. This merger is the final step in the process of building a vertically integrated group under the Technological Strategy approved in 2010. The core objective of the transformation is to ensure close cooperation between the Group's mining and metallurgical production assets and centralise the management of all production processes. This organisational structure also prioritises client relationships by merging Metinvest's segmental sales units into a single sales function, whose head will report directly to the General Director. Metinvest has also centralised its other functions, such as procurement and logistics, into a supply chain function within the managing company. Metinvest implemented a centralised Sales and Operational Planning function, which is intended to provide Metinvest with a more efficient and transparent planning process, and help it to identify and implement cost-effective solutions.
- ***Creating a unified corporate culture and maximising employees' commitment.*** While operating in multiple locations, Metinvest seeks to create a unified corporate culture. Metinvest launched the Corporate University, a unified training system for Metinvest's personnel, and the Leadership Academy, a specialised development programme for high-potential managers. Both are tailored to Metinvest's strategy of seeking to unify its corporate culture. Metinvest is also developing its talent management system. For example, at Azovstal, selected key managers were seconded to leading producers in South Korea and Germany. Metinvest continues implementing a series of human resources programmes to train production workers in the use of new technologies and development of their leadership skills, which is expected to improve the skills of line managers, and improve the transparency of personnel performance evaluations and the remuneration policy.
- ***Creating unified and efficient business processes.*** Metinvest is standardising and automating its business processes through enhancements to its data processing (**SAP**) and enterprise resource planning system (**ERP**). Having installed a SAP framework and completed the concept design for pilot implementation, Metinvest is implementing a SAP system at certain of its plants (Ingulets GOK, Central GOK, Ilyich Steel).
- ***Maintaining transparency of operations and corporate responsibility.*** Metinvest intends to continue to retain and build an experienced and motivated professional management team and maintain the transparency and efficiency of its management system through high corporate

governance standards and setting and retaining key performance indicators. Metinvest also publishes social responsibility reports within the framework of its global reporting initiative, which provides details of how Metinvest fulfils its responsibilities as a corporate citizen by engaging in a variety of activities that contribute to the creation of a better society.

History

The Issuer was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or B.V.) on 21 May 2001 under the laws of The Netherlands and has its corporate seat (*statutaire zetel*) in Rotterdam, The Netherlands. Its registered address is Nassaulaan 2A, 2514 JS, 'S-Gravenhage, The Netherlands.

In October 2004, as part of a comprehensive reorganisation of the SCM Group, the Issuer became the ultimate holding company of the Metinvest group. The main purpose of the restructuring was to streamline the various businesses of the SCM Group by establishing separate holding companies for each major area of the SCM Group's operations with the aim of increasing the value of each business and improving transparency and corporate governance across each business line. The Issuer was designated as a holding company for the SCM Group's mining and steel business and was wholly owned by the SCM Group until November 2007. The majority of the entities within newly-formed Metinvest had been controlled by the SCM Group since the early 2000s. As a result of the reorganisation, the SCM Group transferred to the Issuer direct or indirect control over all of its steel, iron ore, coal and coke production assets, as well as related sales and logistics companies.

In 2007, the Issuer acquired 82.46 per cent. of the share capital of Ingulets GOK.

In 2008, the Issuer, indirectly through its subsidiaries, completed the acquisition from the Malacalza family of the entire equity interest in Metinvest Trametal, located in Italy, and its wholly-owned subsidiary Spartan UK, located in the United Kingdom. These acquisitions were undertaken in order to expand Metinvest's operations in Western Europe, which previously comprised an Italian rolling mill, Ferriera Valsider. These acquisitions increased Metinvest's annual plate production capacity by 0.8 million tonnes and its Western European annual flat products production capacity reached 1.2 million tonnes.

In 2007, the SCM Group negotiated a transaction with SMART whereby SMART was to acquire veto rights over the management of the Issuer (through the acquisition of one additional share in the share capital of the Issuer) and the right to appoint three (out of ten) members of Metinvest's Supervisory Board and Metinvest was to acquire control over Makiivka Steel and Promet Steel. The transfer of shares in Promet Steel was completed in December 2009 following the receipt of approvals from competition authorities in various jurisdictions. Metinvest also acquired control over Makiivka Steel through the right to appoint the members of Makiivka Steel's management. In October 2010, Metinvest acquired 90.18 per cent. of the share capital of Makiivka Steel.

In 2008, Metinvest acquired 100 per cent. of the share capital of Inkor Chemicals, the only producer of refined naphthalene, phenols and cresols in Ukraine and one of the largest producers of naphthalene in Europe.

In 2009, Metinvest acquired 100 per cent. of the share capital of United Coal, a coal producer located in the United States.

In 2010, Metinvest transferred its entire interest in the share capital of Kryvyi Rih Central Mining Machines Repairing Plant, Kryvyi Rih Central Mining Equipment Plant, Avlita and Marine Industrial Complex to the SCM Group. It also acquired, through a series of transactions, a 96 per cent. effective interest in the share capital of Ilyich Steel. During 2011-2016, Metinvest's effective interest in the share capital of Ilyich Steel increased from 96 per cent. to 99.3 per cent. As part of the acquisition of Ilyich Steel, Metinvest also acquired control over Komsomolske Flux (a large Ukrainian producer of limestone), Kindrativka Refractory Plant (a Ukrainian producer of refractory materials) and a number of ancillary enterprises. In November 2011, Metinvest transferred its entire interest in the share capital of certain agricultural and other companies that it had acquired together with Ilyich Steel to LLC Harvest Holding, which is part of the SCM Group. Metinvest also transferred its entire interest in the share capital of Kindrativka Refractory Plant to a third party buyer. Metinvest is also in the process of divesting certain other non-core businesses owned by Ilyich Steel.

In July 2011, Metinvest, jointly with two other investors, acquired from a group of sellers, known as the Industrial Group, a 50 per cent. interest in the Industrial Group's steel and mining business (the **Zaporizhstal Group**). The Zaporizhstal Group's holdings included a majority interest in JSC Zaporizhstal Integrated Iron & Steel Works (**Zaporizhstal**), one of the largest steelmakers in Ukraine, and significant stakes in various other entities engaged in the steel and mining sector in Ukraine, including JSC "Zaporizhya Iron Ore Plant", JSC "Zaporozhkoks" (**Zaporizhia Coke**) and PJSC "Zaporozhneupor" (**Zaporizhia Refractories**). In July 2012, Metinvest exercised its option (acquired from the Industrial Group in August 2011 for a consideration of U.S.\$30 million) to purchase the remaining 50 per cent. stake in the Zaporizhstal Group for U.S.\$300 million. In August 2012, Metinvest acquired a further 24.9 per cent. interest in the Zaporizhstal Group from one of its co-investors in the initial 2011 transaction for U.S.\$212 million. As a result of these and other related transactions in 2011-2012, Metinvest accumulated an aggregate interest of 99.8 per cent. in the Zaporizhstal Group, including an indirect interest of 49.9932 per cent. in Zaporizhstal. The total consideration paid by Metinvest for its interest in the Zaporizhstal Group was U.S.\$750 million. As at 31 December 2012, Metinvest's investment in Zaporizhstal was classified as a joint venture due to the fact that strategic financial and operating decisions require participation of and consents from the other shareholders of Zaporizhstal. As of the date of these Listing Particulars, Metinvest has no definitive plans to increase its equity interest in Zaporizhstal.

In 2012-2013 Metinvest completed a number of acquisitions, including:

- a 9.99 per cent. stake in Yenakiieve Coke;
- a 85.21 per cent. stake in Belgorodmetalloznab, a scrap metal and warehouse logistics company located in Russia;
- a 43.7 per cent. interest in the share capital of Zaporizhia Refractories;
- a 4.73 per cent. interest in the share capital of Promet Steel;
- a 23.5 per cent. interest in the share capital of Central GOK;
- a 15.0 per cent. interest in the share capital of Northern GOK;
- a 3.1 per cent. interest in the share capital of Ingulets GOK;
- a 26.0 per cent. interest in the share capital of Zaporizhia Coke; and
- a 55.1 per cent. interest in the share capital of Donetsk Coke and 40.0 per cent. of the share capital of Yenakiieve Coke.

In order to develop an international network of Sales & Distribution Metinvest formed Limited Liability Company Metinvest Distributsiya (**Metinvest Distribution**) in Belarus, Metinvest Singapore PTE. Ltd. in Singapore, Metinvest Carpathia S.R.L. in Romania; Metinvest Iberica, SL in Spain and Metinvest Polska sp. z o. o. in Poland from November 2013 to June 2015.

In June 2013, Metinvest incorporated Limited Liability Company "Metinvest Mariupol Machining and Repair Plant" as a new company registered in Ukraine to provide maintenance and repair services to Metinvest's metallurgical assets located in Mariupol.

In July 2013, Metinvest signed development agreements with Black Iron, pursuant to which it invested an initial amount of U.S.\$20 million in the development of the Shymanivske Project and the Zelenivske Project during the period of April to July 2014 by subscribing for a 49 per cent. interest in the share capital of the holding company of Black Iron (Cyprus) Ltd (**BKI Cyprus**). In 2014, the Group acquired a 36 per cent. interest in BKI Cyprus for U.S.\$15 million and an additional 13 per cent. interest in BKI Cyprus for U.S.\$5 million. As a result of these transactions, the Group held a 49 per cent. interest in BKI Cyprus. In January 2016, Metinvest sold its entire interest in the share capital of BKI Cyprus to a third party buyer.

In September 2013, Metinvest acquired Limited Liability Company "Diprometz" which was then renamed Limited Liability Company "Metinvest Engineering" and which provides engineering services to the Metinvest group.

In October and November 2013, Metinvest formed United Coal Finance Sarl as a new company registered in Switzerland and Metinvest Investments Limited and Metinvest Capital UK Limited as new companies registered in the United Kingdom to carry out financial transactions.

In February 2014, MetalUkr Holding Limited (Cyprus), which is wholly owned by Metinvest, transferred 78.31 per cent. of Northern GOK, 99.48 per cent. of Central GOK (increasing the Issuer's interest to 99.56 per cent.), 0.25 per cent. of Azovstal (increasing the Issuer's interest to 74.5 per cent.) and 1.21 per cent. of Khartsyzsk Pipe (increasing the Issuer's interest to 93.0 per cent.) to Metinvest as part of the ongoing restructuring.

In June 2014, the Issuer acquired 99 per cent. interest in Metinvest Eurasia, LLC from Metinvest International.

In July 2014, Metinvest acquired 1.89 per cent. of the share capital of Northern GOK from SCM Holdings.

In July 2014, the SCM Group and SMART completed the merger of their metals and mining assets under Metinvest (which started in 2007) pursuant to the terms of a shareholders agreement dated 7 July 2014. SMART contributed to the statutory capital of Metinvest 100 per cent. of the shares in Trosilia Holdings Ltd. (Cyprus), which indirectly owns 44.78 per cent. of the shares in Southern GOK. Metinvest also holds a direct interest of 0.79 per cent. in Southern GOK, which it acquired from shareholders of Evraz group in June 2014. Furthermore, an additional class B share was issued in July 2014 for the benefit of SMART. As a result, SCM Cyprus' interest in the Issuer is now 71.24 per cent. and SMART's interest is 23.76 per cent. The remaining 5 per cent. interest in the Issuer in the form of class C shares 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 Group to dispose of the remaining 5 per cent. interest (after receiving any required governmental approvals), such that the ultimate beneficial interest of SCM in the Issuer will be 75 per cent. minus 1 share, and the ultimate beneficial interest of SMART Group in the Issuer will be 25 per cent. plus 1 share.

In the years 2014-2015, Metinvest also incorporated a number of companies, including:

- Limited Liability Company "Metinvest Business Services", a new company registered in Ukraine to provide accounting services to the Metinvest group;
- Limited Liability Company "Metinvest-Promservice", a new company registered in Ukraine to provide maintenance and repair services to the Metinvest group;
- Limited Liability Company "Metinvest Finance", a new company registered in the Russian Federation to carry out trading and financial transactions;
- Limited Liability Company "Social Initiatives Krivoy Rog", a new company registered in Ukraine to implement the Group's social responsibility programmes in Kriviy Rig; and
- a UK branch of Metinvest B.V.

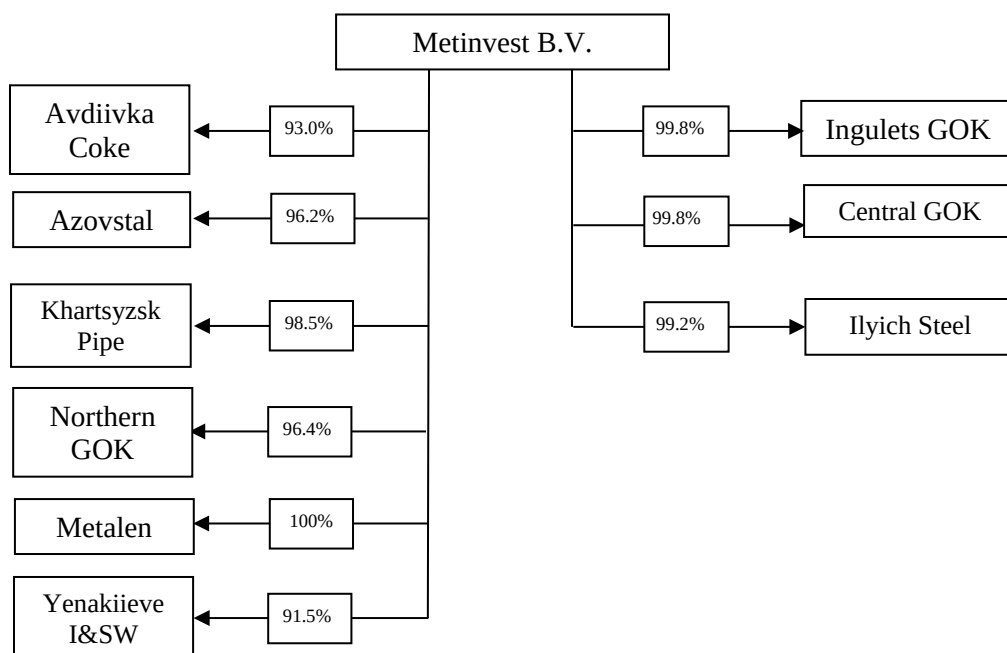
In August 2015, the Issuer transferred a 50 per cent. interest in Metinvest U.S., Inc. to Metinvest Holding B.V.

In December 2015, the Issuer acquired a 50 per cent. interest in Acretrend Holdings Limited, Mint Data Holdings Limited and Strettonway Traders & Consultants Limited from Trosilia Holdings Ltd.

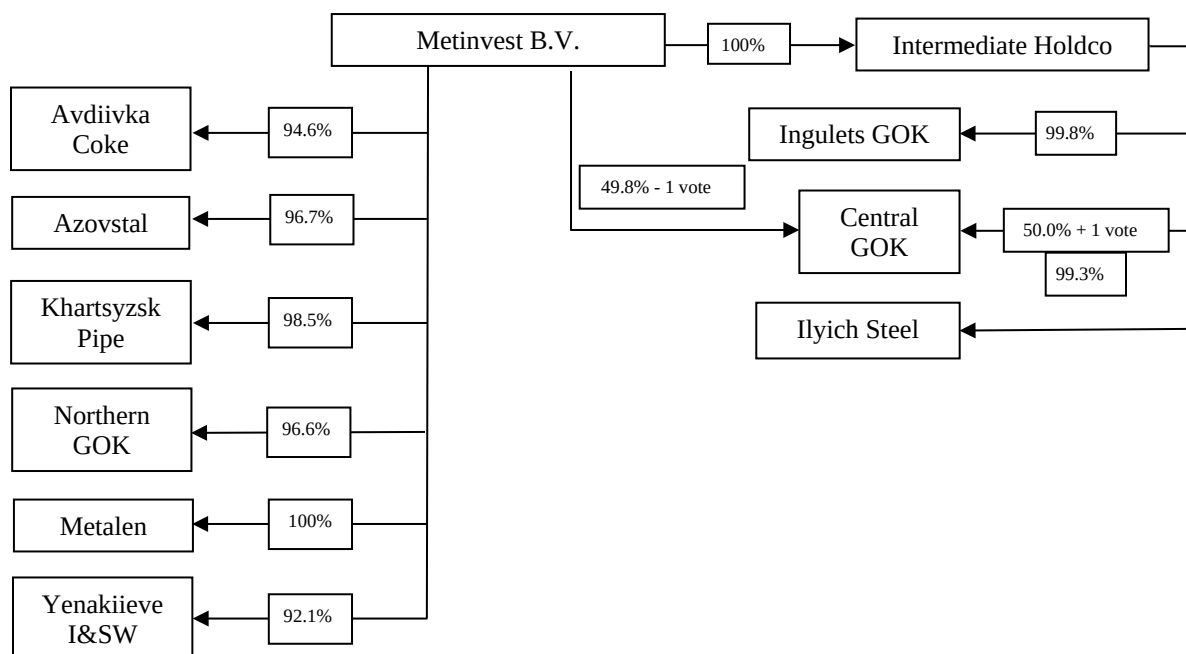
See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions and Disposals" for further information on Metinvest's acquisitions and disposals.

Operational Structure

The following diagram shows a simplified summary of the Group's corporate structure and Issuer's beneficial ownership in each of the Guarantors as of 30 June 2016:

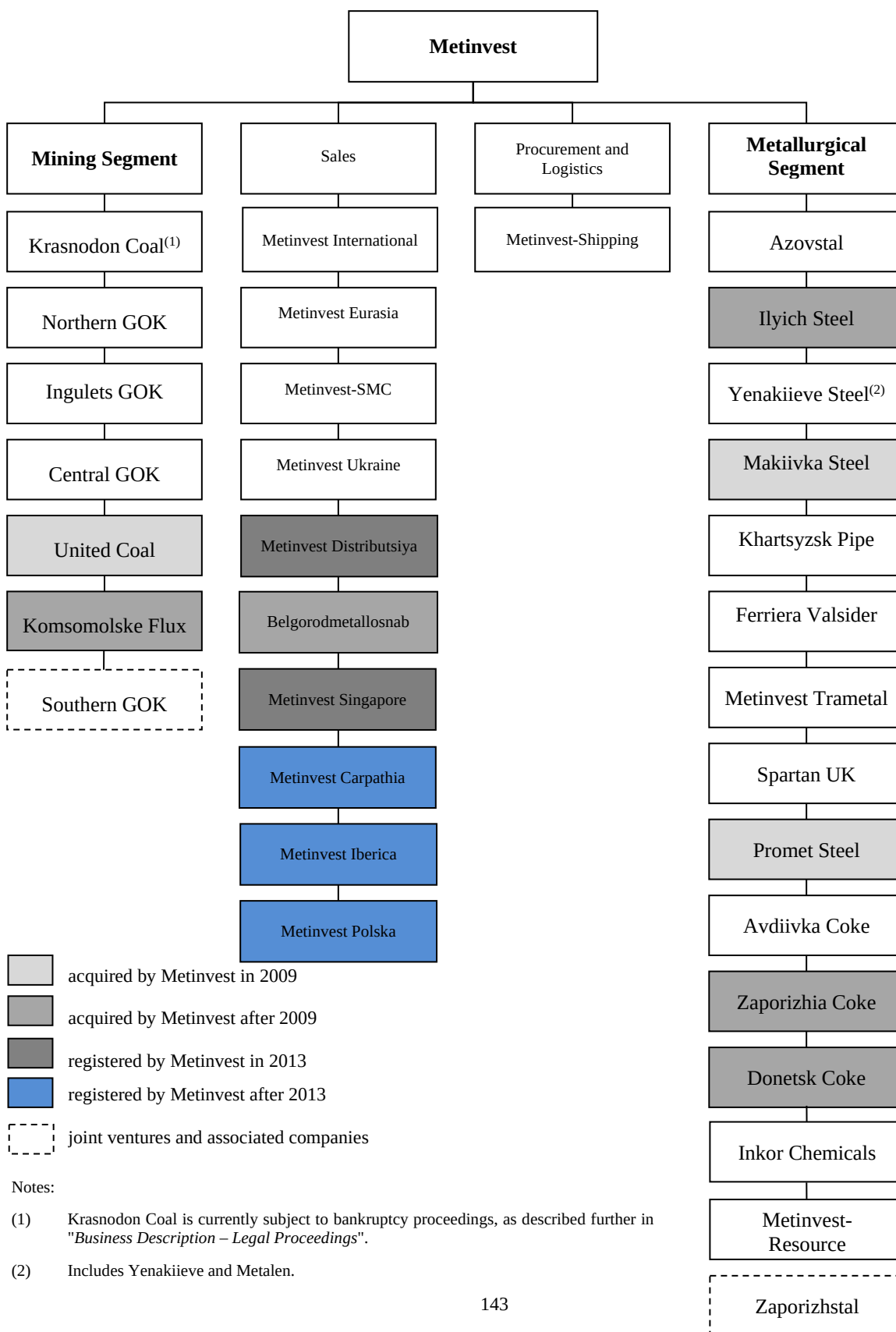


The following diagram shows a simplified summary of the Group's expected corporate structure and Issuer's beneficial ownership in each of the Guarantors at the time of issuance of the Notes, reflecting the establishment of the sub-holding company Private Company with Limited Liability Metinvest Management B.V., a company registered in The Netherlands (**Intermediate Holdco**). The Issuer has pledged its share in the Intermediate Holdco, and the Intermediate Holdco has pledged 50 per cent. plus one share in each of Ingulets GOK, Ilyich Steel and Central GOK. See "General Information—Information Relating to the Guarantor and Pledges" and "Description of Indebtedness and the Third Scheme".



Metinvest's Reporting Segments

Metinvest's reporting segments are organised in line with its strategy of vertical integration. Metinvest reports two segments (Metallurgical and Mining), reflecting its focus on finished goods. The metallurgical segment concentrates on the production of steel and coke, while the mining segment oversees the development of raw material enterprises and logistics. The production assets within these reporting segments are supported by trading and logistics assets. The chart below shows the material subsidiaries assigned to each of Metinvest's reporting segments as well as material sales, procurement and logistics Group companies that support these production assets, as of the date of these Listing Particulars.



Metallurgical Segment

Metinvest's metallurgical segment is responsible for its steel and coke products. Metinvest conducts its steel business primarily through the Azovstal, Ilyich Steel and Yenakiieve Steel metallurgical plants, the Ferriera Valsider plates and coils mill, the Metinvest Tramelal and Spartan UK plate mills, the Promet Steel and Makiivka Steel shapes and bars mills and the Khartsyzsk Pipe production plant. Metinvest conducts its steel trading and distribution businesses through Metinvest International, Metinvest Eurasia, Metinvest Distribution and Metinvest-SMC. The metallurgical segment also comprises coke-producers Avdiivka Coke, Zaporizhia Coke and Donetsk Coke as well as chemical-producer Inkor Chemicals.

Mining Segment

Metinvest conducts its iron ore extraction and processing business primarily through Northern GOK, Ingulets GOK and Central GOK. Metinvest conducts its coal business principally through Krasnodon Coal and United Coal.

Operations Directorate

Metinvest established a new Operations Directorate based on its Mining and Metallurgical Segments on 1 September 2016 to ensure close cooperation between the Group's mining and metallurgical production assets and centralise the management of all production processes.

Steel Business

Overview

The following table sets forth Metinvest's sale volumes of its products for the periods indicated:

	Year ended 31 December 2015	Six months ended 30 June 2016
	<i>(million tonnes)</i>	
Semi-finished products ⁽¹⁾	2.9	1.2
Flat products ⁽¹⁾	6.7	3.5
Long products.....	1.6	0.9
Coke and chemical products	2.0	1.0

Note:

(1) Including Zaporizhstal re-sales.

The following table sets forth Metinvest's geographical split of product sales by volume for the periods indicated:

	Year ended 31 December 2015	Six months ended 30 June 2016
	<i>(per cent.)</i>	
Europe	41	40
Middle East and North Africa	27	25
CIS	8	8
South East Asia	4	2
North America	2	5
Other regions	1	1
Ukraine	17	19

Metinvest's integrated model enables it to benefit from lower production costs compared to some of its competitors elsewhere in the world. In particular, Metinvest is self-sufficient in iron ore for its steel operations. Metinvest's iron ore and coal-mining assets are located close to its steel-producing assets. This enables Metinvest to benefit from a secure supply of key raw materials and also from relatively low raw material transportation costs. Metinvest controls most of its own logistics, including owning and operating some of its own railcars, and also benefits from access to relatively low-cost sea and rail transport.

Products

The table below shows Metinvest's consolidated sales attributable to its principal metallurgical products for the periods indicated:

	Year ended 31 December 2014			Year ended 31 December 2015			Six months ended 30 June 2016		
	U.S.\$ million	thousands of tonnes	% of revenues	U.S.\$ million	thousands of tonnes	% of revenues	U.S.\$ million	thousands of tonnes	% of revenues
Semi-finished products	1,324	2,826	16%	880	2,880	16%	302	1,197	13%
Pig iron.....	490	1,226	6%	379	1,467	7%	144	639	6%
Slabs.....	483	916	6%	274	782	5%	96	343	4%
Square billets.....	351	684	4%	228	631	4%	62	215	3%
Finished products	6,004	9,788	74%	3,857	8,354	71%	1,731	4,413	76%
Flat products	4,550	7,583	56%	3,084	6,726	57%	1,364	3,507	60%
incl. Zaporizhstal.....	1,557	2,794	19%	1,098	2,659	20%	454	1,372	20%
Long products.....	1,216	1,965	15%	710	1,562	13%	367	905	16%
Tubular products.....	237	240	3%	63	66	1%	0	1	0%
Coke products	290	1,664	4%	318	1,693	6%	78	566	3%
Other products and services	548	N/A	7%	351	N/A	6%	179	N/A	8%
Total Segment Sales	8,165	14,764	100%	5,407	13,268	100%	2,290	6,176	100%

Notes:

- (1) Including: (i) metal products purchased from third parties; and re-sales of products purchased from Zaporizhstal.
- (2) Including logistics.

Metinvest's sales outside Ukraine primarily comprise shapes and bars sold to the construction sector, rolled products generally sold to the shipbuilding and machine-building sectors and pipes for oil and gas production and transportation. In Ukraine, Metinvest sells the majority of its steel products to the construction, railway and pipe-manufacturing sectors. Following its acquisition of Ilyich Steel in 2010, Metinvest has made certain changes to its product mix, for example, increasing its production of coils and flat products and reducing its production of semi-finished products, in order to achieve higher margins.

Production Facilities

Metinvest primarily produces slabs, plates, shapes, rails and bars at Azovstal, billets, shapes and bars at Yenakiieve Steel and pig iron, slabs, plates, coils and pipes at Ilyich Steel. Metinvest also produces plates and coils at Ferriera Valsider, plates at Metinvest Tramatel and Spartan UK, shapes and bars at Makiivka Steel and Promet Steel, and large diameter pipes at Khartsyzsk Pipe.

Azovstal

Azovstal is located in Mariupol, approximately six kilometres from Mariupol port. Azovstal owns and operates a marine transportation facility at Mariupol, which provides cabotage transportation of goods from Azovstal to Mariupol port and other Black Sea ports. In the six months ended 30 June 2016 and the year ended 31 December 2015, Azovstal produced 41.8 per cent. and 43.2 per cent. of Metinvest's total crude steel production, respectively.

The supply of raw materials to Azovstal was disrupted when railway lines were partially destroyed due to military action in the Donetsk region. As a result of this and the weak market conditions generally, management estimates that Azovstal is currently operating at approximately 60 per cent. of its total capacity. See also "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

History

Azovstal was established in 1930 as a state-owned enterprise to supply steel to the developing pipe, heavy machinery and shipbuilding industries in the former Soviet Union. Construction of Azovstal's facilities began in 1930. During the period between 1948 and 1953, a complex of rolling mills for the production of rails, heavy shapes and sections was constructed and as a result, Azovstal became one of the first Ukrainian integrated iron and steel manufacturers. In 1973, a 3,600 plate steel mill was commissioned and in 1977 the basic oxygen furnace steel-making plant was put onstream. In 1981, the electric furnace steel-making plant commenced operations. However, production at the electric furnace steel-making plant was discontinued in 1994, due to insufficient demand for the special-purpose alloy steel produced at that plant.

In October 1996, pursuant to an order of the State Property Fund of Ukraine (**SPF**), Azovstal was transformed into an open joint stock company, with the SPF and Azovstal's Organisation of Leaseholders (a cooperative comprising its management and employees) holding 62.1 per cent. and 37.9 per cent., respectively, of Azovstal's share capital. In 1997, Azovstal's Organisation of Leaseholders established Joint Stock Company Trade House "Azovstal" (**THA**) and contributed its entire shareholding in Azovstal to the share capital of THA. Following an increase in Azovstal's share capital in June 1998, the SPF's interest decreased to 56.5 per cent. and the THA's interest increased to 43.5 per cent. of Azovstal's share capital.

Pursuant to Azovstal's privatisation plan (approved by the SPF on 28 October 1996), the SCM Group acquired 25 per cent. of the share capital of Azovstal from the SPF. The remainder was acquired by Azovstal's employees and management, and also by Server Management Ltd. and Leman Commodities S.A. Lehman Commodities S.A. was later acquired by the SCM Group.

By January 2003, the SCM Group's interest in THA increased to 74.8 per cent. In 2005, Azovstal acquired Open Joint Stock Company Markokhim Coke Plant. Following the reorganisation of the SCM Group, Metinvest now owns 96.2 per cent. of the shares of Azovstal.

Facilities

The following table shows a breakdown of Azovstal's main production facilities by unit for the years indicated:

			Production		
		Annual Production Capacity	Year Ended 31 December		Six months ended 30 June 2016
Main Facilities			2014	2015	
(thousands of tonnes)					
Coke Plant	3 batteries ⁽¹⁾	1,543 ⁽²⁾	1,169	1,237	578 ⁽³⁾
Blast Furnaces ⁽⁴⁾	4 furnaces	4,619	3,151	2,825	1,552
Basic Oxygen Furnaces.....	2 furnaces	5,293	3,599	3,206	1,809
Continuous Casting ⁽⁵⁾	4 slab casters	4,683	2,949	2,732	1,515
Steel Ingots	3 casting platforms	N/A	650	474	294
Plate Mill ⁽⁶⁾	Mill 3600 3 stands	2,083	819	658	328
	Reversing mill stand				
Rail and Structural Mill ⁽⁷⁾	1,000 and 3 stand mill 800	1,490	213	114	112
	Stand 800 and 3 stand				
Heavy Section Mill.....	mill 650	1,101	317	279	126
Rail Fasteners Mill	6 production lines	228 ⁽⁸⁾	7	7	3
Grinding Ball Mill.....	2 mills	170 ⁽⁸⁾	117	112	54

Notes:

- (1) Metinvest closed coke batteries No. 5, No. 6 and No. 7 in 2012.
- (2) Moist wharf coke, a finished coke product containing 6.0 per cent. moisture, which was discharged from a coking battery, normalised to shipping temperature (quenched with water and processed with inert gas) and not screened.
- (3) Dry coke is produced by the destructive distillation of coal in coke ovens and is used primarily in the manufacture of pig iron.
- (4) From 2014 to 2016, Metinvest carried out extensive capital repairs of blast furnace No. 4 (2nd grade). The blast furnace was put into operation in March 2016. Metinvest then proceeded to implement pulverised coal injection technology at blast furnace No. 4 and is planning to implement the same technology at the other furnaces. Metinvest is planning to introduce iron ore raw materials screening technology, which will be implemented during the reconstruction of blast furnaces which are specified in the Technological Strategy. In November 2015, due to a lack of orders, blast furnace No. 3 (with production volume of 1,800 cubic metres and annual production capacity of 1.1 million tonnes) was put out of operation. Capital repairs of the above mentioned blast furnace with revamping elements (furnace stack and the installation of an aspiration system at the casting yard and skip pit (in a similar way to blast furnace No. 4)) are planned throughout 2017 in order to introduce PCI. See "*Metallurgical Segment Investment Programme*".
- (5) Metinvest reconstructed continuous casting machine No. 5 (replacement of mould and oscillator) and intends to reconstruct continuous casting machine No. 3 into a bloom caster.
- (6) Metinvest constructed an accelerated cooling system in plate mill No. 3600 in 2012. See "*Metallurgical Segment Investment Programme*".
- (7) Metinvest is planning to reconstruct the Rail and Structural Mill.
- (8) Design capacity value is provided.

Azovstal operates an integrated steel production plant located on a site of approximately 1,000 hectares. Azovstal has a right of permanent use over 967 hectares and all of its production facilities are located on this land, except for its chemical-recovery manufacturing platform and filtration station, which are located on leased land. Azovstal leases the remainder of the land. The production plants consist of coke and chemical production facilities, five blast furnaces, steel-making facilities (basic oxygen furnaces) and several rolling mills.

Coke production. The coke plant currently consists of three coking batteries with an aggregate annual production capacity of 1.5 million tonnes of wharf coke with a moisture content of 6.0 per cent. Azovstal produced 0.6 and 1.2 million tonnes of wharf coke with a moisture content of 6.0 per cent. in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively. Azovstal also operates coke and chemical production facilities, including plants producing coal-tar pitch, ammonium sulphate, crude benzol and gas sulphur.

Azovstal commissioned new coke batteries No. 3 and No. 4 in 2003 and 2006, respectively. Azovstal closed the (outdated) battery No. 8 in 2006, and the (outdated) batteries No. 5, No. 6 and No. 7 in 2012. The commissioning of coke batteries No. 3 and No. 4 resulted in an increase in Azovstal's annual wharf coke production capacity by 166,900 tonnes, improvements in coke quality, a reduction in overall production costs, and a reduction in dust and carbon dioxide emissions by approximately 180 tonnes per year. The annual production capacity of each of batteries No. 3 and No. 4 is 455 thousand tonnes of wharf coke, with a moisture content of 6.0 per cent. each.

Iron production. Azovstal operates four blast furnaces with a total operating volume of 6,953 cubic metres. In 2016, after extensive capital repairs, Azovstal commissioned blast furnace No. 4 with an efficient operating volume of 2,002 cubic meters. The commissioning of the furnace was followed by the implementation of environmental measures, the regeneration of aspiration systems in the casting yards and the skip pit and the replacement of the electrostatic precipitator with a fabric filter. These improvements helped Azovstal to achieve an emission level of 20 mg/m³. In November 2015, due to the lack of orders, blast furnace No. 3 (with a production volume of 1,800 cubic metres and an annual production capacity of 1.1 million tonnes) was decommissioned.

Azovstal produces conversion iron for use in its own steel production. The aggregate annual production capacity of its four blast furnaces is 4.6 million tonnes of iron. Azovstal produced 1.6 and 2.8 million tonnes of iron in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively. Azovstal's iron production by-products are used by its other production facilities. For example, slag is used to manufacture construction materials and blast furnace gas is used as fuel for furnaces in the rolling mills and boilers of the thermal power plant and the turboblower shop.

Steel production. Until mid-2011, Azovstal produced steel at a basic oxygen furnace plant and an open-hearth plant. In May 2011, Metinvest closed its open-hearth furnaces and transferred its steel production to basic oxygen furnaces. The basic oxygen furnace plant comprises two top-blowing basic oxygen furnaces, a continuous casting plant with four slab casters, three steel refining units, two twin ladle furnaces and a twin vacuum degasser. Since 2011, the manufacture of open-hearth furnace steel (including rails) has been mastered in the basic oxygen furnace plant with casting into ingots. The annual production capacity of the basic oxygen plant is 5.3 million tonnes. In the six months ended 30 June 2016 and the year ended 31 December 2015, Azovstal produced 1.8 and 3.2 million tonnes of steel, including 1.5 and 2.7 million tonnes of slabs and 0.3 and 0.5 million tonnes of ingots, respectively, using its basic oxygen furnaces.

Rolling mills. The rolling mills complex comprises: a plate mill (with an annual production capacity of 2.1 million tonnes), a rail and structural steel mill (with an annual production capacity of 1.5 million tonnes), a heavy section mill (with an annual production capacity of 1.1 million tonnes), a rail fastener mill (with an annual production capacity of 228 thousand tonnes) and a grinding ball mill (with an annual production capacity of 170 thousand tonnes). In the six months ended 30 June 2016 and the year ended 31 December 2015, Azovstal produced 0.6 and 1.2 million tonnes of rolled products, respectively.

Quality control

Azovstal operates a quality management system which complies with the requirements of the ISO 9001:2008 international standard and satisfies the applicable API Specification Q1 (9th edition) requirements. Azovstal's quality management system is also certified by TÜV NORD CERT GmbH (Germany) for compliance with the ISO 9001:2008 international standard. Azovstal is licenced to use the API official monogram for certain certified types of plates. Azovstal's plates have been certified by various international certification associations, including: Lloyd's Register, Germanischer Lloyd, Det Norske Veritas, the American Bureau of Shipping, Bureau Veritas, Registro Italiano Navale (RINA), Nippon Kaiji Kyokai (NKK), the Indian Register of Shipping (IRS), TÜV NORD CERT GmbH, the Shipping Register of Ukraine and the Russian Maritime Register of Shipping. Metinvest's slabs have been certified by Lloyd's Register, the American Bureau of Shipping, Bureau Veritas and the Korean Register of Shipping (KRS). Metinvest's bars, rails and rail fasteners have been certified in accordance with UkrSEPRO.

During the certification classification process, classification associations carry out mandatory checks of elements of the enterprise's quality control system.

Azovstal's production technology and product quality control is carried out according to the applicable standards, technical conditions, technological instructions and other normative documentation by its quality control department, which in collaboration with other departments ensures the functioning of Azovstal's quality management system.

Ilyich Steel

Through a series of transactions during the second half of 2010, Metinvest acquired a 96 per cent. effective interest in the share capital of Ilyich Steel, a Ukrainian integrated steel producer. During 2011-2016, Metinvest's effective interest in the share capital of Ilyich Steel increased from 96 per cent. to 99.3 per cent. Ilyich Steel is located in Mariupol, approximately 23 kilometres from Mariupol port. In the six months ended 30 June 2016 and the year ended 31 December 2015, Ilyich Steel produced 34 per cent. and 34 per cent. of Metinvest's total crude steel production, respectively.

The supply of raw materials to Ilyich Steel was disrupted when railway lines were partially destroyed due to military action in the Donetsk region. As a result of this and due to weak market conditions generally, management estimates that Ilyich Steel is currently operating at approximately 60 per cent. of its total capacity. See also "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

History

Ilyich Steel was established in 1897 as pipe shop "Nikopol" within the Mariupol mining and smelting society. In 1927, Ilyich Steel started to develop into a diversified metallurgical and partial machine-building enterprise. In the 1930s, Ilyich Steel became an educational centre for qualified personnel at leading Soviet steel plants, such as MMK (Russia), Azovstal and Zaporizhstal.

Between 1954 and 1969, Ilyich Steel's blast furnaces No. 1 and No. 2 were reconstructed, while additional facilities were put in place, being blast furnaces No. 3, No. 4 and No. 5, an open-hearth plant (with the world's-largest furnaces at the time), an oxygen-converter plant, a slabbing mill, plants with continuous broadstrip mills with cold and hot rolling, one of the largest sinter plant in Europe and a number of auxiliary shops.

In 1983, its plate rolling mill 3000 commenced production of SAW LD pipes.

During the last two decades, Ilyich Steel developed its electric weld pipe shop and limekiln, as well as two continuous casters, a steel refining unit and an energy station at the oxygen converter plant.

See also "*—Legal proceedings*".

Facilities

The following table presents Ilyich Steel's main production facilities by unit for the years indicated:

		Annual Production Capacity	Production		
			Year Ended 31 December		Six months ended 30 June 2016
			2014	2015	
Main Facilities			(thousands of tonnes)		
Sintering plant	12 sintering machines	12,165	11,677	9,523	4,073
Blast furnaces	4 furnaces ⁽¹⁾	4,511	4,220	3,577	1,827
Limekiln shop	2 furnaces	438	336	294	158
Basic oxygen furnaces	3 furnaces	3,053	3,111 ⁽³⁾	2,645	1,427
Open hearth furnaces	6 furnaces ⁽²⁾	4,125	433	0	0
Electric furnaces shop	4 furnaces	77	0	0	0
Continuous casting	4 Continuous casting machines	2,500	2,539 ⁽³⁾	2,447	1,427
Plate mill	Mill 3000 two stands				
.....	Mill 4500 one stand				
.....	Mill 1700 with slabbing 1150	7,575	4,211	3,302	1,614
.....	Cold rolling mill 12 stands				
Pipe and flask production shop	2 production lines	200	57	62	44
Electric welded pipe shop	1 production line	263			

Notes:

- (1) BF No. 1 with operating volume 1033 cubic metres and annual production capacity of 1.0 million tonnes is out of operation since September 2014.
- (2) In July 2014, open-hearth shop was decommissioned.
- (3) Actual production is higher than annual production capacity due to the use of open-hearth furnaces closed in 2014.

Sintering plant. Ilyich Steel operates one of the largest sintering plants in Europe, with 12 sintering machines located on a site of approximately 1 hectare in size. The sintering plant produces up to 100 per cent. of the sinter required for the blast furnaces. The annual production capacity of the sintering plant is 12.2 million tonnes. In the six months ended 30 June 2016 and the year ended 31 December 2015, Ilyich Steel produced 4.1 and 9.5 million tonnes of sinter, respectively.

Iron production. Currently four blast furnaces are in operation with a total operating volume of 7,602 cubic metres. Blast furnace No. 1 (with an operating volume of 1,033 cubic metres and an annual production capacity of 1.0 million tonnes) has been out of operation since September 2014. The annual production capacity of the blast furnaces is 4.5 million tonnes of iron. In the six months ended 30 June 2016 and the year ended 31 December 2015, Ilyich Steel produced 1.8 and 3.6 million tonnes of iron, respectively. The blast furnaces produce hot iron for the basic oxygen plant and cast pig iron. Pig iron produced at Ilyich Steel has a low content of detrimental impurities, such as phosphorus and sulphur. Ilyich Steel's unit for desulphurisation can lower sulphur content to 0.001-0.003 per cent.

Steel production. Ilyich Steel produces steel at a basic oxygen furnace plant. The basic oxygen furnace plant comprises three basic oxygen furnaces (with an annual production capacity of 3.1 million tonnes). In the six months ended 30 June 2016 and the year ended 31 December 2015, Ilyich Steel produced 1.4 and 2.6 million tonnes of crude steel, respectively.

Rolling mills. The rolling mills complex comprises several plate mills (with an annual production capacity of 2.4 million tonnes), a coil rolling mill (with an annual production capacity of 3.8 million tonnes) and a cold rolling mill (with an annual production capacity of 1.4 million tonnes). The rolling mills complex is primarily used for plate finishing treatment. In the year ended 31 December 2015, Ilyich Steel produced 3.3 million tonnes of rolled products.

Chemical and metallurgical plant. Ilyich Steel operates a chemical and metallurgical plant that produces poly- and monosilicone, flux cored wire, aluminium, ferroalloys, electrodes and building materials. The chemical and metallurgical plant was withdrawn from the Works in April 2016 and no longer produces products for Ilyich Steel.

Quality control

Ilyich Steel has a quality management system. The quality management system has been certified by TÜV SÜD Management Service GmbH for compliance with the requirements of the ISO 9001:2008 international standard and by LLC "Technical and Management Services" for compliance with the requirements of the DSTU ISO 9001:2009 international standard. The system covers all types of activities of Ilyich Steel from management structure formation, functional interaction of the structural divisions, functional separation and personnel professional training to shipment of high-quality finished products.

Ilyich Steel's products are certified by the following recognised classification societies: Lloyd's Register (London), the American Bureau of Shipping (ABS), Germanischer Lloyd (Hamburg), TÜV SÜD Industrie Service GmbH, (Germany), the Russian Maritime Register of Shipping (St. Petersburg), Bureau Veritas (France), DNV GL (Norway/Germany), RINA (Italy), IRS (India), Turkish Lloyd, the Shipping Register of Ukraine and Russian River Register of Shipping (Moscow).

The Certificates of Compliance cover more than 200 types of flat rolled steel and demonstrate compliance with the requirements of different international standards (including EN, ASTM, JIS, DIN). If rolled products are shipped to the European Union, Ilyich I&SW has the right to stamp the CE-mark on metal products manufactured in conformity with the requirements of the EN 10025:2004 and EN 10219:2006 international standards.

Ilyich Steel has Certificates from TÜV SÜD Industrie Service GmbH, which cover the production of hot-rolled structural sheets and plates, including high-strength quality steel grades according to the EN 10025-1,2,3,4,5-2004 international standards; strips for the manufacture of large-diameter pipes intended for gas and oil pipelines and boiler steels, including high-strength heat and cold-resistance grades according to the EN 10028-3 international standard and cold-rolled steel products according to the EN 10130 international standard; galvanised rolled products according to the EN 10346 international standard; electric-welded water and gas supply pipes of 17-114 mm

according to the EN10219 international standard; and steel for pressure vessels which is certified to be in compliance with European Directive 97/23/EC and AD 2000-Merkblatt W 0.

Product quality control, incoming control of raw materials, scrap, ferroalloys, fuel and refractories are carried out by Ilyich Steel's quality control department. The organisation of certification activity relating to the quality management system and products is coordinated by the certification and standardisation department of the technical division.

Yenakiiye Steel

Yenakiiye Steel is a fully integrated iron and steel producer consisting of Yenakiiye I&SW and Metalen, which Yenakiiye Steel jointly operates at a single production site under a common development strategy, common management and unified planning, procurement, logistics and sales functions. Yenakiiye Steel is located in the city of Yenakiiye, approximately 186 kilometres from the Mariupol port. Yenakiiye Steel's facilities are located on a site of approximately 270 hectares, over which it has a right of permanent use. In the six months ended 30 June 2016 and the year ended 31 December 2015, Yenakiiye Steel produced 22.7 per cent. and 23.7 per cent. of Metinvest's total crude steel production, respectively.

A number of Yenakiiye Steel's production shops were damaged by inadvertent shelling during the military action in parts of the Donetsk and Luhansk regions of Ukraine. As a result, production was temporarily halted from mid-August 2014. Disruptions to the operations continued in 2015. Metinvest again suspended production at Yenakiiye Steel from 7 February 2015 to 16 March 2015 due to interruptions to raw material and electricity supplies. However, following the restoration of a running line between Skotovata and Yasynuvata in March 2015, supplies of raw materials to and shipments of finished products from Yenakiiye Steel have resumed and the plant has restarted operations. Currently Skotovata-Yasynuvata is the key route for supplies to Yenakiiye Steel. See also "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

History

Yenakiiye I&SW has been part of Metinvest since 2006. Yenakiiye I&SW was founded in 1895 and produced its first pig iron product in 1897. In 2002, Yenakiiye I&SW commissioned its first ladle furnace unit and a continuous billet casting machine. In 2004, Yenakiiye I&SW commissioned a further ladle furnace and another continuous casting machine. In 2007, Yenakiiye I&SW completed the construction of blast furnace No. 5. In 2011, blast furnace No. 4 (with an annual production capacity of 580 thousand tonnes) was decommissioned and a state-of-the-art blast furnace No. 3 (with production volume of 1,719 cubic metres and an annual production capacity of 1.2 million tonnes) was reconstructed. In 2014, blast furnace No. 1 (with a production volume of 1,386 cubic metres and an annual production capacity of 0.8 million tonnes) was out of operation due to capital repair, resulting in a temporary reduction of production capacity.

Yenakiiye I&SW was privatised pursuant to the amended privatisation plan approved by the SPF on 28 February 1996. In the course of the privatisation, 13.6 per cent. of the shares in Yenakiiye I&SW were allocated to the employees and management of Yenakiiye I&SW, 77.6 per cent. of the shares in Yenakiiye I&SW were sold at certificate auctions to various purchasers and 8.8 per cent. of the shares in Yenakiiye I&SW were sold on the Ukrainian Stock Exchange to the highest cash bidder. The SPF approved the privatisation of Yenakiiye I&SW on 14 October 1996. Metinvest currently holds a 91.5 per cent. interest in Yenakiiye I&SW.

Metalen was founded in 1999 as a joint venture between Yenakiiye I&SW and Swiss-based steel trader, Metinvest International (previously known as Leman Commodities), which currently forms part of Metinvest's Sales Division. Yenakiiye I&SW and Metinvest International initially held 49.5 per cent. and 50.5 per cent., respectively, in the share capital of Metalen. In 2008, Yenakiiye I&SW sold a 37.04 per cent. interest in Metalen to Metinvest. Metinvest currently holds a 100 per cent. interest in Metalen.

In 2012, new closed-jet steel casting and slag-off technologies were developed and implemented in Yenakiiye I&SW's basic oxygen furnaces, facilitating the production of several new high-carbon and high-alloy steel grades in its rolling mills.

See also "*Legal proceedings*".

Facilities

The following table shows a breakdown of Yenakieve Steel's main production facilities by unit for the years indicated:

			Production		
			Year Ended 31 December		Six months ended 30 June 2016
			2014	2015	
Main Facilities		Annual Production Capacity	(thousands of tonnes)		
Sintering Plant	4 sintering machines	2,091	1,577	1,547	808
Blast Furnaces ⁽¹⁾	2 furnaces	2,250	1,842	1,648	901
Basic Oxygen Furnaces	3 furnaces	2,700	2,062	1,818	951
Continuous Casting	2 ladle furnaces with a six-strand billet conticaster each	2,831	2,062	1,818	951
Rolling Mill ⁽²⁾	1 mill	155	85	79	39

Notes:

- (1) In 2011, blast furnace No. 4 (with an annual production capacity of 580 Kt/y) was shut down and decommissioned. In October 2011, the newly constructed blast furnace No. 3 (with a net volume of 1,719 cubic metres and a designed capacity of 1.2 million tonnes per year) was commissioned. In 2014, blast furnace No. 1 (with a production volume of 1,386 cubic metres and an annual production capacity of 0.8 million tonnes) was out of operation due to capital repair. This resulted in a temporary reduction of production capacity.
- (2) The out-of-date light-section Mill No. 280 and Mill No. 360 were decommissioned in 2011 and in mid-2012, respectively. The product mix previously manufactured at Mills No. 280 and No. 360 is now produced at modern Mills No. 150 and No. 390 (operated by Makiivka Steel), which have been leased to Yenakieve Steel since April 2011. See "*Makiivka Steel—Facilities*".

Iron production. Yenakieve Steel currently operates two blast furnaces with a total operating volume of 3,232 cubic metres and an annual production capacity of approximately 2.3 million tonnes of iron. In the six months ended 30 June 2016 and the year ended 31 December 2015, Yenakieve Steel produced 0.9 and 1.6 million tonnes of iron, respectively. Yenakieve Steel operates the newly-reconstructed state-of-the-art blast furnace No. 3 (with a total operating volume of 1,719 cubic metres and an annual production capacity of 1.2 million tonnes). The blast furnaces produce hot iron for the basic oxygen plant, as well as cast pig iron. An experimental and industrial operation to improve the new PCI complex was commenced in March 2016.

Yenakieve Steel also operates a sintering plant comprising four sintering machines (with a sintering area of 62.5 square metres each and an aggregate annual production capacity of approximately 2.1 million tonnes of sinter). In the six months ended 30 June 2016 and the year ended 31 December 2015, Yenakieve Steel produced 0.8 and 1.6 tonnes of sinter, respectively.

Steel production. Yenakieve Steel produces steel at a basic oxygen plant comprising three basic oxygen furnaces with an aggregate annual production capacity of 2.7 million tonnes of steel. Yenakieve Steel also operates two ladle furnaces, each with a six-strand billet conticaster. In the six months ended 30 June 2016 and the year ended 31 December 2015, Yenakieve Steel produced 1.0 and 1.8 million tonnes of steel and 1.0 and 1.8 million tonnes of billets, respectively. The basic oxygen plant currently produces low-alloyed, construction and carbon grade steel. The billet conticasters produce billets of various dimensions.

Rolling mill. Yenakieve Steel currently operates one heavy-section rolling mill (No. 550), which was commissioned in 1973 and has an annual production capacity of 155 thousand tonnes of finished rolled products. Yenakieve Steel produced approximately 39 and 79 thousand tonnes of finished rolled products in the six months ended 30 June 2016 and the year ended 31 December 2015. In April 2011, Yenakieve Steel began to lease production facilities, consisting of a rolling mill with two stands, from Makiivka Steel. See "*Makiivka Steel*".

Quality control

Yenakieve Steel operates a quality management system which complies with the requirements of the ISO 9001:2008 international standard. Yenakieve Steel satisfies the requirements of TÜV NORD CERT GmbH, the Lloyd's Register, the Russian Maritime Register of Shipping and ABS Europe Ltd for its bulb flat steel used in shipbuilding.

Yenakieve Steel's quality management system is certified by the British certification association CARES under the BS 4449 standard. Yenakieve Steel is also certified by the certification association of the Republic of Belarus under classes A400C and A500C of the standard STB 1704-2006, which covers the production of cast billets.

Yenakieve Steel's technical control department carries out product quality control and also manages product certifications. The technical control department monitors Yenakieve Steel's products throughout the production process by, for example, monitoring the quality of the input materials used and the amount of Yenakieve product quality control's crude output. The quality of the input materials is monitored primarily by analysing the chemical, physical and mechanical composition the materials produced.

Khartsyzsk Pipe

Khartsyzsk Pipe is a producer of large-diameter, longitudinally-welded line pipes used in the construction of oil and gas pipelines. Khartsyzsk Pipe is located in the city of Khartsyzsk, which is situated approximately 177 kilometres from the Mariupol port. Khartsyzsk Pipe's facilities are located on a site approximately 145 hectares in size, which Khartsyzsk Pipe owns.

Operations at Khartsyzsk Pipe had to be temporarily halted due to the military action in parts of the Donetsk and Luhansk regions of Ukraine, which caused damage to the railway infrastructure used for delivering raw materials and finished products to and from the Khartsyzsk plant. In early October 2014, the plant recommenced producing and shipping pipes after the damaged railway infrastructure had been restored. In addition, the plant has suffered minor property damage. Repair works are currently being carried out in respect of this damage. Khartsyzsk Pipe has been idle since June 2015 as a result of lack of orders. See also *"Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition"*.

History

Khartsyzsk Pipe was founded in 1898 and its major production facility, Pipe Electric Welding Shop No. 2, was commissioned in 1974. The plant reached its design capacity in 1987. The pipes produced by Khartsyzsk Pipe were used in the construction of, among others, the Blue Stream, Urengoy-Pomary-Uzhgorod, Jamal-Western Siberia and Druzhba pipelines. These pipes are also being used in the construction of the Central Asia-China pipeline. The corrosion-resistant coating application shop was commissioned in 1982. Since 1983, Khartsyzsk Pipe has been producing high-quality steel pipes with a corrosion-resistant, external polyethylene coating on the outer surface. In 2000, a new manufacturing line was commissioned at Pipe Electric Welding Shop No. 2. In 2003, Khartsyzsk Pipe began producing pipes with internal coating at Pipe Welding Shop No. 4. In 2007, another manufacturing line was commissioned at Pipe Electric Welding Shop No. 2.

Khartsyzsk Pipe was privatised pursuant to the amended privatisation plan approved by the SPF on 25 April 2001. Pursuant to the privatisation plan, 16.24 per cent. of the shares in Khartsyzsk Pipe were allocated to the employees and management of Khartsyzsk Pipe, 6.18 per cent. of the shares in Khartsyzsk Pipe were sold at certificate auctions to various purchasers, 1.57 per cent. were sold on the Ukrainian Stock Exchange to the highest cash bidder and 76.0 per cent. were sold at tender to ISD (this was later diluted to 5.3 per cent. as a result of a share capital increase of Khartsyzsk Pipe). The SPF approved the privatisation of Khartsyzsk Pipe on 12 November 2001. On 3 July 2003, ISD sold its 5.3 per cent. shareholding in Khartsyzsk Pipe to Azovstal. Metinvest currently holds a 98.2 per cent. interest in Khartsyzsk Pipe.

Facilities

Khartsyzsk Pipe produces over 500 types of longitudinally-welded pipes for oil and gas pipelines, as well as pipes for central heating networks (with a diameter of 508-1,422 millimetres, a wall-thickness of up to 40 millimetres and a working pressure of up to 14.0 megapascal). A corrosion-resistant coating can be applied to the internal and external surfaces of the pipes. The annual production capacity of Khartsyzsk Pipe's welding shops is 1.3 million tonnes. Khartsyzsk Pipe produced approximately 67 thousand tonnes of pipes in the first half of 2015. Khartsyzsk Pipe has been idle since June 2015 as a result of lack of orders.

Quality control

Khartsyzsk Pipe's integrated management system has been certified by TUV SUD (Germany) as conforming to the ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007 and ISO 50001:2011 international standards. Khartsyzsk Pipe holds the certificates of SE "VNITI-TEST" in the State Certification System of Ukraine for in respect of its quality management system, in accordance with the DSTU ISO 9001:2009 international standard, API Spec 5L ed. 45 and API Spec 2B ed. 6 (for products), as well as other normative documents for products manufacture. The quality management system was certified by the Certification Association "Russian Register" for compliance with the requirements of STO Gazprom 9001-2012 and conforms with the requirements of API Q1 ed. 9. Khartsyzsk Pipe's products were certified by TUV NORD Systems for compliance with: EN 10208-1-2, ISO 3183; Construction

Products Regulation EC 305/2011/EU (entitling the plant to apply the "CE" marking on pipes); the EN 10219-1 and EN 10219-2 manufacturing standards; Directive 97/23/EC (AD 2000-Merkblatt W0/W4) on pipes; and the EN 10217-1, EN 10217-5 manufacturing standards. The certification body "ZETOM" (Poland) certified Khartsyzsk Pipe's products for compliance with the requirements of the PN-EN ISO 3183:2013 and IDT EN ISO 3183:2012 international standards, entitling the it to apply the safety sign "B" on manufactured pipes and to supply them to Poland. Khartsyzsk Pipe's welding processes were certified by the International Scientific and Technical Centre "PATONCERT" (Ukraine) (in compliance with the ISO 3834-2:2005 international standard) and meet the requirements of the international standards applicable to welding shops.

The quality control department monitors the quality of Khartsyzsk Pipe's products and also carries out product certification. The quality control department monitors Khartsyzsk Pipe's products throughout the production process, including monitoring the quality of the input materials used.

Makiivka Steel

Makiivka Steel is a producer of rolled steel products located in the city of Makiivka, which is situated approximately 150 kilometres from the Mariupol port. Makiivka Steel's facilities are located on a site approximately 310 hectares in size, which it occupies in accordance with the terms of a lease (due to expire in 2055).

Operations at Makiivka Steel had to be temporarily halted due to the military action in parts of the Donetsk and Luhansk regions of Ukraine, which caused damage to the railway infrastructure used for delivering raw materials and finished products to and from the plant. Production resumed in October 2014. In February 2015, the plant was subjected to repeated shelling, damaging the natural gas pipeline, production facility and an electrical substation. After the fighting intensified, parts of the Donetsk railway closed and iron ore supplies were interrupted, which caused several production units at Makiivka Steel to halt production. Production was restored in the middle of March 2015. See also *"Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition"* and *"—Yenakieve Steel"*.

History

Makiivka Steel was founded in 2004 and currently produces long products, including debars, angles, wire rods and rebars in coils. Makiivka Steel has been consolidated into Metinvest's financial statements since 1 January 2009, and in October 2010 Metinvest acquired 90.18 per cent. of the share capital of Makiivka Steel. Since April 2011, Makiivka Steel has leased its production facilities to Yenakieve Steel.

Facilities

The following table shows a breakdown of Makiivka Steel's main production facilities by unit for the years indicated:

	Main Facilities	Annual Production Capacity	Production		
			Year Ended 31 December		Six months ended
			2014	2015	30 June 2016
			<i>(thousands)</i>		
Rolling Mill ⁽¹⁾	Stand 150	901	520	500	314
.....	Stand 390	720	468	291	188

Note:

- (1) Since April 2011, Makiivka Steel has leased its production facilities to Yenakieve Steel. For ease of reference, the results of the operations at these facilities have been reproduced separately in this section and have not been consolidated with Yenakieve Steel's results of operations.

Rolling mill. Makiivka Steel operates a rolling mill with two rolling stands. Rolling stand 150 was commissioned in 1994 (with an annual production capacity of 0.9 million tonnes) and produces rods, round-section steel and reinforcing-bar steel with periodic profile in bundles. Rolling stand 390 was commissioned in June 2009 (with an annual production capacity of 0.7 million tonnes) and produces: wire rods, bars, hot-rolled round bars, hot-rolled square bars, hot rolled six-sided bars, reinforced steel, equal flange angles and channel bars and round steel. In the six months ended 30 June 2016 and the year ended 31 December 2015, Makiivka Steel produced 0.5 and 0.8 million tonnes of rolled products, respectively.

Quality control

Makiivka Steel operates a quality management system which complies with the requirements of the ISO 9001:2008 international standard. In 2011, Metinvest obtained certifications under the STO ASCHM 7-93, GOSTR and ISO 9001:2008 international standards. Makiivka Steel's product quality control and product certification process is carried out by its quality control department. The quality control department monitors Makiivka Steel's products throughout the production process, including monitoring how the quality of the input materials controls output quality and also the types of technology employed. In 2012, a process for ensuring the compliance of over 30 product types with additional market requirements (including length of cut, means of manufacturing and mechanical properties) was developed and introduced in Makiivka Steel's rolling mills.

Ferriera Valsider

Ferriera Valsider produces heavy plates and hot-rolled coils from concast slabs. It is located in the town of Vallese di Oppeano in Verona, Italy, which is situated approximately 120 kilometres from the Marghera port. Ferriera Valsider's facilities are located on a site approximately 145 hectares in size, which is owned by Ferriera Valsider.

History

Ferriera Valsider has been part of the steel and rolled products division of Metinvest since 2006. In July 2001, Metinvest acquired 49.0 per cent. of the shares in Ferriera Valsider (previously Databook 3 S.r.l.). In 2006, Metinvest purchased a further 21.0 per cent. of the shares in Ferriera Valsider from Steel Investments B.V., raising its participation in Ferriera Valsider to 70.0 per cent. In December 2012, Metinvest B.V. sold its 70 per cent. stake in Ferriera Valsider to Metinvest Trametel.

Facilities

The following table shows a breakdown of Ferriera Valsider's main production facilities by unit for the years indicated:

		Annual Production Capacity	Production		
			Year Ended 31 December		Six months ended
			2014	2015	30 June 2016
Main Facilities			(thousands of tonnes)		
Plate rolling mill.....	1 mill	400 ⁽¹⁾	177	170	85
Hot rolled coil steckel mill.....	1 mill	600 ⁽¹⁾	480	442	251

Note:

(1) Capacity depends on the balance between plates and coils within the product mix.

Ferriera Valsider operates a plate rolling mill and a hot-rolled coil steckel mill. The annual production capacity of the plate rolling mill and hot rolled coil steckel mill depends on the balance between plates and coils within the product mix and is approximately 600 thousand tonnes for the hot-rolled coil mill and 400 thousand tonnes for the plate-rolling mill. In the six months ended 30 June 2016 and the year ended 31 December 2015, Ferriera Valsider produced approximately 85 thousand and 170 thousand tonnes of plates and approximately 251 thousand and 442 thousand tonnes of hot-rolled coil, respectively. The production line of the plate-rolling mill is semi-automatic, whereas the production line of the hot-rolled coil mill is fully automated.

Quality control

Ferriera Valsider's quality management system has been certified by DNV GL under the ISO 9001:2000 international standard and DNV GL has also issued Ferriera Valsider with an Approval of Manufacturer certificate for rolled steel products and an OHSAS 18001:2007 certification for the management of Health & Safety in the workplace. Ferriera Valsider also holds a Certificate of Factory Production Control for hot-rolled products and a quality assurance system certificate, in each case from TÜV.

In 2009, Ferriera Valsider received an Environmental Management System Certificate under the ISO 14001:2004 international standard from Det Norske Veritas and an Integrated Environmental Authorisation from the Environment Sector of the Province of Verona.

Ferriera Valsider's quality control is carried out by its quality control department, which carries out inspections and tests on finished goods at the request of Ferriera Valsider's customers and on raw materials at the request of its sales department.

Metinvest Trametal

Metinvest Trametal is a steel plate manufacturer headquartered in Genoa, Italy with a production site in the municipality of San Giorgio di Nogaro (Udine), which is located approximately one kilometre from the Nogaro port and about 30 kilometres from the Monfalcone port. Metinvest Trametal owns its own facilities, which are located on a site approximately 14 hectares in size.

History

Metinvest Trametal was established in 1985. Following the acquisition of its production plant at San Giorgio from Metallurgica San Giorgio in 1994, Metinvest Trametal began to produce heavy plates in 1995, focusing on the Italian market. Between 1996 and 2000, Metinvest Trametal pursued a strategy of technological modernisation and expansion, including: replacing its existing descaling machine and hot leveller in 1996, which resulted in an improvement in surface quality; overhauling its reheating push furnace in 1998, which resulted in better control of the re-heating process, an increase in productivity and a reduction in the consumption of gas and other consumables; and the installation of a heat treatment furnace in 1999. Metinvest Trametal also installed a new furnace with rolls for heat treatment in 2000. This allowed Metinvest Trametal to normalise plates and therefore expand into the pressure vessel sector and the oil and gas sector, and also to expand its existing product offerings to the construction sector (particularly to "yellow goods" producers) and the shipbuilding sector. From 2001 onwards, Metinvest Trametal shifted its focus towards other European markets outside Italy, in particular Germany, Austria and the United Kingdom. In 2003, Metinvest Trametal commissioned a new quarto rolling mill. In 2008, Metinvest Trametal completed the construction of a new heat treatment furnace. Metinvest acquired Metinvest Trametal in February 2008. In December 2012 Metinvest Trametal purchased a 70 per cent. interest in the share capital of Ferriera Valsider from Metinvest B.V.

Facilities

Metinvest Trametal's quarto (reversing) rolling mill has an annual production capacity of 600 thousand tonnes of plates for use in ship-building, pipe manufacturing and for other industrial purposes. In the six months ended 30 June 2016 and the year ended 31 December 2015, Metinvest Trametal produced approximately 275 thousand and 517 thousand tonnes of plates, respectively.

Quality control

Metinvest Trametal's quality management system has been certified by DNV GL under the ISO 9001:2000 international standard. Metinvest Trametal also holds various other certifications from internationally recognised testing bodies, such as Bureau Veritas, Registro Italiano Navale (RINA), the Lloyd's Register of Shipping, Germanischer Lloyd and the American Bureau of Shipping (ABS). Metinvest Trametal obtained various European certifications for its products (including plates) under the ADW1 / AD2000W1 (TUV), Marking CE (EN10025:2004) and NF-ACIER standards.

Metinvest Trametal's quality control department carries out product quality control and also manages product certifications. The quality control department monitors Metinvest Trametal's products throughout the production process, including monitoring the quality of the input materials used. Mechanical tests on product samples and raw materials are carried out at the in-house test laboratory, which is equipped with destructive and non-destructive testing technologies.

Spartan UK

Spartan UK is a steel plate producer located in the city of Newcastle, England, which is situated approximately 15 kilometres from the port of Sunderland, allowing its products to be shipped to all of the main Northern European markets. Spartan UK's facilities are located on a site approximately 2.8 hectares in size, which it owns.

History

Spartan UK was established in 2001 and has been part of Metinvest since February 2008. Spartan UK's main equipment is its reversing mill, which is a refurbished unit originally manufactured in 1976.

Between 2001 and 2005, Spartan UK pursued a strategy of technical modernisation and expansion. In 2001, Spartan UK revamped its existing plant and digitised its production process. In 2002, Spartan UK added new burners to the main re-heating furnace (increasing productivity by 50.0 per cent. and reducing specific consumption and gas emissions) and installed a modern water-treatment plant (improving the quality of the water and minimising the discharge of polluted water into the river, as required by environmental regulations). In 2002, Spartan UK also installed a new double-arm slab oxycutting machine and replaced its chain-drive conveyors with new motor-driven conveyors. In 2003, Spartan UK upgraded its cranes to improve the handling of materials inside the plant and fitted its cranes with back-up batteries to improve safety standards. In 2004, Spartan UK installed a new hot leveller for thin plates (reducing cold levelling rework), installed a new automation system to control the rolling process (including load cells and laser thickness measurement) and relocated the main pulpit.

Facilities

Spartan UK produces plates in a reversing mill using slabs, over 98.0 per cent. of which are supplied by Metinvest with the remainder sourced from third parties. Spartan UK's annual production capacity is approximately 200 thousand tonnes of plates. In the six months ended 30 June 2016 and the year ended 31 December 2015, Spartan UK produced approximately 105 thousand and 182 thousand tonnes of plates, respectively.

Quality control

Spartan UK's quality management systems have been certified by Vd TÜV under the ISO 9001:2008 international standard. Spartan UK also holds various other certifications from internationally recognised testing bodies including TÜV, PED, CPD, TRD100 and AD2000.

Spartan UK's product quality control is carried out by its quality control department, which also manages its product certifications. The quality control department monitors Spartan UK's products throughout the production process. Mechanical tests on samples of the product as well as the raw material are carried out at Spartan UK's in-house test laboratory, which is equipped with destructive and non-destructive testing equipment.

Promet Steel

Promet Steel is a long steel products manufacturer located in the city of Bourgas, Bulgaria, which is situated approximately 25 kilometres from the Bourgas port. Promet Steel's facilities are located on a site 822 hectares in size, which it owns.

History

Promet Steel was established in 1980 pursuant to an order of the Bulgarian Council of Ministers. Promet Steel's rolling mill No. 300 and the related infrastructure were constructed between 1980 and 1986. Metinvest acquired Promet Steel in 2009.

Facilities

The following table shows Promet Steel's main production facilities by unit for the years indicated:

			Production		
			Year Ended 31 December		Six months ended
					30 June 2016
			2014	2015	
Main Facilities	Annual Production Capacity	(thousands of tonnes)			
Rolling mill No. 300	1 mill	700	344	329	219
Rebar production	—	N/A ⁽¹⁾	305	298	205
Section rolling	—	N/A ⁽¹⁾	38	31	14

Note:

(1) Data not available. Capacity depends on the production programme implemented at the facility from time to time.

Rolling mill No. 300 is a medium section rolling mill that produces hot-rolled long steel products, including rebars, rounds and strips angles. Promet Steel operates a continuous production cycle, with four groups of workers working in two shifts. Promet Steel's facilities also include a specialised rebar production facility and section rolling facility, two staves and a finished product warehouse. Promet Steel also owns railway tracks, warehouses, water storage facilities and pump houses near its main facilities.

Quality control

Promet Steel's integrated quality management systems have been certified by SGS-Bulgaria under the ISO 9001:2008, ISO 14001 and OHSAS 18001 international standards. Promet Steel holds various other certifications from internationally recognised testing bodies including TÜV, PED, CPD, TRD100 and AD200. Promet Steel also holds product certifications from TÜV Rheinland/Berlin-Brandenburg for hot-rolled structural steel products, KIWA N.V. for reinforcing steel and LGA Bautechnik GmbH, ELOT, SIMPTEST, CARES, Italian Norm D.M., CERTIF/LNEC, UkrSEPRO and class PC52 (according to Romanian standard STAS) for reinforcing steel bars. In addition, Promet Steel has received product conformity certificates from internationally recognised testing bodies, such as TUV Rheinland Group, LGA Bautechnik GmbH, KIWA Product Certificate / KOMO, SIMPTEST, ELOT, CERTROM, Servizio Tecnico Centrale, CERTIF / LNEC and NISI.

The quality control department, which is supported by Promet Steel's laboratory, monitors Promet Steel's products throughout the production process, including monitoring the quality of input materials used.

Zaporizhstal Joint Venture

Zaporizhstal is a fully integrated iron and steel producer located in the city of Zaporizhia, Ukraine. Zaporizhstal has an annual production capacity of 4.2 million tonnes of pig iron, 4.1 million tonnes of crude steel and 3.7 million tonnes of rolled products.

Through a series of transactions between July 2011 and August 2012, Metinvest acquired an aggregate stake of 49.9932 per cent. in the share capital of Zaporizhstal. As the strategic financial and operating decisions relating to Zaporizhstal require the participation and approval of Zaporizhstal's other shareholders, Metinvest's investment in Zaporizhstal is classified as a joint venture. Capacity volumes and operating results in respect of Zaporizhstal set out below are stated in full, notwithstanding the fact that Zaporizhstal is classified as a joint venture and not as a subsidiary of Metinvest.

History

Zaporizhstal was founded in 1931 and produced its first pig iron product in 1933. In 1935, the first open-hearth furnace was commissioned and in 1937, the first slabbing mill was also commissioned. In the following two years, the first cold-rolled and hot-rolled steel workshops were constructed and put into operation.

In 1962, the first iron-mould foundry shop in Europe was commissioned at Zaporizhstal. A year later, a unique cold-rolling mill "2800" was constructed for the production of carbon, alloy and stainless steel sheets. In 1974, Zaporizhstal was an expert producer of ground and polished steel plates. In the same year a tandem open-hearth furnace was commissioned. In 1997, Zaporizhstal was re-organised as an open joint stock company.

In 2011, a pulverised coal injection complex was commissioned. The introduction of this energy-saving technology eliminates the use of expensive natural gas and partially reduces the consumption of coke in iron production.

In 2013, a new sintering machine No. 1, with a state-of-the-art gas-purification system, was commissioned at Zaporizhstal.

Since 2014 and in connection with the project on sinter plant ecological modernization, Zaporizhstal has installed the gas cleaning systems at sinter machines Nos. 2 to 6. The new gas cleaning equipment provides removes dust from the air in accordance with European standards for emissions.

In 2014, a new modern production line for hydrochloric pickling with a hydrochloric acid reactivation unit installation was commissioned in the cold-rolling shop. The hydrochloric pickling line operates in accordance with the applicable European ecological standards. Emissions of sulfuric acid vapor have decreased by 83 per cent. and the disposal of industrial wastewater from the cold-rolling shop into the Dnieper River has been completely discontinued. See also "*—Legal proceedings*".

Facilities

Zaporizhstal operates an integrated steel production plant located on a site of approximately 556 hectares. The production plant consists of a sintering plant, four blast furnaces, steel-making facilities (open-hearth furnaces) and several rolling mills.

The following table shows a breakdown of Zaporizhstal's main production facilities by unit for the years indicated:

Main Facilities		Annual Production Capacity	Production		
			Year Ended 31 December		Six months ended 30 June 2016
			2014	2015	
Sintering Plant	6 sintering machines	5,986	5,873	5,978	2,811
Blast Furnaces Shop	4 furnaces ⁽²⁾	4,200	3,513	3,808	1,848
Open Hearth Furnaces.....	9 furnaces	4,073	3,961	3,979	1,988
Slabbing Mill	1 mill	4,430	3,572	3,517	1,828
Hot Rolling Mill	Continuous hot strip mill	3,689	3,509	3,428	1,809
Cold Rolling Mills.....	2 mills	1,122	992	929	497
Tinplate production	2 continuous cold strip mills	50	6	5	3
Roll-forming Mill	3 mills	500	24	15	9

Notes:

- (1) Capacity volumes and operating results in this table are stated in full for the years indicated, notwithstanding that Zaporizhstal is classified as a joint venture and not as a subsidiary of Metinvest.
- (2) One of the furnaces was undergoing refurbishment until August 2014.

Sintering plant. Zaporizhstal operates a sintering plant with six sintering machines located on a site approximately 0.4 hectares in size, including a newly-built sintering machine that was commissioned in April 2013. The sintering plant produces up to 100 per cent. of the sinter required for the blast furnaces. The annual production capacity of the sintering plant is 6.0 million tonnes. In the six months ended 30 June 2016 and the year ended 31 December 2015, Zaporizhstal produced 2.8 million and 6.0 million tonnes of sinter, respectively.

Iron production. Iron production at Zaporizhstal comprises four blast furnaces with a total operating volume of 6,052 cubic metres. Zaporizhstal produces iron which is used to make high-quality-steel, heavy iron castings and also commercial pig iron. A specific feature of the iron produced by Zaporizhstal is its low content of sulfur and phosphorous, which has created high demand for Zaporizhstal's iron products in the global market. In the six months ended 30 June 2016 and the year ended 31 December 2015, Zaporizhstal produced 1.8 and 3.8 million tonnes of iron, respectively.

Steel production. The steel production shop was put in operation in 1937. The shop currently comprises nine open-hearth furnaces each with a capacity of 250 to 500 tonnes, with a total steel output capacity of approximately 4.1 million tonnes per annum. Steel is produced using hot metal and the scrap-and-ore process. In order to intensify the steel-making process oxygen is blown into all of the furnaces. The steel produced includes low-carbon and medium-carbon, structural and ordinary grades and is teemed to form ingots of up to 20 tonnes which are used in the production of steel sheet products. In the year ended 31 December 2015, Zaporizhstal produced 4.0 million tonnes of steel.

Rolling mills. The rolling mills at Zaporizhstal comprise a slabbing mill (with an annual capacity of 4.4 million tonnes), a hot-rolling mill (with an annual capacity of 3.7 million tonnes), two cold-rolling mills (with an aggregate annual capacity of 1.1 million tonnes) and a roll-forming mill (with an annual capacity of 0.5 million tonnes). In the six months ended 30 June 2016 and the year ended 31 December 2015, Zaporizhstal produced 1.7 and 3.4 million tonnes of rolled products, respectively.

Quality control

The Integrated system of quality management, power efficiency, labour safety and ecology is functioning at Zaporizhstal, which divides its management functions into four systems: the quality management system (ISO 9001), the system of energy management (ISO 50001), the professional safety and health management system (OHSAS 18001) and the system of environmental management (ISO 14001). Zaporizhstal's management systems are all certificated.

The quality management system has been in place at Zaporizhstal since 2003 and covers the production of: sinter, hot metal and iron products, steel slabs made of carbon, low-alloyed and alloyed steel, hot-rolled and cold-rolled stock in coils and sheets, steel strips, roll-formed sections, tin-plate, oxygen, nitrogen and inert gases, and processes management. The quality management system was developed with a focus on modelling and processes in order to facilitate continuous improvement.

The quality management system meets the requirements of the ISO 9001:2008 international standard. The professional safety and health management system meets the requirements of the OHSAS 18001:2007 international standard. The environment management system meets the requirements of the ISO 14001 international standard. These certifications were certified by BUREAU VERITAS certification authorities. The energy management system meets the requirements of the ISO 50001 international standard, as certified by TÜV SÜD Management Service GmbH certification authority.

The policy of the Zaporizhstal's management is to deliver products which meet consumer requirements with regard to quality, product mix, volumes, terms of delivery and price, in a manner acceptable to both parties with ensuring the profitability, energy efficiency, labour safety, environmental protection and satisfaction of all interested parties.

Zaporizhia Refractories

Zaporizhia Refractories is one of the largest enterprises in Ukraine specialising in the production of high-quality refractory products and materials. Its products include various types of chamotte, high-alumina products and magnesia products. Zaporizhia Refractories also produces unmoulded refractories. Zaporizhia Refractories sells its products in both domestic and international markets to customers based primarily in the CIS, Europe and Asia.

Zaporizhia Refractories produced approximately 48,964 thousand tonnes of refractory products (excluding unmoulded refractories) in the six months ended 30 June 2016, including 22,571 thousand tonnes of chamotte, 7,204 thousand tonnes of high-alumina products and 19,189 thousand tonnes of magnesia products. In the year ended 31 December 2015, Zaporizhia Refractories produced approximately 99.4 thousand tonnes of refractory products (excluding unmoulded refractories), including 47.5 thousand tonnes of chamotte, 12.3 thousand tonnes of high-alumina products and 39.6 thousand tonnes of magnesia products.

Production at Zaporizhia Refractories started in 1933. Its high-alumina products workshop, which is unique in Ukraine, was commissioned in 1961. In 1997, Zaporizhia Refractories underwent a large-scale modernisation, which involved the installation of modern production equipment and the reconstruction of some sections of its workshops. Zaporizhia Refractories was re-organised as a joint-stock company in 1995, as a public joint-stock company in 2011 and as a private joint-stock company in 2016. In 2013, Metinvest acquired a 43.7 per cent. interest in Zaporizhia Refractories. A further 47.4171 per cent. interest in Zaporizhia Refractories is controlled, directly and indirectly, by Zaporizhstal (a joint venture in which Metinvest holds a 49.9932 per cent. interest).

Coke Business

Production Facilities

The table below shows production by Metinvest of its principal coke and chemical products for the years indicated:

	Main Facilities	Production		
		Year Ended 31 December		Six months ended 30 June 2016
		2014	2015	
		(million tonnes)		
Avdiivka Coke				
Coke.....	4.0 ⁽¹⁾	2.3	1.9	1.2
Zaporizhia Coke				
Coke.....	1.4 ⁽¹⁾	1.1	0.8	0.4
Donetsk Coke				
Coke.....	0.4 ⁽¹⁾	0.2	0.2	0.0
Inkor Chemicals				
Napthalene.....	0.06	0.023	0.015	0.007
Phenols and cresols	0.03	0.004	0.002	0.000
Other chemical products	—	0.003	0.006	0.003

Note:

- (1) Moist wharf coke, a finished coke product containing 6.0 per cent. moisture which was discharged from a coking battery and normalised to shipping temperature (quenched with water or processed with inert gas) and was not screened.

Avdiivka Coke

Avdiivka Coke is located in the Donetsk region of Ukraine and is one of the largest coke and chemical plants in Europe (excluding Russia). It sells coke to Azovstal, Yenakiieve Steel and Ilyich Steel, as well as to customers outside the Metinvest group, such as ArcelorMittal. Avdiivka Coke currently produces coke from its seven coke batteries. In the six months ended 30 June 2016 and the year ended 31 December 2015, Avdiivka Coke's total output of wharf coke with a moisture content of 6 per cent. was 1.9 and 2.3 million tonnes, respectively, and Avdiivka Coke sold approximately 99 per cent. of its metallurgical coke production to other Metinvest entities.

Avdiivka Coke experienced minor property damage to its non-core assets and disruptions in its electricity supply as a result of damage to transmission lines caused by artillery fire during the military action in parts of the Donetsk and Luhansk regions of Ukraine. As a result, production at these facilities had to be halted. In October 2014, Avdiivka Coke's electricity supply was restored. Production resumed at a reduced pace however, given the state of the coke batteries after hot conservation, the limited supply of coal and limited deliveries of coke products to the plant which resulted from damage to railway infrastructure in the surrounding area. In 2015, with the resumption of hostilities, the facilities (including the plant, equipment, buildings, road and rail infrastructure) were again damaged by artillery fire. In addition, four high-voltage lines supplying the plant were damaged and supplies of raw materials and rolling stock were repeatedly interrupted by fighting. As at the date of these Listing Particulars, seven coke batteries of the plant are in operation and two are being repaired. See also *"Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition"*.

Avdiivka Coke was privatised pursuant to the amended privatisation plan approved by the SPF on 12 March 1997. Pursuant to the privatisation plan, 9.59 per cent. of the shares in Avdiivka Coke were allocated to the employees and management of Avdiivka Coke, 51.65 per cent. of the shares in Avdiivka Coke were sold at tender to various purchasers, 31.61 per cent. of the shares in Avdiivka Coke were sold at auction to various purchasers and 7.15 per cent. of the shares in Avdiivka Coke were sold on the Ukrainian Stock Exchange to the highest bidder. Metinvest currently holds a 93.0 per cent. interest in Avdiivka Coke.

Zaporizhia Coke

Zaporizhia Coke is one of Ukraine's leading coke and chemicals producers, having a full technological cycle of coal processing and recovery of chemical products in coking. The company produces more than 25 types of products and has more than 30 key customers engaged in ferrous and non-ferrous metallurgy, chemical, agricultural and other sectors. Zaporizhia Coke also sells high-quality coke to Ilyich Steel and Zaporizhstal. Zaporizhia Coke has been part of Metinvest since July 2013 (see *"—History"*), and has been consolidated as a subsidiary of Metinvest since December 2012.

Currently, the plant produces coke from its three coke-oven batteries. Total output of wharf coke with a moisture content of 6 per cent. was approximately 0.4 and 0.9 million tonnes in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively.

In the six months ended 30 June 2016 and the year ended 31 December 2015, Zaporizhia Coke processed approximately 37 thousand and 93 thousand tonnes of coal tar and produced approximately 20 thousand and 52 thousand tonnes of coal tar pitch, respectively. Zaporizhia Coke processed approximately 7 thousand and 13 thousand tonnes of benzene and produced approximately 4 thousand and 9 thousand tonnes of premium-grade benzene in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively.

Donetsk Coke

Donetsk Coke has been part of Metinvest since July 2013 (see *"—History"*) and has been consolidated as a subsidiary of Metinvest since December 2012. Since it was founded in 1872, Donetsk Coke has been an innovator in the scientific, technological and methodological aspects of coke production. Donetsk Coke was the first coke plant in the world to incorporate technical and refined ammonium sulphide in its production cycle and the first in Ukraine to implement smokeless loading of coking chambers with the help of hydro-injection and hydro-sealing of standpipe covers. In December 2015 the decision to "cold"-mothball Donetsk Coke was taken.

Donetsk Coke's total output of wharf coke (with a moisture content of 6 per cent.) was approximately 0.2 million tonnes in the year ended 31 December 2015.

Inkor Chemicals

In August 2008, Metinvest acquired 100.0 per cent. of the share capital of Inkor Chemicals. Located in Dzerzhynsk, (currently renamed in Toretsk) in the Donetsk region of Ukraine, Inkor Chemicals is the only producer of refined naphthalene and phenol and cresol products in Ukraine and is one of the largest producers of naphthalene in Europe. Inkor Chemicals's installed annual production capacity is 60 thousand tonnes of naphthalene and 30 thousand tonnes of phenols and cresols. Inkor Chemicals, together with Avdiivka Coke, controls the full production cycle, beginning with the processing of coal-tar to the acquisition of naphthalene fraction and phenol oil at Avdiivka Coke and finishing with the production of naphthalene at Inkor Chemicals. In 2008, Metinvest installed a new tray packaging line at Inkor Chemicals. In the six months ended 30 June 2016 and the year ended 31 December 2015, Inkor Chemicals produced approximately 7 thousand and 15 thousand tonnes of naphthalenes and 2 thousand tonnes of phenols and cresols, respectively.

Capital Investment Programme

As a result of the recent, significant civil disturbances and political instability in Ukraine, the military action in some parts of the Donetsk and Luhansk regions of Ukraine, as well as the terms of the Third Scheme, Metinvest has scaled back its capital investment programme for 2014-2016. The actual timing and cost of the implementation of Metinvest's investment programme may vary significantly from its estimates and depend on a variety of factors, including security and market conditions, levels of demand for Metinvest's products, the availability of funding, operating cash flow and other factors fully or partially outside Metinvest's control.

Metallurgical Segment Investment Programme

Metinvest spent U.S.\$276 million, U.S.\$137 million and U.S.\$61 million on implementing its investment programmes in the metallurgical segment in 2014, 2015 and the first six months of 2016, respectively. Metinvest's ongoing and planned investment programmes involve the construction and modernisation of various elements of the steel production process and are aimed at reducing operating costs, increasing production capacity, improving the quality of Metinvest's products and reducing dust and carbon dioxide emissions (see "*—Steel Business—Production Facilities*").

Key investment projects in 2014-2016 have included:

- an overhaul of converter No. 1, pre-commissioning works on new turbine and compressor unit and commissioning new blast furnaces at Yenakiieve Steel;
- an overhaul of blast furnace No. 4, the replacement of the turbine air blower, research and development in preparation for the re-construction of the rail and structural shop and re-construction of the continuous casting machine at Azovstal; and
- preparations for the refurbishment of the existing sinter plant at Ilyich Steel.

Metinvest has developed a technological programme, which includes the closure of outdated open-hearth furnaces. As part of this programme, Metinvest closed its open-hearth furnaces at Azovstal in 2011. The remaining open-hearth furnaces at Ilyich Steel were closed in 2014. The programme also envisages casting all steel using continuous-casting machines, upgrading and increasing Metinvest's steel-rolling capacities and securing Metinvest's position in its target markets of long and flat products.

Metinvest also plans to increase its cost-efficiency by building a PCI system at each of its metallurgical plants. Construction of the PCI system was completed in 2012 at Ilyich Steel. The aggregate cost of implementing this project, including the post-construction phase, is approximately U.S.\$140 million. At Yenakiieve Steel construction of a PCI system was started in 2012 and completed in 2016. The aggregate cost of implementing this project is expected to be approximately U.S.\$70 million (of which approximately U.S.\$65 million were spent as of 1 September 2016). Metinvest also intends to implement PCI technology at Azovstal. Generally, Metinvest is working on increasing energy efficiency at all stages of the production process, with a view to reducing its energy cost.

Currently, Metinvest is not planning any significant investments for Avdiivka Coke. Maintenance and capacity development costs amounted to approximately U.S.\$8 million and U.S.\$5 million in 2014 and 2015, respectively.

Iron Ore Business

Overview

Metinvest conducts its iron ore extraction and processing business primarily through Northern GOK, Ingulets GOK and Central GOK. In the year ended 31 December 2015, Metinvest produced 30.4 million tonnes of merchant iron ore concentrate and pellets, of which 33 per cent. were used internally for the production of steel products and 67 per cent. were sold to third parties. In the six months ended 30 June 2016, Metinvest produced 14.6 million tonnes of merchant iron ore concentrate and pellets, of which 36 per cent. were used internally for the production of steel products and 64 per cent. were sold to third parties. Metinvest's iron ore segment also includes Komsomolske Flux, a fluxing limestone producer that produced 1.6 and 1.4 million tonnes of fluxing limestone in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively.

Based on 2015 production, Metinvest was one of the ten largest iron ore producers in the world (based on management estimates and published operating results of the largest iron ore producing companies), as well as the largest producer of iron ore in Ukraine, according to Metal Expert.

Products

Merchant iron ore concentrate and pellets are generally commodity products and most customers make purchases on the basis of price, including transportation costs. Metinvest processes iron ore into merchant iron ore concentrate and pellets prior to sale. Metinvest's iron ore business is an important part of Metinvest's vertical integration; in the year ended 31 December 2015, 28 per cent. of its sales of iron ore products (by revenue) were to other Metinvest segments. The remaining 72 per cent. of its sales (by revenue) were to third parties in Ukraine, China, Romania, Slovakia, Czech Republic and Poland. In the six months ended 30 June 2016, 40 per cent. of its sales of iron ore products (by revenue) were to other Metinvest segments. The remaining 60 per cent. of its sales (by revenue) were to third parties in Ukraine, China, Romania, Slovakia, Czech Republic and Poland.

As at 30 June 2016, Metinvest's main external customers for iron ore included Zaporizhstal (a joint venture in which Metinvest holds a 49.9932 per cent. interest), ISD, ArcelorMittal, Prosperity Steel United and U.S. Steel.

Metinvest intends to increase its production of pellets, which tend to generate higher profit margins compared to merchant iron ore concentrate (see "*Iron Ore Business Investment Programme*" below).

The table below shows production by Metinvest of its principal iron ore products for the periods indicated:

	Year Ended 31 December		Six months ended 30 June 2016
	2014	2015	
	<i>(million tonnes)</i>		
Merchant iron ore concentrate	14	14	6
Pellets	8	7	3
Total	22	20	9

Note:

(1) Excluding production volumes for internal consumption.

Production Facilities

The following table sets forth Metinvest's production of iron ore products for the periods indicated:

	Iron Content (as at 31 December 2015) ⁽¹⁾ (per cent.)	Production		
		Year Ended 31 December		Six months ended 30 June 2016
		2014	2015	
		(million tonnes)		
Northern GOK				
Merchant iron ore concentrate	65.84	4.0	4.8	1.2
Pellets	62.91	8.6	7.7	4.7
Ingulets GOK				
Merchant iron ore concentrate (magnetic separation)	64.86	7.4	6.6	3.4
Merchant iron ore concentrate (flotation)	67.04	6.1	5.0	2.8
Central GOK				

	Iron Content (as at 31 December 2015) ⁽¹⁾	Production		
		Year Ended 31 December		Six months ended 30 June 2016
		2014	2015	
	(per cent.)		(million tonnes)	
Merchant iron ore concentrate	66.73	4.0	3.7	1.4
Pellets	65.64	2.3	2.3	1.2

Notes:

- (1) Average iron content achieved in the year ended 31 December 2015.
(2) Including production volumes for internal consumption.

Northern GOK

Northern GOK is one of the largest iron ore mining enterprises in Europe, according to Ukrudprom. It produces merchant concentrate with iron ore content of approximately 65.0 per cent.-66.0 per cent. and pellets with iron ore content of approximately 61.0 per cent.- 63.0 per cent. It has an annual iron ore concentrate production capacity of 14.4 million tonnes, including pellet production capacity of 10.3 million tonnes. It is located in the city of Kryvyi Rih in Dnipropetrovsk Oblast, which is situated approximately 460 kilometres from Azovstal and Ilyich Steel and approximately 540 kilometres from Yenakiieve Steel.

Northern GOK extracts and processes iron ore to produce pellets and merchant iron ore concentrate. Northern GOK currently mines iron ore from two open pit quartzite fields through a process of drilling and blasting and by removal of overburden to external dumps. The iron ore is then transported by rail to, and further processed at, on-site crushing, beneficiation and pelletisation plants.

In the six months ended 30 June 2016 and the year ended 31 December 2015, Northern GOK produced 1.2 and 4.8 million tonnes of merchant concentrate and 4.7 and 7.7 million tonnes of pellets, respectively. Approximately 51.6 per cent. and 35.8 per cent. of this output was consumed internally by Metinvest's steel production facilities, while the remainder was sold to external customers, respectively.

Northern GOK was privatised in several stages. On 3 August 1999, the SPF approved the amended privatisation plan for the sale of 35.74 per cent. of the shares in Northern GOK at tender, while a 50.0 per cent. plus 1 share stake was retained by the state. In November 2003, LLC Artanic, a company controlled by the SCM Group, acquired 35.74 per cent. of the shares in Northern GOK from unrelated, third party LLC firm Nezalezhnist. In July 2004, the SPF sold its remaining 50.0 per cent. plus 1 shareholding in Northern GOK to LLC Artanic. The SPF approved the completion of the privatisation of Northern GOK on 13 September 2004. Metinvest currently holds a 96.3961 per cent. interest in Northern GOK. Northern GOK's immoveable property is subject to a lien and a prohibition on disposal imposed by the State Service for Execution of Court Orders in the Terniv District of the city of Kryvyi Rih, relating to claims for an amount equal to approximately U.S.\$3.3 million from creditors, which pre-date its acquisition by Metinvest.

Ingulets GOK

Ingulets GOK is one of the largest iron ore mining enterprises in Ukraine, according to Ukrudprom. It produces merchant concentrate with iron ore content of 64.6 per cent. to 66.9 per cent. Ingulets GOK sells its merchant concentrate to steel mills outside Metinvest, and also supplies merchant iron ore concentrate to Azovstal, Yenakiieve Steel and Ilyich Steel. It is located in Kryvyi Rih in Dnipropetrovsk Oblast, approximately 610 kilometres from Azovstal and Ilyich Steel. Ingulets GOK was established in 1965 and was acquired by Metinvest in November 2007 from SMART. Metinvest currently holds a 99.7671 per cent. interest in Ingulets GOK.

Ingulets GOK extracts and processes iron ore to produce merchant iron ore concentrate. It has an annual iron ore concentrate production capacity of 15.1 million tonnes. It currently mines iron ore from its sole open pit quartzite field through a process of drilling and blasting and by removal of overburden to external dumps. The iron ore is then transported by rail to, and refined at, Ingulets GOK's beneficiation and flotation facilities.

In the six months ended 30 June 2016 and the year ended 31 December 2015, Ingulets GOK's output was 6.2 and 11.6 million tonnes of merchant concentrate, respectively. Approximately 34.7 per cent. and 41.4 per cent. of this output was consumed internally by Metinvest's steel production facilities in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively, while the remainder was sold to external customers.

Central GOK

Central GOK is the sixth-largest iron ore mining company in Ukraine by production volume, according to Ukrudprom. Central GOK is located in the city of Kryvyi Rih in Dnipropetrovsk Oblast.

Central GOK extracts and processes iron ore and produces merchant iron ore concentrate and pellets. It produces merchant concentrate with an iron ore content of 65.0 per cent. to 68.2 per cent. and pellets with an average iron ore content of 64.3 per cent. to 65.8 per cent. It has an annual iron ore concentrate production capacity of 6.2 million tonnes, including a pellet production capacity of 2.2 million tonnes. Central GOK currently mines iron ore from its three open-pit quartzite fields and one underground mine through a process of drilling, blasting and removing any overburden to external dumps. The iron ore is then transported by rail to, and subsequently refined at, its beneficiation facilities. The iron ore is then further processed at its crushing, concentration and pelletisation plants.

In the six months ended 30 June 2016 and the year ended 31 December 2015, Central GOK produced 1.2 and 2.3 million tonnes of pellets and 1.4 and 3.7 million tonnes of merchant iron ore concentrate. None of this output and 9.7 per cent. of this output was consumed internally by Metinvest's steel production facilities in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively, while the remainder was sold to external customers located predominantly outside Ukraine.

Central GOK was privatised pursuant to the amended privatisation plan approved by the SPF on 29 October 1999. Pursuant to the privatisation plan, 0.6 per cent. of the shares in Central GOK were allocated to the employees and management of Central GOK, 11.97 per cent. were sold at certificate auctions to various purchasers, 25.0 per cent. plus one share were sold to Detroit Cold Rolling Company L.C. on 31 January 2001 and 12.43 per cent. of the shares were sold on the stock exchange to the highest bidder. A 50.0 per cent. plus one share stake was also retained by the state. On 20 January 2003, Detroit Cold Rolling Company L.C. sold its 25.0 per cent. plus one share shareholding to the SCM Group and on 16 July 2004, the SPF sold 50.0 per cent. plus one share in Central GOK to the SCM Group. The SPF approved the completion of the privatisation of Central GOK on 17 May 2001. Metinvest currently holds a 99.7509 per cent. interest in Central GOK.

Komsomolske Flux

Komsomolske Flux, a large Ukrainian limestone mining enterprise, extracts and processes limestone which is used as a flux in Metinvest's steel-making process. Komsomolske Flux has an annual production capacity of 10 million tonnes of fluxing limestone. It is located in Komsomolsk city in the Donetsk region, which is situated approximately 56 kilometres from Donetsk, approximately 110 kilometres from Azovstal and Ilyich Steel, and approximately 100 kilometres from Yenakiieve Steel. It sells fluxing limestone primarily to Azovstal, Ilyich Steel and Yenakiieve Steel. Komsomolske Flux currently mines fluxing limestone from open-pit fields. The fluxing limestone is then transported by dumpcars and conveyer transport to, and further processed at, the crushing and processing plants.

In the six months ended 30 June 2016 and the year ended 31 December 2015, Komsomolske Flux produced 1.6 and 1.4 million tonnes of fluxing limestone, respectively. Approximately 76 per cent. and 53 per cent. of which was consumed internally by Metinvest's steel production facilities in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively, while the remainder was sold to external customers.

Southern GOK (associate)

Metinvest acquired a direct interest of 0.79 per cent. in Southern GOK in June 2014 and a 44.8 per cent. effective interest in July 2014.

Southern GOK was the first enterprise in the CIS region to be purpose-built for mining and enrichment of iron magnetite quartzite in order to obtain iron ore concentrate and agglomerate. Southern GOK operates an open-pit-based iron ore mine. It produces iron ore concentrate with an iron content of 65.2 per cent., 65.8 per cent. and 67.7 per cent., and agglomerate with an iron ore content of approximately 56.2 per cent. It has an annual iron ore concentrate production capacity of 11.2 million tonnes, including an agglomerate production capacity of 2.4 million tonnes. Southern GOK is located in the city of Kryvyi Rih in Dnipropetrovsk Oblast.

Southern GOK extracts and processes iron ore to produce merchant iron ore concentrate and agglomerate. Southern GOK currently mines iron ore from its one open-pit quartzite field through a process of drilling, blasting and by removal of any overburden to external dumps. The iron ore is then transported by rail to crushing, beneficiation and agglomeration plants.

In the six months ended 30 June 2016 and the year ended 31 December 2015, Southern GOK produced 4.7 and 10.2 million tonnes of merchant concentrate and 0.9 and 1.6 million tonnes of agglomerate, respectively. Approximately 13 per cent. and 7 per cent. of all agglomerate produced by Southern GOK was consumed by Metinvest's steel production facilities (Azovstal and Yenakiieve Steel) in the six months ended 30 June 2016 and the year ended 31 December 2015, respectively, while the remainder was sold to external customers. Merchant concentrate was sold only to external customers.

Quality control

Metinvest has a quality management system (certified by Bureau Veritas and the Ukrainian state enterprise Krivbasstandartmetrologia) in compliance with its standards and with the standards required for producers of merchant iron ore concentrate and pellets. Metinvest's quality management system is also certified under the ISO 9001 standard.

Metinvest is involved in various programmes aimed at improving the quality of its products. For example, the quality of iron ore concentrate at Central GOK and Ingulets GOK was raised to premium quality by increasing the iron content. In the year ended 31 December 2015, Metinvest produced 5.0 million tonnes of premium quality iron ore concentrate, with 67.04 per cent. iron content at Ingulets GOK and 4.4 million tonnes of premium quality iron ore concentrate, with 68.2 per cent. iron content at Central GOK.

Iron Ore Business Investment Programme

Metinvest spent U.S.\$304 million, U.S.\$136 million and U.S.\$53 million on implementing its investment programmes in the mining segment in 2014, 2015 and the first six months of 2016, respectively

Metinvest is currently undertaking investment programmes with respect to Northern GOK, Ingulets GOK and Central GOK. These investment programmes involve the construction and modernisation of various elements of the iron ore production process and aim to decrease the production cost, improve the quality of products and improve the safety and environmental standards of the facilities. These investment programmes will also include the development of conveyor ore transportation technology in deep quarries. Metinvest is currently undertaking the construction of a conveyor ore transportation complex at Pervomaysky quarry at Northern GOK. The aggregate cost of implementing this project is expected to be approximately U.S.\$172 million (of which approximately U.S.\$142 million had been spent as of 1 September 2016). Part of the project was put on hold due to funding limitations and delays in the transfer of rights to the underlying land plots. In 2012, Metinvest also approved the start of the construction of a conveyor ore transportation complex at Ingulets GOK, with an expected aggregate cost approximately U.S.\$130 million.

Pellet production

In 2008, Metinvest started reconstructing its pelletising machine Lurgi 278-B at Northern GOK to reduce the cost of production while maintaining Northern GOK's pellet production capacity at its current levels. The aggregate cost of implementing this project was approximately U.S.\$78 million (of which approximately U.S.\$65 million has been spent to date), but the project has been put on hold due to the lack of funding.

Coal Business

Overview

Metinvest conducts its coal business principally through Krasnodon Coal and United Coal. Coking coal produced by Krasnodon Coal is mostly sold internally to Avdiivka Coke and Azovstal for the production of coke, while approximately 40-50 per cent. of the coking coal produced by United Coal is sold to external customers.

Production facilities

The table below shows production by Metinvest of its principal coal and coke products for the years indicated:

	Annual Production Capacity	Production		
		Year Ended 31 December		Six months ended 30 June 2016
		2014	2015	
		(million tonnes) ⁽¹⁾		
Krasnodon Coal				
Coking coal	6.9	3.2	0.8	0.7

	Annual Production Capacity	Production		
		Year Ended 31 December		Six months ended 30 June 2016
		2014	2015	
		(million tonnes) ⁽¹⁾		
United Coal				
Coking coal ⁽²⁾	8.1	5.0	5.5	2.6

Notes:

- (1) Coal production figures include raw coal but do not include coal concentrate or other coal products.
(2) Includes coking coal and coals used for PCI.

Krasnodon Coal

Krasnodon Coal is a coking coal mining facility located in the city of Krasnodon, which is situated in the Luhansk Region of Ukraine. It sells coking coal primarily to Avdiivka Coke and Azovstal. Krasnodon Coal currently produces coking coal from its four underground mines, which it then processes at its on-site washing plants. In the six months ended 30 June 2016 and the year ended 31 December 2015, Krasnodon Coal's total raw coking coal output was 0.7 and 0.8 million tonnes, while coking coal concentrate production volume was 0.3 and 0.4 million tonnes, respectively (or approximately 5 per cent. and 9 per cent., respectively, of Metinvest's total coking coal concentrate requirements).

Production at Krasnodon Coal's mines has been scaled back due to damage to the railway infrastructure used for deliveries of coal to Metinvest's enterprises as a result of military activity in parts of the Donetsk and Luhansk regions of Ukraine. The plant was able to recommence the production and shipment of its commodity products, but at a reduced rate of efficiency (approximately one-third lower than normal). The main reason for this decline in production was the inability to ship finished products, which was in turn due to disruption to rail transport services and damage to the railway infrastructure. See also "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

Krasnodon Coal was privatised pursuant to the privatisation plan approved by the SPF on 26 August 2004, as amended on 23 December 2004. Pursuant to the privatisation plan, 0.09 per cent. of the shares in Krasnodon Coal were allocated to employees and management of Krasnodon Coal, 60.0 per cent. of the shares in Krasnodon Coal were sold at tender to Avdiivka Coke and a further 39.91 per cent. of the shares in Krasnodon Coal were sold on the Ukrainian Stock Exchange to Avdiivka Coke, as the highest cash bidder, giving Avdiivka Coke a total shareholding of 99.9 per cent. in Krasnodon Coal. The SPF approved the privatisation of Krasnodon Coal on 8 December 2005. Krasnodon Coal is currently subject to bankruptcy proceedings. See also "*—Legal proceedings*".

United Coal

United Coal is a producer of coking coal located in the central Appalachian region of the United States. United Coal was founded in 2004 and acquired by Metinvest in April 2009. Through its subsidiaries, United Coal mines coking coal using both underground and surface mining techniques in the states of West Virginia, Virginia, and Kentucky. Due to a fall in demand for steam coal in its target markets, United Coal ceased production of steam coal at the end of 2012, and has focused on the more marketable coking coal instead of increasing its production. In the year ended 31 December 2015, United Coal's output of raw coking coal amounted to 5.5 million tonnes, while coking coal concentrate production volume amounted to 2.8 million tonnes. In the year ended 31 December 2015, Metinvest used 52 per cent. of the coal produced by United Coal. The remaining 48 per cent. was sold to third parties.

In the six months ended 30 June 2016, United Coal's output of raw coking coal was 2.6 million tonnes, while coking coal concentrate production volume was 1.3 million tonnes. In the six months ended 30 June 2016, Metinvest used 43 per cent. of the coal produced by United Coal. The remaining 57 per cent. was sold to third parties.

Coal Business Investment Programme

The investment programme for Krasnodon Coal in 2016, with an approximate value of U.S.\$26 million, is under review due to the conflict in Eastern Ukraine. In the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, Metinvest spent U.S.\$48 million, U.S.\$20 million and U.S.\$7 million, respectively.

The investment programme for United Coal in 2016 is approximately U.S.\$7 million. In the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, Metinvest spent U.S.\$25 million, U.S.\$7 million and U.S.\$2 million, respectively.

Reserves

Metinvest's iron ore reserves have been evaluated according to international and Ukrainian methodologies. International reporting methodologies classify a deposit as either a mineral resource or an ore reserve. Mineral resources are further divided into three categories: an inferred mineral resource (whose geological characteristics can be estimated with a low level of confidence), an indicated mineral resource (whose geological characteristics can be estimated with a reasonable level of confidence) and a measured mineral resource (whose geological characteristics can be estimated with a high level of confidence). Ore reserves are divided into probable ore reserves and proved ore reserves. Probable ore reserves are the economically mineable part of an indicated and, in some circumstances, measured mineral resource. Proved ore reserves are the economically mineable part of a measured mineral resource. The application of "modifying factors" is required for a mineral resource to become an ore reserve. See "*Appendix II: Classification of Reserves and Resources*".

Ukrainian reporting methodologies classify deposits as one of "explored", "evaluated" or "probable". Explored and evaluated deposits are further classified into four classes: Category A reserves (explored deposits that meet certain criteria with a relatively high level of certainty); Category B reserves (explored deposits whose boundaries have been determined with less accuracy than Category A reserves); Category C1 reserves (explored deposits characterised by a lower degree of accuracy than Category B reserves); and Category C2 reserves (evaluated deposits characterised by a lower degree of accuracy than Category C1 reserves).

Deposits that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable deposits in categories P1, P2 or P3. Category A and Category B Ukrainian reserves roughly correlate to proved reserves, and C1 Ukrainian reserves roughly correlate to probable reserves. See "*Appendix II: Classification of Reserves and Resources*".

Metinvest has consulted with SRK, an international consulting firm, in relation to its ore reserves and mineral resources located in Ukraine. In relation to Central GOK and Northern GOK's iron ore reserves and resources, Metinvest established computerised, three-dimensional geological and mining optimisation models which confirm the current ore reserve and mineral resource statements reported as at 1 January 2010. The mineral resource and ore reserve statements for Central GOK and Northern GOK are derived from the depletion of the latest available estimates (dated 2008) to reflect the position as at 1 January 2010. In relation to Ingulets GOK the mineral resource and ore reserve statements are derived from a translation of the latest available Ukrainian state-approved reserve classification system into the mineral resource and ore reserve statements reported as at 1 January 2010, without recourse to similar processes as established for Central GOK and Northern GOK. Furthermore, for the mineral resource and ore reserve statements as presented for Northern GOK and Ingulets GOK, the following apply:

- measured and indicated mineral resources are inclusive of those mineral resources modified to produce ore reserves;
- where necessary, mineral resources and ore reserves assume that special permits will be extended for a minimum time period required to deplete and process the ore reserves. In addition, significant amounts of waste rock must be mined and stored to fully deplete the stated ore reserves as reported herein. Currently, in the immediate areas surrounding the mining assets, land ownership is an issue and in certain instances as at 1 January 2010 Metinvest did not have access to sufficient land nor the legal right to dispose of the total quantum of waste rock planned to be mined at that time. Management believes that this issue is unlikely to impact operations in the short term (albeit at increased operating expenditures). However, the land issue is significant and warrants continued attention by Metinvest;
- for Central GOK and Northern GOK, open-pit mineable mineral resources are reported within an optimised shell assuming a long term price of US\$200/dmtu;
- ore reserves are reported assuming Metinvest's long term price assumptions ranging between US\$140/dmtu and US\$150/dmtu;
- the modifying factors assumed in deriving the ore reserves as reported include the following:
 - for Central GOK: dilution (3 per cent. to 6 per cent.), dilutant (FeMAG 3 per cent. to 6 per cent.), ore losses (3 per cent. to 6 per cent.) and yield (34 per cent.);

- for Northern GOK: dilution (1 per cent.), dilutant (FeMAG 0 per cent.), ore losses (1 per cent.) and yield (42 per cent.); and
- for Ingulets GOK: dilution (4 per cent.), dilutant (FeMAG 10 per cent.), ore losses (1 per cent.) and yield (36 per cent.);
- the economic viability of the ore reserves is informed by the assumed long term prices, the modifying factors and the historical operating expenditure for calendar 2009 as noted below:
 - for Central GOK: U.S.\$14/tmilled (USc45/dmtu);
 - for Northern GOK: U.S.\$16/tmilled (USc35/dmtu);
 - for Ingulets GOK: U.S.\$12/tmilled (USc35/dmtu); and
- the economic viability of the ore reserves are contingent upon Metinvest's assumed expansions at the various iron ore assets which are in turn supported by the assumed capital expenditure programmes. See "*Investment Programme*".

Metinvest undertook a similar consultation process with respect to its coal reserves located in the United States. The Cardno audit was conducted expressly to provide the necessary documentation and independent verification for filings with the SEC. Accordingly, the reserve audit focused on those portions of the coal deposits that qualify as demonstrated (proven and probable) coal reserves, as defined in SEC Industry Guide 7. Additionally, Metinvest controls coal tonnes that were classified as resources or "non-reserve coal deposits" under SEC guidelines. Metinvest also presents Ukrainian estimates in relation to its coal reserves.

Metinvest believes that the resource estimates, on which it based its estimates of the ore reserves, are reasonable. Estimates of ore reserves are based only on that portion of the deposit that meets accepted international industry standard guidelines for classification as proved and probable reserves.

Metinvest's reserves are based on drilling and geological data, and represent the part of the mineral resources that could be legally and economically extracted or produced at the time of the reserve determination.

Adjustments to Metinvest's proved and probable reserves

The following table sets forth adjustments to Metinvest's proved and probable reserves (as at the reporting dates specified below) to reflect actual mined production for the period from the reporting date to 30 June 2016; see also "*Appendix II: Classification of Reserves and Resources*":

	Proved and probable reserves	Year ended 31 December 2015			Six months ended 30 June 2016	Adjusted reserves as at 30 June 2016
		2010-2013	2014	2015		
		(million tonnes)				
Iron ore	1,867 ⁽¹⁾	329.5	80.7	71.7	35.1	1350
Coal - Ukraine ⁽²⁾	420.2	—	—	—	—	—
Coal - United Coal (US)	151.0 ⁽³⁾	13.1	2.7	3.1	1.3	85.9

Notes:

- (1) According to JORC methodologies, as at 1 January 2010 (SRK Report).
- (2) According to Ukrainian methodologies, as at 30 June 2016.
- (3) According to SEC methodologies, as at 31 December 2009 (Cardno Report).

Iron Ore Reserves and Resources

The following tables set out Metinvest's iron ore reserves and mineral resources according to JORC methodologies as at 1 January 2010.

	JORC Reserves (by type)		
	Tonnage <i>(million tonnes)</i>	Fe Grade	
		<i>(magnetite)</i>	<i>(total)</i>
<i>Proved Reserves</i>			
Central GOK ⁽¹⁾	452	21.35%	31.83%
Northern GOK ⁽²⁾	508	24.23%	31.73%

JORC Reserves (by type)			
	Tonnage	Fe Grade	
Ingulets GOK ⁽³⁾	63	24.46%	33.65%
Total Proved Reserves	1,022	22.97%	31.89%
<i>Probable Reserves</i>			
Central GOK ⁽¹⁾	258	21.77%	31.95%
Northern GOK ⁽²⁾	205	27.10%	34.25%
Ingulets GOK ⁽³⁾	381	25.23%	34.11%
Total Probable Reserves	844	24.63%	33.48%
<i>Total Ore Reserves</i>			
Central GOK ⁽¹⁾	709	21.50%	31.88%
Northern GOK ⁽²⁾	713	25.06%	32.45%
Ingulets GOK ⁽³⁾	444	25.12%	34.04%
Total Proved and Probable Reserves	1,867	23.72%	32.61%
<i>Measured Resources</i>			
Central GOK ⁽¹⁾	879	22.46%	33.11%
Northern GOK ⁽²⁾	1,053	25.47%	32.69%
Ingulets GOK ⁽³⁾	61	25.17%	34.63%
Total Measured Resources	1,993	24.14%	32.94%
<i>Indicated</i>			
Central GOK ⁽¹⁾	1,248	23.78%	33.42%
Northern GOK ⁽²⁾	1,442	26.54%	34.66%
Ingulets GOK ⁽³⁾	864	25.62%	34.63%
Total Indicated Resources	3,554	25.34%	34.22%
<i>Measured and Indicated Resources</i>			
Central GOK ⁽¹⁾	2,127	23.23%	33.29%
Northern GOK ⁽²⁾	2,495	26.09%	33.83%
Ingulets GOK ⁽³⁾	926	25.59%	34.63%
Total Measured and Indicated Resources	5,547	24.91%	33.76%
<i>Inferred Resources</i>			
Central GOK ⁽¹⁾	562	23.76%	33.33%
Northern GOK ⁽²⁾	1,312	27.49%	35.82%
Ingulets GOK ⁽³⁾	12	19.85%	31.48%
Total Inferred Resources	1,855	26.34%	35.05%
<i>Total Mineral Resources</i>			
Central GOK ⁽¹⁾	2,689	23.35%	33.30%
Northern GOK ⁽²⁾	3,807	26.57%	34.52%
Ingulets GOK ⁽³⁾	937	25.52%	34.59%
Total	7,432	25.27%	34.09%

Notes:

- (1) Approximately 96.4 million tonnes of iron ore reserves and resources were extracted from Central GOK's mines in aggregate between 1 January 2011 and 30 June 2016.
- (2) Approximately 203.0 million tonnes of iron ore reserves and resources were extracted from Northern GOK's mines in aggregate between 1 January 2011 and 30 June 2016.
- (3) Approximately 217.5 million tonnes of iron ore reserves and resources were extracted from Ingulets GOK's mines in aggregate between 1 January 2011 and 30 June 2016.

The following tables set out Metinvest's iron ore reserves and mineral resources extracted in the years ended 31 December 2010, 2011, 2012 and 2013, 2014, 2015 and the six months ended 30 June 2016.

	Year ended			Six months ended 30 June 2016	Total
	2010-2013	2014	2015		
			(million tonnes)		
Central GOK	59.9	15.4	14.7	6.42	96.4
Northern GOK	127.7	33.1	28.5	13.7	203.0
Ingulets GOK	142	32.1	28.5	14.9	217.5
Total	329.6	80.7	71.7	35.1	517.0

Coal Reserves

The following table sets out Metinvest's coal reserves according to the Ukrainian methodology as at 30 June 2016.

	A	B	C1	Total A, B and C1	C2
Molodogvardeyskaya		29,777	24,544	54,321	
50-Letya SSSR	309	13,610	12,055	25,974	307
Duvannaya			2,407	2,407	
Barakova		6,209	13,269	19,478	
Sukhodolskaya-Vostochnaya		22,997	148,639	171,636	1,239
Samsonovskaya-Zapadnaya		28,895	103,111	132,006	
Orehovskaya	69	2,047	12,346	14,462	881
Total:	378	103,535	316,371	420,284	2,427

The following table sets out United Coal's coal reserves audited by Cardno, according to the SEC methodology, as well as adjustments by management to United Coal's coal reserves (as at the reporting dates specified below).

	United Coal Reserves Estimate as at 31 December 2009		was added, if not included in Estimated Reserves ⁽¹⁾				was extracted				Adjusted United Coal Reserves Estimate as at 30 June 2016 ⁽²⁾	
			Six months ended 30 June				Six months ended 30 June					
United Coal's subsidiaries	United Coal	Cardno	Year ended 31 December				Year Ended 31 December				United Coal	Cardno
			2010- 2013	2014	2015	2016	2010-2013	2014	2015	2016		
			(moist, recoverable thousands of tonnes)									
Carter Roag Coal Company	41,137	41,136	1,331	—	(17,032)	—	1,904	337	549	216	22,431	22,430
Pocahontas Coal Company	63,206	63,023	(34,426)	47	(19,469)	—	3,117	93	—	—	6,149	5,966
Sapphire Coal Company	12,030	11,661	(2,819)	—	(6,557)	—	2,286	—	—	—	—	—
Wellmore Coal Company	34,581	35,229	20,998	1,583	(23,041)	—	4,860	1,281	1,467	565	25,949	26,596
Affinity Coal Company	—	—	40,306	—	(5,543)	—	854	971	1,054	482	31,403	31,402
Total (proven and probable)	150,954	151,049	25,390	1,630	(71,641)	—	13,020	2,681	3,069	1,262	85,932	86,394

Notes:

- (1) The unaudited reserve adjustments made by Metinvest may include: lease/purchase acquisitions; leases that were terminated or sold; redefining resources and reserves based on new data such as core holes, outcrop, or mine data; and negative adjustments made in mined areas that result in sterilised coal or blocks of coal rendered un-mineable due to mining activity or where additional data disqualifies a block as a reserve. The unaudited reserve adjustments have been included for information only and have not been independently verified.
- (2) Adjusted United Coal reserves estimates exclude unaudited reserve adjustments. For the adjusted reserve estimates including unaudited reserve adjustments see notes 3 to 8 below.

United Coal's coal reserves were estimated based on industry-accepted guidelines for total coal/seam thickness, coal quality, coal recoverability, product yield, and other practical permitting and mining limitations. Cardno independently audited 100 per cent. of the United Coal reserve area focusing on those portions of United Coal's coal deposits that qualify as demonstrated (proven and probable) reserves, as defined in SEC Industry Guide 7. United Coal also controls coal tonnes that are classified as resources or "non-reserve coal deposits" under SEC guidelines which have not been included here.

Licences and permits

In Ukraine, Metinvest must obtain: (i) special permits for subsoil use, and (ii) mining allotment acts from governmental authorities to explore and extract iron ore and coal from its deposits in Ukraine, according to Ukrainian legislation governing mining activities, in particular, the Code of Ukraine "On Subsoil", dated 27 July 1994, as amended from time to time (the **Subsoil Code**), and the Mining Law of Ukraine, dated 6 October 1999, as amended from time to time. Metinvest is also subject to other requirements associated with such special permits and mining allotment acts, including payments for subsoil use, obtaining relevant insurance, payments of environmental duties and other duties.

Special permits for subsoil use are generally granted on a competitive basis through auctions conducted by the State Geology and Subsoil Service of Ukraine (the **State Geology Service**). However, in some cases the applicable legislation enables special permits to be granted without auction or following a different procedure. Special permits are issued for terms of up to five years for the geological survey of mineral deposits, including research and industrial development of mineral deposits of general use, and for terms of up to 20 years for the extraction of minerals. Each special permit is granted for the type of subsoil use and within the area specified in such permit.

A subsoil user is not authorised to bestow, sell or otherwise transfer the rights granted by a permit. The contribution of such rights to the charter capital of other entities (including existing subsidiaries of the relevant subsoil user) and their transfer into joint ventures are also prohibited.

The conditions for the use of natural resources are set forth in an agreement between the permit owner and the State Geology Service. The permit owner must commence its use of the subsoil area within two years after the issuance of the special permit, otherwise the right of subsoil use may be terminated by the State Geology Service (by way of annulment of the special permit).

For the purpose of subsoil use under a special permit, Metinvest must also apply to the State Service of Ukraine on Labour Issues (the **State Labour Service**) to obtain a mining allotment act which evidences a right to use a particular subsoil area for industrial development of nationwide minerals. Mining allotment acts are issued under the Regulation of the Cabinet of Ministers of Ukraine No. 59 "On Approval of Regulation on Procedure for the Provision of Mining Allotments", dated 27 January 1995. In order to apply for the issuance of a mining allotment act, an applicant should have: (i) a relevant special permit for the subsoil use, and (ii) a duly approved project of mining reserves development. A mining allotment act is issued in accordance with the borders of the subsoil area specified in the relevant special permit. A subsoil user is not authorised to transfer the rights granted by the mining allotment act (in full or in part) to a third party.

A special permit may be suspended by the State Geology Service in certain circumstances, including: breach of conditions of subsoil use; if the activities of the permit holder impose a direct threat to health or life of individuals; non-payment of national taxes and fees; non-performance within specified time periods of orders of state authorities to remedy a violation of subsoil use or environmental protection legislation. The period of suspension of the special permit does not increase the initial term of validity of the special permit, unless it is renewed upon removal of grounds for suspension or the suspension is found not compliant with applicable law by a court judgment.

The right to use subsoil may be terminated (i.e., special permits may be cancelled) in certain circumstances, including, without limitation: if there is no necessity for further subsoil use; if the permit holder relinquishes its right to use of subsoil rights; if the permit holder is reorganised or liquidated (except for cases prescribed by law); if permit holder applies methods of subsoil use which negatively affect the state of subsoil, pollute the environment or endanger health; if the information submitted by the permit holder is later found to be untrue; if the permit holder fails to implement directions given by the relevant authorities on the elimination of certain violations; if the permit holder uses the subsoil rights for purposes other than those provided for in the permit or fails to meet other requirements envisaged by the special permit; if the permit holder fails to commence mining activities within two years from the date of issuance of the special permit; or if the subsoil site is expropriated in accordance with applicable law.

Re-issuance of a special permit (without an extension of its term) must be sought if the user has changed its name and in certain other cases envisaged by law, and the originally issued special permit would lose its validity upon the expiry of the statutory period for its re-issuance.

On 15 October 2014, the ATO Law became effective. The ATO Law establishes that the licences and permits issued to the legal entities that carry out their business activities in the anti-terrorist operation territory, the terms of which have expired at the time of the relevant anti-terrorist operation, shall be prolonged for the duration of the anti-terrorist operation. See also *"Risk Factors—Risks Relating to Metinvest—Metinvest's mining business depends on permits issued by the Government and such permits may be withheld, revoked or not renewed"*.

Metinvest's Iron Ore Special Permits

Metinvest conducts its exploration and production activities under a number of special permits and mining allotment acts held by its operating subsidiaries.

Re-issued permits

In May 2016, each of Central GOK, Ingulets GOK, Northern GOK, Ilyich Steel and Krasnodon Coal changed company type from a public joint stock company to a private joint stock company and applied for the re-issuance of its special permits for subsoil use in respect of all mines (except for the Gigant-Glyboka mine and mines which are currently in the process of conservation). As of the date of these Listing Particulars, all special permits (except for special permits of Krasnodon Coal) were re-issued by the competent authorities. Although the competent body adopted a decision to re-issue Krasnodon Coal's permits in October 2016, the permits are expected to be re-issued and delivered to the company in late January 2017.

The re-issuance of special permits triggered a requirement to renew mining allotment acts. As of the date of these Listing Particulars, most of the respective mining allotment acts (except for acts granted in relation to Ilyich Steel's deposit, workings of the Ordzhonikidze mine, Ingulets GOK's deposit and all Krasnodon Coal acts which are expected to be re-issued in January-February 2017) were re-issued.

Central GOK

Central GOK operates under several mining special permits granted in relation to mines in Dnipropetrovsk and Kirovograd oblasts containing iron quartzite. Most of the special permits to extract iron quartzite are valid for a period of 20 years and will expire on 11 April 2030, save for a special permit related to the workings of the Ordzhonikidze mine, which is valid for 16 years and will expire on 23 November 2017.

Central GOK has also applied for the extension and the amendment of the special permit related to the workings of the Gigant-Glyboka mine, which was valid for 10 years and expired on 2 September 2014. In December 2014, the State Geology Service refused to extend and amend special permit related to the workings of the Gigant-Glyboka mine. Central GOK challenged the position of the State Geology Service in two parallel court proceedings, initiated on different grounds. One of these proceedings has terminated and Central GOK's claim has been dismissed, while the second court proceeding is pending. Metinvest does not consider that failure to extend this special permit would have a material adverse effect for Central GOK as Gigant-Glyboka mine is not currently used to extract minerals.

Central GOK holds a number of mining allotment acts in relation to iron ore deposits in Dnipropetrovsk and Kirovograd oblasts, which were issued for periods ranging from five to 18 years and will expire on various dates between 2017 and 2030, except for a mining allotment act regarding Gigant-Glyboka mine which was granted for two years and expired in September 2014. The mining allotment act regarding Gigant-Glyboka mine can not be reissued until the court proceedings have been completed and Central GOK's special permit has been extended. The act related to the workings of the Ordzhonikidze mine is currently being re-issued.

Ingulets GOK

Ingulets GOK operates under a special permit granted in relation to iron quartzite mines in Dnipropetrovsk. The special permit is valid for a period of 18 years and will expire on 14 July 2017.

Ingulets GOK holds a mining allotment act granted in relation to the Ingulets GOK's deposit valid until 14 July 2017.

Northern GOK

Northern GOK operates under several mining special permits granted in relation to mines in Dnipropetrovsk oblast containing iron and iron quartzite. The special permits are valid for a period of 20 years and will expire on various dates in 2017 and 2026.

In February 2016, the State Geology Service of Ukraine issued an order suspending Northern GOK's special permit with respect to Gannivske deposit (one of three deposits and workings in Dnipropetrovsk oblast used by Northern GOK to extract iron ore) and establishing a deadline for remedying breaches by the company. On 15 April 2016, Dnipropetrovsk Circuit Administrative Court satisfied Northern GOK's claim and cancelled the order of the State Geology Service on suspension of the special permit. On 6 July 2016, the Dnipropetrovsk Administrative Court of Appeal upheld the decision of the court of first instance. The State Geology Service filed an appeal challenging the decision of the Dnipropetrovsk Administrative Court of Appeal with the High Administrative court of Ukraine. Proceedings are currently pending, but Northern GOK does not believe that the challenge will succeed.

Northern GOK holds a number of mining allotment acts in relation to the Gannivske and Pervomaiske deposits and the Pershotravneva mine. The mining allotment acts for the Gannivske and Pervomaiske deposits are valid for a period of six years and will expire on 21 October 2017. The mining allotment act for the extraction of minerals from the territory of Pershotravneva mine is valid until 25 September 2026.

Ilyich Steel

Ilyich Steel holds a special permit granted in relation to deposit in Dnipropetrovsk oblast containing iron ore. The special permit is valid for a period of 13 years and will expire on 7 July 2019.

On 4 September 2015 the State Geology Service issued an order on suspension of the Ilyich Steel special permit to use the subsoil. In 2015 - 2016 Ilyich Steel successfully challenged the order both in the court of first instance and in

the appellate court. In September 2016 the State Geology Service challenged the appellate court's decision on cancellation of its order. Ilyich Steel does not believe that the challenge will succeed and the suspension of the special permit would have a significant effect on Metinvest Group's operations. See *"Risk Factors—Risks Relating to the Group—Risks relating to Ilyich Steel"*.

Ilyich Steel holds a mining allotment act granted in relation to the Ilyich Steel deposit valid until 7 July 2019. The act is currently being re-issued by the competent authorities.

Metinvest's Coal Licences and Special Permits

Krasnodon Coal operates under several mining special permits granted in relation to mines in Luhansk oblast containing coal, germanium and methane. The special permits are valid for periods ranging from 11 to 20 years and will expire at various dates between 2016 and 2027. Special permits with respect to Samsonivska-Zakhidna mine and mine named after N.P. Barakov will expire on 4 September 2019 and 9 December 2018 respectively, while permits regarding Duvanna and Sukhodolska-Skhidna mines will expire in December 2016. The company has submitted documents required to extend special permits with respect to Duvanna and Sukhodolska-Skhidna mines to appropriate state bodies. A decision is expected to be made by February 2017. Duvanna and Sukhodolska-Skhidna mines are located within the conflict zone and the respective special permits should be automatically extended for the period of the anti-terrorist operation in accordance with the ATO Law.

The mines "50 years of USSR" and Orikhivska, whose special permits expired in December 2016, were conserved recently and will be liquidated.

Krasnodon Coal holds a number of mining allotment acts granted in relation to coal deposits in Krasnodon region. The mining allotment acts are valid for periods ranging from four to 15 years and will expire at various dates between 2016 and 2027. The acts are currently being re-issued by the competent authorities.

United Coal

United Coal, through its operating subsidiaries located in Virginia, West Virginia and Kentucky, is a party to various mineral leases, surface leases and permits in respect of underground coal mines, surface coal mines and preparation plants located in Virginia and West Virginia. While the term of such mineral leases can vary, they typically expire once all mineable and merchantable is mined and associated reclamation activities are completed. Corresponding permits are valid for a period of five years and are typically renewed for additional five year periods until reclamation is complete.

In addition, Metinvest's business outside Ukraine depends on the continuing validity of licences, the issuance of new licences and compliance with the terms of such licences, which may involve uncertainties and additional costs to Metinvest.

Any or all of these factors may affect Metinvest's ability to obtain, maintain or renew necessary licences. If Metinvest is unable to obtain, maintain or renew necessary licences and special permits or is only able to obtain or renew them with newly introduced material restrictions, it may be unable to benefit fully from its reserves and implement its long-term expansion plans, which may materially adversely affect Metinvest's business, results of operations and financial condition.

As Metinvest currently plans to extend its licences at their scheduled termination and believes that it will be entitled to do so, its reserves are stated based on the maximum projected useful lives of the relevant fields. However, there can be no assurance that Metinvest will be able to extend its licences, or that its licences will not be withdrawn prior to their scheduled expiration. See *"Risk Factors—Risks Relating to Metinvest—Metinvest's mining business depends on permits issued by the Government and such permits may be withheld, revoked or not renewed"*.

Marketing and Distribution

Metinvest sells its steel and iron ore products to export markets (excluding the CIS) through Metinvest International, based in Geneva. Metinvest SMC, located in Kyiv, sells Metinvest's steel products in the Ukrainian market and CIS market (except for Belarus). Metinvest Distribution, located in Minsk, sells Metinvest's steel products in the Belarusian market. Metinvest Eurasia sells Metinvest's steel products to the Russian market (including most transit supplies to the Belarusian market). Metinvest sells its coke and coal directly through its Ukrainian and U.S. subsidiaries.

The table below show Metinvest's consolidated sales by region and product segment for the years indicated.

	Year Ended 31 December				Six months ended 30 June 2016	
	2014 ⁽¹⁾		2015 ⁽¹⁾			
	Sales volume	Amount of revenues	Sales volume	Amount of revenues	Sales volume	Amount of revenues
	(million tonnes)	(million U.S.\$)	(million tonnes)	(million U.S.\$)	(million tonnes)	(million U.S.\$)
Ukraine, of which:						
Metallurgical ⁽²⁾	3,254	1,578	2,983	1,151	1,153	484
Mining ⁽³⁾	9,366	918	7,315	468	4,249	214
Europe, of which:						
Metallurgical ⁽²⁾	4,648	2,751	4,793	2,090	2,475	957
Mining ⁽³⁾	2,217	199	2,790	165	1,429	79
Middle East and North Africa, of which:						
Metallurgical ⁽²⁾	3,476	1,872	3,372	1,266	1,525	487
Mining ⁽³⁾	0	0	498	39	14	1
CIS, of which:						
Metallurgical ⁽²⁾	1,628	1,073	1,267	602	508	226
Mining ⁽³⁾	1	1	0	0	0	0
South-East Asia, of which:						
Metallurgical ⁽²⁾	922	516	265	116	102	28
Mining ⁽³⁾	10,908	1,150	10,034	635	4,541	242
North America, of which						
Metallurgical ⁽²⁾	677	281	379	111	330	79
Mining ⁽³⁾	1,170	124	1,379	118	698	57
Other countries, of which:						
Metallurgical ⁽²⁾	159	94	209	71	83	29
Mining ⁽³⁾	84	7	0	0	0	0
Total	38,510	10,565	35,284	6,832	17,107	2,880

Notes:

- (1) Sales volumes and revenues include re-sales of products of Zaporizhstal.
- (2) Metallurgical sales volumes include re-sales of products of other producers.
- (3) Mining sales volumes include re-sales of flux and dolomite products, coking coal.

Metallurgical Segment

In the year ended 31 December and the six months ended 30 June 2016, approximately 67 per cent. of Metinvest's steel sales were paid for by way of letter of credit, bank guarantee or insurance coverage; 15 per cent. of sales were made on open payment terms under which customers were allowed up to 30 days to make payments; and the remaining 18 per cent. of sales were made on pre-payment terms.

The delivery terms and conditions are based on Incoterms 2010 (in some cases Metinvest contracts on Incoterms 2000) which are defined by the International Chamber of Commerce). Delivery terms for Metinvest's Ukrainian steel sales are "free carrier" (FCA) to railway stations located near its steel production facilities or "carriage paid to" (CPT) a nominated destination. Metinvest's steel sales to Russia and the CIS region are delivered on an "at frontier basis" (DAF) to the Ukrainian border or "carriage paid to" (CPT) to a nominated destination. Metinvest's steel sales to its customers outside the CIS region are delivered on the basis of "free on board" (FOB) or "cost and freight" (CFR).

Delivery terms for Metinvest's Ukrainian sales of metallurgical coke are "free carrier" (FCA) to railway stations located near its coke production facilities.

Mining Segment

In the year ended 31 December 2015 and the six months ended 30 June 2016, approximately 1 per cent. of Metinvest's iron ore sales were prepaid; 1 per cent. of Metinvest's iron ore sales were paid for within 15 to 30 days of shipment and; 17 per cent. of Metinvest's iron ore sales were paid for 60 days after shipment. Approximately 81 per cent. of Metinvest's iron ore sales were paid for by way of letter of credit.

Delivery terms for Metinvest's Ukrainian iron ore sales are "free carrier" (FCA) to railway stations located near its steel production facilities. Metinvest's sales of iron ore to the Czech Republic, Slovakia, Romania, Serbia, and Poland are delivered on an "at frontier" basis (DAF), a "delivered at place" basis (DAP) and on the basis of "free on board" (FOB). Metinvest's iron ore sales requiring sea transport are delivered to the respective ports (Yuzhny,

Odesa, and Illiychevsk ports) on a "cost and freight" (CFR) basis. Metinvest generally bears all transportation costs in relation to iron ore deliveries to its customers located in China.

Metinvest sells most of its coal mined in Ukraine domestically. Delivery terms for Metinvest's coal sales in Ukraine are mainly "free carrier" (FCA) to railway stations located near its production facilities. In the year ended 31 December 2015, United Coal sold 99 per cent. of its coal to customers in the United States and the remaining 1 per cent. to other countries. In the year ended 31 December and the six months ended 30 June 2016, United Coal sold 100 per cent. of its coal to customers in the United States.

United Coal enters into most of its contracts on a "free on board" (FOB) delivery basis to ports in Norfolk and Baltimore in the United States.

Customers and Pricing

Metallurgical Segment

In the year ended 31 December 2015, the top five external steel and coke customers represented, in aggregate, approximately 20 per cent. of Metinvest's total volume of products sold, and almost all of Metinvest's steel production (by volume) was sold on the spot market. In this period, Metinvest's top three external customers for steel products were Zaporizhstal, Marcegaglia SPA, and Colakoglu, together accounting for approximately 18 per cent. of total volume of steel and coke products sold.

In the six months ended 30 June 2016, the top five external steel and coke customers represented, in aggregate, approximately 21 per cent. of Metinvest's total volume of products sold, and almost all of Metinvest's steel production (by volume) was sold on the spot market. In this period, Metinvest's top three external customers for steel products were Zaporizhstal, Colakoglu, and Hus Ltd., together accounting for approximately 18 per cent. of total volume of steel and coke products sold.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years Ended 31 December 2015 and 2014" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Six Months Ended 30 June 2016 and 2015" for information in relation to the sale prices of Metinvest's steel products.

Mining Segment

In the year ended 31 December 2015 and the six months ended 30 June 2016, approximately 3 per cent. of Metinvest's external merchant iron ore concentrate and pellets sales were made under contracts generally entered into for a period of five years; 24 per cent. of external iron ore concentrate and pellets were sold under annual contracts with a monthly adjustment mechanism; and 15 per cent. of external iron ore concentrate and pellets were sold under annual contracts with a price adjustment mechanism for every shipment. Metinvest sold the remaining 58 per cent. on the spot market.

In the year ended 31 December 2015, the top five external coal and iron ore products customers represented, in aggregate, approximately 51 per cent. of total volume of coal sold in that period. Metinvest's top three external customers for iron ore products and coking coal were Zaporizhstal, Arcelor Mital Sourcing, and Evraz Dniprodzerzhynskiyi KKHZ, which purchased 8.6 million tonnes of coking coal and iron ore products and accounted for approximately 39 per cent. of Metinvest's total volume of coal and iron ore products sold in the year ended 31 December 2015.

In the six months ended 30 June 2016, the top five external coal and iron ore products customers represented, in aggregate, approximately 57 per cent. Metinvest's top three external customers for iron ore products and coking coal were Zaporizhstal, Evraz Dniprodzerzhynskiyi KKHZ, and Citic Metal, which purchased 4.6 million tonnes of coking coal and iron ore products, and accounted for approximately 42 per cent. of Metinvest's total volume of coal and iron ore products sold in the six months ended 30 June 2016.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Year Ended 31 December 2015 and 2014" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Six Months Ended 30 June 2016 and 2015" for information in relation to the sale prices of Metinvest's steel products.

Raw Materials and Energy

The principal raw materials used by Metinvest in the production of steel include: merchant iron ore concentrate, pellets, metallurgical coke, scrap metal, dolomite and ferroalloys. Metinvest is self-sufficient as to most of the raw materials needed for steel production. Raw materials accounted for approximately 25 per cent. of Metinvest's cost base for the year ended 31 December 2015, with natural gas and electricity accounting for approximately 6 per cent. and 8 per cent., respectively. Raw materials accounted for approximately 28 per cent. of Metinvest's cost base for the six months ended 30 June 2016, with natural gas and electricity accounting for approximately 5 per cent. and 9 per cent., respectively.

The table below sets forth Metinvest's usage of its primary raw materials, as well as the average cost per tonne of these materials for the years indicated.

	Year Ended 31 December		Six months ended 30 June 2016
	2014	2015	
Usage (thousand tonnes):			
Iron ore ⁽¹⁾	6,900	6,781	2,237
Pellets	2,927	3,320	2,812
Coke	4,905	4,502	2,396
Scrap metal	1,237	970	443
Ferroalloys	151	114	64
Average cost per tonne (UAH):			
Iron ore ⁽¹⁾	1,073	1,203	974
Pellets	1,279	1,594	1,636
Coke	2,308	4,093	3,312
Scrap metal	2,872	3,674	4,067
Ferroalloys	18,717	32,918	28,811
Average cost per tonne (U.S.\$):			
Iron ore ⁽¹⁾	93	56	38
Pellets	118	73	64
Coke	199	189	130
Scrap metal	254	172	160
Ferroalloys	1,595	1,524	1,130

Note:

(1) Includes sinter purchased from third parties, iron ore concentrate and sintering ore.

Iron ore

Metinvest was more than fully self-sufficient in iron ore that it needs for steel production, based on its production volumes for the year ended 31 December 2015. Excess iron ore products are sold in the market. In the year ended 31 December 2015, 212 per cent. of excess merchant iron ore products in volumes were sold domestically or were exported.

Coal and Coke

Metinvest was approximately 48 per cent. self-sufficient in coking coal as at 31 December 2015 (based on the consumption of coking coal required for pig iron production in the year ended 31 December 2015, and assuming all coking coal concentrate produced is consumed internally). However, in the year ended 31 December 2015, only 22 per cent. of the coking coal consumed by Metinvest was supplied internally. Metinvest purchased 78 per cent. of its coal requirements from third party suppliers (including 1 per cent. from DTEK, a member of the SCM Group, and the remaining 77 per cent. from other third party suppliers) during this period. In the six months ended 30 June 2016, only 21 per cent. of the coking coal consumed by Metinvest was supplied internally. Metinvest purchased 79 per cent. of its coal requirements from third party suppliers (including 5 per cent. from DTEK, a member of the SCM Group, and the remaining 74 per cent. from other third party suppliers) during this period.

In the year ended 31 December 2015 and the six months ended 30 June 2016, Metinvest purchased approximately 589 thousand tonnes and 353 thousand tonnes of PCI coal from third party suppliers, respectively.

Although Metinvest is self-sufficient in the coke that it needs for steel production based on its annual capacity, Metinvest enters into contracts for purchase of coke depending on the time, location and quality of coke in order to ensure concentrates are sufficient for its metallurgical segment.

Ferroalloys, fluxes and refractory materials

Metinvest sources fluxes from related entities Dokuchayevsk Flux and Dolomite Plant and Novotroitsk Ore Mining (which are members of the SCM Group) and also from Komsomolske Flux, a subsidiary of Metinvest.

Metinvest purchases ferroalloys from various external sources, including: Nikopol Ferroalloy Plant, Zaporizhzhya Ferroalloy Plant, Glencore International AG, Eramet Comilog, CBMM, Anglo American, EVRAZ, Molymet, Rusal, etc. All ferroalloys are supplied pursuant to one-year contracts with formula pricing (from LME, LMB, CRU or Platts).

Metinvest purchases refractory materials from Zaporizhia Refractories and various external sources, such as: Dalmond Trade House Ltd, SEEIF Ceramic A.S., Kumas Manyezit Sanayi A.S., Vesuvius Poland Spolka Z O.O., SMZ - Revimex A.S., Calderys, RHI AG, Magnesita refractories GMBH and Puyang Refractories group. All ferroalloys and refractory materials are supplied pursuant to one-year contracts.

Scrap metal

A significant proportion of the scrap metal used by Metinvest is sourced externally, via its subsidiary Metinvest-Resource, a scrap metal trading company.

Metinvest also has its own scrap-processing facilities at Azovstal, Ilyich Steel and Yenakiieve Steel that allow it to utilize a wide range of sizes of iron scrap. These facilities include gas cutting lines, two scrap shears, baling press and three slag-handling complexes. Metinvest sources approximately 60 per cent. of its scrap metal requirements internally. Metinvest purchases scrap on the basis of annual contracts, although prices are set on a monthly basis in order to reflect changes in market prices See also "*Risk Factors—Risks Relating to Metinvest—Metinvest may receive contaminated scrap metal*".

Electricity

Metinvest's manufacturing facilities consume large amounts of electricity, requiring on average approximately 800 million kilowatt hours per month. Metinvest's primary use of electricity is at its Azovstal and Ilyich Steel facilities (including an oxygen plant, a thermal power plant, a converter plant, a plate mill, smelter facilities and rolling mills), as well as at Ingulets GOK and Northern GOK. DTEK, a company affiliated with Metinvest, supplied approximately 8.2 billion kilowatt hours to Metinvest in the year ended 31 December 2015, which amounts to approximately 85 per cent. of Metinvest's electricity requirements. In the six months ended 30 June 2016, DTEK supplied approximately 4.1 billion kilowatt hours, which amounts to approximately 86 per cent. of Metinvest's electricity requirements. DTEK supplies electricity on the basis of an agreement with Metinvest which is renewed on an annual basis. Electricity tariffs are subject to regulation by the National Energy and Utilities Regulatory Commission of Ukraine (NERC), which sets base tariffs for both industrial and household customers. Payments for electricity are calculated and paid every month based on the amount consumed each month and the prevailing wholesale electricity price in Ukraine. In the year ended 31 December 2015, the total electricity consumption by Metinvest facilities was approximately 9.6 billion kilowatt hours, at an average cost of approximately U.S.\$0.055 per kilowatt hour, which represents less than 9 per cent. of the total cost of sales. In the six months ended 30 June 2016, the total electricity consumption by Metinvest facilities was approximately 4.8 billion kilowatt hours, at the average cost of approximately U.S.\$0.05 per kilowatt hour, which represents less than 9 per cent. of the total cost of sales.

Natural gas

Metinvest's primary use of natural gas is at its blast furnaces, open-hearth furnaces, rolling mills and roasting machines. Before 2013, Metinvest obtained natural gas for its Ukrainian facilities from the state-owned company Naftogaz, which sourced gas from Russia, Turkmenistan and Uzbekistan. Metinvest's contracts provide for unrestricted supplies of gas to cover its requirements. Natural gas transportation tariffs are set by the NERC. Metinvest has not experienced any problems with supplies of natural gas in the last five years. In the year ended 31 December 2015, natural gas consumption by Metinvest facilities was 1.24 billion cubic meters, at the average cost of U.S.\$317 per thousand cubic meters (including transportation costs). In the six months ended 30 June 2016, natural gas consumption by Metinvest facilities was 0.54 billion cubic meters, at the average cost of U.S.\$229 per thousand cubic metres (including transportation costs).

In 2015, Metinvest's Ukrainian enterprises obtained approximately 50 per cent. of their natural gas from DTEK. The rest was supplied by other market participants such as Naftogaz and private traders. When purchasing natural gas Metinvest employs strict trading principles and competitive pricing is a key factor in its choice of supplier.

To address the risk of a shortfall in supply because Naftogaz has not been purchasing natural gas from Gazprom from November 2015, in March 2016 Metinvest signed with DTEK a one year exclusive supply agreement with natural gas pricing formula. The pricing formula is based on import parity with the EU, taking into account the logistical component.

See further "*Risk Factors—Risks Relating to Ukraine—Any further unfavourable changes in Ukraine's relationship with Russia may adversely affect the Ukrainian economy and thus Metinvest's business*"

Transportation

Overview

Metinvest manages its supply chain through its centralised logistics and purchase directorate, which provides transportation services for all of Metinvest's production facilities and is also responsible for the development of Metinvest's transport infrastructure.

Transportation costs influence Metinvest's operations indirectly as a component of raw material costs, as well as affecting the prices Metinvest can charge customers for its products and, consequently, the competitiveness of its products. See also "*Rail Transport*" below and "*Risk Factors—Risks Relating to Metinvest—Increases in transportation costs or delays in transport could adversely affect Metinvest's business and results of operations*".

In Ukraine, Metinvest's steel production facilities benefit from relative proximity to target markets. Azovstal and Ilyich Steel are located in the port city of Mariupol, on the Sea of Azov. Azovstal also operates its own port facilities. In addition, Metinvest controls most of its own logistics, including owning and operating its own fleet of 1,706 gondola railcars (in September 2013 these railcars were leased to Lemtrans for operation under a three-year framework agreement), and 1,684 specialised railcars (such as hoppers, flatcars and cisterns for chemical products). In the year ended 31 December 2015, these specialised railcars carried approximately 2.3 million tonnes of cargo, or 4.0 per cent. of Metinvest's aggregate annual cargo transportation. In the six months ended 30 June 2016, these specialised railcars carried approximately 1.5 million tonnes of cargo, or 5.4 per cent. of Metinvest's aggregate annual cargo transportation. Metinvest's favourable geographic location allows for the relatively inexpensive shipment of products to the CIS, Middle Eastern, European and Asian markets.

The transportation infrastructure in Eastern Ukraine has been damaged by the military action and sabotage in that region, which has affected and may further affect Metinvest's production. See further "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

Rail transport

From September 2013, the majority of Metinvest's gondola railcar shipments within Ukraine have been carried out by Lemtrans (a company controlled by the SCM Group, which owns approximately 15,000 gondola railcars and leases 1,706 gondola railcars from Metinvest) under a three-year framework agreement. Under this agreement, Lemtrans is responsible for ensuring the stable provision of cargo railway transportation services to Metinvest within Ukraine using its own, Ukrzaliznytsia's and Metinvest's gondola railcars, thus reducing Metinvest's risk of shipment failure. Metinvest also uses other private carriers' railcars for a small number of shipments to more distant markets in the CIS and the Baltic states. In the year ended 31 December 2015, 95 per cent. of Metinvest's Ukrainian freight was delivered by rail and the remaining 5 per cent. was delivered by sea transport (cabotage transportation). In the six months ended 30 June 2016, 96 per cent. of Metinvest's Ukrainian freight was delivered by rail and the remaining 5 per cent. was delivered by sea transport (cabotage transportation).

Rail tariffs (including the entire tariff for Ukrzaliznytsia's railcars and the infrastructure component of the railway tariff for private operators' railcars) in Ukraine are regulated by the state and are set by the Government, generally upon the application of the Ministry of Infrastructure of Ukraine which oversees Ukrzaliznytsia. Rail tariffs (denominated in UAH) increased by 10.2 per cent., 12.5 per cent., 30 per cent. and 15 per cent. in 2013, 2014, 2015 and in the six months ended 30 June 2016, respectively. As a consequence of this increase, for example, the infrastructure component of the railway tariff for iron ore concentrate transportation from Northern GOK to Port Yuzhny increased from UAH44.9 per tonne to UAH83.2 per tonne, year-on-year.

Tariffs under a three-year framework agreement with Lemtrans vary depending on the direction and type of cargo and on average they are between 1.01 to 1.15 times higher than tariffs set by Ukrzaliznytsia.

Sea transport

Metinvest transports part of its products by sea from ports in Ukraine to, among others: the ports of Marghera, Taranto and Monfalcone in Italy; Sunderland in UK; Antwerp in Belgium; Setubal and Aveiro in Portugal; Gijon and Bilbao in Spain; Bourgas in Bulgaria; Alexandria and Damietta in Egypt; Pohang in Korea; Abu Dhabi in the United Arab Emirates; and Beilun, Zhangjiangang and Zhoushan in China.

Metinvest uses Capesize vessels to export iron ore produced by the Group and, depending on market conditions, Capesize or Panamax vessels to import coking coal from the United States (Eastern American ports Newport News, Norfolk and Baltimore), Australia (Hay Point, Kembla) to the Yuzhny and Illichivsk ports near Odesa.

The following table shows the volumes of Metinvest's products transported by sea for the years indicated:

	Year Ended 31 December		Six months ended 30 June 2016
	2014	2015	
Volumes (CIF, CFR basis, million tonnes).....	24.3	26.9	11.3

Port handling

Metinvest conducts transshipments in Ukraine mainly through the following ports:

- Port Yuzhny (the deepest sea port in Ukraine, where Capesize vessels can be fully loaded) and Illichivsk port. These ports are used for export shipments of iron ore products and import shipments of coking coal;
- Mariupol Sea Trade Port (the closest sea port to Metinvest's metallurgical plants). This port is used for shipments of rolled steel products and also for iron ore's cabotage transportation from Kryviy Rig to Mariupol;
- Odesa and Mykolaiv sea ports (deep-sea ports in Ukraine). These ports are used for long-distance shipments of rolled steel products (including to West Africa, the Persian Gulf, India and the Far East); and
- Izmail Port (a river port located on the Danube delta). This port is used for shipments via the Danube River.

Azovstal has its own port on the Sea of Azov, which was mainly used for cabotage shipments (an alternative to more costly railway transportation) of steel products to deep-sea ports in Ukraine (Odesa, Illichivsk) and for the export of some of Metinvest's slag. Starting from 2014, Azovstal port is used as an additional route for cabotage transportation of raw materials to Azovstal and Ilyich Steel. Metinvest delivers goods to/from the Azovstal port using its internal rail junction.

The following table shows the aggregate trans-shipment volumes of Metinvest's products (by sea and by river) for the years indicated:

	Year Ended 31 December		Six months ended 30 June 2016
	2014	2015	
	(million tonnes)		
Steel products	8	7.3	3.6
Iron ore	19.4	25.8	9.3
Coal.....	2.3	3.5	1.2
Other	0.4	0.3	0.1
Total	30.1	36.9	14.2

Road transport

Metinvest used to transport some of its products and raw materials by road. From June 2013, Metinvest has used the railway instead of road transport to convey rolled steel products from Azovstal and Ilyich Steel to Mariupol port, with a view to reducing the levels of air pollution and traffic load in the city of Mariupol. In the six months ended 30 June 2016 and the year ended 31 December 2015, the volume of railway-only cargo transportation from steel plants in Mariupol to Mariupol sea port accounted for 2.0 and 4.0 million tonnes, respectively.

Health and Safety

In the year ended 31 December 2015, Metinvest spent U.S.\$61 million on health, labour protection and safety, representing approximately 0.9 per cent. of its revenues for that period. In the six months ended 30 June 2016, Metinvest spent U.S.\$29 million on health, labour protection and safety, representing approximately 1 per cent. of its revenues for that period. Each company within Metinvest has a fully staffed health and safety department that consults the line organisation on safety issues, ensures compliance with laws and regulations and submits annual reports with incident and injury statistics to the state supervisory authorities.

Ukraine

Most of Metinvest's facilities are located in Ukraine. Ukrainian health and safety legislation imposes stringent standards and regulations on industrial companies. The State Service of Ukraine on Labour Issues inspects working conditions, safety standards and equipment at Metinvest's Ukrainian facilities every year. Metinvest is required under Ukrainian labour safety legislation to dedicate 0.5 per cent. of its revenue to labour protection and safety. Metinvest believes that it is in compliance in all material respects with applicable health and safety legislation in Ukraine.

The main health and safety risks at Metinvest's production facilities include potential industrial accidents, equipment outage (due to equipment failure, the need for unplanned maintenance or otherwise), unusual or unexpected geological conditions, environmental hazards, labour disputes, changes in the regulatory environment, extreme weather conditions and other natural phenomena. The number of the lost time injuries at Metinvest's Ukrainian facilities was 129, 97 and 49 in 2014 and 2015 and in the six months ended 30 June 2016, respectively, while the number of work-related fatalities in the same periods were 4, 9 and 2. A relative indicator such as Lost Time Incident Frequency Rate (**LTIFR**) per million hours has decreased in the past years (0.852, 0.738 and 0.769 in 2014, 2015 and in the six months ended 30 June 2016, respectively). Management believes that the decrease in absolute numbers of lost time injuries and work-related fatalities since 2011 and the downward trend in the LTIFR are due to management's focus on safety issues and rigorous implementation of corporate safety standards based on global best practices. The Fatality Frequency Rate in the years ended 31 December in 2014 and 2015 and in the six months ended 30 June 2016 was 0.037, 0.062 and 0.030, respectively.

Some of Metinvest's facilities in the Donetsk and Luhansk regions of Ukraine have been affected by military action in those regions, which has resulted and may in the future result in shutdowns and suspensions of operations in order to protect the lives and health of employees and local residents. This military action has compounded some of the risks and hazards inherent in mining and steel operations. For example, in August 2014 Yenakieve I&SW's production shops sustained artillery damage. Although there were no casualties or material damage to the plant, management decided that continuing operations at the plant in its damaged state would create unacceptable risks to the lives and health of the plant's workers and local residents, and therefore suspended operations at the plant. See also "*Risk Factors—Risks Relating to Metinvest—Metinvest's mining and steel manufacturing operations are subject to a number of operational risks and hazards, including the significant risk of disruption or damage to persons and property*" and "*Risk Factors—Risks Relating to Metinvest—Civil disturbances, political instability and military action have negatively impacted and may continue to negatively affect Metinvest's business, results of operations and financial condition*".

Metinvest's health, safety and environmental (**HSE**) strategy sets out a number of safety improvement actions relating to Metinvest's people, processes, systems and facilities. Metinvest plans to significantly reduce the number of fatalities, occupational injuries and process accidents through the effective implementation of priority health and safety initiatives. Metinvest has introduced new, improved methods of monitoring health and safety compliance and investigating health and safety incidents in the workplace. Metinvest's management makes regular visits to its production facilities to inspect safety compliance and ensure that an adequate level of commitment to health and safety is maintained by local management teams. In 2008, Metinvest introduced an "immediate incident notification process". This entails that Metinvest's Chief Executive Officer is informed of any work-related fatality within two hours, and of any lost time injury within 24 hours. Metinvest also introduced a "root cause analysis" procedure which is aimed at identifying an initiating cause of a causal chain which led to each incident in order to ensure a thorough investigation is carried out and also as a prevention measure. In 2011, Metinvest implemented a Contractor Safety Management standard that set the same high safety requirements for contractors as for company employees (adopting a "one workforce" approach). In accordance with the standard, all potential contractors are screened to ensure their ability to deliver their services in a safe manner. Safety requirements are set out in detail in the contract and Metinvest works with the contractor to ensure that such requirements are met. Metinvest recently introduced a number of procedures aimed at ensuring a systematic approach to risk analysis both immediately prior to each work task and on a regular basis for high-risk processes and activities. In particular, in May 2013 Metinvest introduced its Cardinal Rules of Safety to ensure strict adherence to the most important safety rules at company sites. Following

the success of the pilot project "Underground workers positioning system" at one of Krasnodon Coal's mines (Sukhodolskaya-Vostochnaya) in 2012, the project was extended to Krasnodon Coal's other mines as part of Metinvest's HSE strategy.

In 2010, Metinvest adopted a health strategy for further development of medical emergency response capabilities, promotion of wellness in the workplace and occupational health practices and procedures. Good results were achieved in the area of medical emergency through concerted efforts since 2010. In this period, all of the key medical professionals working at the Group assets completed a 5-day ACLS/ATLS induction training course, and 71 per cent. of all sickbays were supplied with basic sets of modern equipment (crash bags, basket and scoop stretchers, cervical collars, vacuum splints and automatic external defibrillators). Internal trainer groups were established at 50 per cent. of Metinvest's facilities, and sustainable programmes of refresher first aid training for non-medical personnel were introduced at the above-mentioned sites. In 2012, 15 per cent. of managing company employees were re-trained in CPR and AED algorithms and emergency response equipment was placed at all of Metinvest's offices. Underground sickbays were established at three coal mines and a sustainable long-term refresher training programme run by full-time internal trainers is in operation to train members of underground Medical Emergency Teams and all underground workers at Krasnodon coal mines. Approximately 4,500 first aiders were trained by the end of 2012. Reality-based scenario medical emergency drills were run at 80 per cent. of Metinvest's facilities in 2012. A Corporate Emergency Response Standard was introduced in 2011 and was implemented in 2012. In addition, an algorithm for advanced pre-shift, pre-employment and periodical medicals for HSE critical specialities was developed and approved in 2012.

Metinvest is constantly seeking to develop the health and safety competencies of its employees. Between 2008 and 30 June 2016, over 88,159 employees were trained in corporate safety standards (including 7,461, 13,163 and 2,929 employees in 2014 and 2015 and the six months ended 30 June 2016, respectively). These in-house courses are provided in addition to mandatory health and safety training required by the relevant Ukrainian legislation. Metinvest is using external consultants for the purposes of training but is also developing its internal training capabilities. 53 internal trainers (recently retired, former company employees) have been trained and coached to deliver seminars on corporate safety standards. The project has been functioning since September 2009. Since its launch, internal trainers have trained over 76,982 employees in corporate standards. In 2011, Metinvest received World Steel Association's Safety and Health Excellence Recognition Award for the internal trainers project. Several Metinvest companies including Azovstal, Yenakiieve Steel, Khartsyzsk Pipe, Northern GOK, Central GOK, Ingulets GOK, Krasnodon Coal and Inkor Chemicals are currently certified under International Health and Safety Management System - OHSAS 18001. Metinvest plans to obtain OHSAS 18001 certificates for all Metinvest companies.

European Union

Metinvest's facilities located in Europe are subject to stringent EU legislation on labour safety as well as applicable national legislation drafted in accordance with EU standards. In particular, in Italy, Decree 81/08 obliges Italian companies including Metinvest Trametal and Ferriera Valsider continuously to improve and upgrade the levels of safety of their production sites, plants and equipment, and also their safety management.

Metinvest Trametal has never been the object of actions or penalties in relation to breaches of legislation on health and safety. Its HSE Department ensures compliance with current legislation and develops internal best practices in relation to staff training, procedures and measures to improve safety levels. It also collects statistical data on accidents, occupational diseases, incidents and near misses, and produces monthly reports. Since 2009, Ferriera Valsider has worked to develop and implement a health and safety management system, and in September 2012, Ferriera Valsider's health and safety management system was certified as conforming with internationally recognised International Health and Safety Management System (OHSAS 18001) standards. Metinvest Trametal's aim is to ensure a safe workplace for its employees through continuous training, building a culture of safety, eliminating risks and improving preventive and protective measures. For several years Ferriera Valsider has collected and analysed data regarding near misses and non-conformity to safety legislation in order to apply the necessary corrective actions.

The aggregate number of lost time injuries at Metinvest Trametal and Ferriera Valsider was 14, 9 and 4 in 2014 and 2015 and in the six months ended 30 June 2016, respectively, with no fatalities throughout this period. LTIFR per million hours worked at these facilities was 7.926, 4.828 and 4.468 in 2014, 2015 and in the six months ended 30 June 2016, respectively.

Spartan UK had no incidents of breaches of health and safety regulations in 2014, 2015 and during the six months ended 30 June 2016. Its HSE Department ensures compliance with current legislation and strives to achieve best practices through continual improvements in procedures and training. Regular surveys from external liability

insurance provider have re-enforced compliance and have noted good improvements. Spartan UK also continues to invest in health and safety improvements throughout the site.

United States

Metinvest facilities located in the United States are subject to stringent standards and regulations on coal mining operations imposed by the Federal Mine Safety & Health Administration and the State government. In particular, United Coal's underground mining operation is inspected on a quarterly basis, in addition to periodical spot inspections by their relevant state agencies and the Federal Mine Safety & Health Administration (**MSHA**). Routinely MSHA and/or State Agency Inspector(s) are present on a daily basis including weekends and off shifts. Surface operations and preparation plants are inspected biannually by both agencies. The state and federal agencies conduct inspections of the working conditions, equipment and compliance with safety standards and regulations. United Coal has a designated health and safety department that consults the line organisation on safety issues and ensures compliance with laws, regulations and company policies. This department also submits monthly/quarterly reports with incident, injury and man-hour statistics to the State and Federal regulatory agencies.

In 2015, United Coal's facilities had 12 lost time incidents and 4 restricted work incidents, with the number of nonfatal days lost (**NFDL**) incident rate of 1.96 (compared to a national average of 2.68), and no work-related fatalities). In the six months ended 30 June 2016, United Coal's facilities had six lost time incidents and four restricted work incidents, with the NFDL incident rate of 2.30 (compared to a national average of 2.82), and no work-related fatalities. All incidents, including near-miss events, are thoroughly investigated by operations management and the health and safety group. Root cause and causal factors contributing to the incident are identified and the prevention of reoccurrence is determined and an appropriate action plan is implemented. It is expected that this process will allow United Coal to continue on its positive trend of reducing reportable incidents. United Coal has been recognised numerous times over the past several years for its outstanding safety efforts. Each of the respective divisions of the company has received safety awards from MSHA and/or State regulatory agencies. For example, the Star Bridge Preparation Plant had gone over 8.5 years without a lost time or restricted work incident. In 2015 Star Bridge and Affinity Plant both received the Sentinels of Safety Award for their outstanding safety performance. Every United Coal underground mine has proximity detection equipment installed on continuous miners, shuttle cars, and scoops. Affinity Mine has also installed audible and visual alarms on the roof bolt machines to help prevent incidents involving the roof bolt machine. United Coal has taken a leadership position in the industry with proximity detection on underground equipment and the Affinity Mine is the first underground coal mine in the United States with proximity detection on all haulage equipment. United Coal has also added camera systems to its large surface equipment which provides a layer of protection in preventing small vehicles and personnel from being run over by the larger equipment.

Metinvest's health and safety strategy sets out a number of upstream activities related to improving regulatory compliance, incident prevention, hazard recognition and training. Compliance with MSHA, State Agencies and company policy is continually monitored by site health and safety personnel and corporate compliance audit team members. Quarterly compliance audits are also conducted at all sites. Audit teams are comprised of executive team members, corporate personnel, subsidiary personnel, and site hourly employees. The audits are routinely conducted on off shifts to expose all site employees to the audit process and to reinforce Metinvest's safety commitment. The area management program is a major component of the Metinvest's Managed Safety Program and is used at all sites to strengthen regulatory compliance, help to reduce incidents and increase safety awareness. The area management process focuses on accountability and improves compliance by providing layers of protection to identify deficiencies, with an emphasis on taking prompt action to correct the deficiency when found. Annually all executive, mid-level and operations managers attend an in-house safety summit where each subsidiary share their past year safety performance results, safety goals, upstream activities and best safety practices. Outside safety experts also participate and present information to the group pertaining to their area of expertise in safety, training and compliance. United Coal also has three specially-trained mine rescue teams available in the event of a mine emergency. The teams practice monthly and participate in exercises and mock emergencies several times a year working with other teams. They also regularly visit subsidiary mines to familiarise themselves with the mine layout and ventilation systems. The mine rescue teams are trained in firefighting, rescue and recovery operations as well as advanced first aid.

Environmental Matters

Ukraine

As part of its operations, Metinvest discharges waste water into bodies of water, discharges pollutants into the air and disposes of waste products. These activities are regulated by various Ukrainian environmental laws and regulations which set standards for health and environmental quality, provide for penalties and other liabilities for

the violation of such standards, and establish, in certain circumstances, obligations to compensate for environmental damage and to restore environmental conditions. The Ministry of Ecology and the Natural Resources of Ukraine (the **Ecology Ministry**) sets the maximum permitted quantities for the emission and disposal of pollutants, as well as for waste disposal, by enterprises. The Ecology Ministry approves individual emission and disposal limits within these parameters for each Metinvest company on the basis of an application filed by the company, which vary depending on the type and scale of environmental impact. All of Metinvest's permits specify the statutory pollution limits which they must not exceed. All primary air pollutants from stationary sources, including CO, SO₂, NO_x, are measured by proprietary certified laboratories according to schedules prescribed by the relevant environmental permits and cross-checked by local environmental authorities. The Ukrainian authorities carry out periodic site inspections to ensure that these limits are observed. In some regions with a deeply industrialised environment and close proximity to residential areas, Metinvest's plants have special regulations depending on weather conditions. Local communities and state agencies equipped with laboratories monitor closely the plants' compliance with these restrictions.

In compliance with applicable Ukrainian legislation, Metinvest makes regular environmental payments to the Ukrainian state budget to compensate for pollution generated by its operations. These payments amounted to U.S.\$11.2 million and U.S.\$6.6 million in 2015 and in the six months ended 30 June 2016, respectively. The amount of these payments was set by the environmental authorities pursuant to the new Tax Code adopted in 2010 and the payments are adjusted each year based on proportional growth and a rate established by the Tax Code. Metinvest's annual payments are based on expected environmental impact levels. The level of payments has been subject to change, partially due to increases in environmental tariffs and partially due to fluctuating production.

A significant number of Metinvest's operating facilities were commissioned before current environmental standards came into force. In order to reduce the environmental impact of its operations, Metinvest is currently undertaking an engineering programme, based on its Technological Strategy, to improve environmental standards at all of its facilities. Metinvest invested U.S.\$16.4 million in 2014, U.S.\$7.6 million in 2015 and U.S.\$3.0 million in the six months ended 30 June 2016, into environmental technology for its businesses. In December 2013, Metinvest signed a contract with Termokimik Corporation (Italy) to develop the basic engineering to upgrade the sinter plant at Ilych I&SW.

In addition, in 2015 and six months ended 30 June 2016, Metinvest implemented a range of capital and operational environmental improvement projects, including, but not limited to:

- the reconstruction of the cast house de-dusting system during the overhaul of blast furnace No. 4 at Azovstal with a total cost of U.S.\$0.7 million; and
- the reconstruction of the gas cleaning system for basic oxygen furnace No. 1 at Ilyich Steel with a total cost of U.S.\$4.5 million.

Planned environmental improvement works for 2014-2017 include the following projects, which are expected to reduce polluting dust emissions:

- reconstruction of the gas cleaning system at Ilyich Steel's sinter plant (12 sintering machines) (expected 85-90 per cent. reduction);
- reconstruction of the gas cleaning system for basic oxygen furnace No. 2 at Ilyich Steel (expected 50 per cent. reduction); and
- modernisation of the gas cleaning system for kilns Nos. 1 and 2 at Northern GOK (expected 83 per cent. reduction).

Ten of Metinvest's plants, including Azovstal, Northern GOK, Ingulets GOK, Central GOK, Khartsyzsk Pipe, Ferriera Valsider, Inkor Chemicals, Komsomolske Flux, Yenakiieve I&SW and Zaporizhia Coke, have already been certified compliant with the ISO:14001 environmental standards, whilst the other plants are currently taking steps to obtain certifications. Metinvest expects that all of its facilities will be certified as ISO:14001 compliant within the next several years.

The Ukrainian environmental authorities carry out environmental audits of Metinvest's industrial assets on a regular basis. If, as a result of such audit, Metinvest is found to be in breach of the relevant environmental regulation, it will be issued with a compliance order specifying the breach, necessary rectifying measures and the time period during which Metinvest is required to rectify the breach. The time periods for remedying any breaches are usually negotiable and can be extended if necessary.

Other than routine requests from the environmental authorities in relation to non-material breaches and a number of court orders in respect of pollution of the Sea of Azov by Azovstal in 2010 (in an aggregate amount not exceeding U.S.\$1.3 million), Metinvest has not incurred any material environmental liabilities and has not been subject to material environmental investigations in the past. However, there can be no assurance that: there are no undiscovered potential liabilities; that future uses or conditions will not result in the imposition of environmental liability upon Metinvest or expose it to third-party actions; or that environmental regulations will not become more stringent in the future. See *"Risk Factors—Risks Relating to Metinvest — Metinvest's mining operations create difficult and costly environmental challenges, and future changes in environmental laws, or unanticipated environmental impacts from Metinvest's operations, could require Metinvest to incur increased costs"*.

In November 2012, Metinvest temporarily suspended operations at Azovstal and took the decision to accelerate the closure of three obsolete coke batteries and Azovstal's sinter plant in response to the environmental situation in Mariupol. At this time, a malodorous smog occasioned environmental protests in the city. According to experts engaged by Metinvest to assess the situation, the likely cause of the smog was the increased concentration of recycled organic matter in the sludge pond at Azovstal's sinter plant, combined with unfavourable meteorological conditions. The sludge pond was being drained as part of the approved environmental programme for the conservation of the Sea of Azov. The closure of Azovstal's sinter plant prompted the transfer of sinter production to Ilyich Steel.

It is expected that the Ukrainian environmental legislation will become more stringent in the next few years as the relevant Ukrainian legislation is approximated to EU regulatory norms as part of the implementation of the Association Agreement and the DCFTA. See also *"Risk Factors—Risks Relating to Ukraine—A failure to develop relations with the EU might have negative effects on the Ukrainian economy and Metinvest's business"*. Based on the applicable regulatory requirements, certain Metinvest companies, including Ingulets GOK (located in Ukraine) and United Coal (located in the United States), have created general reserves which may be used to cover environmental liabilities and compliance costs, although these reserves may not be sufficient. See also *"Risk Factors—Risks Relating to Metinvest—Metinvest's mining operations are subject to environmental laws and regulations that may be difficult and costly to comply with, and future changes in or unanticipated breaches of, such laws and regulations could require Metinvest to incur increased costs"*.

European Union

Metinvest subsidiaries located in Europe are also required to comply with applicable European environmental legislation which ensures a high level of environmental protection and defines the main obligations of the companies in relation to environmental protection, including conducting environment impact assessments, obtaining necessary authorisations and permissions for emissions in water, soils and the atmosphere. The legislation also prescribes limits and technical parameters for emissions.

In particular, Metinvest Tramel has recently obtained the renewal of its integrated environmental authorisation in accordance with EU legislation. Compliance with the relevant restrictions is controlled through constant monitoring of all sources of potential contamination in various environmental materials. All inspections conducted by the environmental agency in order to verify compliance with environmental legislation and in particular the provisions of the integrated environmental authorisation have always ended in success.

Ferriera Valsider manages its integrated environmental authorisation in accordance with EU legislation through constant monitoring of its environmental impact (surface and underground water pollution, atmosphere pollution, acoustic impact and solid and liquid industrial wastes). Ferriera Valsider's Environmental Management System, which is compliant with the ISO:14001 standards, ensures a continuous environment impact assessment.

Spartan UK holds an integrated environmental authorisation in accordance with EU legislation and this is constantly monitored by the Environment Agency of England. The environmental management system is aligned with ISO:14001 standards, but as yet accreditation has not been pursued. The company is required under the EU's Integrated Pollution Prevention and Control regime to monitor its noise pollution levels due to its close proximity to a residential area. Monitoring is conducted through regular and close dialogue with the relevant governmental authorities.

United States

Metinvest's subsidiaries located in the United States are required to comply with various federal and state environmental laws, applicable to coal mining operations, including the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Endangered Species Act.

To ensure environmental compliance internal audits are conducted by junior management staff at all of United Coal's active mining operations on a monthly basis and quarterly environmental audits are conducted at each operation by the senior corporate management group. Any corrective work that is required is logged into a computerised work order tracking system, and overdue task reports are automatically generated and sent to senior management for follow up.

Insurance

In accordance with Ukrainian law, Metinvest maintains mandatory insurance policies addressing certain types of risk, including life and health insurance, third party liability insurance for hazardous industrial assets, cargo and motor vehicles, voluntary insurance cover for most of its production facilities in respect of cargo and motor vehicles, "All Risk" insurance to cover damages to property and provide business interruption coverage, including "inter-dependency" coverage for its key production facilities in Ukraine, as well as property damage and business interruption policies in respect of its European and US assets. In addition, Metinvest's insurance policies are subject to certain exclusions, including, in the case of its "All Risk" insurance policies, in respect of damage and losses incurred as a result of military or terrorist action or similar acts.

See also *"Risk Factors—Risks Relating to Metinvest—Metinvest's mining and steel manufacturing operations are subject to a number of operational risks and hazards, including the significant risk of disruption or damage to persons and property"* and *"Risk Factors—Risks Relating to Metinvest—Metinvest does not carry the types of insurance coverage customary in more economically developed countries for a business of its size and nature "*. Management believes that Metinvest's insurance is in line with typical insurance coverage for other large industrial enterprises in the CIS region.

In 2014-2015 Metinvest recovered an aggregate amount of U.S.\$5.7 million in respect of all claims for losses which occurred during the period beginning 2012 until the end 2014 were settled.

In January 2015, a fire occurred on the conveying line of crushing workshop No. 2 of Northern GOK, damaging the route used for transporting ore. Falling debris from the fire crushed the workshop and the storage place, respectively. Part of the conveying line was also destroyed. Production was fully restored within four months. The recoverability of this loss under the relevant insurance policy is under investigation by LLC LABB Russia, an independent loss adjuster. Preliminary assessment of the loss less deductibles is U.S.\$1.1 million for property damage and U.S.\$3.3 million for business interruption.

In August 2016, a crane collapsed at the sinter workshop of Yenakiieve I&SW, damaging the railways and loading docks. Production is expected to be fully restored within 18 months. Currently, production is operating pursuant to a temporary scheme which facilitates the production of sufficient volumes of crude iron, however the cost of production has significantly increased. The recoverability of this loss under the relevant insurance policy is under investigation by Matthews Daniel International, an independent loss adjuster. Preliminary assessment of the loss less deductibles is U.S.\$3.7 million for property damage and U.S.\$12.2 million for business interruption.

Legal Proceedings

Proceedings against Ilyich Steel

KRIOW (as claimant) has initiated proceedings against Ilyich Steel (as defendant) in the Commercial Court of the Zaporizhskiy Region for the recovery of UAH1,122,790,589.16 (approximately U.S.\$44.6 million) in respect of raw materials supplied. In March 2015, the proceedings were suspended by the court of first instance pending the completion of an expert's report. Judgment was given in late December 2015 ordering Ilyich Steel to pay KRIOW UAH1,032,899,117.30 (approximately U.S.\$41.0 million). The court also granted a deferral of enforcement of the judgment until December 2016. In March 2016, the Donetsk Commercial Court of Appeal upheld the judgment of the Commercial Court of the Zaporizhskiy Region. In December 2016, Ilyich Steel filed a new application to the Commercial Court of the Zaporizhskiy Region for further deferral of enforcement of the judgment. As at the date of these Listing Particulars the Commercial Court of the Zaporizhskiy Region has not yet considered such application.

Proceedings against Yenakiieve I&SW

On 11 November 2015, the Supreme Court of Ukraine upheld the judgment of the court of first instance in favour of KRIOW (as claimant) against Yenakiieve I&SW (as defendant) for the recovery of a debt in the amount of UAH276,021,884.71 (approximately U.S.\$11.0 million) due under an agency agreement. In March 2016, Yenakiieve I&SW obtained a ruling from the Zaporizhia Region Commercial Court allowing it to repay the debt in 22 equal instalments of UAH12,546,449.30 (approximately U.S.\$0.5 million each), starting from March 2016. In

April 2016, the Donetsk Commercial Court of Appeal upheld the ruling of the Commercial Court of the Zaporizhskiy Region. Yenakiieve I&SW has filed an appeal against the above judgments to the High Commercial Court of Ukraine, seeking a repayment of the debt in 60 equal instalments. By its ruling, dated 18 May 2016, the Commercial Court of the Zaporizhskiy Region has suspended enforcement of the judgment. On 5 January 2017, the Donetsk Commercial Court of Appeal cancelled the ruling of the Commercial Court of the Zaporizhskiy Region dated 18 May 2016. Yenakiieve I&SW intends to initiate new procedure in the Commercial Court of the Zaporizhskiy Region to get the new deferral of enforcement.

Bankruptcy proceedings against Krasnodon Coal

Bankruptcy proceedings against Krasnodon Coal are still pending. The bankruptcy proceedings were not progressed during 2014 and 2015 because the case materials were lost during counter-terrorism operations in the Luhansk Region. In February 2016, the Commercial Court of the Luhansk Region approved the list of creditors' claims for a total amount of UAH933.3 million (approximately U.S.\$35.7 million) (90 per cent. of which is claimed by the members of the Group). In March 2016, a creditors' committee of Krasnodon Coal was elected. The committee obliged the insolvency administrator to perform an analysis of financial, business and investment activities of Krasnodon Coal and review its market position for the period between 2013 and 2015, in order to consider further courses of action in bankruptcy proceedings (liquidation, sanation (solvency restoration) or settlement agreement. In August 2016, the creditors' committee decided to settle the case by allowing Krasnodon Coal to repay its debts during the period of 10 years. An amicable settlement agreement was submitted to the tax authorities for execution. In case the tax authorities refuse to execute the amicable settlement agreement, such refusal will be appealed in court.

Proceedings against Krasnodon Coal

In 2003, Krasnodon Coal entered into an electricity supply agreement with State Enterprise "Regional Electricity Networks" (Luhansk Branch) (**Regional Electricity Networks**).

In July 2016, Regional Electricity Networks submitted a claim against Krasnodon Coal for the amount of UAH 222,324,694.34 (approximately U.S.\$9.0 million) (including UAH 140,358,521.51 of arrears and UAH 11,447,982.29 of accrued interest) to the Luhansk Region Commercial Court. Currently, the proceedings are suspended and no decision has been made as of the date of these Listing Particulars.

Proceedings against Limited Liability Company "Metinvest Holding"

In 2014, Limited Liability Company "Mako-Trading" (as claimant) has initiated proceedings against Limited Liability Company "Metinvest Holding" (as defendant) for the recovery of UAH203,872,161 (approximately U.S.\$ 17.2 million) in respect of raw materials supplied by the claimant. The courts of first and second instance upheld the claim in full, but the High Commercial Court of Ukraine annulled the judgments of the courts of first and second instance and remanded the case for a new trial to the court of first instance. In September 2015, the proceedings were suspended by the court of first instance pending the completion of an expert's report. No further hearing has been scheduled.

Research and Development and Intellectual Property

Metinvest maintains specialist departments to carry out basic research and applied technology development activities, primarily focusing on the improvement of existing technologies and products in accordance with the requirements of Metinvest's end customers. These specialist departments focus on the development of new products and equipment, as well as on increasing production efficiency and reducing costs by changing working practices and operational methods. Approximately 230 of Metinvest's employees are involved in research and development work. Metinvest also engages third-party consultants from the metallurgical industry to conduct reviews of its operations and carry out feasibility studies. Metinvest has also developed a working culture in which its employees are encouraged to contribute ideas in relation to the development of Metinvest's products or production processes.

Metinvest has obtained the right to use its principal equipment and technology upon purchase. Management does not consider the registered patents to be material to its business.

Information Technology

The responsibility for information technology within Metinvest rests with Metinvest Holding LLC, the managing company of the Issuer, which supports more than 21,000 users.

Whilst Metinvest's priority has been ensuring high standards of service and serving assets at an operational level, Metinvest has implemented a strategy to integrate and centralise IT services to meet the challenges of a changing business environment and also to further Metinvest's business strategy. As part of this strategy Metinvest:

- implemented a single, corporate IT network connecting all Metinvest companies via Metinvest Holding LLC, based on the equipment provided by Cisco;
- established two synchronous active-active datacentres which significantly increase the reliability of its centralised IT services;
- accomplished a number of projects aimed at improving its operating model. One of those projects is the standardisation and harmonisation of business processes, the implementation of a unified information system SAP on the Group's assets and the creation of a consolidated information area. By June 2016 this project was successfully implemented at Northern GOK, Yenakieve I&SW, Ingulets GOK, Central GOK, Metinvest-SMC (integration with Metinvest-Ukraine) and Ilyich Steel; and
- implemented decisions on budgeting and consolidation in SAP BPC at subsidiaries' level. Budget consolidation and fiscal consolidation in accordance with IFRS was performed by means of these systems. Maintenance of master data is centralised and performed using the SAP Master Data Governance system. Procurement process inputs and services have been automated using the SAP ERP system, implemented by means of two interconnected solutions (Supplier Lifecycle Management and Supplier Relationship Management). All of the Group's SAP systems are cross-integrated.

Most of Metinvest's companies have Disaster Recovery Plans which harness clustering and virtualisation technology, as well as Enterprise Storage Systems, including EMC, VNX and VPLEX Storage Systems. Additionally, Metinvest has implemented arrangements for storing back-up information electronically, including Microsoft System Center Data Protection Manager, EMC Data Domain and Azure Backup Services. Metinvest's use of market-leading technology sourced from world-leading suppliers ensures the reliability of its IT systems.

Metinvest obtained rights to use its principal equipment and technology upon purchase. Management does not consider the registered patents to be material to its business.

Employees

The below table shows the average number of Metinvest full-time employees and employees by segment in the year ended 31 December 2014 and 31 December 2015 and the six months ended 30 June 2015 and 30 June 2016:

	Average number of employees			
	Year ended 31 December		Six months ended 30 June	
	2014	2015	2015	2016
Metallurgical segment	58,386	54,617	54,708	51,161
Steel making	51,641	48,154	48,390	45,056
Logistics	250	232	234	215
Coke making	6,495	6,231	6,084	5,890
Mining segment	31,525	29,565	29,727	26,384
Iron ore mining.....	18,790	18,034	18,040	16,961
Coal mining.....	12,047	10,629	10,838	8,651
United Coal.....	688	902	849	772
Headquarters.....	1,993	2,239	2,148	2,119
Total:	91,904	86,421	86,583	79,664

Most of Metinvest's employees are employed at enterprises in Ukraine. As at 30 June 2016, 1.4 per cent., 0.9 per cent. and 0.4 per cent. of Metinvest's employees are based in Europe, the United States and Russia, respectively. Metinvest generally does not have individual contracts with its employees in Ukraine and the United States other than with its senior managers and general directors. Metinvest has employment contracts with its employees located in Europe and Russia. Metinvest is currently seeking to increase its operating efficiency by optimising its personnel structure, primarily by executing a controlled reduction in headcount, outsourcing non-production activities and streamlining its administrative structures. Total headcount was reduced by 6.8 per cent. over the six months ended 30 June 2016. While productivity (as measured by tonnes of production per employee) in Metinvest's Ukrainian operations is generally below western European standards, its production facilities in Ukraine are in many instances among the principal employers in their respective towns and regions. As a result, reductions in the workforce are generally constrained by relevant Ukrainian labour legislation as well as other political and social considerations.

For these reasons, Metinvest manages reductions in the number of personnel it employs gradually and in a controlled manner.

Most of Metinvest's employees in Ukraine engaged in iron ore mining and steel production are members of the Trade Union of Metallurgists and Miners of Ukraine. Metinvest's employees in the United States and Russia are not currently members of any trade union. Metinvest's employees based in Europe are generally members of trade unions including the Italian Union of Metal-Mechanical Workers, the Italian Union of Metallurgic Workers and Unite the Union (in the United Kingdom).

No Metinvest facility has experienced any significant strikes or other cases of industrial action or labour disputes during the last six years.

Remuneration levels for Metinvest's employees in Ukraine are set in accordance with Metinvest's Compensation Policy. To ensure fair remuneration for employees in different business units and enterprises within the Metinvest Group, as well as Metinvest's competitiveness by industry standards, the remuneration system is based on the Hay Group's international grading system.

Metinvest makes mandatory, monthly contributions to the Ukrainian state retirement fund and other mandatory state funds as part of its statutory employer's contribution to social security taxes on behalf of its employees. Metinvest also makes contributions to the state with respect to the pensions of its Ukrainian employees. Pensions are then paid directly by the state to the employees. There is no automatic retirement age for workers in Ukraine, although the statutory retirement age is 60 for men and 55 for women. Employees working in hazardous conditions may retire earlier, at age 50 or 55, depending on the type of their employment. Metinvest's employees have an average age of 40.

Industry Associations

In 2007, Metinvest became a member of the World Steel Association (**WSA**). The WSA is one of the largest and most dynamic industry associations in the world, with members in every major steel-producing country. WSA represents over 150 steel producers (including nine of the world's ten largest steel companies), national and regional steel industry associations, and steel research institutes. WSA members represent around 85 per cent. of the world's steel production. Metinvest is the only member of the WSA that represents Ukraine.

In 2009, Metinvest joined the American Chamber of Commerce in Ukraine, a non-governmental non-profit organisation representing business leaders and experts from more than 600 member organisations which include the biggest investors and largest multinationals operating in Ukraine.

In 2010, Metinvest joined the European Business Association (**EBA**). The EBA is a non-profit organisation which aims to improve the investment climate in Ukraine by representing the interests of European and Ukrainian investors. The EBA was established as a forum for discussion and resolution of the challenges facing the private sector in Ukraine. Founded in 1999, the EBA's membership currently includes almost 900 European, international and Ukrainian companies.

Metinvest is also a member of various Ukrainian associations including the Ukrainian Chamber of Commerce and Industry (**UCCI**), a non-governmental non-profit, self-governing organisation incorporating approximately 10,000 enterprises, companies, business associations, banks and other bodies. The main objective of the UCCI is to create favourable conditions for Ukrainian businesses, protect the interests of the Ukrainian business community and deepen relations with international business partners. Metinvest's industry association memberships include (but are not limited to) Ukrmetallurgprom, Ukrudprom and the Ukrainian Federation of Metallurgists.

Corporate Social Responsibility Associations

In 2010, Metinvest joined the United Nations Global Compact Initiative, an international network-based initiative which aims to promote responsible corporate citizenship and enlists the support of the business sector with a view to achieving a more sustainable and equitable global economy. Founded in 2000, the initiative has grown to more than 12,000 corporate participants in over 170 countries around the world. Being part of the initiative enables Metinvest to access the international platform and resources required to develop social welfare programmes, build partnerships with governments, non-governmental organisations and civil societies around the world.

In 2011, Metinvest became a member of CSR Development Centre (**CSRDC**), a leading expert organisation in Ukraine that participates in developing the corporate social responsibility (**CSR**) agenda of Ukrainian society. The CSRDC implements CSR projects together with partners from both business and NGO fields. Founded in 2007, CSR Development Centre today consists of 40 members from leading Ukrainian industries.

In 2012, Gvardiya (a Ukrainian rating agency) ranked Metinvest as the best Ukrainian company for CSR. Also, in consistent years during 2012-2015, Metinvest was among the top five leaders in the CSRDC's Transparency Index Ukraine exercise, which assessed companies in Ukraine against criteria in the Global Transparency Index using a wide range of parameters. The parameters ranged from availability of information about CSR policies and approaches to a detailed description of existing social and environmental programmes and non-financial reporting, according to the Global Reporting Initiative (**GRI**).

Metinvest's social efforts were recognised in 2015. In a national competition for business cases, Metinvest won the "Community Development" category for its submission "Corporate Social Responsibility in an Unstable Environment".

Social Programmes

Metinvest provides a number of benefits to its workers, including financial assistance, health improvement programmes and medical insurance, bonus payments, payments towards important events (for example, marriages and births), improvement of living conditions, pension programmes, educational grants and many others. Metinvest also provides its workers with various additional benefits. Metinvest provides various recreational facilities such as sanatoriums, recreation centres, children's camps and sports centres.

Metinvest also invests considerable effort and resources into training employees at all levels of seniority and providing them with opportunities for professional growth and development. In 2015, 36,354 employees completed one or more training courses, including health and safety. This represented 41 per cent. of the workforce. 9,256 managers underwent at least one course and spent an average of 3.4 days each receiving training. Training programmes completed by managers during 2015 included 'Management DNA' (8,835 people), 'Vector of Development' (6,470), corporate university courses (4,041) and courses run by external providers (637).

Metinvest takes its role as a corporate citizen of Ukraine seriously and takes responsibility for its local communities. In many cases, Metinvest's plants are a key employer and economic anchor for these communities. Metinvest has reacted to economic and political uncertainty (particularly the conflict in Eastern Ukraine), for example, through increased financial support as a company and personal commitments from thousands of Metinvest employees. In 2015, Metinvest spent around U.S.\$24 million on social initiatives. This included U.S.\$16 million in humanitarian aid to support those affected by the events in the Donetsk and Luhansk regions and U.S.\$1 million to help restore infrastructure in the conflict zone. Numerous buildings, facilities and transport links in Mariupol have been damaged or destroyed during the conflict. The Group has spearheaded a concerted effort to ameliorate the situation. Notably, in the Vostochny district of the city (which was hit by heavy shelling in early 2015) employees from Metinvest's enterprises in Mariupol, Ilyich Steel and Azovstal, spent almost five months helping to restore daily life for residents. In Avdiivka Coke, which was struck multiple times during 2015, Metinvest (as the main local employer) and the local administration jointly participated in restoring infrastructure and social facilities. To coordinate the work, Metinvest established a social partnership programme named "We Will Revive Avdiivka Together". In 2015, Metinvest restored 15 social facilities, 69 apartment blocks and 135 private houses in the city.

In all responding to urgent needs, Metinvest continues to implement traditional social partnership programmes. In close cooperation with municipal governments, Metinvest identifies key projects for each community. In Kryvyi Rih, Metinvest repaired city roads and lights, purchased medical equipment and reconstructed the children's ward of the city hospital. In Novhorodske, Metinvest is renovating the sports complex and implementing a project named "Water is the Source of Life".

Since 2011, in the main cities and towns where it is present, Metinvest has held a "We Improve the City" contest in which residents submit ideas for social initiatives. Overall, in 2016, 630 proposals were submitted from non-profit organisations, state agencies, medical and educational institutions, community groups and citizens. After review and assessment, the local public expert committees chose 93 projects involving an aggregate investment of almost U.S.\$0.4 million.

Metinvest also runs the programme "Children and youth football development" in partnership with FC Shakhtar. Investments into this programme amounted to approximately around U.S.\$0.5 million in 2015. Branches of youth football academies supported by the programme operate in the main cities in which Metinvest operates and provide football training to almost 1,300 children.

In 2013, Metinvest started "Green Centre Metinvest", an environmental programme established to landscape urban spaces, remove waste and improve the urban environment. The programme works in cooperation with the local communities, NGOs, experts and authorities to support local environmental initiatives, environmental education and ecological volunteer work. In 2015, the "Green Centre" campaign, which included around 600 events during the year, fulfilled more than 400 requests from local communities, cleared around 1,300 tonnes of waste and helped to plant over 300 trees.

In October 2015, Metinvest published its social report for 2013-2014. The document was prepared in accordance with the international Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI 4.0) and the principles of the UN Global Compact.

MANAGEMENT

Corporate Governance Structure of the Issuer

Metinvest B.V.'s corporate governance structure consists of a general meeting of shareholders (the **General Meeting of Shareholders**), the Management Board and the Supervisory Board.

General Meeting of Shareholders

Under Dutch law and the Articles of Association of the Issuer, the General Meeting of Shareholders of the Issuer is authorised to resolve, among others, the following matters:

- to issue shares;
- to exclude or limit pre-emptive rights;
- to acquire shares and to transfer shares held by the Issuer;
- subject to a statutory opposition period, to reduce the share capital of the Issuer;
- to appoint, suspend or dismiss members of the Management Board;
- to determine the remuneration of the Directors;
- to adopt the annual accounts;
- to allocate profits; and
- to amend the Articles of Association of the Issuer, to dissolve the Issuer and to merge and demerge the Issuer.

Management Board

The Management Board consists of one Director A and one Director B. The Director A is appointed by a joint meeting of holders of class A shares and holders of class C shares (which are currently held by SCM Cyprus and Clarendale Limited, respectively). Director B is appointed by a meeting of holders of class B shares (which are currently held by the SMART Group).

Under Dutch law, the Management Board is responsible for the management (*bestuur*) of the Issuer. Under the Articles of Association of the Issuer, the Issuer may only be represented by the entire Management Board (i.e. Director A and Director B, acting jointly). In performing their duties, the Directors must act in the best interests of the Issuer and the Issuer's business. The Articles of Association of the Issuer do not specify the term of office of members of the Management Board.

Mr. Yuriy Ryzhenkov was appointed Director A and CEO of the Issuer with effect from 14 July 2014.

ITPS (Netherlands) B.V. was appointed Director B of the Issuer with effect from 14 July 2014. ITPS (Netherlands) B.V. is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands with its registered office at Nassaulaan 2A, 2514 JS, 'S-Gravenhage, The Netherlands, registered with the Dutch Trade Register of the Chamber of Commerce under number 27168222. ITPS (Netherlands) B.V. is a Dutch trust office active in the provision of international tax planning and structuring services. The directors of ITPS (Netherlands) B.V. are Mr. John Willekes Macdonald, residing at Laan van Meerdervoort 1224, 2455 CD, The Hague, The Netherlands, born in The Hague, The Netherlands, on 11 September 1966, holder of a valid Dutch passport No. NMD3FFD57 and Mr. Jacob Broers, residing at Brugweg 125E, 2741 LA Waddinxveen, The Netherlands, born in Nieuwer-Amstel, The Netherlands, on 21 November 1962, holder of a valid Dutch passport No. NW4C5PCC5. According to the Articles of Association of ITPS (Netherlands) B.V., each director has the power to solely represent ITPS (Netherlands) B.V. in each and every respect without limitation.

Supervisory Board

The Supervisory Board consists of ten members, of whom seven are appointed by the SCM Group and three by the SMART Group.

The duty of the Supervisory Board is to supervise the activity of the Management Board and the general course of affairs in the Issuer and the Group and the business connected therewith. The Supervisory Board shall assist the Management Board by giving advice.

Decisions relating to the following matters, among others, must be approved or ratified by a resolution of the Supervisory Board: the Group's strategic goals; the Group's investment programme for each calendar year; the Group's annual business plan; appointments at the level of top management, approval of their compensation system and KPIs, and decisions on annual bonuses; and recommendations to the shareholders relating to the appointment or re-appointment of external auditors, approval of the Group's annual reports and financial statements, and all mergers and acquisitions to be undertaken by the Group.

The Supervisory Board has also constituted four committees for the consideration of specific matters:

- **Strategy & Investments Committee.** The key responsibility of the Strategy & Investments Committee is to review and provide recommendations to the Supervisory Board in the following areas: strategic objectives of the Group, including existing and new businesses, investment and M&A projects. The Strategy & Investments Committee consists of eight members. The Strategy & Investments Committee is assisted by the Technological Sub-Committee advising and assisting the executive management in the development and implementation of its technological strategy.
- **Health, Safety & Environmental Committee.** The Health, Safety & Environmental Committee's remit is to provide the management team with support in implementing the highest standards of health, labour, and environmental safety culture throughout the Group. The Health, Safety & Environmental Committee consists of four members.
- **Audit & Finance Committee.** The remit of the Audit & Finance Committee is to analyse and support the Group's internal audit function. The Audit & Finance Committee consists of four members.
- **Appointments & Compensations Committee.** The Appointments & Compensations Committee is responsible for the following areas: making recommendations to the Supervisory Board on dismissals and new appointments for senior positions within the Metinvest group; and making recommendations to the Supervisory Board on KPIs and annual bonuses for senior management, as well as on the Metinvest group's motivation, assessment and reward systems. The Appointments & Compensations Committee consists of four members.

Metinvest's Management Team

General Director

Yuriy Ryzhenkov has been General Director and Chief Executive Officer of Metinvest since December 2013. Prior to that, Mr. Ryzhenkov worked for DTEK, where he served as Chief Operating Officer and Member of the Board of Directors from 2010 to 2013 and as Chief Financial Officer from 2007 to 2010. From 2002 to 2007, Mr. Ryzhenkov held the position of Deputy CFO and Finance Director of International Steel and Tube Industries Limited (ISTIL, Donetsk-London). He worked as Manager of Economic Analysis and Informatics at CJSC Mini Steel Mill ISTIL (Ukraine) in 2000 and as assistant to the CFO at Donetsk Iron and Steel Works from 1996 to 2000. Mr. Ryzhenkov graduated from Donetsk State Technical University with a diploma in international economics and from King's College London (United Kingdom) with a BSc (Hons) in business management, both in 2000. He obtained his MBA from the London Business School in 2006.

Management Team

The key members of Metinvest's management team are:

Name	Age	Position
Yuliya Dankova	38	Chief Financial Officer
Aleksandr Pogozhev	50	Director of Metallurgical Segment and interim Director of Metinvest's Mining Segment
Oleg Tokar	52	Director for Safety and Ecology

Svetlana Romanova	40	Chief Legal Officer
Dmytro Nikolayenko	41	Sales Director
Oleg Shudra	40	Internal Audit Director
Nataliya Strelkova	47	Director of Human Resources and Social Policy
Aleksey Komlyk	40	PR and Regional Development Director
Olga Ovchinnikova	40	Logistics Director
Sergiy Detyuk	38	Chief Information Officer

Yuliya Dankova has been Chief Financial Officer of Metinvest since July 2016. Prior to that, she had served as the interim Chief Financial Officer since March 2016. Before that, she was the Director of the Controlling department in the Finance directorate from 2015, and the Financial Control Director of the Mining segment from 2010. From 2004 to 2010, Yuliya headed the Finance department at the Group's iron ore mining and enrichment assets in Kryvyi Rih. From 2001 to 2003, she worked in the Bank Card department in the Kyiv branch of UkrSibbank; and from 2000 to 2001, she was an Economist in the Sales and External Economic Relations department at Southern GOK. She holds an MBA from the LINK International Institute of Management (Russia) and a diploma with honours in Foreign Trade Management from Kryvyi Rih Technical University (Ukraine).

Alexander Pogozhev has been Chief Operations Officer since 1 September 2016. He previously occupied the position of Director of Metinvest's Metallurgical Division (prior to 1 October 2011, the Steel and Rolled Products Division) from December 2010 to August 2016 and was an interim Director of Metinvest's Mining Division from 1 April 2016 to 31 August 2016. He has extensive professional experience at large enterprises within the metallurgical industry. From 1991 to 2010 Mr. Pogozhev worked at JSC Severstal, where he held executive positions, including the position of the Chief Operations Officer, and since 2008 Mr. Pogozhev held the position of the Chief Operations Director of Severstal International, USA. Mr. Pogozhev has a degree in financial management from the Moscow State Academy of Management (Russia) and an MBA from the Business School of Northumbria University (United Kingdom).

Oleg Tokar has been Director for Safety and Ecology since August 2012. He previously occupied the position of Head of the Safety Department of Directorate for Safety and Ecology at Metinvest Holding from 2008 to 2011. Mr. Tokar was the Deputy Director of the Health, Safety and Environment Department, Business Unit Processing and Trade and Member of the Advisory Board on Health, Safety and Environment at OJSC TNK-BP Management from 2005 to 2008. From 2002 to 2005 he was Project Manager at DuPont Safety Resources and from 1993 to 2002 was Head of Supply Department at Polar Lights Company. He was Quality Control Engineer at the factory for the production of electronic equipment, Scientific and Production Association Index from 1980 to 1991. Mr. Tokar was an English interpreter at Arkhangelsk Center of Foreign Languages and has obtained the NEBOSH (The National Examination Board in Occupational Safety and Health) General Certificate. He is also graduated as an Engineer-Designer-Technologist at production of electronic equipment from the Kharkiv National Aerospace University in 1990.

Svetlana Romanova has been Chief Legal Officer of Metinvest since September 2012. Prior to that, from 2008 to 2012, she was a Partner in the Kyiv office of the global law firm Baker and McKenzie, where she was previously employed as a lawyer from 2000. From 1998 to 2000, Mrs. Romanova worked at Cargill, Inc. (USA), covering CIS legal issues. During the period 1997 to 1998, she worked as an Assistant in Legal Studies at the University of Iowa's College of Law. Mrs. Romanova has a master's degree in International Law and Translation (English) from Kyiv Taras Shevchenko National University, as well as an LLM in International and Comparative Law from the University of Iowa's College of Law. She has also completed coursework in International Management at the University of St Thomas' Graduate School of Business (St Paul, Minnesota, USA).

Dmytro Nikolayenko has been Sales Director of Metinvest Holding since October 2011. He occupied the position of Sales Director of the Steel and Rolled Products at Metinvest Holding from 2010. Prior to that, he was the Chief Executive Officer of Metinvest SMC from 2007 to 2010. Mr. Nikolayenko held the position of General Director of SM Leman from 2003 to 2007 and Director of Energostal from 1996 to 2003. Mr. Nikolayenko graduated from National University of "Kyiv-Mohyla Academy" in 1996 with a degree in economics. He obtained his MBA from the IMI (Kyiv) in 2002.

Oleg Shudra has been the Internal Audit Director since April 2015. Prior to that, he was Director of Controlling Department at Metinvest Holding from 2010. From 2008-2010, Mr. Shudra was Director at PricewaterhouseCoopers, Ukraine and Senior Manager from 2005 to 2008. He obtained his master's degree in production management from Kyiv National Economic University in 1998. He has been a member of the Association of Chartered Certified Accountants (FCCA) since 2001 and the Chartered Financial Analysts Institute (CFA Institute) since 2007.

Nataliya Strelkova has been Director of Human Resources and Social Policy of Metinvest since June 2010. Prior to that, she was the HR Director of MTS-Russia from 2006 to 2010, and HR Policy Director of MTS OJSC from 2004 to 2006. Mrs. Strelkova held the position of Senior Specialist of the HR Policy Department of YuKOS Oil Company (Russia) from 2001 to 2004. She served as HR Director of the ESN Group (Russia) from 1997 to 2001. Mrs. Strelkova graduated from the Moscow State University in 1996 with a diploma in organisational psychology, and obtained a diploma in the physics of nuclear reactors and nuclear power generation systems from Moscow Engineering and Physics Institute in 1992. She obtained her MBA from the IMD (Lausanne, Switzerland) in 2010.

Aleksey Komlyk has been PR and Regional Development Director of Metinvest since November 2013. Prior to that, from 2011 to 2013, he served as Managing PR Director at JSC AFK Sistema (Russia). From 2008 to 2011, Mr. Komlyk was Managing Partner at Mosso Communication Agency (Austria). He previously worked at JSC Uralkali (Russia), serving as Vice President of PR from 2006 to 2008 and as Head of the Media Relations Office from 2003 to 2006. Mr. Komlyk graduated from Irkutsk State Pedagogical University (Russia) in 1998 with a degree in English and German languages. He is a member of the Russian PR Association (PACO).

Olga Ovchinnikova has been Logistics Director of Metinvest since February 2013. Prior to that, she served as Logistics Director of Metinvest's Supply Chain Management Directorate from 2012. From 2006 to 2011, Ms. Ovchinnikova held the position of Logistics Department Manager at Severstal-Resource (Severstal's raw materials division). She worked as Head of Operational Department at Alyanstransoil (Alliance Oil Company, Russia) from 2002 to 2006. Ms. Ovchinnikova graduated from Moscow State University of Railway Engineering (Russia) in 1998, majoring in economics and management of transportation, and from the National Research University "Higher School of Economics" (Russia) in 2008, majoring in logistics and supply chain management.

Sergiy Detyuk has been Chief Information Officer since March 2016. Before that, he worked at DTEK as Chief Information Officer from 2009 to 2016 and Deputy Finance Director for IT from 2007 to 2009. Prior to DTEK, he headed the Information Technology department at Dnipropetsstal from 2006 to 2007 and at ISTIL from 2004 to 2006. From 2000 to 2004, he was Deputy Manager of a project to create a corporate information system at Ukrpidshypnyk. Mr. Detyuk has completed a corporate MBA programme at the London School of Business (UK, Ukraine) and has an MBA from Kyiv-Mohyla Business School (Ukraine). He also holds a master's in Computer Programming and a diploma in Financial Economics, both from Donetsk State Technical University (Ukraine).

Remuneration of Management

The aggregate amount of salaries and bonuses paid by Metinvest as a group to its management team (including the Chief Executive Officer) in the six months ended 30 June 2016 and the year ended 31 December 2015 was U.S.\$6.0 and U.S.\$11.5, respectively.

The contracts with the members of Metinvest's senior management do not provide for any pension or other benefits upon termination of respective contracts.

Share Options

As of the date of these Listing Particulars, neither the Issuer nor any member of the Group has a share option plan and no share options have been granted to the members of the Management Board of the Issuer, Metinvest's management or employees.

Debt Securities

As of the date of these Listing Particulars, certain members of Metinvest's management team hold the Existing Notes amounting in aggregate to U.S.\$200,000 (excluding capitalized interest) of the 2016 Notes and U.S.\$300,000 (excluding capitalized interest) of the 2018 Notes. It is expected that these members of Metinvest's management team will receive (or be entitled to receive) in their capacity as Notes Scheme Creditors in accordance with the terms of the Scheme and the Distribution Agreement against markdown of these Existing Notes on the relevant Issue Date (subject to eligibility). See "*Distribution of the Notes*".

Litigation Statement about Directors and Management

As of the date of these Listing Particulars, no member of the Management Board or of Metinvest's senior management for at least the previous six years:

- has any convictions in relation to fraudulent offences;
- has performed an executive function as a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding such company's bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conducting the affairs of a company.

Conflicts of Interests

Except as discussed immediately above, there is no actual or potential conflict of interests between the duties of any of the members of the Management Board and Metinvest's management team and their respective private interests.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The table below sets forth certain information regarding the ownership of shares in the share capital of the Issuer as of the date of these Listing Particulars.

Shareholder	Number of Shares	Class of Shares	Percentage of Share Capital
SCM (System Capital Management) Limited	6,750	A	71.24%
SMART Group companies (Adeona Holdings Limited, Majorone Trading Limited and Celebrom Investments Limited).....	2,251	B	23.76
Clarendale Limited.....	474	C	5.00%
Total:	9,475		100%

The issued and fully-paid share capital of the Issuer comprises 6,750 class A shares, 2,251 class B shares and 474 class C shares, each with a par value of EUR 10. Each share carries one vote. In addition, holders of class A shares and holders of class B shares are entitled to a right of pre-emption upon the issue of class A shares and class B shares (save in cases where this right is withheld by virtue of mandatory legal provisions), pro rata to the total amount of shares of that class held by such holders on the date of the resolution to issue shares of that class. Class C shares do not carry pre-emptive rights, but such rights vest in holders of class A shares and class B shares, pro rata to their respective stakes in the Issuer and net of class C shares. Holders of class B shares are entitled to appoint Director B of the Issuer, while Director A is appointed by a joint meeting of holders of class A shares and holders of class C shares.

SCM (System Capital Management) Limited owns 71.24 per cent. of the issued share capital of the Issuer. SCM (System Capital Management) Limited is a member of the SCM Group. Mr. Rinat Akhmetov is the ultimate beneficial owner of the SCM Group. Adeona Holdings Ltd., Majorone Trading Ltd. and Celebrom Investments Ltd., all part of the SMART Group own 23.76 per cent. of the issued share capital of the Issuer. The SMART Group is beneficially owned by Mr. Vadym Novynskyi. Clarendale Ltd. owns 5.00 per cent. of the issued share capital of the Issuer. This ownership stake has been acquired by SCM Holdings Ltd., which is a member of the SCM Group, for the benefit of the SCM Group and the SMART Group.

To the best of the Issuer's knowledge, there are no arrangements in place which could result in a change of control. Save as disclosed above, there are no other persons who could, directly or indirectly, exercise control over the Issuer.

Save as disclosed in this "Shareholders and Related Party Transactions" section, none of the members of the Management Board or members of Metinvest's management team had or has any interest(s) in any transaction(s) which were effected by Metinvest and which were either unusual in their nature or conditions, or significant to Metinvest's business during the current financial year or during the years ended 31 December 2014 and 2015, or during any previous financial year and which remain outstanding or unperformed.

None of the Issuer's shareholders of the any class has voting rights which differ from any of the other holders of the Issuer's shares of that same class.

Shareholders' Agreement

In July 2014, the SCM Group and SMART Group completed the merger of their metals and mining assets under Metinvest (which started in 2007) pursuant to the terms of a shareholders agreement dated 7 July 2014 (the **Shareholders' Agreement**). Under the Shareholders' Agreement, SMART Group received a number of additional rights with respect to the Metinvest group, including: the right to veto certain matters within the remit of the Supervisory Board and a General Shareholders' Meeting of the Issuer; the right to appoint three of the ten Supervisory Board members of the Issuer (the other seven members of the Supervisory Board being appointed by a joint meeting of the SCM Group and Clarendale Limited); and the right to appoint one of the Issuer's two directors (one of the directors, who serves as the CEO of the Issuer and the Group, is appointed by a joint meeting of the SCM Group and Clarendale Limited). Furthermore, an additional class B share was issued in July 2014 for the benefit of SMART Group. As a result, SCM (SYSTEM CAPITAL MANAGEMENT) Ltd.'s interest in the Issuer is now 71.24 per cent. and SMART Group interest is 23.76 per cent. The remaining 5.00 per cent. interest in the Issuer has been acquired from the previous owners of the Ilyich Group for the benefit of the SCM Group and the SMART Group. It is the intention of SCM and SMART Group to dispose of the remaining 5 per cent. interest (after receiving

any required governmental approvals), such that the ultimate beneficial interest of SCM in the Issuer will be 75 per cent. minus 1 share, and the ultimate beneficial interest of SMART Group in the Issuer will be 25 per cent. plus 1 share.

The Shareholders' Agreement provides that each of SCM (SYSTEM CAPITAL MANAGEMENT) Ltd. and the SMART Group companies have a right of first refusal in the event that either of them elects to sell shares in the Issuer. In addition, if either of them disposes of its shares in the Issuer, the other party is entitled to join in the offer and has the right to sell its shares. Decisions at shareholders' meetings are taken by unanimous vote of the class A and B shareholders. In the case of a deadlock, a deadlock resolution mechanism is provided for in the Shareholders' Agreement.

Related Party Transactions

In the normal course of its business, Metinvest enters into transactions with related parties. For purposes of the Financial Statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each potential related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Other than the transactions with related parties described herein, Metinvest did not engage in any transactions with members of Metinvest's management team or members of the Issuer's Board during the period under review.

Metinvest seeks to conduct all transactions with related parties on market terms and in accordance with applicable legislation. The terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction taking into account existing pricing arrangements for similar types of transactions with unrelated parties. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms.

Transactions with related parties and significant outstanding balances as at 31 December 2014 and 2015 are set out below.

In July 2014, Metinvest acquired 1.89 per cent. of the share capital of Northern GOK from SCM Holdings for U.S.\$74.9 million.

In July 2014, the SCM Group and SMART completed the merger of their metals and mining assets under Metinvest (which started in 2007) pursuant to the terms of a shareholders agreement dated 7 July 2014. SMART contributed to the statutory capital of Metinvest 100 per cent. of the issued share capital of Trosilia Holdings Limited (Cyprus), which indirectly owns 44.78 per cent. of the issued share capital of Southern GOK. Furthermore, an additional class B share was issued in July 2014 for the benefit of SMART. As a result, SCM Cyprus' and SMART's interests in the issued share capital of Metinvest are now 71.24 per cent. and 23.76 per cent., respectively. The remaining 5 per cent. interest in the issued share capital of Metinvest 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 Group to dispose of the remaining 5 per cent. interest (after receiving any required governmental approvals), such that the ultimate beneficial interest of SCM in the Issuer will be 75 per cent. minus 1 share, and the ultimate beneficial interest of SMART Group in the Issuer will be 25 per cent. plus 1 share.

Metinvest has had no other significant related party transactions from 30 June 2016 to the date of these Listing Particulars other than continuations of the trading relationships described below.

Sales to related parties

Metinvest sells its products, mainly comprising iron ore, coal and metal products, to related parties. Total sales to related parties, including SMART and Zaporizhstal, in the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016 amounted to U.S.\$840 million, U.S.\$734 million and U.S.\$241 million, respectively.

Metinvest sells coke and coking coal in the ordinary course of business to Zaporizhstal and other related parties. In the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016 these sales amounted to U.S.\$295 million, U.S.\$349 million, U.S.\$112 million, respectively.

Metinvest also sells iron ore and scrap metal in the ordinary course of business to related parties including Zaporizhstal. In the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016 total sales of iron ore to related parties amounted to U.S.\$272 million, U.S.\$163 million and U.S.\$62 million, respectively. In

the same periods, total sales of scrap metals to related parties amounted to U.S.\$85 million, U.S.\$49 million and U.S.\$14 million, respectively.

In the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016 Metinvest sold steel products to related parties in the amount of U.S.\$95 million, U.S.\$68 million and U.S.\$22 million, respectively.

The sales of other products to related parties in the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016 amounted to U.S.\$93 million, U.S.\$105 million and U.S.\$39 million, respectively.

Sponsorship and charitable payments

In 2014, Metinvest's aggregate sponsorship and other charitable payments were U.S.\$39 million, of which U.S.\$29 million was paid to related parties (in the form of non-refundable financial assistance), including U.S.\$26 million through Foundation for Development of Ukraine and U.S.\$3 million to other related parties. In 2015, Metinvest's aggregate sponsorship and other charitable payments totalled U.S.\$17 million, of which U.S.\$11 million was paid to related parties (in the form of non-refundable financial assistance), including U.S.\$11 million through Foundation for Development of Ukraine. Metinvest's aggregate sponsorship and other charitable payments to non-related parties in this period amounted U.S.\$6 million. In the six months ended 30 June 2016, Metinvest's aggregate sponsorship and other charitable payments were U.S.\$2 million, fully paid to non-related parties.

Purchases from related parties

Metinvest purchases from related parties metal products, electricity, gas, spare parts, raw materials for use in its operations, primarily coke and coking coal, as well as other services. Total purchases of products and services from related parties in the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016 amounted to U.S.\$3,281 million, U.S.\$2,193 million and U.S.\$983 million, respectively.

In the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016, Metinvest purchased rolled metal products from Zaporizhstal for a total amount of U.S.\$1,550 million, U.S.\$1,127 million and U.S.\$451 million.

In the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016, Metinvest purchased electricity from Joint Stock Company Service-Invest, Joint Stock Company Donetskoblenergo and Joint Stock Company DTEK Dneproblenergo for a total amount of U.S.\$689 million, U.S.\$454 million and U.S.\$189 million, respectively. In July 2013, Metinvest also started purchasing gas from DTEK Trading. Such purchases totalled U.S.\$230 million, U.S.\$105 million and U.S.\$82 million in the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016, respectively.

The purchases of raw materials and spare parts from Dokuchayevsk Flux and Dolomite Plant, Novotroitsk Ore Mining, Kryvyi Rih Mining Equipment Plant, Kryvyi Rih Iron Ore Plant and Southern GOK (which became a related party in relation to Metinvest in January 2013) in the years ended 31 December 2014, 2015 and in the six months ended 30 June 2016 totalled U.S.\$219 million, U.S.\$69 million and U.S.\$45 million, respectively.

In the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016, Metinvest purchased coke and coking coal from related parties Yenakiieve Coke (which became a related party in relation to Metinvest in November 2012) and DTEK for a total amount of U.S.\$137 million, U.S.\$79 million and U.S.\$47 million, respectively.

Metinvest purchases drilling, blasting, forwarding and other services from related parties. In the years ended 31 December 2014 and 2015 and in the six months ended 30 June 2016, payments for such services to related parties including Joint Stock Company Krivbasvzryvprom, Lemtrans LLC, Insurance Company ASKA, Ferro Shipping Limited and First Ukrainian International Bank amounted to U.S.\$406 million, U.S.\$331 million and U.S.\$139 million, respectively.

Trade and other receivables and payables

As at 30 June 2016, Metinvest had an outstanding balance of U.S.\$532 million of trade and other receivables from related parties primarily related to supplies of iron ore, coke and coal products to Zaporizhstal and Yenakiieve Coke, prepayments made to Zaporizhstal for metal products and current portions of loans granted to the SCM and SMART Groups. The trade and other receivables balances were U.S.\$525 million and U.S.\$468 million as at 31 December 2015 and 2014, respectively.

As at 30 June 2016, Metinvest had an outstanding balance of U.S.\$711 million of trade and other payables comprising:

- U.S.\$166 million due to the SCM Group and related entities including U.S.\$40 million in relation to dividends accrued (compared to aggregate amounts of U.S.\$177 million and U.S.\$200 million as at 31 December 2015 and 2014, respectively). Trade and other payables to SCM related entities include U.S.\$2 million due to Kryvyi Rih Iron Ore Plant, U.S.\$5 million due to Druzhkovka Machine Building Plant in relation to prepayments received, U.S.\$2 million due to Donetskgormash in relation to prepayments received, U.S.\$5 million due to Gorlovka Machine-builder in relation to prepayments received (compared to aggregate amounts of U.S.\$15 million, and U.S.\$2 million as at 31 December 2015 and 2014, respectively);
- U.S.\$57 million due to its associates including U.S.\$55 million to Yenakiieve Coke Plant (compared to aggregate amounts of U.S.\$58 million, and U.S.\$35 million as at 31 December 2015 and 2014, respectively);
- U.S.\$184 million due to its joint venture Zaporizhstal in relation to the purchase of metal products (compared to aggregate amounts of U.S.\$200 million, and U.S.\$168 million as at 31 December 2015 and 2014, respectively);
- U.S.\$48 million due to SMART, all in relation to dividends accrued; and
- U.S.\$256 million due to Southern GOK in relation to purchases of concentrate and agglomerate (compared to aggregate amounts of U.S.\$210 million, and U.S.\$228 million as at 31 December 2015 and 2014, respectively).

As at 30 June 2016, Metinvest had an outstanding balance of U.S.\$88 million of short-term dividends payable comprising U.S.\$40 million due to the SCM Group (compared to U.S.\$40 million as at 31 December 2015 and U.S.\$40 million as at 31 December 2014), U.S.\$48 million due to SMART (compared to U.S.\$48 million as at 31 December 2015 and U.S.\$48 million as at 31 December 2014, respectively). Metinvest had no long-term dividends payable to related parties as at 31 December 2015 and 2014.

Borrowings from related parties

Metinvest had outstanding non-bank borrowings from related parties of U.S.\$408 million as at 30 June 2016 (compared to U.S.\$393 million and U.S.\$370 million as at 30 December 2015 and 2014, respectively).

Loans to related parties

As at 30 June 2016, Metinvest had an outstanding balance of U.S.\$211 million of loans granted to related parties (compared to U.S.\$198 and U.S.\$84 million as at 31 December 2015 and 2014, respectively), including:

- U.S.\$98 million of loans granted to Zaporizhstal (compared to U.S.\$101 million and U.S.\$101 million as at 31 December 2015 and 2014, respectively);
- U.S.\$78 million of loans granted to SMART (compared to U.S.\$75 million and U.S.\$70 million as at 31 December 2015 and 2014, respectively); and
- U.S.\$35 million of loans granted to the SCM Group (compared to U.S.\$35 and U.S.\$31 million as at 31 December 2015 and 2014, respectively).

Acquisition and disposal of subsidiaries

Metinvest made a number of acquisitions and disposals of interests in the group companies between 1 January 2014 and 30 June 2016. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions and Disposals*".

TERMS AND CONDITIONS OF THE NOTES

The following, subject to modification, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Notes.

The U.S.\$[●] fixed rate senior secured notes due 31 December 2021 (including any PIK Notes, as defined herein, the "**Notes**", which expression shall in these terms and conditions (the "**Conditions**"), unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of Metinvest B.V. (the "**Issuer**") are constituted by the trust deed (as amended, varied or supplemented from time to time, the "**Trust Deed**") dated [●] 2017 between the Issuer and Madison Pacific Trust Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Guarantee Agreements, the Security Documents and the Intercreditor Agreement (each defined below). The agency agreement (as amended, varied or supplemented from time to time, the "**Agency Agreement**") dated [●] 2017 has been entered into in relation to the Notes between the Issuer, the Trustee and The Bank of New York Mellon, London Branch as initial principal paying agent and the other agents named therein. The principal paying agent, the other paying agents, the registrar and the transfer agents for the time being (if any) are referred to below respectively as the "**Principal Paying Agent**", the "**Paying Agents**" (which expression shall include the Principal Paying Agent), the "**Registrar**" and the "**Transfer Agents**" (which expression shall include the Registrar), and collectively are referred to as the "**Agents**". The Notes are unconditionally, irrevocably and jointly and severally guaranteed by the Guarantors (as defined below) under the relevant Guarantee Agreements subject, in the case of the Intermediate Holdco, to the provisions of the Intercreditor Agreement.

Copies of the Trust Deed, the Agency Agreement, the Guarantee Agreements, the Security Documents and the Intercreditor Agreement are available for inspection during normal business hours at the principal office of the Trustee (presently at Suite 1720, 17/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong) and at the specified offices of the Paying Agents and the Transfer Agents, and will be sent in electronic form to any Noteholder upon written request made to the Trustee or any Paying Agent or Transfer Agent.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Guarantee Agreements, the Security Documents and the Intercreditor Agreement, and are deemed to have notice of those provisions applicable to them in the Agency Agreement.

These Conditions are subject to, and have the benefit of, the Intercreditor Agreement. In the event of any inconsistency between these Conditions and the Intercreditor Agreement, the Intercreditor Agreement shall prevail.

1 Form and Denomination, Transfer and Title

(a) Form and denomination:

The Notes are in registered form in the denomination of U.S.\$1,000 and integral multiples of U.S.\$1 in excess thereof. A definitive certificate (each, a "**Definitive Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Note and each Definitive Certificate will have an identifying number which will be recorded on the relevant Definitive Certificate and in the Register (as defined in Condition 1(b)). While the Notes may only be traded in denominations of U.S.\$1,000 and integral multiples of U.S.\$1 in excess thereof, for the purposes of the relevant clearing systems the denominations are considered as U.S.\$1. For the avoidance of doubt, the relevant clearing systems are not required to monitor or enforce the minimum denomination.

Definitive Certificates issued with respect to Restricted Notes ("**Restricted Definitive Certificates**") will bear the Restrictive Legend (as defined in the Trust Deed), unless determined otherwise in accordance with the provisions of the Agency Agreement by reference to applicable law. Definitive Certificates issued with respect to the Unrestricted Notes ("**Unrestricted Definitive Certificates**") will not bear the Restrictive Legend.

Upon issue, the Restricted Notes will be represented by a restricted global note certificate (the "**Restricted Global Note Certificate**") and the Unrestricted Notes will be represented by an unrestricted global certificate (the "**Unrestricted Global Note Certificate**" and, together with the Restricted Global Note Certificate, the "**Global Note Certificates**"). The Restricted Global Note Certificate and the Unrestricted Global Note Certificate will each be deposited with The Bank of New York Mellon, London Branch as Common Depositary and registered in the name of The

Bank of New York Depository (Nominees) Limited as nominee of the common depository for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**").

Except in the limited circumstances described in the Global Note Certificates, owners of interests in Notes represented by the Global Note Certificates will not be entitled to receive physical Definitive Certificates in definitive form in respect of their individual holdings of Notes. The Notes are not issuable in bearer form.

(b) **Register:**

The Registrar will maintain outside the United Kingdom a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**holder**" of a Note means the Person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(c) **Title:**

Title to the Notes passes only by transfer and registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Certificate) and no Person shall be liable for so treating such holder.

(d) **Transfers:**

Subject to the terms of the Agency Agreement, Condition 1(h) and Condition 1(i), a Note may be transferred by delivering the Definitive Certificate in respect of it, with the endorsed form of transfer (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer) duly completed and signed, and any other evidence as the relevant Transfer Agent may require, at the Specified Office (as defined in the Trust Deed) of the relevant Transfer Agent. In the case of a transfer of part only of a holding of Notes represented by one Definitive Certificate, a new Definitive Certificate shall be issued to the transferee in respect of the part transferred and a further new Definitive Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. No transfer of a Note will be valid unless and until entered on the Register.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing system.

Upon the transfer, exchange or replacement of a Restricted Note, a Transfer Agent will only deliver Definitive Certificates with respect to Restricted Notes that bear the Restrictive Legend if there is delivered to such Transfer Agent such satisfactory evidence as may be reasonably required by the Issuer, that neither the Restrictive Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

An interest in Notes represented by the Restricted Global Note Certificate may be transferred to a person within the United States subject to any applicable transfer restrictions under the Securities Act.

(e) **Partial Redemption and PIK Notes:**

If, on any Interest Payment Date:

- (i) a partial redemption of a holding of Notes represented by a single Definitive Certificate on the payment of an Instalment Amount; and/or

- (ii) an increase in the aggregate principal amount of Notes through the issue of PIK Notes pursuant to Condition 5(c)(i)(C),

occurs, a new Definitive Certificate shall be issued to holders to reflect the increase or decrease in the principal amount of the Notes outstanding following either of or both such events. New Definitive Certificates shall only be issued against the surrender of the existing Definitive Certificates to the Principal Paying Agent.

(f) **Registration and delivery of Definitive Certificates:**

Promptly and in any case within two business days of the surrender of a Definitive Certificate in accordance with Condition 1(d), the Registrar will register the transfer in question and deliver new Definitive Certificate(s) in respect of the principal amount of the Notes transferred (and, in the case of transfer in part only, the balance of Notes not so transferred) to each relevant holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first-class mail (airmail if overseas) to the address(es) specified for the purpose by such relevant holder.

In this paragraph, "**business day**" means a day on which banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

Issues of Definitive Certificates upon transfers of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and, in the case of the Restricted Notes, compliance with the Restrictive Legend.

(g) **No charge:**

The transfer of a Note, exercise of an option, partial redemption and issue of PIK Notes will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but against such indemnity as the Registrar or (as the case may be) such other Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection therewith.

(h) **Closed periods:**

Noteholders may not require transfers to be registered during the period of (i) 15 days ending on (and including) the due date for any payment of the principal of (including any Instalment Amounts), premium on, if any, or interest on the Notes, (ii) 15 days prior to (and including) any date on which the Notes are due to be redeemed by the Issuer following exercise by it of its option pursuant to Condition 6(b) or on which the Notes are due to be repurchased from the Noteholders following any exercise of their option pursuant to Condition 6(c) or (iii) during the period of seven days ending on (and including) any Record Date (as defined below).

(i) **Regulations concerning transfers and registration:**

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any other Transfer Agent to any Noteholder who requests in writing a copy of such regulations.

2 **Guarantees and Status**

- (a) **Guarantee:** The Guarantors (other than the Intermediate Holdco) have, pursuant to the granting of a Guarantee under the relevant Surety Agreement, jointly and severally, unconditionally and irrevocably guaranteed the moneys payable by the Issuer under the Trust Deed, the Notes and the Agency Agreement. Each Guarantee by the Ukrainian Guarantors under the Surety Agreements will constitute a suretyship (in Ukrainian: "*poruka*") for the purposes of Ukrainian law. The Intermediate Holdco has guaranteed, pursuant to, and on the terms set out in, the Intermediate Holdco Guarantee Agreement, subject to the terms of the Intercreditor Agreement, the moneys payable by the Issuer under the Trust Deed and the Notes.

(b) **Addition of Guarantors:**

The Issuer shall give not less than five Business Days' prior notice to the Trustee and the Noteholders in accordance with Condition 17 of the addition of an Additional Guarantor and the execution and delivery to the Trustee by such Additional Guarantor of a Surety Agreement in connection therewith, provided that the Issuer may procure the accession of a relevant Subsidiary as an Additional Guarantor within a shorter notice period in order to ensure timely compliance with Condition 4(q)(i)(B). The addition of any Additional Guarantor(s) pursuant to this Condition 2(b) shall be conditional upon receipt by the Trustee of (x) an Opinion of Counsel as to the enforceability of the Surety Agreement of any such Additional Guarantor and as to the due capacity and authority of any such Additional Guarantor and (y) such other documents or certificates as the Trustee may reasonably require. The Trustee shall be entitled to accept and rely on the Opinion of Counsel referred to in sub-paragraph (x) above without further enquiry or liability to any Person as sufficient evidence of the matters certified therein.

(c) **Status of Notes and Guarantee:** The Notes constitute direct, unsubordinated and unconditional obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Each Guarantee constitutes or will constitute a senior, unsubordinated obligation of the relevant Guarantor. The Notes and the Guarantees will be secured by the Collateral in the manner described in Condition 3(a). The Notes and the Guarantees are:

- (i) senior secured obligations of the Issuer and of the Guarantors that are members of the Collateral Group, secured by the Collateral on a first priority basis, and *pari passu* in right of payment with the obligations under the PXF Facility Agreement, subject to the ranking more particularly set out in the Intercreditor Agreement;
- (ii) effectively senior in right of payment to any existing or future unsubordinated unsecured obligations of the Issuer and/or the Guarantors, to the extent of the value of the Collateral that is available to satisfy the obligations under the Notes and the Guarantees;
- (iii) *pari passu* in right of payment with any other existing or future unsecured and unsubordinated Indebtedness of the Issuer or the Guarantors with respect to any assets of the Issuer and/or the Guarantors that do not constitute the Collateral;
- (iv) senior in right of payment to all existing and future subordinated Indebtedness and any other subordinated liabilities of the Issuer and/or the Guarantors; and
- (v) in the case of the Notes, structurally subordinated to any existing and future obligations of the Issuer's Subsidiaries that are not Guarantors.

3 **Security Arrangements**

The following provisions in this Condition 3 are a summary of certain provisions relating to the Common Security that are set out in full in, and are in all respects subject to, the Intercreditor Agreement and the Security Documents. The Intercreditor Agreement and the Security Documents should be read in full.

(a) **Collateral:**

- (i) The Collateral consists or will consist of:
 - (A) Intermediate Holdco Share Pledge;
 - (B) certain intercompany receivables owed by the Intermediate Holdco;
 - (C) OpCo Share Pledges;
 - (D) certain intercompany receivables owed by Ingulets GOK, Ilyich Steel and Central GOK;
 - (E) pledges over certain equipment, granted by Ingulets GOK, Ilyich Steel and Central GOK; and

- (F) pledges over certain offshore accounts (including the debt service account) granted by the Issuer and an offshore account granted by the Intermediate Holdco.
- (ii) The due and punctual payment of the principal of (including any Instalment Amounts), premium on, if any, interest and Additional Amounts, if any, on, the Notes and the Guarantees when and as the same shall be due and payable, whether on an Interest Payment Date, at maturity, by acceleration, repurchase, redemption or otherwise, and the performance of all other obligations of the Issuer and the Guarantors to the Noteholders, the Trustee and the Common Security Agent under the Notes Documents, in accordance with the terms thereof, shall be secured by Liens in favour of the Common Security Agent over the Collateral pursuant to the Security Documents, all of which is subject to the provisions of the Intercreditor Agreement and any Additional Intercreditor Agreement.
- (b) **Amendments to Security Documents:** So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, except with the prior written consent of the Trustee or as approved by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Notes or as expressly contemplated or permitted in any of the Security Documents, the Intercreditor Agreement and/or these Conditions (including in the circumstances set out in Conditions 3(c), 4(h) and 11), (x) permit any of the Security Documents to be amended, terminated, postponed or discharged, (y) consent to any variation of, or exercise of any powers of consent or waiver pursuant to any of the Security Documents or (z) permit any party to any of the Security Documents or any other person whose obligations form part of the Collateral to be released from such obligations.
- (c) **Release of Collateral:** The Trustee shall be deemed to give its consent without the need for any notice or other formalities to release the Collateral (or the relevant proportion thereof, as provided below) and the Common Security Agent will take any action required to effectuate any release of the Collateral, in each case, in the following circumstances:
 - (i) where the Notes have been redeemed, or purchased and cancelled, in whole, but not in part, pursuant to Condition 6;
 - (ii) in the case of a Guarantor that is released from its Guarantee in accordance with Condition 4(q)(vii), the release of the property, assets and Capital Stock of such Guarantor;
 - (iii) pursuant to an Extraordinary Resolution of the Noteholders;
 - (iv) as provided in Condition 4(h);
 - (v) to effectuate a merger, consolidation or a similar transaction in accordance with Condition 4(i);
 - (vi) upon a release of the Lien that resulted in the creation of the Lien under Condition 4(a)(i);
 - (vii) in connection with any sale or other disposition of the Collateral, directly or indirectly, to any Person other than the Issuer or any Subsidiary of the Issuer, if the sale or other disposition, and the application of the Disposal Proceeds therefrom, does not violate Condition 4(e) or Condition 4(s);
 - (viii) in the case of the OpCo Share Pledges, to take such steps that are necessary to implement the Intermediate Holdco Unwind, provided that it is followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets by the Issuer in favour of the Common Security Agent and in accordance with the Security Documents;
 - (ix) in the case of the OpCo Share Pledges and OpCo Security Assignments, in accordance with clause 11.5 of the Intercreditor Agreement;

- (x) in the case of the Intermediate Holdco Share Pledge and the Intermediate Holdco Security Assignment, in accordance with clause 11.3 of the Intercreditor Agreement;
 - (xi) in connection with a substantially simultaneous Incurrence of Indebtedness permitted under Condition 4(b)(ii)(N); or
 - (xii) to the extent otherwise permitted by the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents.
- (d) **Enforcement of Common Recourse:**
- (i) Save as expressly provided otherwise in the Intercreditor Agreement, the Common Recourse shall be enforceable only in the following circumstances:
 - (A) in the case of the Intermediate Holdco Share Pledge:
 - (1) save as otherwise provided in (ii) below, following the occurrence of an Intermediate Holdco Collateral Enforcement Event which is continuing; and
 - (2) in the case of clause (5.2) (*Enforcement*) of the Intermediate Holdco Share Pledge, following both (A) non-payment of any amount when due under the PXF Documents or the Note Documents, where such non-payment is continuing, and (B) the occurrence of an Intermediate Holdco Collateral Enforcement Event which is continuing; and
 - (B) in the case of the OpCo Share Pledges and OpCo Security Assignments, following the occurrence of an OpCo Collateral Enforcement Event which is continuing; and
 - (C) in the case of any other Common Security and the Intermediate Holdco Guarantee Agreement, upon the occurrence of an Event of Default which is continuing.
 - (ii) If such security interests become enforceable, the Trustee may refrain from sending proposed Enforcement Instructions as to the taking of an Enforcement Action with respect to the relevant Collateral to the Common Security Agent or otherwise enforcing such security interests or taking any other action as to Enforcement unless it is requested in writing by holders of at least 50.1 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in each case to satisfaction of the Pre-Funding and Indemnity Conditions and as provided below). The Trustee shall be obliged to act on the first such request or direction received pursuant to this Condition 3(d)(ii) (subject as provided below) and shall have no liability to any person for so doing. The Trustee may take any step, action or proceedings provided for in or pursuant, and/or subject to, the Notes Documents, but without any liability to any person as to the consequences of such step, action or proceedings and without having regard to the effect of such action or proceedings on the Issuer or individual holders of the Notes, and provided that:
 - (A) the Trustee shall not be required or obliged to take any action, step or proceedings that would involve any personal liability or exposure without the Pre-Funding and Indemnity Conditions having first been satisfied; and
 - (B) in circumstances where there shall have been a default in making payment of any amount due in respect of the redemption of some only of the Notes (the "**Defaulted Notes**"), the Trustee may only send the Enforcement Instructions to the Common Security Agent in respect of that pro rata part of the Collateral as is equal to the ratio of the outstanding principal amount of such Defaulted Notes to the total outstanding principal amount of the Notes (including the Defaulted Notes) at the relevant time.

- (iii) Following any realisation of the Collateral in accordance with the provisions of the Notes Documents, the Common Security Agent will apply the proceeds of such realisation in accordance with the Intercreditor Agreement, and the Trustee shall apply the portion of such proceeds in respect of the Notes in accordance with Condition 3(e).
- (e) **Application:** Subject to the provisions of the Notes Documents, the Trustee shall, upon receipt of such moneys from the Common Security Agent, apply all such moneys in respect of the liabilities under the Notes Documents as follows:
 - (i) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities Properly Incurred by the Trustee or any receiver or appointee of the Trustee in preparing and performing the trusts constituted by, and in carrying out or exercising their respective rights, powers, duties, discretions and authorities under the Trust Deed and/or the other Notes Documents;
 - (ii) second, in or towards payment or discharge or satisfaction, *pari passu* of all amounts due and payable to the Paying Agents, the Transfer Agent and the Registrar under the Agency Agreement, including in any such case any properly incurred fees, costs, charges, expenses and liabilities then due and payable to any of them under the Agency Agreement;
 - (iii) third, in reimbursement, payment or satisfaction of the costs, charges, expenses and liabilities (including, without limitation, any funds deposited with the Trustee to satisfy the Pre-Funding and Indemnity Conditions) Properly Incurred in connection with the enforcement of the Noteholders' rights under the Notes and the Collateral, by or on behalf of any one or several Noteholders, if any, that instructed the Trustee to enforce the security interest(s) under the Security Documents or to declare the Notes to be immediately due and payable in accordance with Condition 10; and
 - (iv) fourth, in or towards payment or discharge or satisfaction *pari passu* of all amounts due and payable to the holders of the Notes in respect of the Notes and pursuant to the Trust Deed.

4 Covenants

So long as any Notes remain outstanding:

- (a) **Limitation on Liens:** The Issuer will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing Indebtedness except:
 - (i) in the case of property or assets that do not constitute the Collateral, (1) a Permitted Lien and (2) a Lien that is not a Permitted Lien is permitted, if, at the same time or prior to incurrence of any such Lien, the Notes and the Guarantees (a) are secured equally and rateably therewith or (b) have the benefit of other security or such other arrangement (in each case for so long as such other Indebtedness is so secured) as either (x) the Trustee shall deem not materially less beneficial to the interest of the Noteholders or (y) shall be approved by an Extraordinary Resolution of the Noteholders; and
 - (ii) in the case of the Collateral, Permitted Collateral Liens.
- (b) **Incurrence of Indebtedness:**
 - (i) The Issuer will not, and will not permit any of its Subsidiaries to, incur, directly or indirectly, any Indebtedness except that if (i) no Potential Event of Default nor Event of Default shall have occurred and be continuing at the time, or would occur as a consequence, of the Incurrence of such Indebtedness and (ii) on the date of such Incurrence and after giving effect thereto on a pro forma basis, the Consolidated Net Leverage Ratio for the Relevant Period immediately preceding the date on which such additional Indebtedness is incurred would be 1.50 to 1.00 or lower:
 - (A) the Issuer and the Guarantors may incur Indebtedness;

- (B) any Non-Guarantor Subsidiary may Incur Indebtedness without having to comply with paragraph (C) below provided that the aggregate principal amount of Indebtedness Incurred by all Non-Guarantor Subsidiaries under this paragraph (B) shall not exceed U.S.\$125 million at any time outstanding; and
 - (C) a Non-Guarantor Subsidiary may Incur Indebtedness if, within 60 days after such Incurrence, such Non-Guarantor Subsidiary executes and delivers to the Trustee a Surety Agreement pursuant to which such Subsidiary unconditionally and irrevocably guarantees the payment of all moneys payable by the Issuer under the Trust Deed.
- (ii) Notwithstanding the foregoing Condition 4(b)(i), the Issuer (and/or, where applicable, its Subsidiaries) will be entitled to Incur any or all of the following Indebtedness:
- (A) Indebtedness of the Issuer or any of its Subsidiaries owed to and held by the Issuer or any of its Subsidiaries; provided, however, that any subsequent issuance or transfer of any Capital Stock which results in any Subsidiary to which such Indebtedness is owed ceasing to be a Subsidiary or any subsequent transfer of such Indebtedness (other than to the Issuer or another Subsidiary of the Issuer) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon;
 - (B) Indebtedness of the Issuer or any of its Subsidiaries outstanding on the Issue Date, and any Indebtedness Incurred in respect of any capitalisation of interest or fees therefor (including, without limitation, the PXF Loans and any further Indebtedness incurred in accordance with its terms for the capitalisation of interest or fees) but excluding, for purposes of this paragraph (B), Indebtedness represented by the Permitted UCC Seller Debt;
 - (C) Indebtedness represented by the Notes (including any PIK Notes) and the Guarantees;
 - (D) Indebtedness of a Subsidiary of the Issuer Incurred and outstanding on or prior to the date on which such Subsidiary of the Issuer was acquired by or merged, consolidated, amalgamated or otherwise combined with the Issuer or a Subsidiary (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary of the Issuer became a Subsidiary of the Issuer or was acquired by or merged, consolidated, amalgamated or otherwise combined with the Issuer or a Subsidiary); provided, however, that on the date of such acquisition, merger, consolidation or amalgamation or combination and after giving pro forma effect thereto, (x) the aggregate amount of such Indebtedness does not exceed (1) U.S.\$30 million at any one time outstanding during the Initial Period and (2) thereafter U.S.\$50 million at any one time outstanding or, following the release of the Intermediate Holdco Share Pledge U.S.\$75 million at any one time outstanding or (y) the Issuer would have been entitled to Incur at least U.S.\$1.00 of additional Indebtedness pursuant to Condition 4(b)(i);
 - (E) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to Condition 4(b)(i) or pursuant to paragraph (B), (C) or (D) above or this paragraph (E);
 - (F) Hedging Obligations Incurred by the Issuer or any of its Subsidiaries, provided they are entered into in the ordinary course of business and not for speculative purposes, and provided further, that at the time of such Incurrence, the aggregate outstanding amount of Hedging Obligations Incurred under this paragraph (F) (after giving pro forma effect to such Hedging Obligations to be Incurred) does not exceed U.S.\$50 million;

- (G) obligations of the Issuer or any of its Subsidiaries in respect of performance, bid, completion, surety or appeal bonds or similar instruments, guarantees or obligations issued in the ordinary course of business of the Issuer or any Subsidiary of the Issuer and not in connection with the borrowing of money;
- (H) Indebtedness of the Issuer or any of its Subsidiaries arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five business days of its Incurrence;
- (I) Indebtedness of the Issuer or any of its Subsidiaries incurred in the ordinary course of business under trade finance facilities on market terms in respect of receivables financings, factoring financings, forfaiting transactions, discounting transactions or any other trade finance facilities and documentary facilities including, without limitation, letters of credit, documentary credits and advance payment bonds on arm's length terms;
- (J) Purchase Money Indebtedness of the Issuer or any of its Subsidiaries, in an aggregate principal amount at any time outstanding not to exceed U.S.\$175 million (plus any unused amounts under paragraph (M) below as at the relevant date of determination);
- (K) Indebtedness Incurred in respect of workers' compensation claims, self-insurance obligations, reclamation bonds or similar obligations Incurred by the Issuer or a Subsidiary of the Issuer in the ordinary course of business;
- (L) Indebtedness arising from agreements of the Issuer or a Subsidiary of the Issuer providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the disposition of any business, assets or Capital Stock of a Subsidiary of the Issuer, provided that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Issuer or its Subsidiary in connection with such disposal, and any such indemnification, purchase price or other similar adjustments will be in an amount that is not determinable at the time of such disposal;
- (M) Indebtedness of the Issuer or any of its Subsidiaries in an aggregate principal amount which, when taken together with all other Indebtedness of the Issuer and its Subsidiaries outstanding on the date of such Incurrence (other than Indebtedness permitted by paragraphs (ii)(A) to (L) above or (N) to (P) below or Condition 4(b)(i)) does not exceed U.S.\$50 million; provided that a Non-Guarantor Subsidiary may only Incur Indebtedness under this paragraph (M) if, after giving pro forma effect to such Incurrence, the aggregate principal amount of Indebtedness Incurred by Non-Guarantor Subsidiaries under this paragraph (M) and outstanding on such date, together with the Indebtedness secured by Liens under paragraph (r) of the definition of "Permitted Liens" and outstanding on such date (without double-counting), does not exceed U.S.\$50 million;
- (N) Indebtedness of the Issuer or any of its Subsidiaries, the proceeds of which are immediately applied to prepay the PXF Loans and redeem the Notes, in each case, in full;
- (O) guarantees or sureties by the Issuer or any Subsidiary of Indebtedness of the Issuer or any Subsidiary to the extent that the guaranteed Indebtedness was permitted to be Incurred under another paragraph of this Condition 4(b), provided that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes or a Guarantee, then in each case the guarantee must be subordinated to or *pari passu* with, as applicable, to the same extent as the Indebtedness guaranteed;

- (P) any guarantee, surety, indemnity or similar obligation issued by the Issuer or any Subsidiary (on terms similar to the arrangements in place as of the Issue Date or otherwise on terms as may be desirable in light of market conditions or any applicable rule, law or legislation) in favour of any Person on behalf of or at the request of an energy supplier in connection with any agreement or arrangement of or with such energy supplier directly or indirectly related to the supply of energy to the Issuer or any of its Subsidiaries (the "**Permitted Energy Supplier Guarantee**"); and
 - (Q) Indebtedness represented by the Permitted UCC Seller Debt.
- (iii) For the purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined by the Issuer on the date of the Incurrence of such Indebtedness (or in the case of any revolving credit facility or letter of credit, the date such Indebtedness was first committed); provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars covering all principal, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent of the Indebtedness Refinanced, except to the extent that (1) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence and (2) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess will be determined on the date such Refinancing Indebtedness is Incurred. Notwithstanding any other provision of this Condition 4(b), the maximum amount that the Issuer or a Subsidiary of the Issuer may incur pursuant to this Condition 4(b) shall not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

(c) **Limitation on Restricted Payments:**

- (i) The Issuer will not make, and will not permit any Subsidiary of the Issuer, directly or indirectly, to make, a Restricted Payment, unless at the time the Issuer or such Subsidiary makes such Restricted Payment, the aggregate amount of such Restricted Payment and all other Restricted Payments made in the same calendar year does not exceed the aggregate amount, if any, of Dividend Allocations in respect of such calendar year.

The Intercreditor Agreement provides that the Dividend Allocation will be zero for each applicable Cash Sweep Payment Date (as defined in the Intercreditor Agreement) unless the following conditions are satisfied:

- (A) *the aggregate principal amount of the Notes and PXF Loans outstanding (before any repayments in respect of the Notes and PXF Loans that will be made on that Cash Sweep Payment Date but net of any principal amounts which will be prepaid in accordance with Conditions 4(e) or 6(b) and the PXF Facility Agreement and which are standing to the credit of the Debt Service Account as at that Cash Sweep Payment Date) does not exceed forty-five per cent. of the aggregate principal amount of the Notes and PXF Loans outstanding as at the Effective Date (as defined in the Intercreditor Agreement);*
- (B) *the Consolidated Net Leverage Ratio (as defined in the Intercreditor Agreement), for the relevant Testing Period (as defined in the Intercreditor Agreement), is below 1.5:1.0; and*
- (C) *no default under these Conditions or the PXF Facility Agreement has occurred and is continuing on that Cash Sweep Payment Date.*

For a description of the determination of the "Dividend Allocation", please refer to "Description of Indebtedness and the Third Scheme—Restructuring—The Intercreditor Agreement—Cash sweep" in the Listing Particulars.

(ii) The preceding provisions will not prohibit:

- (A) any Restricted Payment made out of the Net Cash Proceeds of (1) the substantially concurrent sale or issuance of, or made by exchange for, Capital Stock of the Issuer (other than (x) Disqualified Stock and (y) Capital Stock issued or sold to a Subsidiary of the Issuer or pursuant to an employee stock ownership plan or to a trust established by the Issuer or any of its Subsidiaries for the benefit of their employees), or (2) substantially concurrent financing by means of Subordinated Shareholder Funding or cash capital contribution received by the Issuer from its shareholders; provided, however, that such Restricted Payment shall be excluded from the calculation of the amount of Restricted Payments under Condition 4(c)(i) above;
- (B) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of (1) Subordinated Obligations of the Issuer or a Guarantor made by exchange for, or out of the proceeds of the substantially concurrent Incurrence of, Indebtedness of such Person which is permitted to be Incurred pursuant to Condition 4(b), provided that such Indebtedness is subordinated to the Notes and the Guarantees to the same extent as such Subordinated Obligations or (2) Permitted UCC Seller Debt; provided, in the case of each of (1) and (2) that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded from the calculation of the amount of Restricted Payments under Condition 4(c)(i) above;
- (C) dividends paid within 60 days of the date of declaration thereof if at such date of declaration such dividend would have complied with Condition 4(c)(i); provided, however, that at the time of payment of such dividend, no other Potential Event of Default or Event of Default shall have occurred and be continuing (or result therefrom);
- (D) so long as no Potential Event of Default or Event of Default has occurred and is continuing, the purchase, redemption or other acquisition of shares of Capital Stock of the Issuer or any of its Subsidiaries from employees, former employees, officers, former officers, directors or former directors of the Issuer or any of its Subsidiaries (or permitted transferees of such employees, former employees, officers, former officers, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such Restricted Payments (excluding amounts representing cancellation of Indebtedness) shall not exceed U.S.\$2 million in any calendar year; provided further, however, that such Restricted Payments shall be excluded from the calculation of the amount of Restricted Payments under Condition 4(c)(i) above;
- (E) so long as no Potential Event of Default or Event of Default has occurred and is continuing, loans and advances to employees, officers and directors of the Issuer or any Subsidiary of the Issuer the proceeds of which are used to purchase Capital Stock of the Issuer, in an aggregate amount not to exceed U.S.\$2 million at any one time outstanding; provided further, however, that the amount of such loans and advances will be included in the calculation of the amount of Restricted Payments under Condition 4(c)(i) above;
- (F) the declaration and payments of dividends on Disqualified Stock issued pursuant to Condition 4(b); provided, however, that, at the time of payment of such dividend, no Potential Event of Default or Event of Default shall have occurred and be continuing (or result therefrom); provided further, however,

that such dividends shall be excluded from the calculation of the amount of Restricted Payments under Condition 4(c)(i) above;

- (G) repurchases of Capital Stock deemed to occur upon exercise of stock options if such Capital Stock represents a portion of the exercise price of such options;
- (H) so long as no Potential Event of Default or Event of Default has occurred and is continuing, the making of any sponsorship payments or charitable contribution or donations by the Issuer or any of its Subsidiaries to a Person that is not the Issuer or a Subsidiary of the Issuer in accordance with past practice and as approved by the Board of Directors, in the aggregate amount not exceeding U.S.\$20 million in any calendar year; provided, however, that such Restricted Payments shall be included in the calculation of the amount of Restricted Payments under Condition 4(c)(i) above to the extent such payments are made to any Affiliate of the Permitted Holders, but shall otherwise be excluded from such calculation;
- (I) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Issuer; provided, however, that any such cash payment shall not be for the purpose of evading the limitation of the covenant described under this subheading (as determined in good faith by the Board of Directors); provided further, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments under Condition 4(c)(i) above;
- (J) in the event of a Change of Control, and if no Potential Event of Default or Event of Default shall have occurred and be continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations and Shareholder Funding of the Issuer or any Guarantor, in each case, at a purchase price not greater than 101 per cent. of the principal amount of such Subordinated Obligations and Shareholder Funding, plus any accrued and unpaid interest thereon; provided, however, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer (or a third party to the extent permitted by these Conditions) has made a Change of Control Offer with respect to the Notes as a result of such Change of Control and has repurchased the Notes to the extent validly tendered and not withdrawn in connection with such Change of Control Offer; provided further, however, that such payments, purchases, redemptions, defeasances or other acquisitions or retirements shall be included in the calculation of the amount of Restricted Payments under Condition 4(c)(i) above;
- (K) payments of intercompany subordinated Indebtedness, the Incurrence of which was permitted under Condition 4(b)(ii)(A); provided, however, that no Potential Event of Default or Event of Default has occurred and is continuing or would otherwise result therefrom; provided further, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments under Condition 4(c)(i) above; and
- (L) the declaration or payment of any dividends or other distributions made by a Subsidiary of the Issuer that is not a wholly-owned Subsidiary of the Issuer to holders of its Capital Stock (or owners of an equivalent interest in the case of a Subsidiary of the Issuer that is an entity other than a corporation) on no more than a pro rata basis; provided, however, that such dividends and distributions shall be excluded from the calculation of the amount of Restricted Payments under Condition 4(c)(i) above.

- (d) **Transactions with Affiliates:** The Issuer will not, and will not permit any Subsidiary of the Issuer to, enter into or permit to exist any transaction or a series of related transactions (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer (an "**Affiliate Transaction**") unless:
- (i) the terms of the Affiliate Transaction are no less favourable to the Issuer or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's length dealings with a Person who is not an Affiliate;
 - (ii) with respect to any Affiliate Transaction involving an aggregate value in excess of U.S.\$35 million, the Issuer delivers to the Trustee an Officers' Certificate confirming that such Affiliate Transaction complies with the preceding paragraph (i) and a copy of a resolution adopted by a majority of the Disinterested Directors of the Board of Directors of the Issuer or the relevant Subsidiary of the Issuer (or, in the event that there is only one such Disinterested Director, adopted by such Disinterested Director), provided, however, that if there are no Disinterested Directors of the relevant Board of Directors, the Issuer or the relevant Subsidiary of the Issuer shall instead be required to receive a written opinion from an Independent Financial Adviser on the terms *mutatis mutandis*, of paragraph (iii) below;
 - (iii) with respect to any Affiliate Transaction involving an aggregate value in excess of U.S.\$75 million, the Board of Directors will have received a written opinion from an Independent Financial Adviser that such Affiliate Transaction is (x) fair from a financial point of view to the Issuer or such Subsidiary taking into account all relevant circumstances or (y) on terms not less favourable to the Issuer or such Subsidiary than might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate; and
 - (iv) with respect to any Affiliate Transaction involving an aggregate value in excess of U.S.\$125 million, such Affiliate Transaction has been approved by an Extraordinary Resolution or approved in writing by Noteholders holding at least 35 per cent. of the aggregate principal amount of the Notes outstanding,

provided, however, that the requirements set out in paragraphs (i) – (iv) above shall not apply to:

- (A) any Restricted Payment that does not violate Condition 4(c) and any Permitted Investments (other than Permitted Investments described in paragraphs (c), (j) and (u) of the definition thereof);
- (B) any employment agreement, collective bargaining agreement or employee benefit arrangements with any employee, officer or director of the Issuer or any of its Subsidiaries, including under any stock option, stock incentive plans or similar plans, entered into in the ordinary course of business;
- (C) payment of reasonable fees and compensation and reimbursements of expenses to employees, officers, directors, consultants or agents in the ordinary course of business;
- (D) transactions between the Issuer and its Subsidiaries and between and among the Issuer's Subsidiaries;
- (E) transactions with customers, clients, suppliers, purchasers or sellers and other providers of goods or services (including raw materials and energy), lessors or lessees of plant, equipment and property or providers of employees or other labour (for the avoidance of doubt including, without limitation, DTEK, Zaporizhstal, Yenakiieve Coke, Southern GOK and their respective Subsidiaries), in each case, in the ordinary course of business and which are otherwise on terms that are fair to the Issuer or the relevant Subsidiaries of the Issuer, in the reasonable determination of the members of the Board of Directors of the Issuer or the relevant Subsidiary or the senior management thereof, or are on terms at least as favourable to the Issuer or the relevant Subsidiary of the

Issuer as might reasonably be obtained at such time from an unrelated third party (in each case, taken as a whole);

- (F) any trade credit extended by the Issuer or any of its Subsidiaries to their respective customers on normal commercial terms and in the ordinary course of their respective trading activities;
 - (G) issuances or sales of, and any contribution to the capital of the Issuer in exchange for, Capital Stock (other than Disqualified Stock) of the Issuer;
 - (H) the Incurrence of any Subordinated Shareholder Funding (including any conversion or replacement of Capital Stock of the Issuer into Subordinated Shareholder Funding) or any amendment thereto in compliance with these Conditions;
 - (I) Management Advances;
 - (J) transactions pursuant to, or contemplated by any agreement or arrangement of the Issuer and its Subsidiaries as in effect on the Issue Date and transactions pursuant to any amendment, modification or extension to such agreement or arrangement, so long as such amendment, modification or extension, taken as a whole, is not more disadvantageous to the holders of the Notes in any material respect than the original agreement or arrangement as in effect on the Issue Date;
 - (K) transactions in the ordinary course of business with a Person that is an Affiliate of the Issuer solely because a director of such Person is also a director of the Issuer or any direct or indirect parent of the Issuer; provided, however, that such director abstains from voting as a director of the Issuer or such direct or indirect parent, as the case may be, on any matter involving such other Person;
 - (L) any guarantee or surety that does not violate Condition 4(b)(ii)(P) and any Permitted Liens described in paragraph (i)(ii) of the definition thereof; and
 - (M) any transactions in respect of financial services (including any related security or guarantees) or insurance services in the ordinary course of business and on arm's length commercial terms between the Issuer and its Subsidiaries, on the one hand, and FUIB on the other hand, provided that, in the case of transactions exceeding U.S.\$50 million (other than in connection with depositing or holding any cash with FUIB in the ordinary course of business and on arm's length commercial terms, transactions permitted under the definition of Cash Equivalents and transactions otherwise permitted under this Condition 4(d)), the Issuer complies with the requirements under Condition 4(d)(ii).
- (e) **Asset Sales:** The Issuer will not, and will not permit any Subsidiary of the Issuer to, directly or indirectly, consummate any Asset Sale, unless:
- (i) the proceeds received by the Issuer or the relevant Subsidiary of the Issuer, as the case may be, are at least equal to the Fair Market Value of the assets subject to such Asset Sale, provided that:
 - (A) with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.\$35 million, such Fair Market Value shall be determined by a majority of the Disinterested Directors of the Board of Directors of the Issuer or the relevant Subsidiary of the Issuer approving such transaction or series of related transactions, in each case whose determination shall be conclusive if evidenced by a resolution of such relevant competent management body or majority of Disinterested Directors of the Board of Directors of the Issuer or the relevant Subsidiary of the Issuer, as the case may be, provided, however, that if there are no Disinterested Directors of the relevant Board of Directors or the approval of a majority of the Disinterested Directors of the relevant Board of Directors is not otherwise obtained, the Issuer or the

relevant Subsidiary of the Issuer shall receive a written opinion from an Independent Financial Adviser as described in paragraph (B) below, or

- (B) with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.\$75 million, such Fair Market Value shall be determined by an Independent Financial Adviser, or, where the subject matter of the relevant transaction is securities that are publicly traded on a market of adequate liquidity (as determined by the Issuer acting in good faith), the Issuer may determine the Fair Market Value of such securities by reference to the weighted average price of such securities as quoted on a relevant stock or commodities exchange or other multilateral trading facility for a period of not less than 30 and not more than 60 consecutive dealing days on the relevant exchange or facility immediately preceding the purchase or sale;
- (ii) at least 75 per cent. of the consideration received in the Asset Sale by the Issuer or the relevant Subsidiary of the Issuer, as the case may be, is in the form of cash, Cash Equivalents or a combination thereof. For the purposes of this provision, each of the following shall be deemed to be cash:
 - (A) the assumption by the transferee of Indebtedness of any of the Issuer or any Subsidiary of the Issuer (other than Indebtedness that is by its terms subordinated in right of payment to the Notes or any Guarantee) and the release of the Issuer or such Subsidiary from all such Indebtedness in connection with such Asset Sale;
 - (B) any securities, notes or other obligations received by the Issuer or any Subsidiary of the Issuer from such transferee that are within 95 days of the Asset Sale converted by the Issuer or such Subsidiary into cash or Cash Equivalents (to the extent of the cash or Cash Equivalents received in that conversion);
 - (C) Indebtedness of any Subsidiary of the Issuer that is no longer a Subsidiary as a result of such Asset Sale, to the extent that the Issuer and each other Subsidiary of the Issuer are released from any guarantee of such Indebtedness in connection with such Asset Sale; and
 - (D) consideration consisting of Senior Indebtedness of the Issuer or any Guarantor received from Persons who are not the Issuer or any Subsidiary that is cancelled; and
- (iii) an amount equal to the Disposal Proceeds is (i) credited to the Debt Service Account (after conversion into U.S. dollars at the then prevailing exchange rate) (x) in the case of a disposal of an asset located outside of Ukraine, within 10 business days and (y) in the case of a disposal of an asset located within Ukraine, within 15 business days, in each case after the receipt of any Disposal Proceeds by the Issuer or relevant Subsidiary in relation to any such Asset Sale, provided that in the case of a disposal of an asset located within Ukraine, such amount may be credited by the Issuer to the Debt Service Account on behalf of the relevant Subsidiary and (ii) on the next following Interest Payment Date applied in accordance with clause 6 of the Intercreditor Agreement and Condition 5(d).

Notwithstanding the foregoing, the Issuer may, at its option, credit the Disposal Proceeds in respect of Asset Sales in an aggregate amount not exceeding U.S.\$15 million in any calendar year during the Initial Period and thereafter U.S.\$60 million in any calendar year or, following release of the Intermediate Holdco Share Pledge, U.S.\$100 million during any calendar year, into a Debt Service Account and designate such amounts as "Earmarked Amounts" in accordance with the Intercreditor Agreement, with such amounts to be applied in accordance with clause 6 of the Intercreditor Agreement. Solely for purposes of this Condition 4(e) and the definition of "Disposal Proceeds", the defined term "Cash Equivalents" shall have the meaning set forth in the Intercreditor Agreement.

(f) **Limitations on Restrictions on Distributions from Subsidiaries:**

- (i) The Issuer will not, and will not permit any Subsidiary of the Issuer to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Subsidiary of the Issuer to (x) pay dividends or make any other distributions on its Capital Stock to the Issuer or a Subsidiary of the Issuer or pay any Indebtedness owed to the Issuer, (y) make any loans or advances to the Issuer or a Subsidiary of the Issuer or (z) transfer any of its property or assets to the Issuer or a Subsidiary of the Issuer, provided that (a) the priority of any preferred stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (b) the subordination of (including the application of any standstill period to) loans or advances made to the Issuer or any Subsidiary to other Indebtedness Incurred by the Issuer or any Subsidiary, in each case, shall not be deemed to constitute such an encumbrance or restriction.
- (ii) The preceding restrictions will not apply to encumbrances or restrictions arising under or by reason of:
 - (A) with respect to (x), (y) and (z) above:
 - (1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date, including pursuant to the Notes Documents, the PXF Facility Agreement or Indebtedness in respect of which a Lien is permitted to be Incurred under paragraph (m) or (r) of the definition of Permitted Lien;
 - (2) any encumbrance or restriction with respect to a Subsidiary of the Issuer pursuant to an agreement relating to any Indebtedness Incurred by such Subsidiary on or prior to the date on which such Subsidiary was acquired by the Issuer (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Issuer) and outstanding on such date;
 - (3) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be Incurred subsequent to the Issue Date pursuant to Condition 4(b) if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favourable to the Noteholders than (i) the encumbrances and restrictions contained in the PXF Facility Agreement, the Intercreditor Agreement and these Conditions, in each case, as in effect on the Issue Date (as determined in good faith by the Issuer) or (ii) is customary in comparable financings where such encumbrances or restrictions will not adversely affect the Issuer's ability to make principal or interest payments on the Notes (as determined in good faith by the Issuer);
 - (4) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in paragraph (1) to (3) above or this paragraph (4) or contained in any amendment to an agreement referred to in paragraph (1) to (3) above or this paragraph (4); provided, however, that the encumbrances and restrictions with respect to such Subsidiary contained in any such refinancing agreement or amendment are no less favourable to the Noteholders in any material respect than encumbrances and restrictions with respect to such Subsidiary contained in such predecessor agreements;

- (5) any encumbrance or restriction with respect to a Subsidiary of the Issuer imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Subsidiary pending the closing of such sale or disposition;
- (6) restrictions on cash or other deposits or net worth imposed by leases or other agreements entered into in the ordinary course of business;
- (7) existing under or by reason of applicable law, rule, regulation, decree or order of any governmental, local or regulatory authority or the terms of any license, authorisation, concession or permit;
- (8) customary limitations on the distribution of assets or property in joint venture agreements entered into in the ordinary course of business and in good faith; provided that (x) the encumbrance or restriction is not materially more disadvantageous to Noteholders than is customary in comparable agreements; and (y) such encumbrance or restriction will not materially affect the ability of the Issuer or any Guarantor to make any anticipated principal or interest payments on the Notes and any other Indebtedness or borrowed money; and

(B) with respect to (z) above only:

- (1) any encumbrance or restriction consisting of customary non-assignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder; and
- (2) any encumbrance or restriction contained in security agreements or mortgages securing Indebtedness of a Subsidiary of the Issuer to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements or mortgages.

(g) **Limitation on Layering:** The Issuer will not, and will not permit any of the Guarantors to, incur any Indebtedness that is or purports to be by its terms (or by the terms of any agreement governing such Indebtedness) subordinated in right of payment to any Senior Indebtedness, unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness, the Intercreditor Agreement or any Additional Intercreditor Agreement) made subordinated in right of payment to the Notes and the Guarantees; provided that the foregoing limitation shall not apply to distinctions between categories of Senior Indebtedness that exist by reason of (x) any Liens or guarantees arising or created in respect of some but not all such Senior Indebtedness or (y) being secured on a junior priority basis or (z) being unsecured.

(h) **Impairment of Security:**

- (i) The Issuer shall not, and shall not permit any Subsidiary of the Issuer to, take any action that would have the result of materially impairing the security interest with respect to the Collateral (it being understood that the Incurrence of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the holders of the Notes, and the Issuer shall not, and shall not permit any Subsidiary of the Issuer to, grant to any Person other than the Common Security Agent, for the benefit of the Trustee and the holders of the Notes and the other beneficiaries described in the Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreement, any Lien over any of the Collateral that is prohibited by Condition 4(a); provided that the Issuer and any Subsidiary of the Issuer may Incur any Lien over any of the Collateral that is not prohibited by Condition 4(a), including Permitted Collateral Liens, and the Collateral may be discharged, transferred or released in any circumstances not prohibited by the Trust Deed, the Intercreditor Agreement, any Additional Intercreditor Agreement or the applicable Security Document.

- (ii) Notwithstanding the foregoing, nothing in this Condition 4(h) shall restrict the discharge and release of any Lien in accordance with the Trust Deed, Condition 3(c), the Intercreditor Agreement and any Additional Intercreditor Agreement or pursuant to the incurrence of Permitted Collateral Liens. Subject to the foregoing, the Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets) to (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) provide for Permitted Collateral Liens; (iii) add to the Collateral; or (iv) make any other change thereto that does not adversely affect the holders of the Notes in any material respect as determined by the Trustee, acting reasonably and in good faith. Subject to the foregoing, except where permitted by the Trust Deed, the Intercreditor Agreement and any Additional Intercreditor Agreement or to effect or facilitate the creation of Permitted Collateral Liens for the benefit of the Common Security Agent and holders of other Indebtedness Incurred in accordance with the Trust Deed, no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets), unless contemporaneously with such amendment, extension, renewal, restatement, supplement or modification or release (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets), the Issuer delivers to the Common Security Agent and the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, from an Independent Financial Adviser which confirms the solvency of the Issuer and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or release (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets), (2) a certificate from the principal financial or accounting officer of the Issuer or the Board of Directors which confirms the solvency of the Issuer and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, or (3) an Opinion of Counsel (subject to any qualifications customary for this type of Opinion of Counsel), in form and substance reasonably satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or release (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets), the Lien or Liens created under the Security Documents, so amended, extended, renewed, restated, supplemented, modified or released and replaced are valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement and to which the new Indebtedness secured by the Permitted Collateral Lien, if applicable, is not subject.
- (iii) If the Issuer and its Subsidiaries comply with the requirements of this Condition 4(h), the Trustee and the Common Security Agent shall (subject to customary protections and indemnifications from the Issuer) consent to such actions without the need for instructions from the holders of the Notes.

(i) **Mergers and Similar Transactions:**

- (i) The Issuer will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:
 - (A) either (x) the Issuer will be the continuing corporation or (y) the resulting, surviving or transferee Person, if not the Issuer (the "**Successor Company**"), shall be a Person organised in an Approved Jurisdiction or Canada and the Successor Company (if not the Issuer) shall expressly assume, by a trust deed supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Issuer under the Notes and the Trust Deed;

- (B) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Potential Event of Default or Event of Default shall have occurred and be continuing;
- (C) immediately after giving pro forma effect to such transaction, the Successor Company would be able to Incur an additional U.S.\$1.00 of Indebtedness pursuant to Condition 4(b)(i);
- (D) the Issuer shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, lease or transfer and such supplemental trust deed (if any) comply with the provisions of this Condition 4(i)(i) and the Trust Deed and upon each of which the Trustee shall be entitled to rely without liability to any person; and
- (E) the Issuer shall have delivered to the Trustee an Opinion of Counsel upon which the Trustee shall be entitled to rely without liability to any person to the effect that the Noteholders will not recognise income, gain or loss for U.S. Federal, Netherlands or Ukraine income tax purposes as a result of such transaction and will be subject to U.S. Federal, Netherlands and Ukraine income tax on the same amounts, in the same manner and at the same times as would have been the case if such transaction had not occurred,

provided, however, that (C) will not be applicable to (x) a Subsidiary of the Issuer consolidating with, merging into or transferring all or part of its properties and assets to the Issuer (so long as no Capital Stock of the Issuer is distributed to any Person) or (y) the Issuer merging with an Affiliate of the Issuer solely for the purpose and with the sole effect of reincorporating the Issuer in another jurisdiction.

The Successor Company will be the successor to the Issuer and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Trust Deed, and the predecessor Issuer, except in the case of a lease (in which case such predecessor Issuer shall become a Guarantor pursuant to Condition 2(b)), shall be released from the obligation to pay the principal of and interest on the Notes.

- (ii) The Issuer will not permit any Guarantor (other than any Guarantor whose Guarantee is to be released in connection with such transaction in accordance with the terms of these Conditions) to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person unless:
 - (A) where the resulting, surviving or transferee Person is a Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary shall be organised and existing under the laws of the jurisdiction under which such Guarantor was organised or under the laws of an Approved Jurisdiction or Canada, and such Non-Guarantor Subsidiary shall expressly assume, by executing and delivering to the Trustee a Surety Agreement, all the obligations of such Guarantor, if any, under its Guarantee; and
 - (B) where the resulting, surviving or transferee Person is not a member of Metinvest, either: (x) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger assumes, by executing and delivering to the Trustee a Surety Agreement, all the obligations of such Guarantor, if any, under its Guarantee; or (y) the Disposal Proceeds of such sale or other disposition are applied in accordance with Condition 4(e); and
 - (C) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having

been issued by such Person at the time of such transaction), no Potential Event of Default or Event of Default shall have occurred and be continuing; and

- (D) the Issuer delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, lease or transfer and such Surety Agreement, if any, complies with the provisions of this Condition 4(i)(ii) and the Trust Deed and upon each of which the Trustee shall be entitled to rely without liability to any person.

This Condition 4(i)(ii) will not apply to any Guarantor consolidating with or merging with or into or conveying, transferring or leasing all or substantially all of its assets to the Issuer or another Guarantor.

- (iii) For the purposes of this Condition 4(i), the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Issuer or a Guarantor, which properties and assets, if held by the Issuer or such Guarantor instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer or such Guarantor on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer or such Guarantor.
- (j) **Ranking of Claims:** The Issuer shall ensure (and shall procure that each Guarantor shall ensure) that at all times the claims of the Noteholders and the Trustee against it under the Trust Deed and against the Guarantors under the Guarantee Agreements rank at least as set out in Condition 2(c) with respect to the claims of all present and future creditors of the Issuer and the Guarantors, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application or any other mandatory provisions of applicable law.
- (k) **Maintenance of Authorisations:**
 - (i) the Issuer will, and will cause each Material Subsidiary to, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and
 - (ii) the Issuer will, and will cause each Material Subsidiary to, obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in any relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes Documents and for the validity and enforceability thereof,

provided that, in any case, if the Issuer or the relevant Material Subsidiary remedies any failure to comply with paragraphs (i) and (ii) above within 90 days of such failure, then this covenant shall be deemed not to have been breached.

- (l) **Maintenance of Property:** The Issuer will, and will cause each Material Subsidiary to, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided that if the Issuer or the relevant Material Subsidiary remedies any failure to comply with the above within 90 days of any non-compliance with the provisions of the preceding sentence or any failure relates to property with a value not exceeding U.S.\$250 million, this covenant shall be deemed not to have been breached. The Issuer and each Material Subsidiary shall not have to comply with this covenant to the extent that it is not possible to do so in respect of assets or operations: (i) of Avdiivka Coke or (ii) located or undertaken in the Anti-Terrorist Operation Zone or in areas adjacent to and affected by the Anti-Terrorist Operation Zone.
- (m) **Payment of Taxes and Other Claims:** The Issuer will, and will cause each Material Subsidiary to, pay or discharge, or cause to be paid and discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon, or upon the income, profits or property of, respectively, the Issuer or the Material Subsidiary (excluding the payment of applicable Taxes that are the subject of the Tax Proceedings) and (b) all lawful claims for labour,

materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of, respectively, the Issuer or the Material Subsidiary (excluding any such claims on the assets of Limited Liability Company "Metinvest Holding" in connection with the Metinvest Holding Judgment); provided that none of the Issuer or the Material Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such Tax or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with Accounting Standards as consistently applied or other appropriate provisions have been made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims of Metinvest, not so contested and for which adequate reserves, if necessary, in accordance with Accounting Standards as consistently applied or other appropriate provisions have been or will be made does not in the aggregate exceed U.S.\$100 million.

- (n) **Maintenance of Insurance:** The Issuer will, and will cause each Material Subsidiary to, obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the Issuer or the relevant Material Subsidiary) against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged in the jurisdiction(s) where it operates; provided that if the Issuer or the relevant Material Subsidiary remedies any failure to comply with the above within 365 days of any non-compliance with the provisions of the preceding sentence or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the Issuer or the relevant Material Subsidiary over the preceding three years) do not exceed U.S.\$250 million, this covenant shall be deemed not to have been breached. The Issuer and each Material Subsidiary shall not have to comply with this covenant to the extent that it is not possible to do so in respect of assets or operations: (i) of Avdiivka Coke or (ii) located or undertaken in the Anti-Terrorist Operation Zone or in areas adjacent to and affected by the Anti-Terrorist Operation Zone.
- (o) **Environmental Compliance:** The Issuer will, and will cause each Material Subsidiary to, comply with all Environmental Laws and obtain and maintain any Environmental Licences and take all reasonable steps in anticipation of known or expected future changes to or obligations under the same, except where failure to do so does not and will not have a Material Adverse Effect.
- (p) **Change of Business:** The Issuer shall not, and shall cause the Material Subsidiaries not to, make any material change to the Core or Related Business.
- (q) **Additional Guarantors and Limitations on Guarantees:**
 - (i) The Issuer (A) may from time to time appoint any of its Subsidiaries as an Additional Guarantor and (B) shall appoint any one or more of its Subsidiaries as Additional Guarantors as is necessary to ensure that within 60 days after the date on which financial statements are delivered by the Issuer for each fiscal year in accordance with Condition 4(w)(i), in each case in respect of such fiscal year, the combined EBITDA and total assets of the Guarantors, taken as a whole, account for not less than (1) 70 per cent. of Metinvest's Adjusted EBITDA and (2) 45 per cent. of Metinvest's Total Assets, respectively, provided that the Guarantee of any such Additional Guarantor may be released at any time if, after such release, the combined EBITDA and total assets of the remaining Guarantors, taken as a whole, account for not less than (1) 75 per cent. of Metinvest's Adjusted EBITDA and (2) 55 per cent. of Metinvest's Total Assets, respectively. If so required under the terms of the Intercreditor Agreement, any Additional Guarantors appointed in accordance with this Condition 4(q) shall also guarantee the Issuer's obligations under the PXF Facility Agreement.
 - (ii) The Issuer shall not permit any Non-Guarantor Subsidiary, directly or indirectly, to guarantee (or grant a surety in respect of) any other Indebtedness of the Issuer or any Guarantor which such Non-Guarantor Subsidiary is not otherwise permitted to Incur under Condition 4(b), unless such Non-Guarantor Subsidiary is also appointed by the Issuer, and becomes, an Additional Guarantor, such Guarantee of such Additional Guarantor ranking equal with or senior to, its guarantee in respect of such other Indebtedness. If such other Indebtedness being guaranteed (or in respect of which a surety is granted) by such Subsidiary is a Subordinated Obligation, such guarantee of a Subordinated Obligation shall be subordinated in right of payment to the Guarantee of

the Notes to at least the same extent that such Subordinated Obligation is subordinated to the Notes.

- (iii) The Issuer will cause any Subsidiary designated as an Additional Guarantor pursuant to paragraphs (i) and (ii) above to (A) execute and deliver to the Trustee a Surety Agreement and will become vested with all the duties and obligations of a Guarantor and (B) waive and not in any manner whatsoever claim or take the benefit or advantage of any rights of reimbursement, indemnity or subrogation or any other rights against the Issuer or another Subsidiary of the Issuer as a result of any payment by such Subsidiary under its Guarantee.
- (iv) Notwithstanding paragraphs (i) – (iii) above, the Issuer shall not be required to cause any Subsidiary, and no Subsidiary shall be required, to grant a Guarantee in respect of the Notes to the extent that such Guarantee would reasonably be expected to give rise to or result in (A) any violation of applicable law or regulation which cannot be avoided or otherwise prevented through measures reasonably available to the Issuer or such Subsidiary of the Issuer (including, but not limited to 'whitewash' or similar procedures), (B) personal liability or criminal sanctions for the officers, directors or (except in the case of a Subsidiary that is a partnership) shareholders of such Subsidiary (or, in the case of a Subsidiary that is a partnership, the directors or shareholders of the partners of such partnership), (C) any significant cost, expense, liability or obligation (including with respect of any taxes) other than reasonable out-of-pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings, (D) a breach or violation of general corporate or contractual restrictions applicable to such Subsidiary, after the Issuer has used its reasonable efforts (without requiring the Issuer to incur any significant cost, expense, liability or obligation (including with respect of any taxes) other than reasonable out-of-pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings), to enable such Subsidiary to provide such Guarantee or (E) a breach of the Issuer's or its Subsidiaries' obligations under the Intercreditor Agreement or an Additional Intercreditor Agreement.
- (v) Condition 4(q)(ii) will not be applicable to any guarantees of any Subsidiary (a) existing on the Issue Date or pursuant to an amendment, modification, refinancing, replacement, exchange, renewal or extension to such guarantee existing on the Issue Date, so long as such amendment, modification, refinancing, replacement, exchange, renewal or extension, taken as a whole, is not more disadvantageous to the holders of the Notes in any material respect than the original guarantee as in effect on the Issue Date or (b) given to a bank or trust company having combined capital and surplus and undivided profits of not less than U.S.\$250 million, whose debt has a rating, at the time such guarantee was given, of at least BBB+ or the equivalent thereof by Fitch, BBB+ or the equivalent thereof by Standard & Poor's and at least Baa1 or the equivalent thereof by Moody's, in connection with the operation of cash management programmes established in the ordinary course of business for the benefit of the Issuer or any of its Subsidiaries.
- (vi) Notwithstanding paragraphs (i) – (iii) above, each Guarantee may be limited as necessary to recognise certain defences generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defences affecting the rights of creditors generally) or other considerations under applicable law.
- (vii) A Guarantor will be automatically and unconditionally released and discharged from its Guarantee:
 - (A) upon any sale, exchange, transfer or other disposition of Capital Stock of such Guarantor or any holding company of such Guarantor to a Person that is not the Issuer or a Subsidiary (which sale, exchange, transfer or other disposition is not prohibited by these Conditions) and the Guarantor ceases to be a Subsidiary as a result of the sale, exchange, transfer or other disposition;

- (B) upon any sale, exchange, transfer or other disposition of all or substantially all of the assets of such Guarantor (including by way of merger, consolidation, amalgamation or combination) to a Person that is not the Issuer or a Subsidiary (which sale, exchange, transfer or other disposition is not prohibited by these Conditions);
 - (C) upon the reorganisation (whether by way of merger or accession) of the relevant Guarantor pursuant to which such Guarantor accedes to or is merged into the Issuer or another Guarantor;
 - (D) in connection with a substantially simultaneous Incurrence of Indebtedness permitted under Condition 4(b)(ii)(N);
 - (E) with respect to the Guarantee of the Intermediate Holdco, in connection with the Intermediate Holdco Unwind;
 - (F) to the extent otherwise permitted by the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents;
 - (G) where the Notes have been redeemed, or purchased and cancelled, in whole, but not in part, pursuant to Condition 6;
 - (H) pursuant to an Extraordinary Resolution of the Noteholders;
 - (I) as a result of a transaction permitted by Condition 4(i);
 - (J) with respect to the Guarantee of an Additional Guarantor, pursuant to Condition 4(q)(i); or
 - (K) with respect to the Guarantee of any Guarantor that was required to provide such Guarantee pursuant to Condition 4(q)(ii), upon such Guarantor being unconditionally released and discharged from its liability with respect to the Indebtedness giving rise to the requirement to provide such Guarantee so long as no Potential Event of Default or Event of Default would arise as a result and no other Indebtedness is at that time guaranteed by the relevant Guarantor that would result in the requirement that such Guarantor provide a Guarantee pursuant to Condition 4(q)(ii).
- (viii) The Issuer will give written notice to the Trustee in accordance with the Trust Deed of any Guarantor becoming or ceasing to be a Guarantor and, so long as the Notes are listed on the Irish Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the Irish Stock Exchange and/or such other exchange in relation to any Guarantor becoming or ceasing to be a Guarantor.
- (ix) The Issuer shall maintain an updated list of Guarantors which shall be available for inspection at the registered offices of the Trustee upon request.
- (r) **Amendments to the Intercreditor Agreement and Additional Intercreditor Agreements:**
- (i) In connection with the Incurrence of any Indebtedness by the Issuer or any Subsidiary of the Issuer that is permitted to share the Collateral, the Trustee and the Common Security Agent shall, at the written direction of the Issuer and without the consent of the Noteholders, enter into with the Issuer and/or the relevant Subsidiary and the holders of such Indebtedness (or their duly authorised representatives) one or more intercreditor agreements or deeds (including a restatement, replacement, amendment or other modification of the Intercreditor Agreement) (an "**Additional Intercreditor Agreement**"), on substantially the same terms as the Intercreditor Agreement (or terms that are not materially less favourable to the Noteholders (as determined acting reasonably and in good faith by the Trustee)), including with respect to release of Guarantees and priority and release of security interests in respect of the Collateral; provided that such Additional Intercreditor Agreement will not impose any personal

obligations on the Trustee or Common Security Agent or, in the reasonable opinion of the Trustee or Common Security Agent, adversely affect the personal rights, duties, liabilities, indemnification or immunities of the Trustee or the Common Security Agent under the Trust Deed, these Conditions or the Intercreditor Agreement. In connection with the foregoing, the Issuer shall furnish to the Trustee such documentation in relation thereto as it may reasonably require.

- (ii) At the written direction of the Issuer and without the consent of the Noteholders, the Trustee and the Common Security Agent shall from time to time enter into one or more amendments and/or restatements to the Intercreditor Agreement or any such Additional Intercreditor Agreement to: (i) cure any ambiguity, omission, defect or inconsistency therein, (ii) increase the amount of Indebtedness or the types covered thereby that may be Incurred by the Issuer or any other Subsidiary of the Issuer that is subject thereto (including the addition of provisions relating to new Indebtedness), (iii) add Guarantors or other parties (such as representatives of new Incurrences of Indebtedness) thereto, (iv) permit payments to be made to the Issuer that would not otherwise have been permitted pursuant to the terms thereof, (v) further secure the Notes, (vi) make provisions for pledges of the Collateral to secure PIK Notes or to implement any Permitted Collateral Liens, (vii) amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof or (viii) make any other such change thereto that does not adversely affect the rights of the Noteholders in any material respect as determined by the Trustee. The Issuer shall not otherwise direct the Trustee or the Common Security Agent to enter into any amendment to the Intercreditor Agreement or, if applicable, any Additional Intercreditor Agreement, except to the extent approved by an Extraordinary Resolution of the Noteholders or as permitted by the terms of such Intercreditor Agreement or, if applicable, any Additional Intercreditor Agreement.

Each Noteholder, by accepting a Note, shall be deemed to have agreed to and to have accepted the terms and conditions of the Intercreditor Agreement or any Additional Intercreditor Agreement (including, in each case, the limitations on payment, enforcement and the obligations to turnover contained therein) whether then entered into or entered into in the future pursuant to the provisions described in this Condition 4(r), and to have authorised the Trustee and the Common Security Agent to enter into the Intercreditor Agreement and any Additional Intercreditor Agreement on each Noteholder's behalf.

(s) Maintenance of the Collateral Group:

Except in connection with the Intermediate Holdco Unwind, or to the extent permitted by Condition 3(c) or 4(e):

- (i) The Issuer shall not, sell, assign, convey, transfer, lease or otherwise dispose, directly or indirectly, of the Capital Stock of Intermediate Holdco (including, without limitation, by way of merger or consolidation) and will not otherwise cease directly to own and hold all of the outstanding Capital Stock of the Intermediate Holdco, other than by way of a disposal of all, but not some only, of such Capital Stock in a transaction complying with Condition 4(e);
- (ii) The Issuer shall not, and shall not permit the Intermediate Holdco (for so long as Intermediate Holdco Unwind has not occurred) to, sell, assign, convey, transfer, lease or otherwise dispose of, directly or indirectly, the OpCo Shares that are subject to the OpCo Share Pledges (including, without limitation, by way of merger or consolidation), other than by way of a disposal of all, but not some only, of such Capital Stock in a transaction complying with Condition 4(e);
- (iii) For so long as Intermediate Holdco Unwind has not occurred, the Issuer shall procure that the Intermediate Holdco shall not, and following the occurrence of Intermediate Holdco Unwind the Issuer shall not, cease directly to own and hold all of the outstanding Capital Stock of Ilyich Steel and Ingulets GOK (excluding directors' shares and minority interests in the aggregate not exceeding 1 per cent. of the outstanding Capital Stock of the relevant entity at any time) and at least 50 per cent. plus one share of the outstanding

Capital Stock of Central GOK, other than by way of a disposal of all, but not some only, of such Capital Stock in a transaction complying with Condition 4(e);

- (iv) The Issuer shall not, and shall not permit the Intermediate Holdco (for so long as Intermediate Holdco Unwind has not occurred) or any other member of the Collateral Group to, sell, assign, convey, transfer, lease or otherwise dispose of, directly or indirectly, any of the other assets of the Collateral Group, to any Person (other than to Intermediate Holdco, Ilyich Steel or Ingulets GOK), except:
- (A) dividends and other distributions in respect of Capital Stock and, for the avoidance of doubt, payments in respect of Indebtedness, in each case where owed to the Issuer;
 - (B) if such transaction is with the Issuer or any of its Subsidiaries, (x) the terms of such transaction are no less favourable to the relevant member of the Collateral Group as those that could be obtained at the time of the transaction in arm's length dealings with a Person who is not the Issuer or a Subsidiary of the Issuer and (y) such transaction would be exempt from the definition of Asset Sale under paragraphs (c), (d), (e), (f), (g), (h), (i), (l), (m), (n) or (o) of such definition (provided that in the case of any transaction exempt under paragraph (l), (x) the relevant asset is disposed of at Fair Market Value and (y) if the Fair Market Value of such asset is above U.S.\$25 million, the transaction is approved by the Board of Directors of the Issuer);
 - (C) if such transaction is with a Person that is not the Issuer or any of its Subsidiaries, such transaction complies with Condition 4(e);
 - (D) (in the case of the assets of Ilyich Steel, Ingulets GOK and Central GOK only) any sale, assignment, conveyance, transfer, lease or disposal of the assets of any such entity not otherwise permitted by paragraphs (A) to (C) above, provided that:
 - (1) the Fair Market Value of all such assets sold, assigned, conveyed, transferred, let or otherwise disposed of by such entity in any calendar year and falling within this paragraph (D) (and taking into account the Fair Market Value of the assets which are the subject of the relevant transaction itself) does not exceed 2 per cent. of its total assets as at the beginning of such calendar year; and
 - (2) the Fair Market Value of all such assets sold, assigned, conveyed, transferred, let or otherwise disposed of by such entity since the Issue Date and falling within this paragraph (D) (and taking into account the Fair Market Value of the assets which are the subject of the relevant transaction itself) does not exceed 5 per cent. of its total assets as at the beginning of such calendar year,in each case as shown in its most recent annual financial statements prepared in accordance with Accounting Standards (for the avoidance of doubt, any subsequent decrease in the total assets of the relevant entity would not cause a breach under clauses (D)(1) and (2) above if the sale, assignment, conveyance, transfer, lease or disposal of assets by such entity complied with the limits set out in clauses (D)(1) and (2) above at the time it was made); or
 - (E) (in the case of assets of Ilyich Steel and Ingulets GOK only) any sale, assignment, conveyance, transfer, lease or disposal of any assets of any such entity to Central GOK over which a Lien has been granted to secure the obligations of the Issuer and the Guarantors under the Notes, the Guarantees and the Trust Deed, provided that either (1) such Lien is not released in connection with, and remains valid and enforceable following, such sale, assignment, conveyance, transfer, lease or disposal or (2) if such Lien is released, such release is followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets.

- (v) Notwithstanding any of the foregoing, the Issuer shall be permitted to undertake the Intermediate Holdco Unwind. For the avoidance of doubt, the Collateral Group shall be permitted to grant Liens over its assets in accordance with Condition 4(a).

(t) **Capital Expenditures:**

The Issuer shall not, and shall not permit any of its Subsidiaries, to make any Capital Expenditures in excess of:

(i)

- (A) in respect of the year ending 31 December 2017: U.S.\$636 million; and
- (B) in respect of the year ending 31 December 2018: U.S.\$651 million, provided that:
- (1) the maximum amount of Capital Expenditures permitted in respect of the year ending 31 December 2017 shall automatically be increased on the Issue Date by an amount equal to x/y multiplied by U.S.\$100 million (where "y" equals the sum of (a) all interest accrued but unpaid on the Pre-Restructured Notes and the Original PXF Facility Agreements for the period prior to 31 January 2016, *plus* (b) 70 per cent. of all interest accrued under the Original PXF Facility Agreements and the Pre-Restructured Notes from and including 31 January 2016 to and excluding the Issue Date (the "**Pre-Restructuring PIK Interest**") and where "x" equals the aggregate amount of the Pre-Restructuring PIK Interest paid in cash on or prior to the Issue Date);
- (2) the maximum amount of Capital Expenditures permitted in respect of the year ending 31 December 2018 shall automatically be increased by U.S.\$100 million on and from 1 January 2018 if the Issuer has paid in full in cash within any applicable grace period in accordance with these Conditions and clause 6 of the Intercreditor Agreement (i) the Cash-pay Interest Amount on each Interest Payment Date of the immediately preceding calendar year, (ii) the PIYC Interest Amount, to the extent payable on each Interest Payment Date of the immediately preceding calendar year pursuant to Condition 5(c)(i)(B), (iii) the PIK Notes Redemption Amount (relating to any PIK Notes issued during the immediately preceding calendar year) on or before the last Interest Payment Date of the immediately preceding calendar year pursuant to Condition 5(c)(i)(C) and (iv) the Catch-Up Interest Amount, to the extent payable on each Interest Payment Date during the immediately preceding calendar year pursuant to Condition 5(c)(i)(D) (for the avoidance of doubt, each of the PIK Notes Redemption Amount and the Catch-Up Interest Amount is payable only on the relevant Interest Payment Date pursuant to Conditions 5(c)(i)(C) and 5(c)(i)(D), respectively); and

(ii)

- (A) in respect of the year ending 31 December 2019: U.S.\$775 million;
- (B) in respect of the year ending 31 December 2020: U.S.\$836 million; and
- (C) in respect of the year ending 31 December 2021: U.S.\$888 million,

provided that the maximum amount of Capital Expenditures permitted in respect of each of the years ending 31 December 2019, 2020 and 2021 shall automatically be decreased by U.S.\$100 million if any amounts of interest falling due on the Notes during such calendar year has not been paid in full and in cash within any applicable grace period in accordance with these Conditions.

(u) **UCC Group:**

The Issuer shall not, and shall not permit any member of the UCC Group to amend, restructure or refinance the terms of the UCC Seller Notes and/or the MIBV UCC Guarantee except to the extent that each such amendment, restructuring or refinancing would constitute Permitted UCC Seller Debt.

(v) **Maintenance of Maximum Value of Hedging Obligations:**

The Issuer shall procure that if the aggregate amount of Indebtedness in respect of the then outstanding Hedging Obligations exceeds U.S.\$75 million (or its U.S. Dollar Equivalent) at any time, the Issuer shall terminate or unwind Hedging Obligations, within 10 business days of the day on which such threshold is first exceeded, in an amount sufficient to reduce the outstanding aggregate amount of Indebtedness in respect of the remaining outstanding Hedging Obligations to U.S.\$50 million (or its U.S. Dollar Equivalent) or less.

(w) **Financial Information:**

- (i) The Issuer shall deliver to the Trustee as soon as the same become available, but in any event within 150 days after the end of each of its financial years, the Issuer's consolidated financial statements for such financial year, audited by the Auditors and accompanied by a report thereon of the Auditors (including opinions of such Auditors with accompanying notes) and prepared in accordance with Accounting Standards consistently applied with the corresponding financial statements for the preceding period prepared in accordance with Accounting Standards, and containing amounts of Capital Expenditures incurred during such year.
- (ii) The Issuer shall deliver to the Trustee as soon as the same become available, but in any event within 120 days after the end of the first half of each of its financial years, the Issuer's unaudited consolidated financial statements for such period, reviewed by the Auditors and accompanied by a review report thereon of the Auditors (with accompanying notes), and containing amounts of Capital Expenditures incurred during such period.
- (iii) The Issuer shall deliver to the Trustee as soon as the same become available, but in any event within 60 days after the end of each quarter starting in 2019, a report for the relevant period containing information in form and substance substantially similar to the Monthly Report (each, a "**Quarterly Report**").
- (iv) The Issuer shall deliver to the Trustee as soon as the same become available, but in any event within 60 days after the end of each month, the Monthly Report for such month, provided that the last Monthly Report shall be deliverable in respect of December 2018.
- (v) The Issuer shall deliver to the Trustee:
 - (A) contemporaneously with the furnishing of the financial statements discussed in Conditions 4(w)(i) and 4(w)(ii) above, supplemental disclosure stating the Consolidated Net Leverage Ratio (as defined in the Intercreditor Agreement) for the 12-month period ending on the last day of the period covered by the relevant financial statements of the Issuer; and
 - (B) within 60 days after the end of the first and third quarters, supplemental disclosure stating the ratio of the Net Debt as of the end of the relevant quarter to Adjusted EBITDA for the 12-month period ending on such quarter.
- (vi) The Issuer shall deliver to the Trustee a Cash Balance Certificate in accordance with clause 7.1(a)(i) of the Intercreditor Agreement (which will not be published by the Trustee to Noteholders).
- (vii) Contemporaneously with the furnishing of the financial statements discussed in Condition 4(w)(i) above, the Issuer shall deliver supplemental disclosure to the Trustee (which will not be published by the Trustee to Noteholders) on the breakdown of the

Adjusted EBITDA of Metinvest and the Total Assets of Metinvest for the relevant financial year, in each case with a separate column for the Issuer, the Guarantors on a combined basis and Non-Guarantor Subsidiaries on a combined basis.

- (viii) Within 10 business days after each Interest Payment Date, the Issuer shall publish an announcement on the official website of the Irish Stock Exchange or on its website containing the amounts of Restricted Cash and Average Cash Balance, in each case calculated in good faith and used to calculate the Cash Sweep Amount (Gross) for such Interest Payment Date.
- (ix) Contemporaneously with the furnishing of each such report and supplemental disclosure discussed in paragraphs (i) – (v) above, the Issuer will also make available copies of all such reports and supplemental disclosure on the Issuer's website and, if and so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, at the specified office of the listing agent in Ireland.
- (x) Subject to any restrictions regarding insider dealing or market abuse under applicable law, including without limitation the EU Market Abuse Regulation (EU 596/2014):
 - (A) if any Noteholder wishes to raise any questions (acting reasonably) with the Issuer's Board of Directors, that Noteholder may submit such questions to the Issuer not more often than once per calendar month in the Initial Period and not more often than once per quarter thereafter. The Issuer shall as soon as reasonably practicable respond to any such questions in reasonable detail, provided that the Issuer will not be obliged to disclose any non-public information; and
 - (B) the Issuer hereby undertakes that it will deliver to the Trustee, without undue delay, such additional information regarding the financial position or the business of the Issuer, the Guarantors and the Subsidiaries of the Issuer (or, so far as permitted by applicable law, any information, and in such form, as it requires for the purposes of the discharge of the duties and discretions vested in it under the Trust Deed or by operation of law) as the Trustee may reasonably request.
- (xi) The Issuer shall deliver to the Trustee at the time of delivery of any financial statements pursuant to Conditions 4(w)(i) and 4(w)(ii) above and within 14 days of any request by the Trustee, an Officers' Certificate (A) stating whether or not to the best of the knowledge of the signatories thereof an Event of Default or Potential Event of Default has occurred and is continuing, and, if so, specifying all such Events of Default or Potential Events of Default, the nature and status thereof of which the signatories may have knowledge and what action the Issuer is taking or proposes to take with respect thereto, (B) stating whether or not to the best of the knowledge of the signatories thereof a Change of Control has occurred and (C) certifying which Subsidiaries are Material Subsidiaries. The Trustee may rely on such Officers' Certificate absolutely without liability to any person for so doing.
- (xii) The Issuer shall promptly notify the Trustee of the occurrence of the UCC Restructuring Completion Date.
- (xiii) The Issuer undertakes to furnish to the Trustee such information as the Irish Stock Exchange (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require as necessary in connection with the listing or admission to trading on such stock exchange or relevant authority of such instruments at the same time as such information is provided to the Irish Stock Exchange.
- (xiv) For so long as any Notes remain outstanding and during any period in which the Issuer is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Issuer agrees that it will furnish to the holders of the Notes and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

- (xv) The Issuer shall promptly provide to the Trustee a copy of any report or opinion of an Independent Financial Adviser evidencing compliance with the requirements of Condition 4(d) or 4(e), as the case may be and, to the extent it is reasonably practicable to do so and permitted under the terms of engagement with the relevant Independent Financial Adviser, publish such report on its website.

5 Interest, PIK and Cash Sweep

- (a) **Interest Rate:** Subject as provided in Condition 5(c) in respect of each Interest Period (or a portion thereof) falling within the Initial Period only, the Notes bear interest on their outstanding principal amount from and including the Issue Date and for so long as any Notes remain outstanding at the rate of 10.875 per cent. per annum, payable in equal instalments quarterly in arrear on 18 February, 18 May, 18 August and 18 November in each year (each, an "**Interest Payment Date**"), except that (A) the first payment of interest will be made on 18 May 2017 and will be in respect of the period from and including the Issue Date to but excluding 18 May 2017 and (B) the last payment of interest will be made on the Maturity Date and will be in respect of the period from and including 18 November 2021 to but excluding the Maturity Date. Each Note will cease to bear interest from and including the due date for redemption, unless, upon surrender of the Certificate representing such Note, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at the rate of 10.875 per cent. per annum (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day seven days after the Trustee or the Principal Paying Agent has notified the Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).
- (b) **Calculation of Interest:** If interest is required to be calculated for a period of less than a complete Interest Period or as otherwise specified in Condition 5(c)(iv), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**".
- (c) **Cash Interest and PIK option:**
- (i) In respect of each Interest Period (or a portion thereof) falling within the Initial Period only (subject as provided in Condition 5(c)(iv) in the case of the Interest Period commencing on 18 November 2018), the Issuer:
- (A) shall pay interest in cash on the relevant Interest Payment Date at the rate of 2.793 per cent. per annum (the "**Cash-pay Interest Amount**");
- (B) in addition to the amount payable under paragraph (A) above, shall pay interest on the relevant Interest Payment Date at the rate of 6.5795 per cent. per annum (the "**PIYC Interest Amount**") in cash, only if and to the extent that amounts are available for such purpose pursuant to Condition 5(d) below;
- (C) if all or part of any PIYC Interest Amount has not been satisfied in cash in accordance with paragraph (B) above as a result of the application of Condition 5(d) below, shall instead on the relevant Interest Payment Date issue to each Noteholder additional Notes ("**PIK Notes**") in the aggregate nominal amount equal to the proportion of the PIYC Interest Amount not so satisfied in cash and to which such Noteholder was otherwise entitled (rounded up to the nearest U.S. dollar in the case of amounts of U.S.\$0.50 or more and down to the nearest U.S. dollar otherwise). In such case, upon receiving written notice the Registrar will reflect in the Register the issuance of such PIK Notes and the Principal Paying Agent will deliver such PIK Notes, duly authenticated by the Registrar, to holders of Notes registered on the Register on the Record Date. The Issuer shall redeem in cash on the relevant Interest Payment Date any outstanding PIK Notes at a redemption price equal to 100 per cent. of the principal amount thereof (the aggregate redemption price of all PIK Notes then outstanding, the

"**PIK Notes Redemption Amount**"), only if and to the extent that amounts are available for such purpose pursuant to Condition 5(d) below; and

- (D) in addition to the amounts payable under paragraph (A) and (if applicable) (B) and (C) above, shall pay interest in cash on the relevant Interest Payment Date at the rate of 1.5025 per cent. per annum (the "**Catch-Up Interest Amount**"), only if and to the extent that amounts are available for such purpose pursuant to Condition 5(d) below.
- (ii) Any PIK Notes issued in accordance with paragraph (i)(C) above will be dated as of the applicable Interest Payment Date and will bear interest from and including such date. All PIK Notes issued will be governed by, and subject to, the terms, provisions and conditions of these Conditions and the Trust Deed and shall have the same rights and benefits as the Notes issued on the Issue Date as if references to a "Note" include reference to a "PIK Note". Unless the context otherwise requires, references to Notes in these Conditions includes the Notes and any PIK Notes that are issued.
- (iii) The Catch-Up Interest Amount shall accrue and be payable only to the extent that amounts become payable under Condition 5(c)(i)(D) and Condition 5(d)(i)(C). For the avoidance of doubt, under no circumstances shall any PIK Notes be issued in respect of the Catch-Up Interest Amount (and such Catch-Up Interest Amount shall not be otherwise capitalised or added to the principal amount of the Notes or be deemed to be outstanding).
- (iv) In the case of the Interest Period from and including 18 November 2018 to but excluding 18 February 2019:
 - (A) the provisions of Condition 5(c)(i) to (iii) above shall apply to interest accruing on the Notes from and including 18 November 2018 to and including 31 December 2018 (for the avoidance of doubt, pursuant to Condition 5(b) the total number of days in this period amounts to 45 days);
 - (B) the provisions of Condition 5(c)(i) to (iii) above shall not apply to interest accruing on the Notes from and including 1 January 2019 to but excluding 18 February 2019 (for the avoidance of doubt, pursuant to Condition 5(b) the total number of days in this period amounts to 45 days), and the general provisions of Conditions 5(a) and 5(b) shall continue to apply; and
 - (C) all amounts due to be paid, and/or PIK Notes to be issued, to Noteholders as a result of the foregoing shall be paid or (as the case may be) delivered to them on the Interest Payment Date falling on 18 February 2019 accordingly.
- (d) **Cash Sweep:** To the extent any Notes Cash Sweep Amount is available for payment to Noteholders on any Interest Payment Date, the Issuer shall apply such Notes Cash Sweep Amount on such Interest Payment Date in accordance with the following and the provisions of the Intercreditor Agreement:
 - (i) in respect of each Interest Period (or portion thereof) during the Initial Period, in the following order:
 - (A) first, to pay the PIYC Interest Amount due on the corresponding Interest Payment Date in cash in accordance with Condition 5(c)(i)(B);
 - (B) the remainder, if any, to redeem any outstanding PIK Notes in accordance with Condition 5(c)(i)(C);
 - (C) the remainder, if any, to pay the Catch-Up Interest Amount due on the corresponding Interest Payment Date in cash in accordance with Condition 5(c)(i)(D); and
 - (D) the remainder, if any, to redeem the then outstanding principal amount of the Notes,

in each case, in accordance with the Agreed Waterfall;

- (ii) after the end of the Initial Period, to redeem the then outstanding principal amount of the Notes in accordance with the Agreed Waterfall;
- (iii) any amount applied to redeem the outstanding principal amount of each Note in accordance with paragraph (i)(B), (i)(D) or (ii) above is referred to as an "**Instalment Amount**".

6 Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption:

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note shall be partially repaid and redeemed in instalments on each Interest Payment Date in accordance with Condition 5(d) by the applicable Instalment Amount, if and to the extent payable pursuant to Condition 5(d). The outstanding principal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Interest Payment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date at its then outstanding principal amount.

(b) Redemption at the Option of the Issuer:

Subject to the limitations contained in the Intercreditor Agreement, the Issuer may at any time following the Issue Date, on giving not more than 60 nor less than 15 days' irrevocable notice to the Noteholders, redeem all or some only of the Notes then outstanding at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption.

In the case of a partial redemption, the notice to Noteholders shall also specify the nominal amount of Notes drawn and the holder(s) of such Notes to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements. Where some but not all of the Notes in respect of which a Definitive Certificate is issued are to be redeemed, the notice of redemption that relates to such Definitive Certificate shall state the portion of the nominal amount of the Notes to be redeemed, and where applicable, a new Definitive Certificate in a nominal amount equal to the unredeemed Notes will be issued in the name of the Noteholder thereof upon cancellation of the original Definitive Certificate. Any such new Definitive Certificate will be delivered to the specified office of an Agent or (at the risk and, if mailed at the request of the Noteholders otherwise than by ordinary uninsured mail, at the expense of the Noteholder) sent by mail to the Noteholder.

(c) Redemption at the Option of the Noteholders Upon a Change of Control:

- (i) Upon the occurrence of any of the following events (each a "**Change of Control**"), each Noteholder shall have the right to require that the Issuer repurchase such Noteholder's Notes at a purchase price in cash equal to 101 per cent. of the outstanding principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to (but excluding) the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant Interest Payment Date):
 - (A) either (x) the Permitted Holders (when taken together) cease to be the "beneficial owners" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of at least 75 per cent., or (y) the Major Shareholder ceases to be the "beneficial owner" (as so defined), directly or indirectly, of

more than 50 per cent., in each case, of the aggregate of the total voting power of the Voting Stock of the Issuer;

- (B) the adoption of a plan relating to the liquidation or dissolution of the Issuer; or
 - (C) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Subsidiaries, taken as a whole, to any Person (including any "person" (as that term is used in Section 13(d)(3) of the Exchange Act)). No "Change of Control" under this paragraph shall occur if the transferee of the assets is one or more Permitted Holders or any Related Parties, provided that following any such transaction, the Permitted Holders and the Major Shareholder own or control, directly or indirectly, such properties or assets (or beneficially own, directly or indirectly, at least 75 per cent. and at least 50 per cent. respectively of the entity or entities to which such properties or assets were transferred), and such transaction complies with Condition 4(i).
- (ii) Within 30 days following any Change of Control, the Issuer will give notice in accordance with Condition 17 to each Noteholder with a copy to the Trustee (the "**Change of Control Offer**") stating:
- (A) that a Change of Control has occurred and that such Noteholder has the right to require the Issuer to purchase such Noteholder's Notes at a purchase price in cash equal to 101 per cent. of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, to (but excluding) the date of purchase (subject to the right of Noteholders of record on the relevant record date to receive interest on the relevant interest payment date);
 - (B) the circumstances and relevant facts regarding such Change of Control (including information with respect to pro forma historical income, cash flow and capitalisation, in each case after giving effect to such Change of Control);
 - (C) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and
 - (D) the instructions, as determined by the Issuer, consistent with the covenant described hereunder, that a Noteholder must follow in order to have its Notes purchased.
- (iii) The Issuer will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set out in the Trust Deed applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.
- (iv) The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the covenant described hereunder by virtue of its compliance with such securities laws or regulations.
- (d) **Purchases:** Subject to the limitations contained in the Intercreditor Agreement, the Issuer, the Guarantors or any of their respective Subsidiaries may at any time purchase Notes (in any manner and at any price, subject to clause 4 of the Intercreditor Agreement). The Notes so purchased, while held by or on behalf of any of them, shall not entitle them to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 10, 11 and 13.

- (e) **Cancellation:** All Notes purchased by or on behalf of or otherwise transferred to the Issuer, the Guarantors or any of their respective Subsidiaries will forthwith be surrendered for cancellation to the Principal Paying Agent by surrendering the Certificate representing such Notes to the Registrar and, in each case shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantors in respect of any such Notes shall be discharged.

7 Payments

(a) **Method of Payment:**

Payments of principal (including any Instalment Amounts), premium, interest and fees payable pursuant to clause 4.4(b) of the Intercreditor Agreement shall be made by U.S. dollar cheque drawn on (or, upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (or any account to which U.S. dollars may be credited or transferred) maintained by the payee with) a bank in New York City and, in the case of payments of principal (including any Instalment Amounts) and premium, if any, in respect of the Notes and accrued interest payable on a redemption of the Notes otherwise than on an Interest Payment Date, shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Certificates at the Specified Office of the Principal Paying Agent.

(b) **Payments subject to laws:**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Payments on business days:**

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal (including any Instalment Amounts), premium, if any, and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Definitive Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the Principal Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in London and New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Definitive Certificate, in the place in which the Definitive Certificate is surrendered (or, as the case may be, endorsed).

So long as the Notes are represented by a Global Note Certificate, payments of principal and interest in respect of Notes represented by the Global Note Certificate shall be made to the person(s) shown as the Noteholder(s) in the Register at the close of business on the Clearing System Business Day before the due date for payment, where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business, and shall be made against presentation for endorsement and if no further payment falls to be made in respect of the Notes, surrender of the Global Note Certificate.

(d) **Partial payments:**

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Definitive Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Definitive Certificate.

(e) **Record date:**

Each payment in respect of a Note will be made to the Person shown as the holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the close of business on the relevant Record Date.

So long as the Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, the Record Date shall instead be one Clearing System Business Day before the due date for such payment.

(f) **Agents:**

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantors reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that they will maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) Paying Agents and Transfer Agents having specified offices in at least one major European city and (iv) such other agents as may be required by the Irish Stock Exchange or any other stock exchange on which the Notes may be listed (in the case of sub-paragraphs (iii) and (iv) above, as approved by the Trustee).

Notice of any change in the Agents or their specified offices will promptly be given to the Noteholders.

8 **Taxation**

All payments of the principal of (including any Instalment Amounts), premium on, if any, and interest on the Notes or under the Guarantees shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Netherlands or Ukraine or any political or governmental subdivision or authority thereof or therein having power to tax ("**Taxes**"), unless such withholding or deduction is required by law. In that event and in the event that any payment under the Guarantees is subject to any such Taxes, the Issuer (or, as the case may be, the Guarantors) shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required ("**Additional Amounts**"), except that no such Additional Amounts shall be payable with respect to any Note:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Netherlands or Ukraine other than the mere holding of the Note; or
- (b) **Presentation more than 30 days after the Relevant Date:** in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date, except to the extent that the holder of it would have been entitled to Additional Amounts on presenting such Certificate for payment on the thirtieth day.

Any reference in these Conditions to principal (including any Instalment Amounts), premium and/or interest shall be deemed to include, without duplication, any Additional Amounts in respect of principal (including any Instalment Amounts), premium or interest (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to or substitution for it under the Trust Deed.

9 **Prescription**

Claims in respect of principal (including any Instalment Amounts), premium and interest will become void, unless presentation for payment is made as required by Condition 7 within a period of 10 years, in the case of principal (including any Instalment Amounts) and premium, and five years, in the case of interest, from the appropriate Relevant Date.

10 Events of Default

- (a) If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to satisfaction of the Pre-Funding and Indemnity Conditions, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their outstanding principal amount together with accrued interest:
- (i) **Non-Payment:** the Issuer or the Guarantors fail to pay principal (including any Instalment Amount) or interest on any of the Notes when due and, in the case of interest or any Instalment Amount, such failure continues for a period of 10 days (subject to clause 6.2(b) of the Intercreditor Agreement); or
 - (ii) **Breach of Other Obligations:** the Issuer or any of the Guarantors does not perform or comply with any one or more of its other obligations under the Notes or the Notes Documents, which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Issuer or the relevant Guarantor(s) by the Trustee; or
 - (iii) **Cross-Default, Cross-Payment Default and Cross-Acceleration:** (A) an "Event of Default" under, and as defined in, clause 25.2(a) of the PXF Facility Agreement has been subsisting for at least 90 days and has not been waived in accordance with the PXF Facility Agreement, (B) any other present or future Indebtedness (excluding under the Existing Judgments and the MIBV Guarantees) of the Issuer or any Guarantor or any of their respective Subsidiaries (excluding each UCC Excluded Company) becomes due and payable prior to its Stated Maturity by reason of any actual or potential default, event of default or the like (howsoever described), (C) any such Indebtedness (excluding under the Existing Judgments, the Indebtedness of each UCC Excluded Company and the MIBV Guarantees) is not paid when due or, as the case may be, within any originally applicable grace period, or (D) the Issuer or any Guarantor or any of their respective Subsidiaries (excluding each UCC Excluded Company) fails to pay when due or, as the case may be, within any originally applicable grace period any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness (excluding under the Existing Judgments and the MIBV Guarantees), provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned under (B) – (D) above have occurred equals or exceeds U.S.\$35 million; or
 - (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process (excluding such events in connection with the Existing Judgments) is levied, enforced or sued on or against in the opinion of the Trustee, any material part of the property, assets or revenues of the Issuer or any Guarantor or any Material Subsidiary (excluding each UCC Excluded Company) and is not discharged or stayed within 60 days; or
 - (v) **Security Enforced:** an encumbrancer takes possession of or sells or otherwise enforces, or any expropriation or sequestration is levied against (in each case, excluding such events in connection with the Existing Judgments), the whole or in the opinion of the Trustee any material part of, the property, undertaking, revenues or assets of the Issuer or any Guarantor or any Material Subsidiary (excluding each UCC Excluded Company) (such expropriation, an "**Expropriation**"), excluding the Expropriation of Affected Entities to the extent the EBITDA of the Affected Entities, individually or in the aggregate, constitutes less than 15 per cent. of Metinvest's Adjusted EBITDA (as determined by reference to the EBITDA of the Affected Entities in the most recently available annual or semi-annual financial statements of those Affected Entities and the Adjusted EBITDA in the most recently available annual or semi-annual consolidated financial statements of Metinvest, in each case prepared in accordance with Accounting Standards); or

- (vi) **Judgment Default:** any one or more final, non-appealable judgments or orders (excluding the Existing Judgments) is made against the Issuer or any Guarantor or any of their respective Subsidiaries (excluding each UCC Excluded Company) involving an aggregate liability not paid or fully covered by insurance in respect of a matter (or a series of related matters) greater than U.S.\$35 million, unless all those judgments and orders are paid, vacated or discharged within 60 days of their being made (or, if later, prior to the end of the period of any deferral of enforcement granted for any such judgment or order); or
- (vii) **Insolvency:**
 - (A) (1) the Issuer, any Guarantor or any Material Subsidiary seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidation commission or a similar officer; (2) the commencement of any proceedings in respect of the Issuer, any Guarantor or any Material Subsidiary in any court, arbitration court or before any agency for its bankruptcy, insolvency, dissolution or liquidation which, in the case of any proceedings that are commenced pursuant to a petition presented or filed by a Person other than the Issuer, such Guarantor or such Material Subsidiary, as the case may be, is not dismissed within 60 days; (3) the institution of supervision, external management or bankruptcy management to the Issuer, any Guarantor or any Material Subsidiary; (4) the convening of a meeting of creditors generally of the Issuer, any Guarantor or any Material Subsidiary for the purposes of considering an amicable settlement with its creditors generally; and/or (5) any extra-judicial liquidation or analogous act in respect of the Issuer, any Guarantor or any Material Subsidiary by any applicable governmental agency, in each case, other than Khartsyzsk Pipe, Krasnodon Coal and each UCC Excluded Company;
 - (B) the Issuer, any Guarantor or any Material Subsidiary: (1) fails or is unable to pay its debts generally as they become due; (2) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of in the opinion of the Trustee a substantial part of its property, in each case, other than Khartsyzsk Pipe, Krasnodon Coal and each UCC Excluded Company; or
 - (C) the shareholders of the Issuer approve any plan for the liquidation or dissolution of the Issuer; or
- (viii) **Winding-up:** (A) an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any Guarantor or any Material Subsidiary (excluding each UCC Excluded Company); or (B) the Issuer or any of the Guarantors or any Material Subsidiary (excluding each UCC Excluded Company) ceases or threatens to cease to carry on all or, in the opinion of the Trustee, substantially all of its business or operations, in each case (1) excluding the cessation of business of any Relevant Entity in connection with, directly or indirectly, armed hostilities or acts of war where the cessation continues for no longer than six months, (2) excluding the cessation of business for six months or longer or winding-up or dissolution of any Affected Entity in connection with, directly or indirectly, an Expropriation or Nationalisation (such cessation of business, winding up or dissolution, a "**Permanent Cessation of Business or Winding-Up**"), in the case of this paragraph (2) solely to the extent the EBITDA of the Affected Entities, individually or in the aggregate, constitutes less than 15 per cent. of Metinvest's Adjusted EBITDA (as determined by reference to the EBITDA of the Affected Entities in the most recently available annual or semi-annual financial statements of those Affected Entities and the Adjusted EBITDA in the most recently available annual or semi-annual consolidated financial statements of Metinvest, in each case prepared in accordance with Accounting Standards), (3) except in connection with the Intermediate Holdco Unwind or as a result of a disposal permitted under Condition 4(e) and (4) except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (x) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (y) in the case of a Material Subsidiary, whereby the undertaking and assets of the relevant Material Subsidiary are transferred to

or otherwise vested in the Issuer, any Guarantors or any of their respective Subsidiaries; or

- (ix) **Nationalisation:** all or, in the opinion of the Trustee, a material part of the assets of the Issuer or any Guarantor or all or, in the opinion of the Trustee, a material part of Metinvest's assets held by any of the respective Subsidiaries of the Issuer or the Guarantors are seized or nationalised by or on behalf of any governmental, regulatory or other authority recognised by the United Nations (such seizure or nationalisation, a "**Nationalisation**") or Expropriated by any person, in each case, excluding Affected Entities to the extent the EBITDA of the Affected Entities, individually or in the aggregate, constitutes less than 15 per cent. of Metinvest's Adjusted EBITDA (as determined by reference to the EBITDA of the Affected Entities in the most recently available annual or semi-annual financial statements of those Affected Entities and the Adjusted EBITDA in the most recently available annual or semi-annual consolidated financial statements of Metinvest, in each case prepared in accordance with Accounting Standards); or
- (x) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (A) to enable the Issuer and the Guarantors lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Notes Documents, (B) to ensure that those obligations are legally binding and enforceable and (C) to make the Notes and the Notes Documents admissible in evidence in the courts of Ukraine, the Netherlands, the jurisdiction of incorporation of any Guarantor or England is not taken, fulfilled or done; or
- (xi) **Illegality:** it is or will become unlawful for the Issuer or any of the Guarantors to perform or comply with any one or more of its obligations under any of the Notes or the Notes Documents, as applicable; or
- (xii) **Guarantees:** the Guarantees are not (or are claimed by any Guarantor not to be) in full force and effect (except Guarantees released in accordance with Condition 4(q)(vii)); or
- (xiii) **Security Ceasing to be in Full Force and Effect:** any security interest under the Security Documents on any Collateral having a Fair Market Value in excess of U.S.\$5 million, at any time, ceases to be in full force and effect (other than in accordance with the terms of the relevant Notes Documents) for any reason other than the satisfaction in full of all obligations under the Trust Deed or the release or amendment of any such security interest in accordance with the terms of the Notes Documents or the Issuer or any Subsidiary of the Issuer asserts in writing that any such security interest is invalid or unenforceable, provided that if a failure of the sort described in Condition 10(a)(xiii) is susceptible of cure, no Event of Default shall arise under Condition 10(a)(xiii) with respect thereto until 30 days after such a failure has occurred and is continuing; or
- (xiv) **Actions Undermining Security Interests or Guarantees:** any member of Metinvest takes any action or omits to take any action (acting reasonably and in good faith in the circumstances and to the extent within its reasonable control) where that action or omission would undermine the legality, enforceability or priority of the Intermediate Holdco Share Pledge or any Intermediate Holdco Security Assignment or any of the Guarantees granted by the Ukrainian Guarantors; or
- (xv) **Breach of Subordination Agreement:** material breach of any obligations under clause 3 (excluding clause 3.9), 4, 5 or 7.2 of any Shareholder Loan Subordination Agreement referred to in paragraph (i) of the definition of "Shareholder Loan Subordination Agreement" or any equivalent provision in any other Shareholder Loan Subordination Agreement, except (x) to the extent that such Event of Default occurs as a result of circumstances outside the control of Metinvest and its Affiliates or (y) where such breach is capable of remedy and is remedied within 15 business days of notice from the Issuer becoming aware of the breach; or

- (xvi) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or
 - (xvii) **Intermediate Holdco Collateral Enforcement Events:** any event occurs that would otherwise constitute an Intermediate Holdco Collateral Enforcement Event under paragraphs (b) – (d) of the definition thereof in the Intercreditor Agreement.
- (b) The holders of a majority in aggregate principal amount of the Notes then outstanding (a) may by notice to the Issuer and the Trustee in writing waive any existing Potential Event of Default or Event of Default and its consequences under the Trust Deed (other than a continuing Event of Default specified in Condition 10(a)(i), which may only be waived by an Extraordinary Resolution passed in accordance with Condition 11(a)(i) or Condition 11(a)(ii)) and (b) after any acceleration pursuant to Condition 10(a), but before a judgment or decree based on acceleration has been issued, may by notice to the Issuer and the Trustee in writing rescind and annul an Acceleration Notice (as defined in the Trust Deed) (or instruct the Trustee to do so) if all Events of Default, other than the non-payment of accelerated principal, interest and other amounts due, have been cured or waived. Upon the receipt of any such notice, the Issuer shall procure that notice thereof is given to Noteholders in accordance with Condition 17.

11 Meetings of Noteholders, Modification, Waiver, Substitution and Noteholders' Committee

(a) Meetings of Noteholders:

- (i) The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed, the Intercreditor Agreement, any Security Document or other Notes Document. Such a meeting may be convened by the Issuer, any Guarantor or the Trustee at any time and shall be convened by the Issuer if requested by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution (other than an Extraordinary Resolution for a modification of a Core Term) shall be one or more Persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented. If the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Instalment Amounts on the Notes, (ii) to modify the circumstances in which the Issuer or Noteholders are entitled to redeem the Notes pursuant to Condition 6 (other than the provisions in Condition 6(c)), (iii) to modify or cancel the Guarantees except in accordance with the Conditions, the Guarantee Agreements, the Intercreditor Agreement and any Additional Intercreditor Agreement, (iv) to reduce or cancel the principal amount of, or any Instalment Amount of, or any premium payable on redemption of, or interest on, the Notes, (v) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest, (vi) to modify the provisions of, or the order of priority under, clause 16 of the Intercreditor Agreement or equivalent clause under any Additional Intercreditor Agreement, (vii) to release the Collateral except in accordance with the Conditions, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement, (viii) to modify the order of priority of the application of the proceeds of realisation of the Collateral as set out in Condition 3(e), (ix) to change the currency or currencies of payment or denomination of the Notes, (x) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or sign a resolution in writing or (xi) to waive an Event of Default specified in Condition 10(a)(i) (each of (i) to (xi) above, a "**Core Term**"), the necessary quorum shall be one or more Persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

- (ii) The Trust Deed provides that a resolution in writing signed, or an approval given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s), in each case, by or on behalf of holders of not less than 75 per cent. of the aggregate outstanding principal amount of Notes shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.
- (iii) Each Noteholder will be deemed to represent and warrant to the Trustee on each and every occasion it (a) requests the Trustee to take any action, or submits any instruction to the Trustee under the Trust Deed or these Conditions or (b) votes at a meeting of Noteholders convened in accordance with the Trust Deed or otherwise provides a consent or instructions in the form of a written resolution or electronic consent in accordance with the Trust Deed, that either: (A) it is not an Affiliate of the Issuer, the Guarantors or any Subsidiary of the Issuer; or (B) if it is unable to make the foregoing representation, it is not itself the Issuer, a Guarantor or a Subsidiary of the Issuer and that the Notes in respect of which it is taking any of the actions described above were beneficially held by such Noteholder as of the Issue Date. Any Notes held by any Noteholder that is an Affiliate of the Issuer, the Guarantors or the Issuer's Subsidiaries and the holder of which is unable to comply with the requirements of clause (B) of the preceding sentence shall be deemed not to be "outstanding" under the Trust Deed.

(b) **Modification and Waiver:**

- (i) Notwithstanding Condition 11(a), without the consent of the Noteholders, the Issuer and the Trustee may amend or supplement any Notes Document:
 - (A) to provide for the assumption of the Issuer's or a Guarantor's obligations under the Notes and the Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Guarantor's assets, as applicable;
 - (B) to make any change that would provide any additional rights or benefits to the Noteholders;
 - (C) to enter into additional or supplemental Security Documents;
 - (D) to release the Collateral in accordance with the terms of these Conditions, the Trust Deed, the Intercreditor Agreement and the Security Documents;
 - (E) to allow (1) any Subsidiary to execute and deliver to the Trustee a Surety Agreement (and, thus, become a Guarantor) with respect to the Notes or (2) any Guarantor to release Guarantees in accordance with the terms of these Conditions, the Trust Deed, the Guarantee Agreements and the Intercreditor Agreement;
 - (F) to secure the Notes and the Guarantees;
 - (G) to evidence and provide for the acceptance and appointment under the Trust Deed of a successor trustee or under the Agency Agreement of a successor agent in any role; or
 - (H) to add additional parties to the Intercreditor Agreement, any Security Document or the Agency Agreement to the extent permitted by the Trust Deed.
- (ii) The Trustee may agree, without the consent of the Noteholders, to (A) any modification of any of the provisions of the Notes Documents which is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or an error which in the opinion of the Trustee is proven and (B) any other modification (except as mentioned in the Trust Deed), and, without prejudice to its rights in respect of any subsequent breach, from time to time and at any time, any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Notes Documents or determine that an Event of

Default or Potential Event of Default shall not be treated as such if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced hereby, provided that the Trustee shall not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 10. No such direction or request shall affect a previous waiver, authorisation or determination.

- (iii) Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders by the Issuer as soon as practicable and in accordance with Condition 17, but such power does not extend to any such modification to the extent such modification constitutes a Core Term.

(c) **Substitution:**

Subject to the terms of the Trust Deed, the Trustee may, without the consent of the Noteholders, agree to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer (or its successor in business) or any of the Guarantors (or its/their successor(s) in business) or any of the Subsidiaries of the Guarantors (or its/their successor(s) in business) in place of the Issuer (or of any previous substitute under this Condition 11(c)) as the principal debtor under the Trust Deed and the Notes and the Trustee may, without the consent of the Noteholders, agree to the substitution of any Guarantor's successor in business or any Subsidiary of the Issuer or any Subsidiary of the Guarantors or any of their respective successors in business in place of such Guarantor (or any previous substitute under this Condition 11(c)) as a Guarantor under the Trust Deed, the Guarantee Agreements, the Notes and the Guarantees.

(d) **Entitlement of the Trustee:**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 11), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Guarantors any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

(e) **Noteholders' Committee:**

- (i) Holders of at least 35 per cent. of the principal amount of the Notes then outstanding may, by notice in writing to the Issuer (with a copy to the Trustee and the Common Security Agent), appoint any person or persons as a committee to represent the interests of such holders (a "**Noteholders' Committee**") if an Event of Default has occurred and is occurring.
- (ii) Upon receipt of a written notice that a Noteholders' Committee has been appointed in accordance with Condition 11(e)(i), and a certificate delivered pursuant to Condition 11(e)(vi), the Issuer shall give notice of the appointment of such Noteholders' Committee to all Noteholders in accordance with Condition 17 as soon as practicable after such written notice and such certificate are delivered to the Issuer.
- (iii) Such Noteholders' Committee in its discretion may, among other things:
 - (A) engage legal advisers and/or financial advisers to assist it in representing the interests of the Noteholders, provided that, to the extent the Noteholders' Committee seeks reimbursement or payment by the Issuer of the fees and expenses of such counsel or advisers, arrangements as to any such reimbursement or payment and the identities of such counsel or advisers shall be subject to the prior approval of the Issuer, in its sole discretion;
 - (B) adopt such rules as it considers appropriate regarding its proceedings;
 - (C) enter into discussions with the Issuer, its Subsidiaries and/or, with the prior approval of the Issuer, other creditors of the Issuer or its Subsidiaries; and

- (D) designate one or more members of the Noteholders' Committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 11(e) such Noteholders' Committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

- (iv) The Issuer shall:

- (A) subject to (v) below, engage with the Noteholders' Committee in good faith;
- (B) provide the Noteholders' Committee with copies of any notices or information given or received by it in connection with any Extraordinary Resolution or resolution in writing under Condition 11(a); and
- (C) pay any reasonable fees and expenses of any such Noteholders' Committee in accordance with the arrangements agreed by the Issuer in advance in its sole discretion (including without limitation, the reasonable and documented fees and expenses of the Noteholders' Committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.

- (v) If more than one Noteholders' Committee has been appointed by Noteholders in accordance with the provisions of (i) above, the Issuer shall not be obliged to engage with such Noteholders' Committees separately. Such Noteholders' Committees may appoint a single steering group (to be comprised of representatives from such Noteholders' Committees), whereupon the Issuer shall engage with such steering group (which shall be treated as the Noteholders' Committee for the purposes hereof).

- (vi) Upon the appointment of a Noteholders' Committee, members of the Noteholders' Committee will provide a certificate to the Issuer and to the Trustee signed by the authorised representatives of such members, and the Issuer and the Trustee may rely upon the terms of such certificate without liability to any person. The certificate shall certify:

- (A) that the Noteholders' Committee has been appointed;
- (B) the identity of the initial members of the Noteholders' Committee and their aggregate holding of the outstanding principal amount of the Notes; and
- (C) that such appointment complies with the Conditions.

Promptly after any change in the identity of the members of the Noteholders' Committee, a new certificate (on which each of the Issuer and the Trustee may rely conclusively), will be delivered to the Issuer and the Trustee identifying the new members. Each of the Issuer and the Trustee will assume that the membership of the Noteholders' Committee has not changed unless and until it has received a new certificate.

12 Trustee Reliance

The Trustee shall be entitled to rely on any certificate delivered to it pursuant to Condition 4(w)(xi) and shall not be obliged to monitor independently compliance by the Issuer or the Guarantors with the covenants set forth in Condition 4, nor shall it be liable to any person for not so doing and the Trustee need not enquire further as regards to circumstances existing on the date of such certificate.

13 Enforcement

At any time after the Notes become due and payable, but subject always to the provisions of the Intercreditor Agreement and Condition 3(d) (as to enforcement of the security interests in the Collateral), the Trustee may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer or the Guarantors as it may think fit to enforce the terms of the Notes Documents and the

Notes, but it need not take any such steps, actions or proceedings, unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in principal amount of the Notes outstanding and (b) the Pre-Funding and Indemnity Conditions have been satisfied. The Trustee is not liable to any Noteholder or other person for its acts or omission under this Condition 13 except to the extent that the act or omission amounts to fraud, negligence or wilful misconduct. No Noteholder may proceed directly against the Issuer or the Guarantors unless the Trustee, having become bound so to proceed, fails to do so within 45 days and such failure is continuing.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantors and any entity related to the Issuer or the Guarantors without accounting for any profit.

The Trustee may rely without liability to Noteholders on any report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to the Trustee and whether or not liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to monetary cap, methodology or otherwise.

15 Replacement of Notes

If any Definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Definitive Certificate is subsequently presented for payment there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Definitive Certificate) and otherwise as the Issuer and the Registrar may require. Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

16 Further Issues

The Issuer may from time to time without the consent of the Noteholders, but subject always to compliance with the provisions of the Notes Documents, create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 16 and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

17 Notices

Notices to the Noteholders will be sent to them by first-class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register. Any such notice shall be deemed to have been given on the fourth weekday (being a day other than Saturday or Sunday) after the date of mailing. In addition, notices to Noteholders will (so long as the Notes are admitted to trading on the Global Exchange Market of the Irish Stock Exchange and the rules of the Irish Stock Exchange so require) be published either on the website of the Irish Stock Exchange or in a leading newspaper having general circulation in Dublin. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

So long as the Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg for communication by it to entitled accountholders in substitution for mailing as required by the foregoing.

18 Contracts (Rights of Third Parties) Act 1999

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Notes, the Guarantee Agreements, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Guarantees, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

(b) Arbitration

Subject to Condition 19(c), any dispute arising out of or in connection with the Trust Deed, the Notes, the Guarantee Agreements, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Guarantees shall be referred to and finally resolved by arbitration under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA Rules**"). The arbitral tribunal shall consist of three arbitrators. The seat of arbitration shall be London, England and the language of the arbitration shall be English.

(c) Jurisdiction

Before the Trustee has filed a Request for Arbitration or Response as defined in the LCIA Rules (as the case may be), the Trustee may, by notice in writing to all other parties, require that any dispute or disputes be heard by a court of law. If the Trustee gives such notice, any such dispute to which such notice refers shall be determined as follows: (i) the courts of England shall have exclusive jurisdiction in respect of all such disputes and (ii) each of the Issuer, the Guarantors and the Trustee, in the Trust Deed, the relevant Guarantee Agreement and/or the Intercreditor Agreement, as applicable, has agreed that the courts of England are the most appropriate and convenient courts to settle such disputes and accordingly no party will argue to the contrary. These submissions are for the benefit of the Trustee and the Noteholders only and shall not limit the right of any of them to take concurrent proceedings in any number of jurisdictions.

(d) Agent for Service of Process

Each of the Issuer and the Guarantors has irrevocably appointed an agent in England to receive service of process in any proceedings in England based on any of the Trust Deed, the Notes, the Guarantee Agreements, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Guarantees.

20 Definitions

In these Conditions, the following terms have the meanings given to them in this Condition 20.

"**Accounting Standards**" means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the Committee of European Securities Regulators from time to time; provided however, that where such term is used with respect to the financial statements of the Subsidiaries of the Issuer, it shall, where financial statements prepared in accordance with IFRS are not available, be deemed to include U.S. GAAP, Ukrainian GAAP or any other generally accepted accounting standards of the jurisdiction of incorporation of the relevant Subsidiary of the Issuer from time to time.

"**Additional Amounts**" has the meaning given to it in Condition 8.

"**Additional Guarantors**" means Persons who become guarantors pursuant to Condition 4(q).

"**Additional Intercreditor Agreement**" has the meaning set out in Condition 4(r).

"Adjusted EBITDA" means the consolidated adjusted earnings before interest, tax, depreciation and amortisation of Metinvest excluding the share in the earnings before interest, tax, depreciation and amortisation of any joint ventures, all as shown in the consolidated financial statements of Metinvest prepared in accordance with Accounting Standards, consistently applied.

"Affected Entities" mean any of Khartsyzsk Pipe, Krasnodon Coal, Metalen and Yenakiieve I&SW, to the extent any such entity is or has been subject to an Expropriation, Nationalisation or Permanent Cessation of Business or Winding-Up.

"Affiliate" of any specified Person means (a) any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person and (b) in the case of the Issuer, also means any Family Member of Mr. Rinat Akhmetov or a trust established for the benefit of Mr. Rinat Akhmetov or his Family Member. For the purposes of this definition, **"control"** (including, with correlative meanings, the terms **"controlling"**, **"controlled by"** and **"under common control with"**), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise, provided that ownership of 20 per cent. or more of the voting securities of any Person shall be deemed to be control.

"Agency" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

"Agreed Waterfall" has the meaning set out in the Intercreditor Agreement.

"Anti-Terrorist Operation Zone" means those parts of the territory of Donetsk, Luhansk and Kharkiv regions of Ukraine which are not effectively controlled by the Ukrainian government and where, according to the applicable Ukrainian legislation, the anti-terrorist operation has been conducted from time to time.

"Approved Jurisdiction" means any member state of the European Union as of 1 January 2004 (including Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom), Norway, Switzerland, the United Kingdom, the United States of America, any state thereof, the District of Columbia, Russia and Ukraine.

"Asset Acquisition" means (i) an investment by the Issuer or any Subsidiary of the Issuer in any other Person pursuant to which such Person shall become a Subsidiary of the Issuer or shall be consolidated or merged with the Issuer or any Subsidiary of the Issuer or (ii) the acquisition by the Issuer or any Subsidiary of the Issuer of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a division or line of business of such Person.

"Asset Sale" means any direct or indirect lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Issuer or any of its Subsidiaries to a Person that is not the Issuer or a Subsidiary of the Issuer, including any disposition by means of a merger, consolidation or similar transaction, of any of its assets (including any shares of Capital Stock of a Subsidiary of the Issuer (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Issuer or a Subsidiary of the Issuer)) or properties other than:

- (a) a disposition of all or substantially all the assets of the Issuer in accordance with Condition 4(i);
- (b) the creation of a Lien (but not the sale or other disposition of the property subject to such Lien) in compliance with Condition 4(a);
- (c) the licensing or sublicensing of rights to intellectual property or other intangibles in the ordinary course of business;
- (d) the sale, lease or other disposition of obsolete, redundant, written-off (in accordance with Accounting Standards), worn out, negligible, surplus or outdated plant, equipment or machinery or raw materials, inventory or other assets, in each case which is no longer used or usable, in the ordinary course of business;
- (e) the lease, assignment or sublease of any property in the ordinary course of business;

- (f) sales or other dispositions of assets or property received by the Issuer or any Subsidiary of the Issuer upon the foreclosure on a Lien granted in favour of the Issuer or any Subsidiary of the Issuer or any other transfer of title with respect to any ordinary course secured investment in default;
- (g) the foreclosure, condemnation or any similar action with respect to any property or other assets or the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of business;
- (h) sales and other dispositions of trading stock, inventory, receivables and other current assets (which appear as current assets on a balance sheet prepared in accordance with Accounting Standards, and excluding any fixed assets which have been reclassified as current assets) in the ordinary course of business;
- (i) sales and dispositions of cash and Cash Equivalents in the ordinary course of business;
- (j) a sale or disposition in a single transaction or a series of related transactions of assets or properties for an aggregate consideration of less than U.S.\$5 million;
- (k) a Restricted Payment that does not violate Condition 4(c) or a Permitted Investment;
- (l) a Permitted Asset Swap;
- (m) any sale, transfer or other disposition of receivables in any factoring or forfaiting transaction;
- (n) the disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;
- (o) the disposition of securities acquired in connection with a settlement of VAT (or other tax reimbursement) receivables from the government of Ukraine; and
- (p) the disposition of property, plant and/or equipment in the ordinary course of business.

"Auditors" means any of any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP, Ernst & Young LLP as the auditors for the time being of the Issuer, Guarantors or, if they are unable or unwilling to carry out any action requested of them under the Trust Deed, any other firm of chartered accountants of internationally recognised standing appointed by the Issuer.

"Avdiivka Coke" means Private Joint Stock Company "Avdiivka Coke Plant", a company organised and existing under the laws of Ukraine, identification code 00191075, whose registered office is at 1 Industrialnyi Proizd, Avdiivka, Donetsk Region, 86065 Ukraine.

"Average Cash Balance" has the meaning set out in the Intercreditor Agreement.

"Azovstal" means Private Joint Stock Company "Azovstal Iron & Steel Works", a company organised and existing under the laws of Ukraine, identification code 00191158, whose registered office is at 1 Leporskyi Street, Mariupol, Donetsk Region, 87500 Ukraine.

"Board of Directors" means, as to any Person, the board of directors, supervisory board or other equivalent executive body of such Person (including, without limitation, a general director) or any duly authorised committee thereof.

"Borrowings" means, at any time, the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of any indebtedness of members of Metinvest for or in respect of:

- (a) moneys borrowed and debit balances at banks or other financial institutions;
- (b) any acceptances under any acceptance credit or bill discount facility (or dematerialised equivalent);

- (c) any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) any liability in respect of any Finance Lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis) and meet any requirements for de-recognition under the Accounting Standards;
- (f) any counter-indemnity obligation in respect of a guarantee, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution in respect of an underlying liability of an entity which is not a member of Metinvest which liability would fall within one of the other paragraphs of this definition, to the extent that demand has been made under such guarantee, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;
- (g) any amount raised by the issue of shares which are redeemable (other than at the option of the issuer) before the Maturity Date or are otherwise classified as borrowings under the Accounting Standards;
- (h) any amount of any liability under an advance or deferred purchase agreement if (i) one of the primary reasons behind the entry into the agreement is to raise finance or (ii) the agreement is in respect of the supply of assets or services and payment is due more than 180 days after the date the obligation to pay in relation to the relevant supply is recognised in accordance with Accounting Standards to the extent only, for the purposes of this paragraph (ii), that the aggregate amount of all such liabilities in respect of the supply of assets or services where payment is due more than 180 days after the date the obligation to pay is so recognised exceeds U.S.\$250 million at any time (but not including, for the purposes of this paragraph (h) and for the avoidance of doubt, any overdue amounts in respect of any such liability where the relevant payment was due 180 days or less after the date the obligation to pay was so recognised);
- (i) any amount raised under any other transaction (including any forward sale or purchase agreement, sale and sale back or sale and leaseback agreement) having the commercial effect of a borrowing or otherwise classified as borrowings under the Accounting Standards; and
- (j) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (i) above,

provided that "Borrowings" shall not include Subordinated Shareholder Funding or any of the amounts referred to in paragraphs (a) to (j) above to the extent that any such amounts are owed to a member of Metinvest.

"Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Kyiv, Amsterdam, London, Hong Kong and New York City.

"Capital Expenditure" means the purchase of property, plant and equipment and intangible assets as shown in the financial statements of Metinvest prepared in accordance with the Accounting Standards.

"Capital Stock" means, with respect to any Person, any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any Preferred Stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into or exchangeable for such Capital Stock.

"Cash Balance Certificate" has the meaning set out in the Intercreditor Agreement.

"Cash Equivalents" means:

- (a) (i) euros, U.S. dollars or Hryvnia, or (ii) any other currency used or received by the Issuer or any Subsidiary of the Issuer in transactions entered in the ordinary course of business in a Core or Related Business and not for speculative purposes (for the avoidance of doubt, including such

currencies held in any current account with any bank or financial institution), provided that, in each case, no more than U.S.\$70 million will be considered Cash Equivalents to the extent deposited in a bank that is an Affiliate of the Issuer or the Parent;

- (b) (i) securities or marketable direct obligations issued by or directly and fully guaranteed or insured by the government of an Approved Jurisdiction other than Ukraine, or any agency or instrumentality of such government having an equivalent credit rating, having maturities of not more than 12 months from the date of acquisition or (ii) up to U.S.\$100 million of securities or marketable direct obligations issued by or directly and fully guaranteed or insured by the government of Ukraine at any time outstanding, having maturities of not more than 12 months from the date of acquisition (excluding, for the purposes of this paragraph (ii) limit, securities described under paragraph (m) of "Permitted Investments");
- (c) certificates of deposit and time deposits with maturities of 12 months or less from the date of acquisition, bankers' acceptances with maturities not exceeding 12 months and overnight bank deposits, in each case, with any bank or financial institution (i) which has a rating for its long-term unsecured and non-credit-enhanced debt obligations of at least "BBB-" or the equivalent thereof by Standard & Poor's, at least "Baa3" or the equivalent thereof by Moody's or at least "BBB-" or the equivalent thereof by Fitch (or if at the time none of them is issuing comparable ratings, then a comparable rating of another Nationally Recognised Statistical Rating Organisation) and is located in an Approved Jurisdiction (other than Italy, Ukraine and the United Kingdom), (ii) located in Italy or the United Kingdom if such bank or financial institution has a rating that is no more than two notches below the highest rating obtainable for a private bank or financial institution in Italy or the United Kingdom, as the case may be (or if at the time no internationally recognised rating is available, any bank or financial institution located in Italy or the United Kingdom as the case may be), (iii) located in Bulgaria if such bank or financial institution has a rating that is equivalent to the highest rating obtainable for a private bank or financial institution in Bulgaria (or if at the time no internationally recognised rating is available, any bank or financial institution located in Bulgaria) or (iv) which is a Pre-Approved Bank, provided that for the purposes of this sub-paragraph (iv) and paragraph (d) below, no more than U.S.\$70 million of such certificates of deposit, time deposits, bankers' acceptances and overnight bank deposits may be held with a bank that is an Affiliate of the Issuer or the Parent;
- (d) certificates of deposit, time deposits, bankers' acceptances, overnight bank deposits and amounts held in current accounts (i) with maturities of 32 days or less, in each case, with any bank or financial institution located in Ukraine and (ii) with maturities greater than 32 days up to 12 months, in each case, with any bank or financial institution located in Ukraine with a rating that is equivalent to the highest rating obtainable for a private bank or financial institution in Ukraine (or if at the time no internationally recognised rating is available, any bank or financial institution located in Ukraine), provided that for the purposes of this paragraph (d) and sub-paragraph (iv) of paragraph (c) above, no more than U.S.\$70 million of such certificates of deposit, time deposits, bankers' acceptances, overnight bank deposits and amounts held in current accounts may be held with a bank that is an Affiliate of the Issuer or the Parent;
- (e) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraphs (b), (c) and (d) above entered into with any financial institution meeting the qualifications specified in paragraph (c) or (d) above;
- (f) commercial paper rated at the time of acquisition thereof at least "A-2" or the equivalent thereof by Standard & Poor's, "P-2" or the equivalent thereof by Moody's or "F-2" or the equivalent by Fitch, or carrying an equivalent rating by a Nationally Recognised Statistical Rating Organisation, if the above named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term unsecured and non-credit enhanced debt, and in any case maturing within one year after the date of acquisition thereof;
- (g) in the case of any Subsidiary located outside an Approved Jurisdiction, any substantially similar Investment to those described in paragraphs (c), (d), (e) and (f) of this definition obtained in the ordinary course of business and with the highest rating obtainable in the relevant jurisdiction for a private bank or financial institution (to the extent an internationally recognised rating is available); and/or

- (h) interests in money market funds at least 95 per cent. of the assets of which constitute Cash Equivalents of the type referred to in paragraphs (a) through (g) above;

provided that to the extent that the Issuer or any of its Subsidiaries holds Restricted Cash with a bank that is an Affiliate of the Issuer or the Parent, the first \$20 million of such Restricted Cash will not be counted towards the \$70 million limitation set out in paragraphs (a), (c) and (d) above. For purposes of this definition of "Cash Equivalents", a Subsidiary of an international bank or financial institution will be attributed the same rating as its parent.

"Cash Sweep Amount (Gross)" has the meaning set out in the Intercreditor Agreement.

"Cash-pay Interest Amount" has the meaning set out in Condition 5(c)(i)(A).

"Catch-Up Interest Amount" has the meaning set out in Condition 5(c)(i)(D).

"Central GOK" means Private Joint Stock Company "Central Iron Ore Enrichment Works", a company organised and existing under the laws of Ukraine, identification code 00190977, whose registered office is at Kryvyi Rig, Dnipropetrovsk Region, 50066 Ukraine.

"Change of Control" has the meaning set out in Condition 6(c)(i).

"Change of Control Offer" has the meaning set out in Condition 6(c)(ii).

"Clearstream, Luxembourg" has the meaning set out in Condition 1(a).

"Collateral" means the rights, property and assets securing the Notes and the Guarantees, as more particularly described in Condition 3(a)(i) and the Security Documents, and any rights, property or assets from time to time in (or over) which a Lien has been granted to secure the obligations of the Issuer and the Guarantors under the Notes, the Guarantees and the Trust Deed.

"Collateral Group" means the Intermediate Holdco, Central GOK, Ilyich Steel and Ingulets GOK.

"Common Recourse" has the meaning set out in the Intercreditor Agreement.

"Common Security" means the security created or expressed to be created under the Security Documents.

"Common Security Agent" means Madison Pacific Trust Limited, a trust company with company registration number 1619851 registered under section 78(1) of the Hong Kong Trustee Ordinance (Cap. 29) having its registered office at Suite 1720, 17/F, Tower 1, Admiralty Centre, 18 Harcourt Road Admiralty, Hong Kong, in its capacity as common security agent for the Secured Parties (as defined under the Intercreditor Agreement), unless and until a successor replaces it in accordance with the applicable provisions of the Trust Deed, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement and thereafter means the successor thereof.

"Consolidated EBITDA" means, in respect of any Relevant Period, the Consolidated Net Income of Metinvest (excluding the results from discontinued operations):

- (a) before taking into account any provision on account of any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same);
- (b) before deducting any interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments whether paid, payable or capitalised by any member of Metinvest (calculated on a consolidated basis) in respect of that Relevant Period;
- (c) not including any accrued interest owing to any member of Metinvest;
- (d) after adding back any amount attributable to the amortisation, depreciation or impairment of assets of any member of Metinvest (and taking no account of the reversal of any previous impairment charge made in that Relevant Period);
- (e) before taking into account any Exceptional Items;

- (f) after deducting the amount of any profit (or adding back the amount of any loss) of any member of Metinvest which is attributable to minority interests;
- (g) minus Metinvest's share of the profits and adding losses (after finance costs and tax) of Non-Group Entities;
- (h) before taking into account any unrealised gains or losses on any derivative instrument or financial instrument (other than any derivative instrument which is accounted for on a hedge accounting basis);
- (i) before taking into account any gain or loss arising from an upward or downward revaluation of any other asset in respect of that Relevant Period;
- (j) before taking into account any income or charge attributable to a post-employment benefit scheme;
- (k) excluding the charge to profit represented by the expensing of stock options; and
- (l) excluding any net foreign exchange gain or loss,

in each case, to the extent added, deducted or taken into account, as the case may be, for the purposes of determining operating profits of Metinvest before taxation.

"Consolidated Net Debt" means, at any date of determination all the aggregate amount of all obligations of members of Metinvest for or in respect of Borrowings as at the end of the most recently ended Relevant Period:

- (a) excluding any such obligations to any other member of Metinvest;
- (b) excluding to the extent they constitute Borrowings, any such obligations in respect of any New Shareholder Injections; and
- (c) deducting the aggregate amount of Cash and Cash Equivalents held by any member of Metinvest at that time,

and so that no amount shall be included or excluded more than once. For the purposes of this definition only, "Cash" has the meaning set out in the Intercreditor Agreement.

"Consolidated Net Income" means, for any period, the consolidated net profit/(loss) of Metinvest as shown in its financial statements prepared in accordance with Accounting Standards, in each case, for such period.

"Consolidated Net Leverage Ratio" as of any date of determination means the ratio of (x) the Consolidated Net Debt to (y) Consolidated EBITDA, after giving effect on a pro forma basis to, if applicable:

- (a) the Incurrence of any Indebtedness the permissibility of which is then being measured, the Incurrence, repayment or discharge of any other Indebtedness during the Relevant Period or subsequent to the Relevant Period and on or prior to the relevant date of determination and, in each case, the receipt and application of the proceeds therefrom, as if the same had occurred on the first day of the Relevant Period; and
- (b) the exclusion of EBITDA associated with any Asset Sale or the inclusion of EBITDA associated with any Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness) made during the Relevant Period or subsequent to the Relevant Period and on or prior to the relevant date of determination, as if the same had occurred on the first day of the Relevant Period; provided, however, that any such pro forma EBITDA in respect of an Asset Acquisition may only be so included if such pro forma EBITDA shall have been derived from (i) financial statements of, or relating to or including, such acquired entity, that have been prepared in accordance with Accounting Standards or (ii) such other financial statements or financial reports of the acquired entity that the chief financial officer of the Issuer believes in good faith to present fairly the

financial position and results of operations of the acquired entity so as to permit such a pro forma EBITDA to be prepared on the basis of reasonable assumptions and estimates.

"Core or Related Business" means any and all principal and ancillary activities of Metinvest in the metals and mining industry, including, but not limited to, all areas of business in which the Issuer and its Subsidiaries are engaged on the Issue Date and the following activities: (a) iron ore mining and processing; (b) full cycle pig iron and steel production, including semi-finished and finished steel products; (c) the production of ferroalloys; (d) scrap iron collection and processing; (e) transportation and shipping services; (f) mining of fluxes and other minerals necessary for metals production; (g) coal mining and processing; and (h) any and all ancillary and support activities.

"Currency Agreement" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

"DB Borrowing Base Facility Agreement" means the amended and restated facility agreement, originally dated 1 February 2011, among United Coal Company LLC, as borrower, the Issuer as guarantor, and the other parties from time to time party thereto as guarantors, Deutsche Bank AG, New York Branch, as sole mandated lead arranger and sole bookrunner, and as issuing bank and account bank, Deutsche Bank AG, Amsterdam Branch, as agent and security agent, and the lenders from time to time party thereto, as such agreement was amended and restated on 30 October 2014 and amended on 31 July 2015, and as it may be further amended, amended and restated, refinanced, or otherwise modified from time to time.

"Debt Service Account" has the meaning set forth in the Intercreditor Agreement.

"Debt Service Account Pledge" has the meaning set forth in the Intercreditor Agreement.

"Definitive Certificate" has the meaning set out in Condition 1(a).

"Disinterested Director" means, with respect to any Affiliate Transaction or Asset Sale, a member of the Board of Directors of the Issuer or the relevant Subsidiary having no material direct or indirect financial interest in or with respect to such Affiliate Transaction or Asset Sale and who is not an officer or director of the Affiliate that is the counterparty to the Affiliate Transaction or Asset Sale. For the avoidance of doubt, the members of the Board of Directors will not be deemed to have such a financial interest solely by virtue of having been appointed to such position by a Permitted Holder or by reason of such member's holding Capital Stock of the Issuer or a Subsidiary of the Issuer or any options, warrants or other rights in respect of such Capital Stock.

"Disposal Proceeds" from an Asset Sale means the proceeds thereof in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents (except to the extent such obligations are financed or sold with recourse to the Issuer or any Subsidiary of the Issuer) and proceeds from the conversion of other property received when converted to cash or Cash Equivalents, net of:

- (a) brokerage commissions and other fees and expenses (including fees and expenses of accounting and/or legal advisers and/or investment bankers), title and recording tax expenses, commissions and other fees and expenses relating to such Asset Sale;
- (b) provision for all taxes required to be paid or payable, or required to be accrued as a liability determined in conformity with Accounting Standards as a result of such Asset Sale;
- (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either is secured by a Lien on the property or assets sold, or is required to be paid as a result of such sale;
- (d) all distribution and other payments required to be made to minority interest holders in Subsidiaries of the Issuer as a result of such Asset Sale;
- (e) any portion of the purchase price from an Asset Sale placed in escrow, whether as a reserve for adjustment of the purchase price, for satisfaction of indemnities in respect of such Asset Sale or otherwise in connection with that Asset Sale; provided, however, that upon the termination of that escrow, Disposal Proceeds will be increased by any portion of funds in the escrow that are released to the Issuer or any Subsidiary of the Issuer; and

- (f) appropriate amounts to be provided by the Issuer or any of its Subsidiaries as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligation associated with such Asset Sale, all as determined in conformity with Accounting Standards.

"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

- (a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;
- (b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or
- (c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the Notes; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if (i) the "change of control" provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the Notes and set out in Condition 6(c), (ii) the "asset sale" provisions are not inconsistent with the provisions of Condition 4(e) and (iii) any such requirement only becomes operative after compliance with such terms applicable to the Notes.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Trust Deed; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

"Dividend Allocation" has the meaning set out in the Intercreditor Agreement.

"DTEK" means DTEK B.V. a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) existing under the laws of The Netherlands, having its registered address (*statutaire zetel*) in Amsterdam, The Netherlands and its principal place of business (*feitelijk adres*) at Strawinskylaan 1531, Tower B, Level 15, grid TB-15-046/089, 1077XX Amsterdam, The Netherlands under No. 59950293.

"Dutch Banking Association" means the *Nederlandse Vereniging van Banken* of the Netherlands.

"Dutch Civil Code" means the *Burgerlijk Wetboek* of the Netherlands.

"EBITDA" means the earnings before interest, tax, depreciation and amortisation of the relevant Subsidiary of the Issuer after allocation of the Issuer's consolidation adjustments, prepared in accordance with Accounting Standards, consistently applied.

"Enforcement" has the meaning set out in the Intercreditor Agreement.

"Enforcement Action" has the meaning set out in the Intercreditor Agreement.

"Enforcement Instructions" has the meaning set out in the Intercreditor Agreement.

"Environment" means living organisms including the ecological systems of which they form part and the following media:

- (a) air (including air within natural or man-made structures, whether above or below ground);

- (b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and/or
- (c) land (including land under water).

"**Environmental Laws**" means all laws and regulations of any relevant jurisdiction which:

- (a) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the Environment;
- (b) provide remedies or compensation for harm or damage to the Environment; and
- (c) relate to hazardous substances or health or safety matters.

"**Environmental Licences**" means any authorisation, consent, approval, resolution, licence, exemption, filing or registration required at any time under Environmental Law for the operation of the business of any member of Metinvest conducted on or from the properties owned or used by any member of Metinvest.

"**Event of Default**" has the meaning set out in Condition 10.

"**Euroclear**" has the meaning set out in Condition 1(a).

"**Exceptional Items**" means any material items of an unusual or non-recurring nature which represent gains or losses including those arising on:

- (a) the restructuring of the activities of an entity and reversals of any provisions for the cost of restructuring;
- (b) disposals, revaluations, write downs or impairment of non-current assets or any reversal of any write down or impairment; and
- (c) disposals of assets associated with discontinued operations.

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended.

"**Existing Judgments**" means:

- (a) a judgment in the amount of approximately UAH one billion in favour of KRIOW against Ilyich Steel for recovery of debt for supplied raw materials;
- (b) a judgment in the amount of approximately UAH 276 million in favour of KRIOW against Yenakieve I&SW for recovery of debt under an agency agreement;
- (c) an amicable settlement agreement (*myrova ugoda*) approved by the creditors' committee in Krasnodon Coal's insolvency proceedings; and
- (d) a judgment in the amount of approximately UAH 204 million in favour of Limited Liability Company "Mako-Trading" against Limited Liability Company "Metinvest Holding" for recovery of debt for supplied raw materials, and any judgment arising from any subsequent proceedings and/or appeals in respect thereof (collectively, the "**Metinvest Holding Judgment**").

"**Existing Shareholder Loans**" means the loans under the facility agreement between Rainwell Limited and the Issuer dated 3 April 2014 and the facility agreement between Eltrano Investments Ltd and the Issuer dated 3 April 2014.

"**Expropriation**" has the meaning set out in Condition 10(a)(v).

"**Extraordinary Resolution**" means a resolution passed (a) at a meeting duly convened and held in accordance with this Trust Deed by a majority of at least 75 per cent. of the votes cast, (b) by a Written Resolution (as defined in the Trust Deed) or (c) by an Electronic Consent (as defined in the Trust Deed).

"Fair Market Value" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the competent management body of the Issuer or the relevant Subsidiary of the Issuer.

"Family Member" in relation to any Person, such Person's spouse, parents, siblings or children.

"Finance Lease" means any lease or hire purchase contract which would, in accordance with the Accounting Standards, be treated as a balance sheet liability (other than any liability in respect of a lease or hire purchase contract which would, in accordance with the Accounting Standards in force as at the Issue Date, have been treated as an operating lease).

"Fitch" means Fitch Ratings Ltd. and any successor to its rating agency business.

"FUIB" means Public Joint Stock Company "First Ukrainian International Bank", a company organised and existing under the laws of Ukraine, identification code 14282829, whose registered office is at 4 Andriivska Street, Kyiv, 04070 Ukraine.

"Global Note Certificate" has the meaning set out in Condition 1(a).

"Guarantees" means the suretyships or guarantees of the Guarantors under the Guarantee Agreements.

"Guarantee Agreements" means (i) in the case of the Intermediate Holdco, the Intermediate Holdco Guarantee Agreement and (ii) in the case of any other Guarantor, the Surety Agreement to which such Guarantor is party.

"Guarantors" means Intermediate Holdco and the Ukrainian Guarantors, together with the Additional Guarantors, and **"Guarantor"** means any of them, but which expressions exclude any entity released for the time being from being a Guarantor pursuant to these Conditions.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement or any other derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (including but not limited to fluctuations with respect to any index or the price of any commodity), with the amount of obligations in respect of any such derivative transaction determined with reference to the marked to market value thereof (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount), without set off for any cash collateral in respect of such obligations.

"holder" has the meaning set out in Condition 1(b).

"IFRS" means International Financial Reporting Standards.

"Ilyich Steel" means Private Joint Stock Company "Ilyich Iron And Steel Works Of Mariupol", a company organised and existing under the laws of Ukraine, identification code 00191129, whose registered office is at 1 Levchenko Street, Mariupol, Donetsk Region, 87504 Ukraine.

"Incur" means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion or exchange, but for the avoidance of doubt, excluding extensions of maturity), assume, guarantee or otherwise become liable in respect of such Indebtedness or other obligation of such Person (and **"Incurrence"**, **"Incurred"** and **"Incurring"** shall have meanings correlative to the preceding). Indebtedness of any acquired Person or any of its Subsidiaries existing at the time such acquired Person becomes a Subsidiary of the Issuer (or is merged into or consolidated with the Issuer or any Subsidiary of the Issuer), whether or not such Indebtedness was Incurred in connection with, as a result of, or in contemplation of, such acquired Person becoming a Subsidiary of the Issuer (or being merged into or consolidated with the Issuer or any Subsidiary of the Issuer), shall be deemed Incurred at the time any such acquired Person becomes a Subsidiary of the Issuer (or merges into or consolidates with the Issuer or any Subsidiary of the Issuer). Notwithstanding the foregoing, the following will not be deemed to be an Incurrence:

- (a) the accrual of interest or the accretion of original issue discount;

- (b) the amortisation of debt discount or the accretion of principal with respect to a non-interest bearing or other discount security;
- (c) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and
- (d) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of the notice of redemption or the making of a mandatory offer to purchase such Indebtedness.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

- (a) indebtedness for, or in respect of, moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or issue of bonds, notes, debentures, loan stock or other similar instruments, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;
- (d) any amounts raised pursuant to any issue of shares which are expressed to be redeemable, including any Disqualified Stock (for the avoidance of doubt, excluding any issue of Preferred Stock of the Issuer);
- (e) any liability in respect of Finance Leases;
- (f) the amount of any liability in respect of any advance or deferred purchase agreement if the primary reason for entering into such agreement is to raise finance;
- (g) all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement, if one of the primary reasons for entering into such obligations is to raise finance (but excluding any accounts payable or other liability to trade creditors arising in the ordinary course of business);
- (h) all obligations of such Person in respect of letters of credit or similar instruments (other than obligations with respect to documentary facilities, including without limitation, letters of credit, performance guarantees, documentary credits and advance payment bonds, provided by or at the request of such Person, in the ordinary course of business of such Person to the extent such documentary facilities, letters of credit, performance guarantees, documentary credits and advance payment bonds are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the 30 days following receipt by such Person of a demand for reimbursement following payment on such documentary facilities, letters of credit, performance guarantees, documentary credits and advance payment bonds);
- (i) all obligations of the type referred to in paragraphs (a) through (h) and (j) through (l) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such outstanding obligation being deemed to be the lesser of the Fair Market Value of such property or assets at the date of determination and the amount of the obligation so secured;
- (j) to the extent not otherwise included in this definition, Hedging Obligations of such Person;
- (k) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; and
- (l) the amount of any liability in respect of any guarantee, suretyship or indemnity for any of the items referred to in paragraphs (a) to (k) above (other than the Guarantees).

if and to the extent any of the preceding items (other than Hedging Obligations and the items specified in paragraphs (h), (i) and (l) above) would appear as a liability upon a balance sheet (excluding the notes thereto) of the specified Person prepared in accordance with the Accounting Standards. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional

obligations as described above and, with respect to contingent obligations as described above, the liability upon the occurrence of the contingency giving rise to the obligation. The term "Indebtedness" shall not include Subordinated Shareholder Funding.

"Independent Financial Adviser" means (i) any institution listed in Schedule 1, provided that such institution has, in the reasonable opinion of the Issuer, the expertise relevant to the transaction being considered, or (ii) any investment banking, accountancy, appraisal or financial advisory firm, in each case of international standing and headquartered in New York, London or a financial centre of another Approved Jurisdiction (other than Ukraine), appointed, at the expense of the Issuer, by the competent management body of the Issuer or the relevant Subsidiary of the Issuer, provided it is not an Affiliate of the Issuer or any Subsidiary of the Issuer; provided further that if the Issuer fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Pre-Funding and Indemnity Conditions have first been satisfied in connection with such appointment, such firm may be appointed by the Trustee (without liability for so doing), and notified to the Issuer.

"Ingulets GOK" means Private Joint Stock Company "Ingulets Iron Ore Enrichment Works", a company organised and existing under the laws of Ukraine, identification code 00190905, whose registered office is at 47 Rudna Street, Kryvyi Rig, Dnipropetrovsk Region, 50064 Ukraine.

"Initial Period" means the period starting on the Issue Date and ending on 31 December 2018.

"Instalment Amount" has the meaning set out in Condition 5(d).

"Intercreditor Agreement" means (i) the intercreditor agreement dated [●] 2017, between, among others, the Issuer, the Intermediate Holdco, the Trustee, the Common Security Agent, the Principal Paying Agent and the PXF Agent, and (ii) each Standalone Intercreditor Agreement, in each case, as amended, varied or supplemented from time to time.

"Interest Payment Date" has the meaning set out in Condition 5(a).

"Interest Period" has the meaning set out in Condition 5(b).

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

"Intermediate Holdco" means Metinvest Management B.V., a private company with limited liability (besloten vennootschap met beperkte aansprakelijkheid) existing under the laws of the Netherlands, having its seat (*statutaire zetel*) in Rotterdam, the Netherlands and its office address at Nassaulaan 2A, 2514 JS 's-Gravenhage, the Netherlands and registered with the Dutch Trade Register (*Handelsregister*) of the Chamber of Commerce under number 67253598.

"Intermediate Holdco Account Pledge" has the meaning set out in the Intercreditor Agreement.

"Intermediate Holdco Collateral Enforcement Event" has the meaning set out in the Intercreditor Agreement.

"Intermediate Holdco Guarantee Agreement" means the deed of guarantee and indemnity dated on or about the Issue Date between the Intermediate Holdco and the Common Security Agent.

"Intermediate Holdco Security Assignment" means any document pursuant to which the Issuer grants Security (as defined in the Intercreditor Agreement) in favour of the Common Security Agent over the Issuer's rights in respect of obligations owed to it by Intermediate Holdco in connection with loans, credits or other financial arrangements having a similar effect.

"Intermediate Holdco Share Pledge" means the share pledge dated on or about the Issue Date over 100 per cent. of the issued share capital of the Intermediate Holdco and made between the Issuer, the Intermediate Holdco and the Common Security Agent.

"Intermediate Holdco Unwind" means the unwinding of Intermediate Holdco in accordance with clause 11.4 of the Intercreditor Agreement.

"Investments" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan or other extension of credit (excluding advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person made in the ordinary course of business and rent deposits), or capital contribution to (including by means of any transfer of cash or other property to others, but excluding commission, travel and similar advances to officers and employees made in the ordinary course of business and further excluding any Capital Expenditure), or the incurrence of any guarantee of any obligation of, or any purchase or other acquisition of Capital Stock, Indebtedness or other securities issued by, such other Persons, together with all items that are or would be classified as investments on a balance sheet (excluding the footnotes) prepared in accordance with Accounting Standards. If the Issuer or any Subsidiary of the Issuer sells or otherwise disposes of any Capital Stock of any direct or indirect Subsidiary of the Issuer such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Issuer, the Issuer shall be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Issuer's Investments in such Subsidiary that were not sold or disposed of. The acquisition by the Issuer or any Subsidiary of the Issuer of a Person that holds an Investment in a third Person shall be deemed to be an Investment by the Issuer or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investment held by the acquired Person in such third Person. The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Issuer's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"Issue Date" means *[issue date to be inserted once determined, and in any event being the date of the Scheme Settlement Date and falling on or before the Longstop Date]*.

"Issuer" means the party named as such above until a successor replaces it in accordance with Condition 4(g) and thereafter means such successor.

"Joint Venture" means any joint venture entity, whether a company, unincorporated firm, undertaking, association, joint venture or partnership or any other entity.

"Khartsyzsk Pipe" means Private Joint Stock Company "Khartsyzsk Pipe Plant", a company organised and existing under the laws of Ukraine, identification code 00191135, whose registered office is at 54 Illich Avenue, Building 4, Mariupol, Donetsk Region, 87504 Ukraine.

"Krasnodon Coal" means Private Joint Stock Company "Krasnodon Coal Company", a company organised and existing under the laws of Ukraine, identification code 32363486, whose registered office is at 54 Energetykyv Street, Severodonetsk Luhansk Region, 93404 Ukraine.

"KRIOW" means Public Joint Stock Company "Kryvyi Rig Iron Ore Works", a company organised and existing under the laws of Ukraine, identification code 00191307, whose registered office is at 1A Simbirtseva Street, Kryvyi Rig, Dnipropetrovsk Region, 50029 Ukraine.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person.

"Listing Particulars" means the listing particulars dated on or about [●] for the listing of the Notes on the Global Exchange Market of the Irish Stock Exchange.

"Major Shareholder" means (i) Mr. Rinat Akhmetov and/or (ii) the legal representatives of the foregoing and the trustees of bona fide trusts of which the foregoing is the only beneficiary.

"Management Advances" means loans or advances made to, or guarantees with respect to loans or advances made to, directors, officers, employees or consultants of the Issuer or any Subsidiary:

- (a) in respect of travel, entertainment or moving-related expenses incurred in the ordinary course of business of the Issuer or any of its Subsidiaries;
- (b) in respect of moving-related expenses incurred in connection with any closing or consolidation of any facility or office of the Issuer or any of its Subsidiaries;

- (c) any other such loans, advances or guarantees provided that they are made in the ordinary course of business of the Issuer or any of its Subsidiaries and do not exceed U.S.\$10 million in the aggregate outstanding at any time, provided that loans, advances or guarantees made to directors of the Issuer will not exceed \$5 million in the aggregate outstanding at any time.

"Material Adverse Effect" means a material adverse effect on:

- (a) the business, results of operations, property, assets, condition (financial or otherwise) or prospects of the Issuer or any of its Material Subsidiaries; or
- (b) the Issuer's ability to perform its obligations under the Trust Deed, the Intercreditor Agreement and/or the Security Documents to which the Issuer is party; or
- (c) any Guarantor's ability to perform its obligations under the relevant Guarantee Agreement, the Intercreditor Agreement and/or the Security Documents to which any such Guarantor is party; or
- (d) the validity, legality or enforceability of the Trust Deed or the rights or remedies of the Noteholders or the Trustee under the Trust Deed or the validity, legality or enforceability of the Guarantee Agreements or the rights or remedies of the Noteholders or the Trustee under the Guarantee Agreements.

"Material Subsidiary" means at any relevant time a Subsidiary of the Issuer:

- (a) whose assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 5 per cent. of the Total Assets of Metinvest or whose EBITDA represents not less than 5 per cent. of the Adjusted EBITDA of Metinvest (determined by reference to the most recent publicly available annual or semi-annual consolidated financial statements of Metinvest prepared in accordance with Accounting Standards and the latest annual or semi-annual financial statements of the Subsidiary of the Issuer prepared in accordance with Accounting Standards); or
- (b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer is a Material Subsidiary, save that each Guarantor shall at all times be deemed to be a Material Subsidiary.

"Maturity Date" means 31 December 2021.

"Metalen" means Ukraine-Switzerland Joint Venture Limited Liability Company "Metalen", a company organised and existing under the laws of Ukraine, identification code 30615347, whose registered office is at 116A Nakhimova Street, Mariupol, Donetsk Region, 87534 Ukraine.

"Metinvest" means the Issuer and its Subsidiaries.

"MIBV BBF Guarantee" means, until the UCC Restructuring Completion Date, the Issuer's guarantee in respect of the DB Borrowing Base Facility Agreement.

"MIBV Guarantees" means, collectively, the MIBV BBF Guarantee and the MIBV UCC Guarantee.

"MIBV UCC Guarantee" means, until the UCC Restructuring Completion Date, the Issuer's subordinated guarantee in respect of the UCC Seller Notes.

"Monthly Report" means a monthly report in form and substance substantially similar to the monthly reports published on the Issuer's website in connection with the undertakings set out in paragraph 2 of schedule 1 (Scheme Undertakings) of the two schemes of arrangement in respect of the Issuer under Part 26 of the Companies Act 2006 which were sanctioned by the High Court of Justice of England and Wales on 29 January 2016 and 30 June 2016 respectively. For the avoidance of doubt, the Monthly Report will contain (a) information as to the Issuer's consolidated revenues, Adjusted EBITDA, condensed statement of cash flows and Capital Expenditures for the relevant month, (b) amounts of cash and cash equivalents and total debt as of the end of the relevant month and (c) product sales information for each of the metallurgical and mining divisions (both in U.S. dollar and volumetric terms).

"Moody's" means Moody's Investors Service, Inc. and any successor to its rating agency business.

"Nationalisation" has the meaning set out in Condition 10(a)(iv).

"Nationally Recognised Statistical Rating Organisation" means a nationally recognised statistical rating organisation within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act.

"Net Cash Proceeds", with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of legal fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Net Debt" means total debt less cash and cash equivalents, in each case as shown in the consolidated financial statements of Metinvest prepared in accordance with Accounting Standards.

"New Shareholder Injections" means the aggregate amount subscribed for by any Person (other than a member of Metinvest) for ordinary shares in the Issuer or for subordinated loan notes or other subordinated debt instruments in the Issuer.

"Non-Group Entity" means any investment or entity (which is not itself a member of Metinvest (including associates and Joint Ventures)) in which any member of Metinvest has an ownership interest.

"Non-Guarantor Subsidiary" means any Subsidiary of the Issuer that is not a Guarantor.

"Northern GOK" means Private Joint Stock Company "Northern Iron Ore Enrichment Works", a company organised and existing under the law of Ukraine, identification code 00191023, whose registered office is at Kryvyi Rig, Dnipropetrovsk Region, 50079 Ukraine.

"Noteholder" has the meaning set out in Condition 1(b).

"Noteholders' Committee" has the meaning set out in Condition 11(e).

"Notes Cash Sweep Amount" means, for any period, the portion of the Waterfall Payment (if any) for such period which is available for distribution to the Noteholders in accordance with clause 6 of the Intercreditor Agreement, after allocating the relevant payments to be made to the PXF Lenders in accordance therewith.

"Notes Documents" means the Trust Deed, the Guarantee Agreements, the Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreement.

"Officers' Certificate" means a certificate signed by such number of managing directors (*bestuurders*) of the Issuer who are authorised to represent it in relation to the subject matter thereof.

"OpCo Collateral Enforcement Event" has the meaning set out in the Intercreditor Agreement.

"OpCo Security Assignments" has the meaning set out in the Intercreditor Agreement.

"OpCo Share Pledges" means:

- (a) the first-ranking share pledge dated on or about the Issue Date over 50 per cent. plus 1 share of the issued share capital of Ilyich Steel and made between Intermediate Holdco, the Share Custodian and the Common Security Agent;
- (b) the first-ranking share pledge dated on or about the Issue Date over 50 per cent. plus 1 share of the issued share capital of Ingulets GOK and made between Intermediate Holdco, the Share Custodian and the Common Security Agent; and
- (c) the first-ranking share pledge dated on or about the Issue Date over 50 per cent. plus 1 share of the issued share capital of Central GOK and made between Intermediate Holdco, the Share Custodian and the Common Security Agent.

"OpCo Shares" means approximately 99.3 per cent. of the issued share capital of Ilyich Steel, approximately 99.8 per cent. of the issued share capital of Ingulets GOK and 50 per cent. plus 1 share of the issued share capital of Central GOK.

"Opinion of Counsel" means a written opinion from legal counsel of international standing who is acceptable to the Trustee.

"Original PXF Facility Agreements" mean each of:

- (a) the U.S.\$1,000 million PXF Facility Agreement;
- (b) the U.S.\$300 million PXF Facility Agreement;
- (c) the U.S.\$325 million PXF Facility Agreement; and
- (d) the U.S.\$560 million PXF Facility Agreement.

"outstanding principal amount" means, in respect of each Note, its nominal amount as reduced from time to time pursuant to Condition 5(d) and Condition 6.

"Parent" means any holding company or companies controlled directly or indirectly by Mr Rinat Akhmetov for the purpose of holding investments in the Issuer, being, as of the Issue Date, SCM (System Capital Management) Limited (Cyprus) and Clarendale Limited (Cyprus).

"Permanent Cessation of Business or Winding-Up" has the meaning set out in Condition 10(a)(viii).

"Permitted Asset Swap" means:

- (a) a sale, transfer or disposition of an asset (other than shares or a business) by the Issuer or any of its Subsidiaries in direct exchange for another asset comparable or superior as to type, value and quality in circumstances where no cash or Cash Equivalents are received by the Issuer or such Subsidiary in relation to such disposal; and
- (b) a sale, transfer or disposition of an asset (other than shares or a business) in circumstances where the Issuer has designated the proceeds of such sale, transfer or disposal as a "Permitted Indirect Asset Swap Amount" in accordance with the Intercreditor Agreement, with such proceeds to be applied in accordance with clause 6 of the Intercreditor Agreement.

"Permitted Collateral Liens" means:

- (a) Liens on the Collateral that are "Permitted Liens" described in paragraph (c) or (g) of the definition thereof (and any Refinancing Indebtedness in respect thereof (and Refinancing Indebtedness in respect of Refinancing Indebtedness)); provided that each of the parties thereto or their representatives will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement;
- (b) Liens on the Collateral that are Permitted Liens described in one or more of paragraphs (d), (h), (i)(ii), (j), (o), (p), (q) and (w) of the definition thereof;
- (c) Liens on the Collateral to secure any guarantee that is permitted by Condition 4(b)(ii)(O), to the extent such guarantee is in respect of Indebtedness otherwise permitted to be secured by Permitted Collateral Liens pursuant to this definition of Permitted Collateral Liens; and
- (d) Liens securing Hedging Obligations permitted to be Incurred under Condition 4(b)(ii)(F), provided that during the Initial Period only, such Liens shall be permitted only to the extent such Liens secure Hedging Obligations embedded in, entered into pursuant to, or which is otherwise related to, Indebtedness permitted to be incurred under Conditions 4(b)(ii)(I), 4(b)(ii)(J) or 4(b)(ii)(M), provided further that the property and assets (including the Collateral) securing such Hedging Obligations will also secure the Notes or the Guarantees; and provided further that each of the parties thereto or their representatives will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement.

To the extent that Indebtedness relating to an instrument or agreement is permitted to be secured by a Permitted Collateral Lien, other associated obligations under such instrument or agreement not themselves constituting Indebtedness may also be secured by such Permitted Collateral Lien.

"Permitted Energy Supplier Guarantee" has the meaning set out in Condition 4(b)(ii)(P).

"Permitted Holders" means any and all of (i) Mr. Rinat Akhmetov, (ii) Mr. Vadym Novynskyi and (iii) the legal representatives of any of the foregoing and the trustees of bona fide trusts of which the foregoing are the only beneficiaries.

"Permitted Investments" means:

- (a) any Investment in the Issuer or any Subsidiary of the Issuer;
- (b) any Investment in cash or Cash Equivalents;
- (c) any Investment by the Issuer or a Subsidiary of the Issuer in a Person, if as a result of such Investment: (i) such Person becomes a Subsidiary of the Issuer; or (ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Issuer or a Subsidiary of the Issuer;
- (d) any Investment made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Sale, in each case, that was made pursuant to and in compliance with Condition 4(e);
- (e) any Investment to the extent made using Capital Stock of the Issuer (other than Disqualified Stock), Subordinated Shareholder Funding or Capital Stock of any parent entity as consideration;
- (f) any Investments received in compromise or resolution of (x) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any Subsidiary of the Issuer, including pursuant to any plan of reorganisation or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (y) litigation, arbitration or other disputes;
- (g) Investments in receivables owing to the Issuer or any Subsidiary of the Issuer if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms, provided, however, that such trade terms may include such concessionary terms as the Issuer or any such Subsidiary deems reasonable under the circumstances;
- (h) Investments represented by Hedging Obligations, which obligations are permitted by Condition 4(b)(ii)(F) and Condition 4(v);
- (i) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under Condition 4(a);
- (j) guarantees of Indebtedness not prohibited by Condition 4(b) hereof and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business (for the avoidance of doubt, including the Permitted Energy Supplier Guarantee);
- (k) (x) Investments in the Notes; (y) any Investments pursuant to any loan or other instrument contributing the proceeds of the Notes and (z) any Investments in any other Indebtedness (other than Subordinated Obligations) of the Issuer or any Subsidiary incurred under Condition 4(b)(M), provided that the purchase price paid for such Investments does not exceed par plus accrued interest and such Indebtedness has a final maturity date that is earlier than the final maturity date of the Notes;
- (l) any Investment existing on, or made pursuant to legally binding commitments in existence on, the Issue Date and any extension, modification or renewal of any such Investment; provided that the amount of the Investment may be increased (i) as required by the terms of the Investment as in existence on the Issue Date or (ii) as otherwise permitted under the Trust Deed;
- (m) Investments consisting of (i) securities acquired in connection with a settlement of VAT (or other tax reimbursement) receivables from the government of Ukraine and (ii) any credit extended to the Ukrainian government as a result of the acquisition of securities referred to in the foregoing sub-paragraph (i);

- (n) Investments acquired after the Issue Date as a result of the acquisition by the Issuer or any Subsidiary of another Person, including by way of a merger, amalgamation or consolidation with or into the Issuer or any of its Subsidiaries in a transaction that is not prohibited by Condition 4(i) after the Issue Date to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;
- (o) Management Advances;
- (p) the endorsement of negotiable instruments in the ordinary course of business;
- (q) any performance, bid, completion, surety or appeal bonds or similar instruments, guarantees or obligations entered into in the ordinary course of business;
- (r) any guarantee given in respect of the netting or set-off arrangements permitted pursuant to paragraph (o) of the definition of "Permitted Liens";
- (s) any liability in respect of the Issuer or any of its Subsidiaries incorporated in the Netherlands arising under a declaration of joint and several liability (*hoofdelijke aansprakelijkheid*) as referred to in Article 2:403 of the Dutch Civil Code;
- (t) any liability arising as a result of a fiscal unity (*fiscale eenheid*) solely between members of Metinvest incorporated in the Netherlands; and
- (u) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this paragraph (u) that are at the time outstanding (i) during the Initial Period does not exceed U.S.\$30 million in the aggregate and (ii) thereafter U.S.\$50 million in the aggregate or, following the release of the Intermediate Holdco Share Pledge, U.S.\$75 million in the aggregate; provided that if an Investment is made pursuant to this paragraph (u) in a Person that is not a Subsidiary at the date of the making of such Investment and such Person subsequently becomes a Subsidiary, such Investment shall thereafter be deemed to have been made pursuant to paragraph (a) or (c) of the definition of "Permitted Investments" and not this paragraph (u).

"Permitted Liens" means:

- (a) Liens granted by: (i) the Issuer or a Subsidiary of the Issuer (including any Guarantor) in favour of the Issuer or any Guarantor, or (ii) a Non-Guarantor Subsidiary in favour of the Issuer or another Subsidiary of the Issuer;
- (b) any Lien existing on the Issue Date (including, without limitation, Liens existing on the Issue Date in respect of the UCC Seller Notes);
- (c) to the extent permitted by the Intercreditor Agreement and any Additional Intercreditor Agreement, Liens in respect of the PXF Facility Agreement;
- (d) Liens imposed by law or by agreement having the same effect, including but without limitation, Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;
- (e) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Subsidiary of or is merged or consolidated with or into the Issuer or any of its Subsidiaries; provided, however, that the Liens may not extend to any other property owned by the Issuer or any of its Subsidiaries (other than assets and property affixed or appurtenant thereto);
- (f) Liens on property at the time the Issuer or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into the Issuer or such Subsidiary; provided, however, that the Liens may not extend to any other property owned by the Issuer or any of its Subsidiaries (other than assets and property affixed or appurtenant thereto);

- (g) (i) any Lien securing the Notes and any Guarantee and (ii) Liens pursuant to the Intercreditor Agreement and any Additional Intercreditor Agreement;
- (h) any Lien incurred, or pledges or deposits in connection with workers' compensation, unemployment insurance and other social security benefits and other obligations of like nature in the ordinary course of business;
- (i) Liens (including deposits) (i) to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, customs duties, guarantees, completion, surety and appeal bonds, performance or return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature, in each case so long as such Liens do not secure obligations constituting Indebtedness for money borrowed and are incurred in the ordinary course of business or (ii) in connection with a Permitted Energy Supplier Guarantee consisting of cash or other assets that is permitted to be secured by such Liens under the terms of the PXF Facility Agreement, in the case of paragraphs (i) and (ii), including Liens to secure letters of credit or other documentary facilities issued to assure payment of such obligations;
- (j) minor easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, defects or irregularities in title and other similar charges and encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Issuer or any of its Subsidiaries and existing, arising or incurred in the ordinary course of business incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not individually or in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;
- (k) any Lien securing reimbursement obligations of the Issuer or any of its Subsidiaries with respect to letters of credit encumbering only documents and other property relating to such letters of credit and the products or proceeds thereof in the ordinary course of business; provided that such letters of credit do not constitute Indebtedness;
- (l) Liens on current assets of the Issuer or its Subsidiaries to secure Indebtedness permitted under Condition 4(b)(ii)(I), including any Lien upon any steel, iron ore, coal or coke export contracts (including contracts for sale, transportation or exchange), and any related inventory and products, and proceeds thereof which contracts are entered into in the ordinary course of business of the Issuer and its Subsidiaries in a form that is customary in the steel, iron ore mining, coal mining and coke production industry, as applicable;
- (m) any Lien securing Purchase Money Indebtedness permitted by Condition 4(b)(ii)(J) at any time outstanding (plus any unused amounts under paragraph (r) below as at the relevant date of determination); provided, however, that the Lien may not extend to any property or assets owned by such Person or any of its Subsidiaries at the time the Lien comes into existence (other than the property or assets acquired with or financed by such Purchase Money Indebtedness and current assets and sales contracts of Metinvest, provided that the Fair Market Value of the current assets and sales contracts which are the subject of such Lien does not exceed 50 per cent. of the principal amount of the Purchase Money Indebtedness being secured);
- (n) Liens on assets or property other than the Collateral securing Hedging Obligations permitted to be Incurred under Condition 4(b)(ii)(F), provided that during the Initial Period only, such Liens shall be permitted only to the extent such Liens secure Hedging Obligations embedded in, entered into pursuant to, or which is otherwise related to, Indebtedness permitted to be incurred under Conditions 4(b)(ii)(I), 4(b)(ii)(J) or 4(b)(ii)(M);
- (o) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of Metinvest; provided, however, that (i) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Issuer or any of its Subsidiaries and (ii) such deposit account is not intended by the Issuer or any Subsidiary of the Issuer to provide collateral to the depository institution;

- (p) any Lien for ad valorem, income or property taxes or assessments, customs charges and similar charges, including VAT, which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Issuer or relevant Subsidiary of the Issuer has set aside in its accounts reserves to the extent required by Accounting Standards;
- (q) Liens in connection with Indebtedness permitted to be Incurred under Condition 4(b)(ii)(N);
- (r) other Liens incurred with respect to Indebtedness in an aggregate principal amount not exceeding U.S.\$50 million (or its U.S. Dollar Equivalent) at any time outstanding; provided, however, that (i) no such Liens shall be permitted in respect of any assets of any member of the Collateral Group, (ii) the Fair Market Value of the assets subject to such Liens for any single financing, as at the time of the Incurrence of the relevant Indebtedness, does not exceed 200 per cent. of the principal amount of the Indebtedness in respect of the relevant financing and (iii) as a result of a granting of such Lien, the aggregate principal amount of Indebtedness outstanding at such time which is secured by Liens under this paragraph (r), together with the Indebtedness of Non-Guarantor Subsidiaries incurred under Condition 4(b)(ii)(M) and which is outstanding at such time (without double-counting), does not exceed U.S.\$50 million (or its U.S. Dollar Equivalent);
- (s) Liens encumbering cash deposits in bank accounts established to provide cash collateral in respect of letters of credit, guarantees and similar instruments that were issued prior to the Issue Date;
- (t) Liens (including a right of set-off) granted by the Issuer on its right to receive dividends from a Non-Guarantor Subsidiary in favour of a Non-Guarantor Subsidiary;
- (u) Liens to secure any Refinancing Indebtedness (excluding Liens to secure Refinancing Indebtedness initially secured pursuant to paragraph (m) or (r) of this definition) permitted to be Incurred under these Conditions; provided, however, that:
 - (i) the new Lien is limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to such property or proceeds or distributions thereof); and
 - (ii) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (A) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness Refinanced with such Refinancing Indebtedness and (B) an amount necessary to pay any fees and expenses, including premiums, related to such Refinancing;
- (v) any Liens arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Issuer or any of its Subsidiaries in the ordinary course of business and on the supplier's standard or usual terms and not arising as a result of any default or omission by the Issuer or any of its Subsidiaries;
- (w) in respect of the Issuer or any of its Subsidiaries, any Lien arising under clauses 24 or 25 of the general banking conditions (*algemene bankvoorwaarden*) of any member of the Dutch Banking Association;
- (x) Liens to secure any guarantee that is permitted by Condition 4(b)(ii)(O), to the extent such guarantee is in respect of Indebtedness otherwise permitted to be secured by Permitted Liens pursuant to this definition of Permitted Liens; and
- (y) Liens over the Capital Stock of the Subsidiaries of Metinvest U.S., Inc. and assets of the UCC Group to secure the Permitted UCC Seller Debt that are no more extensive than the Existing UCC Security Arrangements.

"Permitted UCC Seller Debt" means:

- (a) Indebtedness represented by the UCC Seller Notes (including any further Indebtedness incurred in accordance with its terms for the capitalisation of interest or fees), as amended, modified or supplemented, and any guarantee of the Issuer in respect thereof, provided that (x) the interest rate of such Indebtedness does not exceed 9 per cent. per annum, (y) the subordination provisions

contained in the UCC Seller Notes Documents (including the subordination provisions contained in section 8 of the terms and conditions of the UCC Seller Notes) are not amended in a manner adverse to the interests of the Noteholders other than any such amendment, modification or supplement which would have the effect of permitting members of the UCC Group to make payments of principal and/or interest on the UCC Seller Notes from the proceeds of sales of metallurgical coal by the UCC Group (without any recourse to the Issuer and/or its Subsidiaries (other than members of the UCC Group) under a guarantee (other than the subordinated guarantee of the Issuer), indemnity or otherwise as to such payments) in circumstances where, pursuant to the terms of the UCC Seller Notes Documents as in force on 23 December 2016 the delivery of a Senior Indebtedness Default Notice (as defined in the terms and conditions of the UCC Seller Notes) would have required the UCC Group not to make payment in respect of Subordinated Indebtedness (as defined in the terms and conditions of the UCC Seller Notes), and (z) the Liens, guarantees and indemnities in respect of such Indebtedness for the benefit of the creditors of such Indebtedness are no more extensive than the Liens, guarantees and indemnities which were in existence in respect of the UCC Seller Notes prior to 23 December 2016 (the "**Existing UCC Security Arrangements**"); and

- (b) Indebtedness of the UCC Group and (other than in the case of (2)(y) below) any guarantee of the Issuer in respect thereof that Refinances the foregoing Indebtedness described in paragraph (a) (each, a "**Refinanced UCC Debt**") (and any further Indebtedness that Refinances any Refinanced UCC Debt), provided that: (1) the interest rate of such Indebtedness does not exceed 9 per cent. per annum; (2) (x) if the Issuer guarantees such Indebtedness, such Indebtedness constitutes Refinancing Indebtedness or (y) otherwise, such Indebtedness is incurred without recourse (whether by way of a guarantee or indemnity or otherwise) to the Issuer and/or its Subsidiaries other than members of the UCC Group; and (3) the Liens, guarantees and indemnities in respect of such Indebtedness for the benefit of the creditors of such Indebtedness are no more extensive than the Existing UCC Security Arrangements.

"**Person**" means any individual, corporation, partnership, joint venture, bank, financial institution, trust, unincorporated organisation or government or any Agency or political subdivision thereof or other entity.

"**PIK Notes**" has the meaning set out in Condition 5(c)(i)(C).

"**PIK Notes Redemption Amount**" has the meaning set out in Condition 5(c)(i)(C).

"**PIYC Interest Amount**" has the meaning set out in Condition 5(c)(i)(B).

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default.

"**Pre-Approved Bank**" means (i) any bank or financial institution listed in Schedule 2, (ii) any bank or financial institution to which the Issuer or any of its Subsidiaries owes any obligations under any letters of credit, guarantees or other Indebtedness, where the aggregate amount of any certificates of deposit, time deposits, bankers' acceptances and overnight bank deposits (each, as described in the definition of "Cash Equivalents") held with such bank or financial institution by the Issuer or any of its Subsidiaries does not exceed the aggregate amount of such obligations owed by the Issuer or any of its Subsidiaries to such bank or financial institution and (iii) any Affiliate of such bank or financial institution described in the foregoing paragraph (ii), provided that such Affiliate is also a bank or financial institution.

"**Pre-Restructured Notes**" means the:

- (a) 10.25 per cent. Guaranteed Notes due 2016 issued by the Issuer;
- (b) 10.50 per cent. Guaranteed Notes due 2017 issued by the Issuer under its \$1,500 million Guaranteed Medium Term Note Programme; and
- (c) 8.75 per cent. Guaranteed Notes due 2018 issued by the Issuer under its \$1,000 million Guaranteed Medium Term Note Programme.
- (d) "**Pre-Restructuring PIK Interest**" has the meaning set out in Condition 4(t).

"Preferred Stock", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Pre-Funding and Indemnity Conditions" has the meaning given to it in the Trust Deed.

"Properly Incurred" means incurred by the Trustee in the performance or exercise of any of its rights, actions, duties or powers in accordance with the Notes Documents and applicable law or, as applicable, by or on behalf of any Noteholders that instructed the Trustee in accordance with the Notes Documents to enforce the security interest(s) under the Security Documents or to declare the Notes to be immediately due and payable, as per Condition 3(e)(iii).

"Purchase Money Indebtedness" means Indebtedness:

- (a) (i) Incurred to finance the acquisition, construction, improvement or lease of any property or other assets (including Capital Stock in any Person) or (ii) consisting of financings backed by export credit agencies; and
- (b) with respect to paragraph (a)(i) above, where the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such property or other assets as at the date of the Incurrence thereof or such purchase price or cost,

including any Refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of Refinancing.

"PXF Agent" means Deutsche Bank AG, Amsterdam Branch.

"PXF Documents" has the meaning set out in the Intercreditor Agreement.

"PXF Facility Agreement" means the amended and restated facility agreement dated [●] 2017, between, among others, the Issuer, the PXF Lenders and the PXF Agent, as amended, varied or supplemented from time to time.

"PXF Lenders" means the lenders under the PXF Facility Agreement.

"PXF Loans" means the loans extended under the PXF Facility Agreement.

"Refinance" means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease, discharge or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. **"Refinanced"** and **"Refinancing"** shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness of the Issuer or any of its Subsidiaries that Refinances any Indebtedness of the Issuer or any Subsidiary of the Issuer existing on the Issue Date or Incurred in compliance with the Trust Deed, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

- (a) such Refinancing Indebtedness has a final maturity date that is either (i) no earlier than the final maturity date of the Indebtedness being Refinanced or (ii) after the final maturity date of the Notes;
- (b) such Refinancing Indebtedness has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced;
- (c) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus accrued interest, fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced;

- (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes or any Guarantee, such Refinancing Indebtedness is subordinated in right of payment to the Notes and such Guarantee at least to the same extent as the Indebtedness being Refinanced; and
- (e) if the Issuer or any Guarantor was the obligor on the Indebtedness being Refinanced, such Indebtedness is Incurred either by the Issuer or by a Guarantor.
- (f) **"Register"** has the meaning set out in Condition 1(b)

"Regulation S" means Regulation S under the Securities Act.

"Related Parties" means any or all of (i) Parent, (ii) SMART or (iii) the legal representatives of any of the foregoing and the trustees of bona fide trusts of which the foregoing are the only beneficiaries.

"Relevant Date" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or related Certificate), being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

"Relevant Entities" mean Avdiivka Coke, Khartsyzsk Pipe, Krasnodon Coal, Metalen and Yenakiieve I&SW.

"Relevant Period" means the most recently ended four fiscal quarters for which the Issuer's financial statements are delivered or deliverable to the Trustee pursuant to Condition 4(w)(i) or 4(w)(ii) (or, in the case of the four-quarter period ending on the last day of the first or third quarter of any financial year, financial statements which are internally available) immediately preceding the relevant date of determination.

"Restricted Cash" has the meaning set out in the Intercreditor Agreement.

"Restricted Definitive Certificates" has the meaning set out in Condition 1(a).

"Restricted Global Note Certificate" has the meaning set out in Condition 1(a).

"Restricted Notes" means the Notes initially issued to persons located in the United States.

"Restricted Payment" with respect to any Person means:

- (a) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to purchase such stock or in Subordinated Shareholder Funding and (B) dividends or distributions payable solely to the Issuer or a Subsidiary of the Issuer);
- (b) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Issuer held by any Person (other than by a Subsidiary of the Issuer), including in connection with any merger or consolidation and including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Issuer that is not Disqualified Stock);
- (c) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Issuer or any Guarantor (other than (A) any intercompany Indebtedness between or among the Issuer and any Subsidiary of the Issuer or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement);

- (d) the making of any payment (whether in respect of interest or principal), or the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Shareholder Funding (other than any payment of interest thereon in the form of additional Shareholder Funding);
- (e) the making of any sponsorship payments or charitable contributions or donations to any Person other than the Issuer or a Subsidiary of the Issuer; or
- (f) the making of any Investment other than a Permitted Investment.

"**Securities Act**" has the meaning set out in Condition 1(d).

"**Security Documents**" means:

- (a) the Debt Service Account Pledge;
- (b) the Company Account Pledge;
- (c) the Intermediate Holdco Account Pledge;
- (d) the Intermediate Holdco Share Pledge;
- (e) each Intermediate Holdco Security Assignment;
- (f) each OpCo Share Pledge;
- (g) each OpCo Equipment Pledge;
- (h) each OpCo Security Assignment; and
- (i) any other document designated as such by the Common Security Agent and the Issuer,

in each case, as defined under the Intercreditor Agreement (unless otherwise defined herein) and as amended, varied or supplemented from time to time, under which the Collateral is pledged to secure the Notes, the obligations under these Conditions and the Guarantees.

"**Senior Indebtedness**" means, whether outstanding on the Issue Date or thereafter incurred, all amounts payable by, under or in respect of all other Indebtedness of the Issuer or any Guarantor, including premiums and accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganisation relating to the Issuer or such Guarantor at the rate specified in the documentation with respect thereto whether or not a claim for post filing interest is allowed in such proceeding) and fees relating thereto; provided, however, that Senior Indebtedness will not include:

- (a) any obligation of the Issuer or any Guarantor to the Issuer or any Subsidiary of the Issuer;
- (b) any liability for taxes owed or owing by the Issuer or any Subsidiary of the Issuer;
- (c) any Indebtedness of the Issuer or any Guarantor in respect of Subordinated Obligations or Disqualified Stock;
- (d) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities); and
- (e) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of these Conditions.

"**Share Custodian**" means Joint Stock Company Raiffeisen Bank Aval or any other person agreed by the Issuer, the PXF Agent and the Trustee.

"**Shareholder Funding**" means, collectively, any funds provided to the Issuer by a Permitted Holder or any Affiliate of any Permitted Holder (other than (i) members of Metinvest and (ii) FUIB in respect of any Indebtedness Incurred by the Issuer or any of its Subsidiaries permitted under Condition 4(b) and in compliance with Condition 4(d)) (whether outstanding on the Issue Date or thereafter Incurred and

including Existing Shareholder Loans) in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case, issued to and held by any of the foregoing Persons.

"Shareholder Loan Subordination Agreements" means (i) the subordination deed, dated on or about the Issue Date, entered into by the Issuer, Rainwell Limited, Eltrano Investments Limited and the Trustee; and (ii) any other subordination arrangement on equivalent terms to the terms of the subordination deed referred to in (i) above entered into by the Issuer, any Permitted Holder and the Trustee.

"SMART" means any holding company or companies controlled directly or indirectly by Mr. Vadym Novynskyi for the purpose of holding investments in the Issuer, being, as of the Issue Date, Majorone Trading Limited (Cyprus), Adeona Holdings Limited (Cyprus), Celebrom Investments Limited (Cyprus).

"Southern GOK" means Public Joint Stock Company "Yuzhniy GOK" (Ukraine), otherwise known as PJSC "Yuzhniy GOK".

"Standalone Intercreditor Agreement" means each agreement entered into between an Intra-Group Lender or Debtor (each as defined therein) incorporated under the laws of Ukraine, the Common Security Agent, the Trustee and the PXF Agent and substantially in the form approved by the Issuer, the Common Security Agent, the Trustee and the PXF Agent prior to the Issue Date.

"Standard & Poor's" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and any successor to its rating agency business.

"Stated Maturity" means:

- (a) with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final instalment of principal of such Indebtedness is due and payable; and
- (b) with respect to any scheduled instalment of principal of or interest on any Indebtedness, the date specified in such Indebtedness as the fixed date on which such instalment is due and payable.

"Subordinated Obligation" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Notes or a Guarantee, pursuant to a written agreement to that effect.

"Subordinated Shareholder Funding" means Shareholder Funding which:

- (a) does not mature or require any amortisation, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Issuer or any funding meeting the requirements of this definition);
- (b) does not require, prior to the first anniversary of the Stated Maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts;
- (c) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the first anniversary of the Stated Maturity of the Notes;
- (d) does not provide for or require any security interest or encumbrance over any property or asset of the Issuer or any of its Subsidiaries; and
- (e) is made to the Issuer (and not to any of its Subsidiaries) and pursuant to its terms is fully subordinated and junior in right of payment to the Notes pursuant to a Shareholder Loan Subordination Agreement.

"Subsidiary" of any Person means (a) any corporation more than 50 per cent. of the outstanding voting power of the Capital Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Subsidiary of such Person is a general partner, (c) any other Person in which such Person, or one or more other Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50 per cent. of the

outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof or (d) any Person whose financial statements are required by Accounting Standards to be consolidated into the consolidated financial statements of the relevant Person.

"Surety Agreements" means (i) the surety agreements dated as of the Issue Date between each of the Ukrainian Guarantors and the Trustee and (ii) any surety agreement between any Additional Guarantor and the Trustee executed and delivered by such Additional Guarantor in accordance with Condition 2(b), in each case, as amended, varied or supplemented from time to time, and **"Surety Agreement"** shall be construed accordingly.

"Tax Proceedings" means any proceedings in connection with the appeal of the tax assessment dated 16 August 2016 and issued by the local tax authorities (*Dnipro Tax Inspection*) against Ingulets GOK in connection with its tax audit covering the tax periods from 1 January 2013 to 31 December 2015.

"Taxes" has the meaning set out in Condition 8.

"Total Assets" means the consolidated assets of Metinvest as shown on the latest available annual or semi-annual consolidated balance sheet of Metinvest (as the case may be) prepared in accordance with Accounting Standards.

"Trust Deed" means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Issue Date between the Issuer, in its capacity as issuer, and the Trustee, among others, as amended, varied or supplemented from time to time.

"Trustee" means Madison Pacific Trust Limited, a trust company with company registration number 1619851 registered under section 78(1) of the Hong Kong Trustee Ordinance (Cap. 29) having its registered office at Suite 1720, 17/F, Tower 1, Admiralty Centre, 18 Harcourt Road Admiralty, Hong Kong, in its capacity as trustee under the Trust Deed and any successor thereto as provided thereunder.

"UAH" means the Ukrainian Hryvnia.

"UCC Excluded Company" means, until the UCC Restructuring Completion Date, Metinvest U.S., Inc. and each of its Subsidiaries.

"UCC Group" means Metinvest U.S., Inc., a Delaware corporation, United Coal Company LLC, a company organised and existing under the law of the Commonwealth of Virginia, identification number 20-1061321, whose registered office is at 110 Sprint Drive, Blountville, TN 37617, USA and any of their respective Subsidiaries.

"UCC Restructuring Completion Date" means the first date (falling on or after 23 December 2016 and whether before, on or after the Issue Date) on which no default, event of default or early termination event (however described) is outstanding under the UCC Seller Notes Documents which would entitle the holders of the UCC Seller Notes to demand immediate repayment of the UCC Seller Notes and/or to enforce any Liens granted in relation to the UCC Seller Notes (whether as a result of any amendments to or other restructuring of the terms of the UCC Seller Notes or any other arrangements (but excluding temporary waivers or standstill arrangements) entered into by the holders of the UCC Seller Notes and members of the UCC Group).

"UCC Seller Notes" means the fixed rate subordinated notes issued on 30 April 2009 (as amended and restated on 31 January 2015 and from time to time) by United Coal Company LLC and Metinvest U.S., Inc., as issuers, to the following initial holders: The United Company, Gregory Energy Partners, LLC, SJ Strategic Investments LLC, Southern Mining, Incorporated, Samuel A. Blankenship, Joseph R. Gregory, Gregory Resource Partners, LLC, Kingsway, LLC, James W. McGlothlin, Nicholas D. Street and Clyde E. Stacey.

"UCC Seller Notes Documents" means the Amended and Restated 7 per cent. Subordinated Notes issued on 31 January 2015 by Metinvest U.S., Inc. and United Coal Company LLC in favour of the Sellers identified in the Amended and Restated Membership Interest Purchase Agreement dated 15 April 2009 by Metinvest U.S., Inc, the Issuer, The United Company (the **"Seller Representative"**) and United Coal Company LLC, the Amended and Restated Guaranty dated as of 31 January 2015 made by the Issuer in

favour of the Seller Representative, as representative for the Sellers, the Purchaser Pledge Agreement dated 30 April 2009 made by Metinvest U.S., Inc. in favour of the Seller Representative, the Pledge Agreement dated 31 January 2015 made by United Coal Company LLC in favour of the Seller Representative as collateral agent for the Sellers, the Security Agreement dated 31 January 2015 made by Pocahontas Coal Company in favour of the Seller Representative as collateral agent for the Sellers and the First Priority Leasehold Deed of Trust, Security Agreement, Assignment of Rents and Leases, Fixture Filing, and Financing Statement dated 31 January 2015 by and from Pocahontas Coal Company to Marc C. Weintraub, as trustee (each as amended and restated from time to time).

"Ukrainian GAAP" means generally accepted accounting principles, standards and practices in Ukraine.

"Ukrainian Guarantors" means Avdiivka Coke, Central GOK, Ilyich Steel, Ingulets GOK, Khartsyzsk Pipe, Northern GOK, Azovstal, Yenakiieve I&SW and Metalen.

"Unrestricted Definitive Certificates" has the meaning set out in Condition 1(a).

"Unrestricted Global Note Certificate" has the meaning set out in Condition 1(a).

"Unrestricted Notes" mean the Notes initially issued to persons outside the United States in reliance on Regulation S.

"U.S. Dollar Equivalent" means with respect to any amount denominated in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such other currency involved into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by Reuters at approximately 11:00 am (New York time) on the date not more than two Business Days prior to the date of determination.

"U.S. GAAP" means generally accepted accounting principles, standards and practices in the United States of America.

"VAT" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

"Voting Stock" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Waterfall Payment" has the meaning set out in the Intercreditor Agreement.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (a) the sum of the products obtained by multiplying:
 - (i) the amount of each then remaining instalment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof (provided that any payments of principal, the making of which is subject to any conditions, including availability of cash of an obligor, shall be not treated as "required" for the purposes of this clause), by
 - (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment, by
- (b) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness.

"Yenakiieve Coke" means Private Joint Stock Company Enakievskiy Koksohimprom (Ukraine), otherwise known as Yenakiieve Coke Plant and Private Joint Stock Company "Yenakiieve Coke and Chemical Works".

"Yenakiieve I&SW" means Private Joint Stock Company "Yenakiieve Iron and Steel Works", a company organised and existing under the law of Ukraine, identification code 00191193, whose registered office is at 54 Illich Avenue, Building 4, Mariupol, Donetsk Region, 87504 Ukraine.

"Zaporizhstal" means Public Joint Stock Company "Integrated Iron and Steel Works "Zaporizhstal", otherwise known as PJSC "Zaporizhstal" and Zaporizhstal Iron and Steel Works.

Schedule 1

Independent Financial Advisers

Asset Expertise
Baker Tilly
Bank of America Merrill Lynch
BDO
Citibank
Credit Suisse
Deloitte & Touche
Deutsche Bank
Dragon Capital
Ernst & Young (E&Y)
European Bank for Reconstruction and Development
European Investment bank
Goldman Sachs
HSBC
IMF
ING Bank
JP Morgan
KPMG
Morgan Stanley
Natixis
PricewaterhouseCoopers
Sberbank of Russia
VTB Capital
World Bank

Schedule 2
Pre-Approved Banks

Ablv Bank, AS
Alfa-Bank Ukraine
Arab Bank (Switzerland) Ltd
Arab Tunisian Bank
Allianz Bank
Banca CARIGE Spa - Cassa di risparmio di Genova e Imperia
Banca Dello Stato Del Cantone Ticino
Banca Monte dei Paschi di Siena S.p.A. (MPS)
Banca Nazionale del Lavoro Spa (BNL)
Banca Popolare dell'Emilia Romagna Soc. coop (BPER)
Banco Popolare di Lodi
Banca Popolare di Milano Società Cooperativa a r.l.
Banca Popolare di Vicenza S.p.A.
Banca Valsabbina S.C.p.A.
Bank of China Beijing Jingguang Center
Banque Cantonale de Geneve
Banque Cantonale Vaudoise
Banque de Commerce et de Placements
BNP Paribas
BSI SA
Citibank Ukraine
Crédit Agricole Ukraine
Credit Europe Bank N.V.
Credit Libanais S.A.L.
Credit Suisse AG
DB Ukraine
Deutsche Bank AG
Emirates Lebanon Bank SAL
Emirates NBD Bank PJSC
Eurobank Bulgaria AD / Postbank
First Tennessee (Wellmore Coal Company LLC for Ismel Looney Heirs)
FUIB
Gazprombank (Switzerland) Ltd
ING Bank
ING Bank Bulgaria
ING Ukraine
International Asset Bank AD
Intesa Sanpaolo Spa
Kredobank
National Bank Of Fujairah
Natixis
Oschadbank Ukraine
Pravex Bank OTP Bank Ukraine
ProCredit Bank
Prominvestbank
Rabobank N.V.
Raiffeisen Bank Aval
Raiffeisen Bank International AG
Sberbank
Senagat Bank JSCB
Société Générale S.A.
Swedbank AS
UBS Switzerland AG
Unicredit Bank AG
Ukreximbank
Ukrigasbank
Ukrsibbank
Ukrsotsbank Ukraine

Veneto Banca S.p.A.
VTB Ukraine
Wells Fargo Bank, N.A.

CLEARING AND SETTLEMENT

The Issuer will make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Notes to be represented by each Global Note Certificate. Each Global Note Certificate deposited with a common depository for, and registered in the name of, a nominee of Euroclear and/or Clearstream, Luxembourg will have an ISIN and a Common Code.

Transfers

Transfers of interests in the Notes within Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Note to such persons may be limited.

Beneficial interests in the Notes may only be held through Euroclear or Clearstream, Luxembourg. In the case of Restricted Notes, transfers may be made at any time by a holder of an interest in an Unrestricted Global Note Certificate to a transferee who wishes to take delivery of such interest through the Restricted Global Note Certificate provided that any such transfer relating to the Notes represented by such Unrestricted Global Note Certificate will only be made upon receipt by any Transfer Agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Unrestricted Global Note Certificate will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Unrestricted Global Note Certificate to the Principal Paying Agent of details of that account at Euroclear and/or Clearstream, Luxembourg to be credited with the relevant interest in the Restricted Global Note Certificate. Transfers at any time by a holder of any interest in the Restricted Global Note Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Note Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, with an interest in each relevant Global Note Certificate.

For a further description of restrictions on transfer of Restricted Notes, see "*Transfer Restrictions*".

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Note Certificates among participants and accountholders of Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, nor any Paying Agent nor any Transfer Agent will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Definitive Certificates

Registration of title to the Notes in a name other than that of a depository or its nominee for Clearstream, Luxembourg and Euroclear will be permitted only in the circumstances set forth in "*Summary of Provisions Relating to the Notes while in Global Form—Exchange for Definitive Certificates*". In such circumstances, the Issuer will cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Note Certificate must provide the Registrar with:

- (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Certificates; and
- (ii) in the case of a Restricted Global Note Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Definitive Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Note Certificates

The Notes will be evidenced on issue by (i) in the case of Unrestricted Notes, an Unrestricted Global Note Certificate deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Restricted Notes, a Restricted Global Note Certificate deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in the Unrestricted Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-entry Procedures for the Global Note Certificate*". By acquisition of a beneficial interest in an Unrestricted Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that Metinvest is a Category 1 issuer, if it determines to transfer such beneficial interest, it will transfer such interest only to a person whom the seller reasonably believes (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in a Restricted Global Note Certificate (if applicable). See "*Transfer Restrictions*".

Beneficial interests in a Restricted Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-entry Procedures for the Global Note Certificate*". By acquisition of a beneficial interest in the Restricted Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the agency agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note Certificate will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to the Restricted Global Note Certificate, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*". Exchange of interests in the Restricted Global Note Certificate for interests in the Unrestricted Global Note Certificate shall be made only in accordance with the provisions governing such exchanges as set out in the Agency Agreement. Exchange of interests in the Unrestricted Global Note Certificate for interests in the Restricted Global Note Certificate shall be made only in accordance with the provisions governing such exchanges as set out in the Agency Agreement. See also "*Clearing and Settlement—Transfers*".

Any beneficial interest in the Unrestricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Restricted Global Note Certificate will, upon transfer, cease to be an interest in the Unrestricted Global Note Certificate, and become an interest in the Restricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Unrestricted Global Note Certificate for as long as it remains such an interest. Any beneficial interest in the Restricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note Certificate, will, upon transfer, cease to be an interest in the Restricted Global Note Certificate and become an interest in the Unrestricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Unrestricted Global Note Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Note Certificates will not be entitled to receive physical delivery of certificated Notes in definitive form (the **Definitive Certificates**). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note Certificate will be made to the person who appears at the relevant time on the register of Noteholders against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed

in the appropriate schedule to the relevant Global Note Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

Notices

Notwithstanding Condition 17, so long as the Global Note Certificates are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes.

Record Date

Notwithstanding Condition 7(e), "Record Date" shall mean the Clearing System Business Day before the relevant due date for payment, where "Business Day" means a day when Euroclear or Clearstream, Luxembourg is open for business.

Meetings

The holder of a Global Note Certificate will be treated, in any meeting of Noteholders, as having one vote in respect of each U.S.\$1 in principal amount of Notes for which such Global Note Certificate is exchangeable.

Trustee's Powers

In considering the interests of Noteholders while the relevant Global Note Certificate is held on behalf of a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note Certificate and consider such interests as if such accountholders were the holders of such Global Note Certificate.

Issuer's Option

So long as the Notes are evidenced by a Global Note Certificate and such Global Note Certificate is held by or on behalf of a clearing system, any option of the Issuer provided for in the Terms and Conditions of the Notes shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Terms and Conditions of the Notes, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

Electronic Consent and Written Resolution

Where the terms of the resolution proposed by the Issuer, a Guarantor or the Trustee (as the case may be) have been notified to the Noteholders through the relevant clearing systems, each of the Issuer, the Guarantors and the Trustee shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems to the Principal Paying Agent or another specified Agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding or, in the case of a resolution pursuant to Condition 4(d)(iv) not less than 35 per cent. in nominal amount of the Notes outstanding (**the Required Proportion**) (**Electronic Consent**). Any resolution passed in such manner shall be binding on all Noteholders even if the relevant consent or instruction proves to be defective. None of the Issuer, the Guarantors or the Trustee shall be liable or responsible to anyone for such reliance.

Where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution has been validly passed, the Issuer, the Guarantors and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer, the relevant Guarantor and/or the Trustee, as the case may be, (a) by accountholders in the clearing system with entitlements to such Global Note Certificate and/or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer, the Guarantors and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear or, Clearstream, Luxembourg (the "relevant clearing system") and, in the case of (b) above, the relevant clearing system and the

accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, be conclusive and binding for all purposes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. None of the Issuer, the Guarantors nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Noteholder's Option

So long as the Notes are evidenced by a Global Note Certificate and such Global Note Certificate is held by or on behalf of a clearing system, any option of the Noteholders provided for in the Terms and Conditions of the Notes may be exercised by the holder of the Global Note Certificate giving notice to the Principal Paying Agent within the time limits relating to the deposit of Notes with the Principal Paying Agent set out in the Terms and Conditions of the Notes substantially in the form of the notice available from the Principal Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Global Note Certificate to the Principal Paying Agent for notation.

Exchange for Definitive Certificates

Exchange

Each Global Note Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note Certificate is held by or on behalf of Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) principal in respect of any Notes is not paid when due and payable.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note Certificate for Definitive Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Restricted Global Note Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Definitive Certificates issued in exchange for a beneficial interest in a Restricted Global Note Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Restricted Definitive Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Restricted Definitive Certificate, the Issuer will deliver only Restricted Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-entry Procedures for the Global Note Certificates

For the Notes evidenced by both an Unrestricted Global Note Certificate and a Restricted Global Note Certificate, custodial and depositary links are to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

The Global Note Certificates will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Note Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and, together with Direct Participants, **Participants**) through organisations that are accountholders therein.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a note evidenced by a Global Note Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note Certificate and in relation to all other rights arising under such Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg. The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or holders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes unless and until interests in any Global Note Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note Certificate to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

TAXATION

The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.

Prospective investors in the Notes are advised to consult their own tax advisers as to the tax consequences, under the tax laws of The Netherlands and Ukraine and each country of which they are residents, of a purchase of Notes including, without limitation, the consequences of receipt of interest and sale or redemption of the Notes or any interest therein.

United States Federal Income Taxation

EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain U.S. federal income tax considerations relevant to the acquisition, ownership and disposition of the Notes. This discussion addresses only U.S. Holders (as defined below) who acquire the Notes as a consequence of the Third Scheme, hold the Notes as capital assets and use the U.S. dollar as their functional currency.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the **Code**), final, temporary and proposed U.S. Treasury regulations, administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect.

This discussion is not a complete description of all U.S. federal tax considerations relating to the Notes and does not address state, local, foreign, or other tax laws. In particular, it does not address the tax consequences to U.S. Holders resulting from acquiring the Notes as a consequence of the Third Scheme.

This summary does not address aspects of U.S. federal income taxation that may be applicable to U.S. Holders that are subject to special tax rules, such as U.S. expatriates, "dual resident" companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations or investors, dealers or traders in securities, commodities or currencies, holders that will hold a Note as part of a position in a "straddle" or as part of a "synthetic security" or as part of a "hedging", "conversion", "integrated" or constructive sale transaction for U.S. federal income tax purposes or that have a "functional currency" other than the U.S. dollar, or holders otherwise subject to special tax rules.

Moreover, this summary does not address the U.S. federal estate tax, the 3.8 per cent. Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Holders, and gift or alternative minimum tax consequences of the acquisition, ownership, retirement or other disposition of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as a consequence of the Third Scheme.

Each U.S. Holder should consult its tax advisor with respect to the U.S. federal state, local and foreign tax consequences of acquiring, holding, retiring or other disposition of Notes.

For purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Notes that (a) acquires Notes pursuant to the Third Scheme; (b) holds Notes as capital assets; and (c) is, for U.S. federal income tax purposes:

- (i) a citizen or individual resident of the United States;
- (ii) a corporation organised in or under the laws of the United States or any state thereof (including the District of Columbia);
- (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

- (iv) a trust (1) that validly elects to be treated as a United States person within the meaning of section 7701(a)(30) of the Code for U.S. federal income tax purposes or (2) (a) over the administration of which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the U.S. federal income tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to the U.S. federal income tax consequences of acquiring, holding, retiring or other disposition of Notes.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCE TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes generally will constitute income from sources outside the United States. U.S. Holders should consult their tax advisors concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Prior to 1 January 2019, the Issuer will pay stated interest of at least 2.793 percent on the Notes. Additional amounts of interest up to 6.5795 percent may be paid in cash pursuant to a cash sweep, or, if not paid in cash, will be added to the principal amount of the Notes. A further amount of "catch-up" interest equal to 1.5025 percent may also be paid through the cash sweep. However, if such "catch-up" interest is not paid via the cash sweep, such amount will not be added to the principal amount of the Notes and will not be treated as accrued and unpaid interest due under the Notes. From 1 January 2019 onwards, it is contemplated that interest at a rate of 10.875 percent will be paid in cash.

The U.S. federal income tax treatment of any non-cash interest payments is highly uncertain but in certain circumstances could result in the Notes being treated as original issue discount (**OID**) Notes. In the event the Notes were treated as OID Notes, a U.S. Holder would ordinarily need to include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income and generally would have to include in income increasingly greater amounts of OID over the life of the Notes. The consequences to a U.S. Holder could be even more complicated if it was determined that the Notes were contingent debt obligations.

Treas. Reg. section 1.1272-1(c)(1) provides rules governing yield and maturity of certain debt instruments subject to contingencies that provide for an alternative payment schedule applicable upon the occurrence of a contingency (or contingencies). The rules of Treas. Reg. section 1.1272-1(c)(5), which include certain types of "payment in kind" (**PIK**) transactions, however, apply only if the timing and amounts of the payments that comprise a payment schedule are known as of the issue date. Specifically, under Treas. Reg. section 1.1272-1(c)(5), an Issuer is deemed to exercise or not exercise an option to require payments to be made on a debt instrument under an alternative schedule or schedules in a manner that minimizes the yield on the debt instrument. In this case, it is unclear that the Issuer has such an option (within the meaning of the regulations) since whether certain interest payments are paid in cash or paid in kind is not under the control of the Issuer. Treas. Reg. section 1.1272-1(c)(2), however, provides that if based on all the facts and circumstances as of the issue date, a single payment schedule for a debt instrument is significantly more likely than not to occur, the yield and maturity of the debt instrument are computed based on this payment schedule.

Treas. Reg. section 1.1272-1(c)(1) provides that a debt instrument that provides for a contingency that is not described in Treas. Reg. section 1.1272-1(c) should be analyzed under the contingent debt rules of Treas. Reg. section 1.1275-4. It is possible that the U.S. Internal Revenue Service (**IRS**) might determine that the Notes should be analyzed under the contingent debt rules of Treas. Reg. section 1.1275-4.

The U.S. federal income tax rules regarding OID are extremely complex and fact specific and the Issuer has not taken (and does not intend to take) a position on whether the Notes are issued with OID. U.S. Holders are strongly urged to consult their own tax advisors regarding the possible application of the OID rules to the Notes.

Disposition

Upon the sale, exchange, retirement, or other taxable disposition of a Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement, or other taxable disposition and the U.S. Holder's adjusted tax basis of the Note. A U.S. Holder's adjusted tax basis in a Note will, in general, be the issue price of the Note, increased by OID and any market discount previously included in income, and reduced by any amortized premium and any cash payments previously received on the Note.

Any gain or loss upon a taxable disposition of a Note generally will be treated as U.S. source capital gain or loss. Capital gains of non-corporate U.S. Holders derived in respect of capital assets held for more than one year are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. The treatment amounts received upon a taxable disposition of a Note, however, may be affected by whether the Note was issued with OID. U.S. Holders should discuss the treatment of any gain or loss resulting from a sale or other disposition of a Note with their tax advisor.

Information reporting and backup withholding

Payments of interest and proceeds from the sale, redemption or other disposition of a Note by a U.S. paying agent that are made within the United States or through certain U.S.-related financial intermediaries may be reported to the IRS unless the holder establishes a basis for exemption. U.S. backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise comply with the applicable withholding requirements. A U.S. Holder can claim a credit against U.S. federal income tax liability for amounts withheld under the backup withholding rules, and it can claim a refund of amounts in excess of its liability by timely providing required information to the IRS.

Individual U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Notes not held through an account with certain financial institutions. Investors who fail to report required information could be subject to substantial penalties.

United Kingdom

The following paragraphs are intended as a general guide to current UK tax law as applied in England and Wales and H.M. Revenue & Customs (**HMRC**) published practice (both of which are subject to change at any time, possibly with retrospective effect) in respect of the taxation of interest paid by the Issuer on the Notes and are not intended to be exhaustive. They relate only to persons who are the absolute beneficial owners of the Notes. These paragraphs may not relate to certain classes of Holders (such as persons who are connected with the Issuer, insurance companies, charities, collective investment schemes, investment trusts, venture capital trusts, pension providers or persons who hold the Notes otherwise than as an investment). These paragraphs do not describe the circumstances in which Holders may benefit from an exemption or relief from taxation. These paragraphs assume that neither interest on the Notes nor payments in respect of the Guarantee have a UK source and, in particular, that the Issuer and the Guarantors are neither UK resident nor acting through a UK permanent establishment in relation to the Notes. The paragraphs further assume that there will be no substitution of the Issuer or any Guarantor and do not consider the tax consequences of any such substitution or any other transaction relating to the Notes (including, without limitation, any amendment to their terms). All Holders are recommended to obtain their own professional taxation advice. In particular, non UK resident Holders are advised to consider the potential impact of any relevant double tax agreements. Any Holders who are in doubt as to their own tax position should consult their own professional adviser.

References in this part to "interest" shall mean amounts that are treated as interest for the purposes of UK taxation.

Taxation of Interest

Withholding tax

Interest on the Notes will be payable without withholding or deduction for or on account of income tax in the UK on the basis that interest on the Notes is not expected to have a UK source.

Payments in respect of the Guarantee

On the basis that neither interest on the Notes nor payments in respect of the Guarantee are expected to have a UK source, there should be no UK withholding tax.

Disclosure of Information

HMRC has powers, in certain circumstances, to obtain information about payments derived from securities (whether income or capital), certain payments of interest and securities transactions. For example, any person (i) by or through whom interest is paid or credited, by whom interest is (or is entitled to be) received, or who makes such a payment (received from, or paid on behalf of another person (whether resident in the UK or elsewhere)), or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person, may be required to provide information in relation to the payment (including the amount of the interest, the identity of security and information and documents relating to securities transactions) and the Holder concerned (including name and address) to HMRC on being so required by a notice given to it by HMRC. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. This limitation does not apply to HMRC's power to obtain information about payments derived from securities. In certain circumstances, HMRC may communicate this information to the tax authorities of certain other jurisdictions.

EU Directive on Administrative Cooperation

Directive 2003/48/EC (the **Savings Directive**) was repealed by the Council of the European Union (the **Council**) on 10 November 2015 by virtue of the enactment of Directive 2015/2060/EU. The Savings Directive was replaced by Directive 2014/107/EU (the **Directive on Administrative Cooperation**) which was adopted by the Council in December 2014.

The Directive on Administrative Cooperation entered into force on 1 January 2016, and implements, as between EU Member States, a single global standard developed by the OECD for the automatic exchange of information between tax administrations in relation to interest income and certain other types of income. Austria has agreed transitional arrangements under which it will not apply the Directive on Administrative Cooperation in full until 1 January 2017, but will exchange information by September 2017 on certain categories of accounts, whilst continuing to apply the Savings Directive for other accounts. The EU has negotiated similar agreements incorporating the OECD Global Standard on automatic exchange of information with a number of third countries.

Investors who are in any doubt as to their position should consult their professional advisers.

The Netherlands

The comments below are of a general nature based on taxation law and practice in The Netherlands as at the date of these Listing Particulars and are subject to any changes therein, without prejudice to any amendment introduced at a later date and implemented with or without retroactive effect. The summary relates only to the position of persons who are absolute beneficial owners of the Notes and does not purport to describe all possible tax considerations or consequences that may be relevant to a holder or prospective holder of Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as holders that are subject to taxation in Bonaire, St. Eustatius and Saba or trusts or similar arrangements) may be subject to special rules. The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes and so should be treated with appropriate caution. In particular, it does not take into consideration any tax implications that may arise on a substitution of the Issuer. Prospective investors should consult their own professional advisors concerning the possible tax consequences of purchasing, holding and/or selling Notes and receiving payments of interest, principal and/or other amounts under the Notes under the applicable laws of their country of citizenship, residence or domicile.

Investors should note that with respect to paragraph (b) below, the summary does not describe The Netherlands tax consequences for holders of Notes if such holders, and in the case of individuals, his/her partner or certain of their relatives by blood or marriage in the direct line (including foster children), have a substantial interest or deemed to have a substantial interest in the Issuer under The Netherlands Income Tax Act 2001 (*Wet Inkomstenbelasting 2001*). Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder alone or, in the case of individuals, together with his/her partner (as defined in The Netherlands Income Tax Act 2001), directly or indirectly, holds (i) an interest of five per cent. or more of the total issued and outstanding capital of that company or of five per cent. or more of the issued and outstanding capital of a certain class of shares of that company; or (ii) holds rights to acquire, directly or indirectly, such interest; or (iii) holds certain profit sharing rights in that company that relate to five per cent. or more of the company's annual profits and/or five per cent. or more of the company's liquidation proceeds. A deemed substantial interest arises if a substantial interest (or part thereof) in a company has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Under the existing laws of The Netherlands:

- (a) all payments of interest and principal by the Issuer under the Notes can be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld, or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein;
- (b) a holder of a Note who is not a resident of The Netherlands and who derives income from a Note or who realises a gain on the disposal or redemption of a Note will not be subject to Dutch taxation on such income or capital gain, unless:
 - (i) the holder is deemed to be resident in The Netherlands; or
 - (ii) such income or gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands; or
 - (iii) the holder is an individual and such income or gain qualifies as income from activities that exceed normal active portfolio management in The Netherlands, or the individual acquired the Notes under such circumstances that the Notes can be constituted to aim to reward the individual for his/her activities;
- (c) Dutch gift, estate or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a holder unless:
 - (i) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
 - (ii) the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of the gift or death, is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions;
- (d) there is no Dutch registration tax, stamp duty or any other similar tax or duty payable in The Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgement in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes;
- (e) there is no Dutch value added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note, provided that Dutch value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Dutch value added tax purposes such services are rendered, or are deemed to be rendered, in The Netherlands and an exemption from Dutch value added tax does not apply with respect to such services; and
- (f) a holder of a Note will not be treated as a resident of The Netherlands by reason only of the holding of a Note or the execution, performance, delivery and/or enforcement of the Notes.

Ukraine

General

The following summary is included for general information only. Potential investors in and the Noteholders should consult their own tax adviser as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of these Listing Particulars. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the Noteholders could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as at the date of these Listing Particulars.

Payment under the Surety Agreements

If the Guarantor makes any payments in respect of interest on the Notes (or other amounts due in respect of the Notes), such payments (or a part thereof corresponding to interest under the Notes) are likely to be viewed as Ukrainian source income of the recipient of such payments and, thereby, may be subject to 15 per cent. withholding tax.

Ukrainian tax legislation does not specifically list payments made under the Surety Agreements as Ukrainian source income of the beneficiary of such payments. However, Article 141.4 of the Tax Code contains a catch-all clause, which considers "any other income" of a foreign resident received from carrying out business in Ukraine as Ukrainian source income. It remains uncertain whether the "Ukrainian source income" concept should be applied to the whole amount of payment under the Surety Agreements or only to that amount which corresponds to the unpaid interest under the Notes. The latter interpretation seems to be fair but has not been confirmed by the Ukrainian tax authorities.

If any payments under the Surety Agreements are viewed to be Ukrainian source income and, thereby, subject to 15 per cent. withholding tax, the foreign recipient of such payments may, nevertheless, be exempt from, or enjoy reduced rate of, withholding tax in Ukraine, provided the recipient of such income is (i) a tax resident of a jurisdiction which has a tax treaty with Ukraine, (ii) entitled to the benefits of such tax treaty, (iii) deemed not to carry on business in Ukraine through its permanent establishment, and (iv) the beneficial owner of such income. In order to benefit from the tax treaty regime, confirmation of the current tax residency status of the foreign recipient must be available on or prior to the date of payment of Ukrainian source income.

Under the terms of the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains signed on 10 February 1993 and effective from 11 August 1993 (**Double Tax Treaty**), as it is currently applied, payments by the Guarantors to the Trustee under the Surety Agreements may be exempt from withholding tax in Ukraine, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian law are satisfied. However, there can be no assurance that the exemption from withholding tax is, or will continue to be, available.

Payments to the Trustee under the Surety Agreements would be exempt from Ukrainian withholding tax under the Double Tax Treaty provided that the Trustee (i) is a resident of the United Kingdom for the purposes of the Double Tax Treaty, (ii) is the "beneficial owner" of the payments and (iii) is "subject to tax" in respect of such payments in the United Kingdom. Under applicable Ukrainian law, the Trustee's residence in the United Kingdom for purposes of the Double Tax Treaty will be evidenced by a certificate issued by the taxing authority in the United Kingdom.

The exemption of payments from Ukrainian withholding tax will not be available under the Double Tax Treaty if the Trustee carries on business in Ukraine through a permanent establishment situated therein, and the debt claim in respect of which the payments are made is effectively connected with such permanent establishment.

Ukraine has limited practice of utilizing the concept of "beneficial ownership" of payments. Under the Tax Code, a person that acts as agent, nominal holder (owner) or intermediary in respect of Ukrainian source income would not qualify as the "beneficial owner" of the income. Although the Ukrainian tax authorities did not apply the "beneficial ownership" concept to deny tax treaty benefits to foreign payees in similar transactions in the past, the practice of interpretation or application of this concept in Ukraine is inconsistent, and it cannot be excluded that, based on the above specified provisions of the Tax Code, the Trustee may be viewed by the Ukrainian tax authorities as a person acting as "agent, nominal holder or intermediary" for the Noteholders and, for this reason, the Trustee may fail to satisfy the "beneficial ownership" test in respect of payments under the Surety Agreements. In such event, such payments would not be exempt from the Ukrainian withholding tax, and the Guarantors would be required by the terms of the Surety Agreements to gross-up their payments to compensate the Trustee for such tax withholding. However, a recent interpretation of the Ukrainian tax authorities indicates that tax gross-up provisions like those contained in the Surety Agreements may be seen as contravening the Ukrainian tax law and unenforceable.

In addition, Article 11(7) of the Double Tax Treaty contains a "main purpose" anti avoidance provision, which may apply to that part of payments under the Surety Agreements which corresponds to interest under the Notes. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, if the Ukrainian tax authorities take the position that the main or one of the main purposes of using the United Kingdom as the Trustee's jurisdiction of residence for this transaction was to take advantage of the tax benefits (i.e. exemption of payments from withholding taxation in Ukraine) under the Double Tax Treaty, the tax authorities may potentially invoke the anti avoidance provision of Article 11(7) of the Double Tax Treaty. In such circumstances, there is a risk

that payments to the Trustee under the Surety Agreements would cease to have the benefit of the Double Tax Treaty.

Under applicable Ukrainian law, the Trustee's residence in the United Kingdom for purposes of the Double Tax Treaty will be evidenced by a certificate issued by the taxing authority in the United Kingdom. A new tax residency certificate must be obtained by the Trustee for each calendar year.

Gross-up provisions

If any payments (including payments of premium and interest) under the Surety Agreements are subject to any withholding tax, the Guarantor may, in certain circumstances specified in the Surety Agreements and subject to certain exceptions become obliged to pay such additional amounts as may be necessary so that the net payments received by the Noteholders or the Trustee, as the case may be, will not be less than the amount the Noteholders or the Trustee, as the case may be, would have received in the absence of such withholding. Notwithstanding the foregoing, the Ukrainian tax laws prohibits contractual provisions under which residents undertake to pay taxes for non-residents on their income received from sources in Ukraine. If interpreted broadly, such restriction would also apply to gross-up provisions of the Surety Agreements and obligations of the Guarantors to pay additional amounts thereunder. As a result, the gross-up provisions could be found null and void and, therefore, unenforceable in Ukraine.

Taxation of interest under the Notes paid by the Issuer

Non-residents

Interest received by individuals and companies who are non-tax residents of Ukraine and do not have a permanent establishment in Ukraine (in case of companies) is not subject to taxes in Ukraine, provided that such interest income is derived from sources outside of Ukraine.

Resident individuals

Interest income derived from the Notes, which is received by individuals who are tax residents of Ukraine, is subject to 18 per cent. personal income tax and 1.5 per cent. war tax in Ukraine.

Resident companies/permanent establishments

Any interest income received by resident companies or permanent establishments of non-resident companies is subject to 18 per cent. corporate profit tax.

Transfers of the Notes by non-Ukrainian investors to Ukrainian investors

Ukrainian-sourced capital gains derived from trading securities are generally subject to Ukrainian withholding tax at 15 per cent. in the case of non-resident companies and at the rate of 18 per cent. in the case of non-resident individuals.

Non-resident Noteholders are, therefore, likely to be subject to Ukrainian withholding tax on any capital gain on the disposal of the Notes where the proceeds of such disposal are received from a source within Ukraine that is when Ukrainian investors (residents of Ukraine or permanent establishments of non-residents in Ukraine) pay for the Notes from Ukraine. Non-resident Noteholders may be exempt from Ukrainian withholding tax on their capital gains from the sale of the Notes under applicable tax treaty, provided that they comply with specific requirements set forth therein and the Tax Code.

Other Taxes and Duties

No Ukrainian stamp duty, transfer or any other similar tax will be payable by a Noteholder in respect of the subscription, issue, delivery or transfer of the Notes.

TRANSFER RESTRICTIONS

Restricted Notes

Each transferee of Restricted Notes (subsequent to the initial distribution of the Notes) within the United States will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring such Restricted Notes for its own account, or for the account of one or more QIBs, and (c) aware, and each beneficial owner of the Restricted Notes has been advised, that the sale of the Restricted Notes to it is being made in reliance on Rule 144A.
2. The Restricted Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to another available exemption from, or transaction not subject to, registration under the Securities Act or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States and it will, and each subsequent holder of the Restricted Notes is required to, notify any investor in the Restricted Notes from it of the resale restrictions on the Restricted Notes.
3. The Restricted Notes, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend (the **Rule 144A Legend**) in or substantially in the following form:

THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A **QIB**) THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT (**RULE 144**), IF AVAILABLE, (4) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE NOTES.

4. It understands that the Issuer, each Registrar and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
5. It understands that the Restricted Notes will be represented by a Restricted Global Note Certificate. Before any interest in a Restricted Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note Certificate it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective investors are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each transferee of Unrestricted Notes (subsequent to the initial distribution of the Notes) will be deemed to have represented, agreed and acknowledged that:

- It is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- It understands that such Unrestricted Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred from the United States except pursuant to an exemption from, or transaction not subject to registration under the Securities Act.
- It understands that the Issuer, each Registrar and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

DESCRIPTION OF INDEBTEDNESS AND THE THIRD SCHEME

Current indebtedness

As of the date of these Listing Particulars, the Issuer's indebtedness comprises:

Debt securities

The Issuer's debt securities are summarised below.

Metinvest 10.25 per cent. Notes due 2016. On 20 May 2010, the Issuer issued the 2016 Notes in an aggregate principal amount of U.S.\$500 million. The original maturity date of the 2016 Notes was 20 May 2015. The maturity date was amended to 31 January 2016 following a successful consent solicitation in June 2015. The 2016 Notes (of which U.S.\$89,749,736.98 million was outstanding as at 30 November 2016 after capitalisation of unpaid interest in accordance with the Previous Schemes (as defined below)) bear interest at a rate of 10.25 per annum and fell due on 31 January 2016.

Metinvest 10.50 per cent. Notes due 2017. On 28 November 2014, the Issuer issued the 2017 Notes under its U.S.\$1.5 billion guaranteed medium term note programme in an aggregate amount of U.S.\$289.7 million as a result of an exchange offer in which the Issuer exchanged U.S.\$386,349,000 in aggregate principal amount of the 2016 Notes for a combination of U.S.\$289.7 million of new 2017 Notes and cash consideration of U.S.\$97 million. An aggregate amount of U.S.\$305,119,441.21 million of the 2017 Notes was outstanding as at 30 November 2016 (after capitalisation of unpaid interest in accordance with the Previous Schemes). The 2017 Notes bear interest at 10.5 per cent. per annum payable semi-annually in arrear and are due and payable in four equal instalments. The first and second instalments fell due on 28 May 2016 and 28 November 2016 respectively and remain unpaid. The remaining instalments fall due on 28 May 2017 and 28 November 2017.

Metinvest 8.75 per cent. Notes due 2018. On 14 February 2011, the Issuer issued the 2018 Notes under its then U.S.\$1 billion guaranteed medium term note programme in an aggregate amount of U.S.\$750 million (of which U.S.\$792,336,451.07 million was outstanding as at 30 November 2016 after capitalisation of unpaid interest in accordance with the Previous Schemes). The 2018 Notes bear interest at a rate of 8.75 per cent. per annum payable semi-annually in arrear and mature on 14 February 2018.

The Existing Notes are unsecured obligations of the Issuer ranking *pari passu* as between themselves. The Existing Notes are guaranteed on a joint and several basis by the same operating subsidiaries of the Issuer in respect of each series of Existing Notes. From 1 April 2016, the Existing Notes also have the benefit of the suretyships granted by Ilyich Steel by way of deed poll in favour of the trustees of each series of the Existing Notes to guarantee the due payment of all sums expressed to be payable by the Issuer under the applicable series of Existing Notes and the provisions of the applicable trust deed in so far as they relate to those Existing Notes.

The 2016 Notes fell due on 31 January 2016. The 2017 Notes are due and payable in four equal instalments, the first and second of which fell due on 28 May 2016 and 28 November 2016 respectively and the remaining instalments fall due on 28 May 2017 and 28 November 2017. The 2018 Notes fall due on 14 February 2018. Under the Second Moratorium Scheme (as defined below), the Noteholders were prevented from taking enforcement action in respect of certain declared events of default under their Existing Notes, (unless agreed scheme termination events occurred (which they did not)), until 30 November 2016. Following the non-payment of the principal amount of the 2016 Notes, a payment default is currently outstanding in respect of the 2016 Notes and corresponding cross-defaults occurred under the 2017 Notes and the 2018 Notes. Additional payment defaults and corresponding cross-defaults occurred on 28 May 2016 and 28 November 2016 in relation to non-payment of interest under the 2017 Notes. Following the termination of the Second Moratorium Scheme on 30 November 2016, the existing trustee of each series of the Existing Notes may, at its discretion and if so requested by holders of at least one-fifth in principal amount in respect of each series of the Existing Notes then outstanding, or if so directed by an extraordinary resolution of the relevant Noteholders shall, give notice to the Issuer that the corresponding Existing Notes are, and they shall immediately become, due and payable together with accrued interest.

Existing PXF Facilities

Syndicated U.S.\$300 Million Pre-export Finance Facility. On 13 November 2013, the Issuer entered into a U.S.\$300 million PXF facility agreement (of which approximately U.S.\$307 million was outstanding as at 30 November 2016 following the compounding of unpaid interest in accordance with the PXF standstills. See "*The PXF Standstills*".

Syndicated U.S.\$560 Million Pre-export Finance Facility. On 21 November 2012, the Issuer entered into a PXF facility agreement for an initial amount of U.S.\$300 million. On 4 April 2013, the Issuer entered into an amendment agreement to increase the amount of the U.S.\$300 million PXF facility agreement to U.S.\$560 million (of which approximately U.S.\$225 million was outstanding as at 30 November 2016 following the compounding of unpaid interest in accordance with the PXF standstills).

Syndicated U.S.\$325 Million Pre-export Finance Facility. On 25 May 2012, the Issuer entered into the U.S.\$325 million PXF facility agreement (of which approximately U.S.\$50 million was outstanding as at 30 November 2016 following the compounding of unpaid interest in accordance with the PXF standstills).

Syndicated U.S.\$1 Billion Pre-export Finance Facility. On 4 August 2011, the Issuer entered into a PXF facility agreement for an initial amount of U.S.\$850 million. On 10 November 2011, the Issuer entered into an amendment agreement to increase the amount of the U.S.\$850 million PXF facility agreement to U.S.\$1 billion (of which approximately U.S.\$521 million was outstanding as at 30 November 2016 following the compounding of unpaid interest in accordance with the PXF standstills).

The Existing PXF Facilities provide for monthly amortisation instalments. Due to the effects of the civil disturbances, political instability and decline in iron ore and steel prices, as well as an inability of the Issuer to refinance its debts through the international capital markets, the Issuer ceased paying in full the monthly amortisation instalments and interest under its Existing PXF Facilities falling due since 10 February 2015. As a consequence, payment defaults under the Existing PXF Facilities in a total amount of approximately U.S.\$932 million as at 30 November 2016 have occurred.

The Existing PXF Facilities have the benefit of suretyships issued by Ingulets GOK and Ilyich Steel. The Existing PXF Facilities also benefit from a security structure consisting of (a) an assignment (from both Metinvest International and the relevant operating company) of separate inter-company export contracts with each of Azovstal, Ingulets GOK and Yenakieve I&SW; (b) an assignment (from the relevant operating company) of separate inter-company commission agreements between each of (i) Azovstal and Northern GOK and (ii) Yenakieve I&SW and Ingulets GOK; and (c) pledges over the relevant Metinvest International (as an offtaker under the export contracts) bank accounts and pledges over the Ukrainian bank accounts of each of Azovstal, Ingulets GOK and Yenakieve I&SW. Each Existing PXF Facility also contains obligations on the Issuer (as varied by the PXF standstills) to procure that a certain amount of steel product is put through this security structure. The three PXF syndicates other than the U.S.\$1 billion PXF syndicate have an assignment of an export contract and a commission agreement relating to Ilyich Steel and a pledge from Ilyich Steel over a Ukrainian bank account. The U.S.\$1 billion PXF syndicate does not have this security from and relating to Ilyich Steel.

Since February 2015, except to the limited extent agreed in the PXF standstills, no money has been paid to the pledged accounts and no deliveries have been made pursuant to the assigned export contracts and commission agreements. Following the expiry of the PXF standstills on 30 November 2016 the Issuer is continuing to apply the security structure agreed in the PXF standstills, although it is no longer legally obliged to do so. The current position is therefore that, save to the limited extent agreed in the PXF standstills, no assets of any member of the Group are in fact currently subject to any of the security constituted by the assigned export contracts and commission agreements and the pledged bank accounts.

Deutsche Bank EUR25 Million Loan Facility (ECA Facility)

On 6 August 2012, the Issuer entered into the ECA Facility. The loan has the benefit of a suretyship issued by Ingulets GOK. The facility is repayable in equal semi-annual instalments by 10 July 2022. Payment defaults under the Existing PXF Facilities and the Existing Notes have caused the occurrence of cross defaults under the ECA Facility. In order to obtain the last tranche under this facility in the amount of €3.8 million, these cross defaults were waived initially until 30 June 2015 and then such waiver was extended several times until 30 June 2016. The final tranche was drawn down on 28 August 2015. As at 30 November 2016, the amount outstanding under the ECA Facility was approximately €18 million.

A principal repayment under the ECA Facility in the amount of approximately €1.5 million was made on 27 December 2016. The Issuer anticipates that it will obtain further bilateral waivers of cross defaults under the ECA Facility to the extent necessary.

Trade finance facilities

The Group uses trade finance facilities to finance purchases of inventory and receivables. Those facilities are short term, uncommitted and can be cancelled by the relevant banks at very short notice, and do not permit redrawing any amounts. The Group uses trade lines with average interest rates of 3.00 per cent. per annum, and the maturity of its trade lines generally have terms of less than one year. The majority of these trade lines are drawn by Metinvest International, the main trading company of the Group. The Group's trade lines are typically secured by pledges of inventories and/or the assignment of export proceeds.

Syndicated Coal Trade Finance Facility. On 1 February 2011, United Coal entered into a facility agreement for a senior structured coal trade finance facility of up to U.S.\$50 million as amended and/or restated from time to time (the **UCC Facility**) between, among others, the Issuer as guarantor and Deutsche Bank, Amsterdam Branch as Agent and Security Agent. There were no amounts outstanding under the UCC Facility as at 30 November 2016. The Issuer anticipates that the UCC Facility will be further amended and restated on or prior to the implementation of the Third Scheme (as defined below).

Non-bank borrowings

Shareholder loans. The Issuer had outstanding shareholder loans from related parties in an aggregate amount of U.S.\$422 million as at 30 November 2016, including principal of U.S.\$369 million and interest accrued of U.S.\$53 million. The original amount of the relevant facilities was U.S.\$444 million consisting primarily of amounts outstanding under a U.S.\$333 million loan granted by a party related to the SCM Group under an agreement dated 3 April 2014 and a U.S.\$111 million loan granted by a party related to SMART under an agreement dated 3 April 2014, each of which bears interest at 9.5 per cent. per annum and is due to mature on 30 April 2017. These shareholder loans were provided to the Issuer for short-term liquidity purposes in April-May 2014. U.S.\$75 million of the outstanding principal amount was repaid in July 2014. These shareholder loans were subject to subordination arrangements in favour of lenders under the PXF Facility Agreement (the **PXF Lenders**) and the Noteholders which expired in accordance with their terms on 30 November 2016. It is a condition precedent to the occurrence of the Scheme Settlement Date that permanent subordination arrangements in relation to these shareholder loans are put in place.

Seller Notes

In April 2009, Metinvest U.S., Inc. (Metinvest US) a wholly owned subsidiary of the Issuer, acquired 100 per cent. of the share capital of UCC, a producer of coking and steam coal located in the United States. Part of the acquisition price is payable pursuant to subordinated seller notes (the **UCC Seller Notes**) which were originally repayable in semi-annual instalments through 31 December 2015. The UCC Seller Notes were issued by UCC and Metinvest US and guaranteed by the Issuer but are expressed to be subordinated to certain of the Group's other indebtedness. The UCC Seller Notes are also secured by a pledge over the shares of UCC, a pledge over the shares of Pocahontas Coal Company LLC (**Pocahontas**) and certain other asset security granted by Pocahontas. The outstanding principal amount under the UCC Seller Notes as at 4 January 2017 was approximately U.S.\$89.6 million.

A restructuring of the UCC Seller Notes came into effect on 4 January 2017. Following the restructuring, the UCC Seller Notes (i) accrue interest of 9 per cent. per annum, (ii) mature on 31 December 2021, (iii) benefit from a cash sweep based on coal sales made by UCC to be applied in reduction of principal amounts outstanding under the UCC Seller Notes and (iv) benefit from an obligation of the Issuer to pay to the holders of the UCC Seller Notes (through their representative) a rateable amount of the cash available to be swept pursuant to the cash sweep provisions of the Intercreditor Agreement to be applied only to outstanding capitalised interest.

Metinvest International loan. The Issuer also has short term borrowings under the loan provided by Metinvest International. The Metinvest International loan became due and payable on 30 June 2016. The aggregate amount outstanding under the Metinvest International loan was U.S.\$253 million as at 30 November 2016. On 22 December 2016, the Issuer agreed a rescheduling of the Metinvest International loan until 30 June 2017.

The PXF standstills

On 1 December 2015, the Issuer entered into the PXF standstill with certain PXF Lenders which provided for a forbearance on the taking of enforcement action or the initiation of insolvency proceedings in respect of certain declared events of default by the PXF Lenders who signed the PXF standstill until 29 January 2016. The effective date of the PXF standstill occurred on 22 December 2015. On 2 March 2016, the Issuer entered into the PXF standstill extension. The PXF standstill extension, among other things, extended the standstill period under the PXF standstill until 27 May 2016. The effective date of the PXF standstill extension occurred on 1 April 2016. Following

the publication of a non-binding restructuring heads of terms on 25 May 2016 (the **Non-Binding Restructuring Heads of Terms**), the Issuer entered into the second PXF standstill extension on 24 June 2016, which originally extended the standstill period under the PXF standstill until 30 September 2016. On 26 September 2016, the standstill period under the second PXF standstill extension was extended until 30 November 2016.

Previous schemes

The Third Scheme has been preceded by the First Moratorium Scheme and the Second Moratorium Scheme (each as defined below and together, the **Previous Schemes**). The purpose of the Previous Schemes was to provide for a moratorium on enforcement action by the Noteholders while the Issuer negotiated and documented a restructuring proposal in relation to the Existing Notes and the Existing PXF Facilities. The Previous Schemes each provided for a moratorium on enforcement action by the Noteholders in respect of certain declared events of default under their Existing Notes. The first moratorium scheme provided for a moratorium until 27 May 2016 (the **First Moratorium Scheme**).

The Non-Binding Restructuring Heads of Terms was agreed between the Issuer, an ad hoc noteholder committee and a co-ordinating committee of lenders under the Existing PXF Facilities (the **PXF CoCom**) on 24 May 2016 and was appended to the practice statement letter for the Second Moratorium Scheme (as defined below). The practice statement letter for the Second Moratorium Scheme was sent to the Noteholders and published on a public website in relation to the Second Moratorium Scheme on 25 May 2016. The Second Moratorium Scheme was sanctioned by the court on 30 June 2016 and was originally effective until 30 September 2016 but was subsequently extended until 30 November 2016 (the **Second Moratorium Scheme**).

Arrangements for December 2016 and January 2017

In an ISE announcement dated 30 November 2016, the Issuer stated that notwithstanding the occurrence of the termination of the Second Moratorium Scheme on 30 November 2016, the Issuer intended to continue complying with the continuing obligations contained in the scheme undertakings until the earlier of:

- (a) the date on which the implementation of the proposed restructuring occurs;
- (b) 31 January 2017, if the implementation of the proposed restructuring has not occurred by 31 January 2017; and
- (c) the date on which any Noteholder or the Existing Trustee takes any action which would, if such action was taken during the moratorium period, constitute a breach of the Second Moratorium Scheme,

and for this purpose 31 December 2016 and, if applicable, 31 January 2017 would be treated as further determination dates for the purposes of paragraphs 4, 5 and 8 of schedule 1 (*Scheme Undertakings*) to the Second Moratorium Scheme.

On 19 October 2016, the Issuer confirmed to the PXF CoCom that it would comply with the corresponding obligations referred to above under the PXF standstills which are in the Issuer's control until 31 December 2016 as long as no creditor takes enforcement action.

Restructuring and the Third Scheme

On 23 December 2016, the Issuer published a practice statement letter in relation to a third scheme of arrangement (the **Third Scheme**). The purpose of the Third Scheme is to implement a restructuring of the Existing PXF Facilities and the Existing Notes on the basis set out in the Non-Binding Restructuring Heads of Terms. Key terms of the Third Scheme and the primary restructuring documents (and certain ancillary documents) and arrangements are described in detail below.

Lock-Up Agreements

On 23 December 2016, the Issuer announced that it had entered into a noteholder lock-up agreement with certain Noteholders, including certain members of the noteholder committee (the **Noteholder Lock-Up Agreement**). As at 12 January 2017, the Noteholders representing in aggregate approximately 65 per cent. of the outstanding principal amount of the Existing Notes have signed or acceded to the Noteholder Lock-Up Agreement.

Each Noteholder has been offered the opportunity to sign or accede to the Noteholder Lock-Up Agreement pursuant to which, among other things, Noteholders who become a party to the Noteholder Lock-Up Agreement agree to support and vote (or instruct any proxy appointed by it to vote) in favour of the Third Scheme. In exchange for the consenting Noteholders performing their obligations under the Noteholder Lock-up Agreement, the Issuer has agreed to, amongst other things, comply with the continuing obligations referred to above and pay (i) the relevant Noteholder a lock-up fee in the manner described below and (ii) pay the Notes restructuring fee in the manner described in the practice statement letter for the Third Scheme.

Each Noteholder who signs the Noteholder Lock-up Agreement by 16 January 2017 (being the **Lock-up Fee Deadline**) (the **Deadline Consenting Noteholders**) is offered a lock-up fee of U.S.\$7.50 per U.S.\$1,000 on their locked-up Existing Notes (**Locked-up Notes**) (which includes (a) the outstanding principal amount, (b) the outstanding capitalised interest and (c) any accrued unpaid uncapped interest, in each case at the Scheme Settlement Date in respect of the Existing Notes held by each Deadline Consenting Noteholder as at the Record Date but which excludes, for the avoidance of doubt any capitalised interest and any accrued unpaid uncapped interest which is repaid on the Scheme Settlement Date. In addition, provided the Deadline Consenting Noteholders hold in aggregate, Locked-up Notes in the aggregate principal amount of more than 75 per cent. of the Existing Notes held by all Noteholders on the Lock-up Fee Deadline, the Deadline Consenting Noteholders as at the Record Date will be entitled to receive a rateable share in respect of their Locked-up Notes of an additional fee, equal to U.S.\$7.50 per U.S.\$1,000 principal amount in respect of Existing Notes which were not Locked-up Notes at the Lock-up Fee Deadline.

On 23 December 2016, the Issuer announced that it had entered into the PXF lock-up agreement with certain PXF Lenders (the **PXF Lock-Up Agreement**). As at 12 January 2017, PXF Lenders representing in aggregate approximately 68 per cent. of the outstanding Existing PXF Facilities have signed or acceded to the PXF Lock-Up Agreement.

Each PXF Lender has been offered the opportunity to sign or accede to the PXF Lock-up Agreement, pursuant to which, among other things, PXF Lenders who become a party to the PXF Lock-up Agreement agree to support and vote (or instruct any proxy appointed by it to vote) in favour of the Third Scheme. In exchange for the consenting PXF Lenders performing their obligations under the PXF Lock-up Agreement, the Issuer has agreed to, amongst other things, comply with the continuing obligations referred to above and with certain other restrictions in relation to monthly capital expenditure and interest payments and the granting of security and pay (i) the relevant PXF Lenders a lock-up fee in the manner described in below and (ii) pay the PXF restructuring fee in the manner described in the practice statement letter for the Third Scheme.

In exchange for performing its obligations under the PXF Lock-up Agreement, each PXF Lender who signs the PXF Lock-up Agreement by the Lock-up Fee Deadline (the **Deadline Consenting PXF Lenders**) is offered a lock-up fee of U.S.\$7.50 per U.S.\$1,000 on their locked-up debt (**Locked-up Debt**) (which includes, accrued unpaid uncapitalised interest at the Scheme Settlement Date in respect of the PXF debt held by each Deadline Consenting PXF Lender as at the Record Date but which will exclude, for the avoidance of doubt, any accrued unpaid uncapitalised interest and any interest which has previously been compounded and in each case which is repaid on the Scheme Settlement Date). In addition, provided the Deadline Consenting PXF Lenders hold in aggregate, Locked-up Debt in the aggregate principal amount of more than 75 per cent. of the PXF debt held by all PXF Lenders on the Lock-up Fee Deadline, the Deadline Consenting PXF Lenders as at the Record Date will be entitled to receive a rateable share in respect of their locked-up debt of an additional fee, equal to U.S.\$7.50 per U.S.\$1,000 principal amount in respect of PXF debt which is not Locked-up Debt at the Lock-up Fee Deadline.

The lock-up fees for the Noteholder Lock-Up Agreement and the PXF Lock-Up Agreement are payable one calendar month after the Scheme Settlement Date.

Scheme of arrangement

The English court will be asked, at a convening hearing currently expected to be held on 17 January 2017, to grant permission to the Issuer to convene scheme meetings for the purpose of considering and, if thought fit, approving the Third Scheme. The court will be requested to order that scheme creditors vote on the Third Scheme in two separate class meetings. There will be one class meeting for the notes scheme creditors and a separate class meeting for the PXF scheme creditors. In order to be implemented the Third Scheme will need to be approved by:

- (a) a majority in number representing at least 75 per cent. in value of the scheme claims of the Existing Notes scheme creditors present and voting either in person or by proxy at the notes scheme meeting; and

- (b) a majority in number representing at least 75 per cent. in value of the scheme claims of the PXF scheme creditors present and voting either in person or by proxy at the PXF scheme meeting.

If the requisite majorities are achieved at the scheme meetings, a further hearing will be held for the court to consider sanctioning the Third Scheme. The Issuer expects that the sanction hearing in respect of the Third Scheme will take place on 8 February 2017. The Third Scheme will become effective in accordance with its terms and will be binding on the Issuer and the scheme creditors when the order of the court sanctioning the Third Scheme is delivered to the Registrar of Companies. The Third Scheme will not, however, be implemented until a number of conditions precedent have been satisfied. See "*Conditions Precedent to Closing*". It is currently anticipated that satisfaction of these conditions precedent will take approximately three weeks following the sanction hearing.

Scheme Effective Date

On delivery of the court order sanctioning the Third Scheme to the Registrar of Companies, the Third Scheme will become effective (such date, being the Scheme Effective Date). On the Scheme Effective Date, the scheme creditors will:

- (a) direct each party to the restructuring documents to execute and do all such acts or things necessary to give effect to such restructuring documents; and
- (b) authorise, request and instruct the Issuer to execute and do all such acts or things necessary to give effect to the terms of the Third Scheme, including executing certain documents on behalf of the scheme creditors.

Certain third parties will also execute undertakings in favour of the court and the Issuer pursuant to which they will undertake and agree, among other matters, to perform those actions which they are required to perform in accordance with the terms of the Third Scheme and, where necessary, be bound by the terms of the Third Scheme as sanctioned by the court.

Conditions Precedent to Closing

Under the Third Scheme, various conditions precedent must be satisfied (or waived) prior to the closing of the restructuring, including:

- (a) subordination of shareholder loans made to the Issuer;
- (b) a restructuring of the UCC Seller Notes; and
- (c) satisfaction (or waiver) of all conditions precedent to the effectiveness of (i) the amendment and restatement agreement in relation to the Existing PXF Facilities and (ii) the trust deed constituting the Notes (including, in each case, the implementation of the corporate reorganisation to effect the Intermediate Holdco structure, and the execution of the relevant transaction documents and security documents).

Scheme Closing and Scheme Settlement Date

Once all conditions precedent have been satisfied (or waived), the Issuer will notify the relevant parties of the intended closing date of the Restructuring (such date to be the Scheme Settlement Date). Under the Third Scheme, the Scheme Settlement Date must occur on or before the Longstop Date. The Third Scheme provides for the following treatment of the Existing Notes and the Existing PXF Facilities on the Scheme Settlement Date:

- (a) the notes scheme creditors will release and discharge all rights to principal and accrued interest in respect of the Existing Notes (together with all of their other scheme claims);
- (b) each existing Noteholder will be issued a principal amount of Notes *equal* to the aggregate of the principal amount of the Existing Notes held by that existing Noteholder immediately prior to the Scheme Settlement Date and the outstanding capitalised interest and accrued unpaid interest in respect of such amount of Existing Notes at that time;
- (c) the Existing PXF Facilities will be amended and varied as provided on the terms set out in the restructuring documents relating to the Existing PXF Facilities; and

- (d) each PXF scheme creditor will be allocated a principal amount of the PXF Facility Agreement equal to the aggregate of the principal amount of the Existing PXF Facilities held by that PXF scheme creditor immediately prior to the Scheme Settlement Date and the outstanding compounded interest and outstanding accrued unpaid interest at that time.

Each of the above steps will take place in accordance with the terms of the Scheme and will be effected by the Scheme and the relevant restructuring documents which will come into effect on the Scheme Settlement Date.

The distribution of the Notes and any fees due to the Noteholders will be effected in accordance with the terms of the Third Scheme and a distribution agreement between, among others, the Issuer, the notes scheme creditors and the information agent for the restructuring.

Interest

Interest on the Existing Notes and the Existing PXF Facilities will continue to be paid in accordance with the terms of the Previous Schemes in relation to the Existing Notes and PXF standstills until 31 January 2016.

Additionally:

- (a) at least 30 per cent. of any interest which accrues and is unpaid between 31 January 2016 and the Scheme Settlement Date will be paid in cash to the holders of the Existing Notes and the lenders under the Existing PXF Facilities on the Scheme Settlement Date. This cash payment will reduce the amount of accrued but unpaid interest during that period to be capitalised and issued as the principal amount of the Notes or be allocated as a principal amount of the PXF Facility Agreement, as applicable; and
- (b) the Company may elect to repay on the Scheme Settlement Date to holders of the Existing Notes and lenders under the Existing PXF Facilities an amount up to the total amount of outstanding capitalised or compounded interest in respect of the Existing Notes and the Existing PXF Facilities respectively and such repayment will reduce the amount of accrued but unpaid interest during to be capitalised and issued as the principal amount of the Notes or be allocated as a principal amount of the PXF Facility Agreement, as applicable on the Scheme Settlement Date.

See "*Scheme Closing and Scheme Settlement Date*".

Fees

Under the Third Scheme, each Noteholder and each PXF lender will be entitled to be paid a restructuring fee equal to the amount agreed in the Non-Binding Restructuring Heads of Terms and such fees will be due on the Scheme Settlement Date.

Deed of Release

A deed of waiver and release will be scheduled to the Third Scheme and executed by the scheme creditors on the Scheme Effective Date. Under this deed, the scheme creditors will waive, release and discharge fully and absolutely all liabilities of, and any claim against, among others, the Issuer, its directors, members and certain advisory parties to the scheme creditors in relation to or in connection with the preparation, negotiation or implementation of the Third Scheme. Each such release, waiver and discharge will not extend to any liabilities of such persons arising under a duty of care to such person's client or arising out of or resulting from gross negligence, wilful default or fraud.

Corporate Re-organisation

As agreed in the Non-Binding Restructuring Heads of Terms, the Group will implement certain corporate re-organisation arrangements as described below. A Dutch holding company, the Intermediate Holdco, has been incorporated as a wholly owned subsidiary of the Issuer and the Group's interests in Ingulets GOK (approximately 99.8 per cent. of the issued share capital) and Ilyich Steel (approximately 99.3 per cent. of the issued share capital) and 50 per cent. plus one share of the issued share capital of Central GOK will be transferred to the Intermediate Holdco. A share pledge over the Issuer's shares in the Intermediate Holdco, and share pledges over certain of the Intermediate Holdco's shares in each of Ingulets GOK, Ilyich Steel and Central GOK (in each case being a pledge over 50 per cent. plus one share of the issued share capital of the relevant company), will be made in favour of the common security agent under the Intercreditor Agreement as collateral for the obligations arising under the Notes

and the PXF Facility Agreement. Certain receivables, account and equipment security will also be granted in favour of the common security agent, as described further below.

PXF Facility Agreement

General. The Issuer will enter into an amendment and restatement agreement with, among others, the PXF Agent, the Offshore Security Agent and the Local Security Agent (the **Amendment and Restatement Agreement**). Subject to the satisfaction of certain conditions precedent, on the Scheme Settlement Date, the Existing PXF Facilities will be restated (the **PXF Facility**) pursuant to and on the terms documented in the amended and restated PXF facility agreement (the **PXF Facility Agreement**) and the aggregate amount of outstanding principal and all unpaid interest (including default interest) which has accrued under the Existing PXF Facilities, whether or not the interest has previously been compounded, shall, as at the Scheme Settlement Date, be restated as the new principal amount of the PXF Facility Agreement.

Security. The following security will be provided in respect of the PXF Facility Agreement (see "*PXF-only Security*"):

- (a) security assignments granted by Azovstal, Ilyich Steel, Ingulets GOK, Yenakieve I&SW, Northern GOK and Metinvest International in respect of their respective rights under certain export contracts and offtake contracts;
- (b) pledges of rights granted by Ingulets GOK and Northern GOK in respect of their respective rights under certain commission agreements; and
- (c) pledges of rights in relation to certain bank accounts granted by Metinvest International, Azovstal, Yenakieve I&SW, Ilyich Steel and Ingulets GOK.

Guarantees and Sureties. Each of Ilyich Steel and Ingulets GOK will enter into a new English law governed uncapped suretyship agreement. Under each such suretyship agreement, the surety will undertake to ensure the punctual performance by each other transaction party of its obligations under the finance documents and, if a transaction party fails to pay any amount when due under or in connection with any finance document, the surety undertakes to pay such amounts as if it were the principal obligor.

Commercial Contracts. On the Scheme Settlement Date, Azovstal, Ilyich Steel, Ingulets GOK, Yenakieve I&SW, Northern GOK and Metinvest International will amend and restate certain commercial contracts in respect of the sale, delivery and export of commodities between those parties and to eligible third party offtakers (the **Commercial Contracts**). The Commercial Contracts must satisfy certain eligibility criteria (including in relation to tenor, specification, payment terms, jurisdiction and arm's length terms) and certain ongoing requirements (including in relation to relevant representations, no material breach and requirements in respect of offtakers). The relevant Group companies will grant security over their rights under the Commercial Contracts. See "*PXF-only Security*".

Fees. The Issuer is required to pay an agency fee to the PXF Agent and security fees to the Offshore Security Agent and Local Security Agent (in amounts and at times to be agreed between the parties). These fees will be documented in separate fee letters.

Interest Calculation and Payment (Initial period and Subsequent Period). The rate of interest on the loan for each interest period is the percentage rate per annum which is the aggregate of 4.16 per cent. per annum and LIBOR for U.S.\$ with a one per cent. floor, of which:

- (a) during the Initial Period, (i) a minimum of 30 per cent. is to be paid in cash in all circumstances, payable monthly, (ii) up to 70 per cent. of the remaining interest (the **PXF PIYC Interest Amount**) is payable through cash sweep pro rata with the interest accrued on the Notes and, to the extent not paid in cash, interest is capitalised and added to the principal amount of the PXF Facility Agreement with effect from the last day of the relevant interest period; and
- (b) during the Subsequent Period, all interest is payable in cash in all circumstances.

Default interest provisions apply. There is an adjustment mechanism to deal with interest accruing under the Existing PXF Facilities prior to the Scheme Settlement Date.

Repayment (Initial Period and Subsequent Period). The final repayment date under the PXF Facility Agreement is 30 June 2021. Repayments of principal are to be made as follows:

- (a) during the Initial Period, repayments are to be made in accordance with the cash sweep provisions set out in the Intercreditor Agreement (see "*—Intercreditor Agreement*");
- (b) during the Subsequent Period, the Issuer will repay on each of 18 February, 18 May, 18 August and 18 November (each a **Cash Sweep Payment Date**) the aggregate of:
 - (i) the amount specified next to the applicable Cash Sweep Payment Date below:

	No. of Cash Sweep Payment Date falling during Subsequent Period									
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Amount in million U.S.\$	45.3	45.3	70.3	70.3	70.3	70.3	100.3	100.3	100.3	100.3

- (ii) an amount equal to (A) the amount of interest that would have accrued on the loan during the period commencing on the immediately preceding Cash Sweep Payment Date and ending on the Cash Sweep Payment Date falling during the Subsequent Period using an assumed interest rate equal to 10.875 per cent. per annum, less (B) the aggregate interest that actually accrued on the loan during that period; and
 - (iii) the amount (if any) that is allocated to repay the loan on that Cash Sweep Payment Date in accordance with the Intercreditor Agreement.

Voluntary Prepayment. Subject to the terms of the Intercreditor Agreement, the PXF Facility Agreement may be prepaid in whole or in part by a minimum amount of U.S.\$10 million and integral multiples of U.S.\$5 million.

Mandatory Prepayment. Illegality. The lenders have an individual right to require mandatory prepayment for illegality (including as a result of any trade, economic or financial sanctions enacted, administered or enforced by the United Nations, the US, Switzerland, the United Kingdom; or the European Union or member state from time to time thereof).

Mandatory Prepayment. Change of Control. The majority PXF Lenders have a right to require mandatory prepayment in full if (i) the Parent, SMART and the legal representatives of either of the foregoing and the trustees of bona fide trusts of which the foregoing are the only beneficiaries (the **Permitted Holders**) cease to own at least 75 per cent. plus one of the issued share capital of the Issuer; or (ii) any holding company or companies directly or indirectly controlled by Mr. Rinat Akhmetov for the purpose of holding investments in the Issuer, being, as of the Effective Date, SCM (System Capital Management) Limited (Cyprus) (the **Parent**) ceases to control the Issuer or own more than 50 per cent. of the issued share capital of the Issuer, (in each case excluding share capital that carries no right to participate beyond a specified amount in a distribution of profits or capital) (a **Change of Control**) or (iii) there is a sale of substantially all the assets of the Group.

Mandatory Prepayment. Other. If any member of the Group:

- (a) incurs any financial indebtedness which is not permitted under the PXF Facility Agreement;
- (b) receives any insurance proceeds, other than any Excluded Insurance Proceeds (as defined below) (but excluding any threshold insurance proceeds in respect of any claim or series of related claims which in aggregate are equal to or greater than U.S.\$100 million (or its equivalent));
- (c) sells, leases, transfers or otherwise disposes of any asset where such disposal constitutes a relevant disposal,

pursuant to the terms of the PXF Facility Agreement, the relevant amount must be paid into the debt service account and applied in accordance with the Intercreditor Agreement (see "*—Intercreditor Agreement*").

Excluded Insurance Proceeds means proceeds which are:

- (a) less than U.S.\$30 million (or its equivalent) in relation to any individual claim (provided that to the extent that the aggregate amount of all such insurance proceeds during any calendar year exceeds U.S.\$50 million

(or its equivalent) the amount by which such insurance proceeds exceed U.S.\$50 million (or its equivalent) shall not be treated as "excluded insurance proceeds"); or

- (b) to be applied within twelve months of receipt in the replacement, reinstatement and/or repair of the charged property in respect of which they were received.

Representations and Warranties. The PXF Facility Agreement contains representations by the Issuer (certain of which will repeat) on:

- (a) status, binding obligations, non-conflict with other obligations, power and authority, validity and admissibility in evidence, governing law and enforcement, insolvency, no filing or stamp taxes, deduction of tax, no default, no misleading information, original financial statement, no proceedings pending or threatened, no breach of laws, environmental laws, taxation, security and financial indebtedness, ranking, good title to assets, legal and beneficial ownership, Group structure chart, centre of main interest and establishments, no adverse consequences, no immunity, private and commercial acts, no material adverse effect, ownership of assets, preferred contracts and ranking of finance documents (certain tax proceedings issued by the local tax authorities against Ingulets GOK are carved out from the representations relating to no breach of laws, taxation and no material adverse effect, subject to a threshold of U.S.\$55 million and there are also carve-outs from the representations relating to insolvency, no default and no proceedings pending or threatened in respect of the restructuring of the UCC Group and certain existing judgments in favour of KRIOW against Ilyich Steel and Yenakiieve I&SW respectively);
- (b) the maintenance of policies and procedures to achieve compliance with anti-corruption laws;
- (c) the Commercial Contracts including on the capability of the parties, force and effect, the relevant eligibility criteria and no force majeure or early termination event (subject to appropriate carve-out for Yenakiieve I&SW); and
- (d) sanctions (including engagement in activities that are likely to trigger a designation under existing sanctions).

Information Undertakings. The Issuer must supply:

- (a) various financial statements within specified time periods, including the annual audited financial statements (consolidated if appropriate) of itself and all Transaction Parties and half-yearly unaudited balance sheets and income statements (consolidated if appropriate) of itself and all Transaction Parties;
- (b) with each set of financial statements, a certificate of compliance with the covenants and certain other obligations and certifying that no default is outstanding or continuing;
- (c) various other information within specified time periods, including (i) monthly (during Initial Period) or (ii) quarterly (during Subsequent Period) short term cash flow forecasts, management reports and information about net principal changes in intra group loan balances or any new intra group transactions of more than U.S.\$10 million; and
- (d) various other information including information on the Commercial Contracts, such as monthly contract reports and copies of final commercial invoices issued in respect of all deliveries under the Commercial Contracts.

Financial Covenants. The PXF Facility Agreement contains certain financial covenants. A breach of the financial covenants also constitutes an event of default under the terms and conditions of the Notes.

The financial covenants are tested at the end of each Relevant Period (as defined below) by reference to the then latest compliance certificate.

Gearing Ratio. The ratio of Metinvest's borrowings to consolidated tangible net worth in respect of each period of twelve months ending on or about the last day of each financial quarter commencing with the financial quarter ending 31 March 2017 (during the Initial Period) and each period of twelve months ending on or about the last day of each second financial quarter and each fourth financial quarter and, if an event of default is outstanding at the last day of (a) any first financial quarter, that quarter; or (b) any third financial quarter, that quarter (during Subsequent Period) (the **Relevant Period**) shall not exceed the ratio set out in the row described as "Gearing (maximum)" and in the column referencing the last financial quarter of that Relevant Period in the table below.

Interest Cover. Metinvest's interest cover in respect of any Relevant Period shall not be less than the ratio set out in the row described as "Interest cover (minimum)" and in the column referencing the last financial quarter of that Relevant Period in the table below.

Net Worth. Consolidated tangible net worth shall not be less than:

- (a) U.S.\$1,500 million at any time during the Initial Period; and
- (b) U.S.\$2,500 million at any time during the Subsequent Period.

Debt Cover Ratio. The ratio of Issuer's total net debt to consolidated EBITDA for the Issuer shall not at any time be greater than the ratio set out in the row described as "Debt cover (maximum)" and in the column referencing the last financial quarter of that Relevant Period in the table below.

		1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
Group level		Initial Period								Subsequent Period											
	Interest cover (minimum)	3.0x	3.0x	3.7x	3.7x	4.2x	4.2x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x
	Debt cover (maximum)	4.8x	4.8x	3.8x	3.8x	3.3x	3.3x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x
	Gearing (maximum)	1.21x	1.21x	1.25x	1.25x	1.27x	1.27x	1.14x	1.14x	1.03x	1.03x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x

Net Worth (OpCos). OpCo tangible net worth of each of Ilyich Steel and Ingulets GOK shall at all times during Subsequent Period (until the OpCo Release Date) be greater than zero and OpCo tangible net worth of the OpCos (taken together and on an aggregated basis) shall at all times be greater than zero.

Cover Ratios and Top-Up. On the first day of each interest period, each of:

- (a) the value of deliveries to be paid under the export contracts; and
- (b) offtake proceeds to be paid under the offtake contracts and any amount of proceeds payable under a letter of credit discounting facility in favour of Metinvest International in the relevant interest period must in each case be 125 per cent. of debt service obligations for that period; and
- (c) the loan life cover ratio (calculated with respect to the value of export contract deliveries) must be 125 per cent.

If any cover ratio is not met on a test date, a top-up mechanism applies pursuant to which the Issuer has certain remedy periods to meet the relevant cover ratio by way of amending existing or entering into new Commercial Contracts or (subject to frequency limits) transferring relevant funds.

Financial indebtedness. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each member of the Group) from incurring financial indebtedness unless such financial indebtedness is permitted financial indebtedness or a permitted transaction.

Permitted financial indebtedness includes the incurrence of:

- (a) indebtedness in the ordinary course of business under trade finance facilities on market terms in respect of receivables or factoring financings, forfaiting or discounting transactions or certain other trade finance facilities and documentary facilities;
- (b) indebtedness in an aggregate principal amount not exceeding U.S.\$50 million at any time (i.e. a general basket), which financial indebtedness can be secured provided such security comprises only fixed charges or pledges over assets (excluding shares and security over assets owned by Ingulets GOK, Central GOK or Ilyich Steel) and the aggregate fair market value of such security does not exceed 200 per cent. of the principal of such indebtedness;
- (c) indebtedness to finance the acquisition of plant and equipment and vendor financings, financial leasing or export credit agency backed financings the aggregate principal amount of which financings does not exceed U.S.\$175 million at any time, and which financings can be secured provided that such security comprises only fixed charges or pledges over the assets financed by that indebtedness or any other security

over current assets and/or sales contracts where the aggregate fair market value does not exceed 50 per cent. of the principal amount of such indebtedness;

- (d) indebtedness under hedging and treasury transactions up to certain limits;
- (e) indebtedness by the Issuer or any of its subsidiaries, the proceeds of which are immediately applied to prepay the PXF Facility Agreement, and redeem the Notes, in full;
- (f) subordinated indebtedness provided by a shareholder or a Sponsor Affiliate (as defined below);
- (g) indebtedness arising under permitted loans or permitted guarantees (each as described below);
- (h) indebtedness represented by the finance documents, Note Documents or the UCC Seller Notes;
- (i) existing indebtedness of the Issuer or its subsidiaries which is outstanding on the Scheme Settlement Date, provided the amount of such indebtedness is not increased (unless as a result of capitalisation of interest or fees) and the terms are not made more onerous;
- (j) indebtedness of any person acquired by a member of the Group pursuant to a permitted acquisition if such indebtedness was incurred prior to the acquisition of the relevant person and otherwise than in contemplation of the acquisition provided that the aggregate outstanding principal amount of such financial indebtedness does not exceed in (A) the Initial Period at all times U.S.\$30 million, (B) in the Subsequent Period at all times until the Intermediate Holdco Share Pledge is released (as described below) U.S.\$50 million and (C) at all times thereafter, U.S.\$75 million;
- (k) indebtedness incurred by the Issuer or any of its subsidiaries in respect of performance, bid, completion, surety or appeal bonds or similar obligations issued to third parties in the ordinary course of business of the Issuer or any of its subsidiaries; and
- (l) any financial indebtedness incurred with the prior written consent of the PXF Agent,

(the **Permitted Financial Indebtedness**).

The ultimate beneficial owners of the Issuer, each spouse, sibling, parent and child of Mr. Rinat Akhmetov, each affiliate of an ultimate beneficial owner of the Issuer (excluding members of the Group) and any trust in respect of which any of the foregoing is a trustee and any trust, fund or other entity which is managed by, or is under the control or for the benefit of, any of the foregoing, constitute a sponsor affiliate (the **Sponsor Affiliate**).

A permitted transaction includes the incurrence of:

- (a) any disposal required, financial indebtedness incurred, guarantee, indemnity or security or quasi-security given, or other transaction arising, under the finance documents;
- (b) the solvent liquidation or reorganisation of any member of the Group which is not a transaction party so long as any payments or assets distributed as a result of such liquidation or reorganisation are distributed to other members of the Group or in accordance with applicable law; or
- (c) transactions (other than (i) any sale, lease, license, transfer or other disposal and (ii) the granting or creation of security or the incurring or permitting to subsist of financial indebtedness) conducted in the ordinary course of trading on arm's length terms,

(each, a **Permitted Transaction**).

Key undertakings. Disposals. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each member of the Group) from disposing of any asset unless such disposal is a permitted disposal or a permitted transaction (as described above).

Permitted disposals are disposals of:

- (a) trading stock, inventory, cash or other current assets by any member of the Group in the ordinary course of trading;

- (b) receivables pursuant to any factoring or forfeiting transactions;
- (c) securities in connection with the settlement of VAT receivables from a government;
- (d) any asset by one member of the Group to another member of the Group but if:
 - (i) the disposing company is the Issuer, the Intermediate Holdco, Ilyich Steel and Ingulets GOK (the **Recourse Party**), the acquiring company must also be a Recourse Party (subject to (iii) below);
 - (ii) the disposing company had given security under a Collateral over the asset, the acquiring company must give equivalent security; and
 - (iii) the disposing company is a Recourse Party and the acquiring company is not a Recourse Party, the aggregate consideration in respect of all such disposals does not exceed U.S.\$ 15 million (or its equivalent in any calendar year);
- (e) assets by the Issuer where the aggregate consideration received or receivable (whether by way of deferred consideration or otherwise) by the Issuer from that member of the Group is not less than the aggregate purchase price paid by the Issuer for the acquisition of that asset;
- (f) assets in direct exchange for other assets comparable or superior as to type, value and quality;
- (g) obsolete, redundant or written-of vehicles, plant and equipment and other assets for cash or in part-exchange for replacements;
- (h) cash equivalent investments in exchange for cash or other cash equivalent investments;
- (i) disposals as a result of any security that is permitted to be granted under the terms of the PXF Facility Agreement; and
- (j) assets, where another permission listed above does not apply, where (i) the sales proceeds received from the disposal are at least equal to fair market value of the assets, (ii) at least 75 per cent. of the consideration received is in the form of cash or cash equivalent investments and (iii) an amount equal to the consideration received in cash or cash equivalent investments is applied in mandatory prepayment or is allowed to be kept in order to purchase another asset in accordance with the terms of the PXF Facility Agreement and the Intercreditor Agreement,

(each, a **Permitted Disposal**).

Key undertakings. Acquisitions. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each member of the Group) from acquiring (directly or indirectly) a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them) unless such acquisitions are permitted acquisitions.

Permitted acquisitions are acquisitions of:

- (a) (i) the issued capital of a company or (ii) a business or undertaking carried on as a going concern if, at the time of the acquisition (A) the aggregate principal amount outstanding under the PXF Facility Agreement is less than 25 per cent. of the aggregate principal amount outstanding under the PXF Facility Agreement on the Scheme Settlement Date, (B) no default is continuing on the date of acquisition or as a result of such acquisition and (C) evidence of compliance with certain other provisions of the PXF Facility Agreement, such as provisions containing financial covenants, are delivered to the PXF Agent and that the proposed acquisition has no material adverse effect;
- (b) an asset sold, leased, transferred or otherwise disposed of by another member of the Group in circumstances where the disposal of the asset is permitted by the terms of the PXF Facility Agreement;
- (c) securities which are cash equivalent investments;
- (d) assets where (i) no default is continuing and (ii) the aggregate cash consideration in respect of all such acquisitions does not exceed (A) U.S.\$30 million in the Initial Period and (B) U.S.\$50 million in the

Subsequent Period (until the Intermediate Holdco Share Pledge has been released) and thereafter U.S.\$75 million;

- (e) minority interests in Group members, provided that such purchases do not exceed in aggregate (i) U.S.\$10 million during any calendar year and (ii) U.S.\$25 million at any time;
- (f) securities in connection with the settlement of VAT receivables from a government;
- (g) shares or any other equity or quasi-equity instruments issued by any member of the Group subject to certain provisions of the PXF Facility Agreement; and
- (h) assets to which the PXF Agent has provided its prior written consent,

(each, a **Permitted Acquisition**).

Key undertakings. Negative Pledge. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each member of the Group) from incurring any security or quasi-security over any assets in circumstances where the arrangement or transaction is entered into primarily as a method of raising financial indebtedness or of financing the acquisition of an asset, unless such security or quasi-security which is either a permitted transaction, permitted financial indebtedness (both as described above) or permitted security.

Permitted security includes:

- (a) any security or quasi-security granted by any member of the Group in favour of the Issuer or any other transaction party;
- (b) any security or quasi-security arising by operation of law and in the ordinary course of trading and not as a result of any default or omission by any member of the Group;
- (c) any netting or set-off or similar security arrangement entered into by any member of the Group with any regulated bank in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of members of the Group but only so long as (i) such arrangement does not permit credit balances of Transaction Parties to be netted or set off against debit balances of members of the Group which are not Transaction Parties and (ii) such arrangement does not give rise to other security over the assets of Transaction Parties in support of liabilities of members of the Group which are not Transaction Parties;
- (d) any payment or close out netting or set-off or similar security arrangement pursuant to any treasury transaction or foreign exchange transaction entered into by a member of the Group which constitutes permitted financial indebtedness, excluding any security or quasi-security under a credit support arrangement;
- (e) any security or quasi-security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to a member of the Group in the ordinary course of trading and on the supplier's standard or usual terms and not arising as a result of any default or omission by any member of the Group;
- (f) any quasi-security arising as a result of a disposal which is a permitted disposal;
- (g) security in connection with:
 - (i) subject to certain provisos and exceptions, financial indebtedness permitted to be incurred under paragraphs (a),(b), (c), (d) and (e) of the definition of Permitted Financial Indebtedness; and
 - (ii) paragraph (d) of the definition of Permitted Guarantee;
- (h) security in respect of energy supplier arrangements;
- (i) any existing security;
- (j) any security to the extent permitted by the Intercreditor Agreement;

- (k) security (including a right of set-off) granted by the Issuer on its right to receive dividends from a member of the Group in favour of that member of the Group;
- (l) any transaction security;
- (m) in respect of any member of the Group incorporated, any security arising under clause 24 or 25 of the general banking conditions (*algemene bankvoorwaarden*) of any member of the Dutch Banking Association;
- (n) any security in connection with workers' compensation, unemployment insurance and other social security benefits and other obligations of like nature incurred by operation of law and in the ordinary course of business, which are not delinquent or are being contested in good faith by appropriate proceedings for which the relevant member of the Group has set aside in its accounts reserves;
- (o) any security (including deposits) to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, customs duties, completion, surety and appeal bonds, performance or return of money bonds, guarantees or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature, in each case so long as such Security does not secure obligations constituting financial indebtedness and are incurred in the ordinary course of trading or business of the relevant member of the Group (including security to secure letters of credit issued to assure payment of such obligations);
- (p) any security or quasi-security for ad valorem, income or property taxes or assessments, customs charges and similar charges, including VAT, arising by operation of law which either is not delinquent or is being contested in good faith by appropriate proceedings and for which a member of the Group has set aside in its accounts reserves;
- (q) any security encumbering cash deposits in bank accounts established to provide cash collateral in respect of letters of credit, guarantees and similar instruments that were issued prior to the date of the Amendment and Restatement Agreement;
- (r) any security constituted or evidenced by a Notes Document provided that such security is granted or otherwise permitted in accordance with the Intercreditor Agreement; and
- (s) any other security incurred with the prior written consent of the PXF Agent,

other than, in the case of any security referred to in paragraphs (b) to (s) above, where the beneficiary of the relevant security is the Sponsor Affiliate (other than FUIB or any other Ukrainian bank approved by the majority PXF Lenders) (each, a **Permitted Security**).

Key undertakings. Loans or Credits. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each member of the Group) from being a creditor in respect of any financial indebtedness unless such loan or credit is a permitted loan or a permitted transaction (as described above).

A permitted loan includes:

- (a) any trade credit extended by any member of the Group to its customers on normal commercial terms and in the ordinary course of its trading activities;
- (b) any permitted financial indebtedness (as described above);
- (c) any credit extended to a government as a result of the acquisition of securities referred to in paragraph (e) of the definition of permitted acquisition (as described above);
- (d) loans or advances made to directors, officers, employees or consultants of any member of the Group;
 - (i) in respect of travel, entertainment or moving-related expenses incurred in the ordinary course of business of the Group;
 - (ii) in respect of moving-related expenses incurred in connection with any closing or consolidation of any facility or office of any member of the Group;

- (iii) any other such loans or advances provided that they are made in the ordinary course of business of the Group and do not exceed U.S.\$10 million in the aggregate outstanding at any time and provided further that no more than U.S.\$5 million in the aggregate of such loans or advances outstanding at any time are made to directors of the Issuer;
- (e) a loan made by (i) a member of the Group which is not a Recourse Party to any other member of the Group or (ii) a Recourse Party to another Recourse Party;
- (f) a loan made by a Recourse Party to a member of the Group which is not a Recourse Party provided that during the Initial Period the Net Recourse Party Cash Out does not at any time exceed U.S.\$425 million and during the Subsequent Period the Net Recourse Party Cash Out does not at any time exceed U.S.\$525 million (or its equivalent);
- (g) a loan made by the Company to UCC to fund cash sweep payments to UCC;
- (h) loans made by the Company to a member of the UCC Group, up to certain specified limits, to collateralise or fund the UCC Group's reclamation obligations or workers' compensation claims;
- (i) any loans to third parties/affiliate parties which are existing on the Scheme Settlement Date; and
- (j) loans made on or after 31 December 2016 by a member of the Group to a person who is not a member of the Group, a sponsor affiliate or a related company provided that the aggregate principal amount outstanding under all such loans does not exceed U.S.\$5 million,

(each, a **Permitted Loan**).

Key undertakings. Guarantees or indemnities. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each member of the Group) from giving any guarantee or indemnity unless it is a permitted guarantee or a permitted transaction (as described above).

A permitted guarantee includes:

- (a) any guarantee which is a finance document;
- (b) the endorsement of negotiable instruments in the ordinary course of business;
- (c) any performance, bid, completion, surety, appeal or similar bonds, instruments or guarantees entered into in the ordinary course of trade;
- (d) any guarantee in respect of permitted financial indebtedness or permitted transactions (as described above);
- (e) any guarantee given in respect of the netting or set-off arrangements permitted pursuant to paragraph (c) of the definition of permitted security (as described above);
- (f) any liability in respect of any transaction party incorporated in The Netherlands arising under a declaration of joint and several liability (*hoofdelijke aansprakelijkheid*) as referred to in Article 2:403 of the Dutch Civil Code;
- (g) any liability arising as a result of a fiscal unity (*fiscale eenheid*) solely between members of any transaction party incorporated in The Netherlands;
- (h) any guarantee given in respect of supply or sales contracts in the ordinary course of business;
- (i) any permitted energy supplier guarantee; and
- (j) any guarantee which is a Notes Document,

(each, a **Permitted Guarantee**).

Key undertakings. Merger. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each material company) from entering into any amalgamation, demerger, merger, consolidation or corporate reconstruction. There are certain exclusions to this including:

- (a) a permitted transaction (as described above);
- (b) a permitted disposal (as described above);
- (c) the merger of Yenakiiieve I&SW with Metalen; or
- (d) a reorganisation within the Group provided that such reorganisation:
 - (i) is not likely to have a material adverse effect;
 - (ii) does not involve the transfer of shares in any transaction party; and
 - (iii) if it involves a transaction party, (A) does not result in that transaction party ceasing to be duly incorporated and validly existing, (B) that transaction party remains the surviving entity as a result of any legal merger or equivalent process and (C) does not result in any Collateral ceasing to be valid, enforceable, fully perfected, first ranking security.

Key undertakings. Limitations on payments to affiliates. Subject to certain exceptions, the PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each material company) from making or paying any distributions, dividends or other payments to any direct or indirect shareholder of any member of the Group or to any Sponsor Affiliate.

Key undertakings. Capital Expenditure. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each material company) from the purchase of property, plant and equipment and intangible assets as shown in the financial statements of the Group prepared in accordance with the accounting principles (**Capital Expenditure**), except permitted capital expenditure.

Permitted Capital Expenditure includes:

- (a) in respect of the Initial Period, the Capital Expenditure in the aggregate amounts up to U.S.\$636 million during 2017 (the **2017 Permitted Capex Level**) and U.S.\$651 million during 2018 (the **2018 Permitted Capex Level**), provided that:
 - (i) the 2017 Permitted Capex Level shall automatically be increased on the Effective Date by an amount equal to x/y multiplied by U.S.\$100 million (where "y" equals the sum of (a) all interest accrued but unpaid on the Existing Notes and the Existing PXF Facilities for the period prior to 31 January 2016 *plus* (b) 70 per cent. of all interest accrued under the Existing PXF Facilities and the Existing Notes from and including 31 January 2016 to and excluding the Scheme Settlement Date (the **Pre-Restructuring PIK Interest**) and where "x" equals the aggregate amount of the Pre-Restructuring PIK Interest paid in cash on or prior to the Scheme Settlement Date);
 - (ii) the 2018 Permitted Capex Level shall automatically be increased by U.S.\$100 million on and from 1 January 2018 if as of 31 December 2017 all interest (including PIYC Interest Amount) accrued, from and including the Scheme Settlement Date to 31 December 2017 under the finance documents has been discharged in full to the extent payable in accordance with the provisions of the finance documents and within any applicable grace periods (including without limitation, the cash sweep provisions in the Intercreditor Agreement (as described below)); and
- (b) in respect of the Subsequent Period, Capital Expenditure in the aggregate amounts up to U.S.\$675 million during 2019, U.S.\$736 million during 2020 and U.S.\$788 million during 2021 (each a **Subsequent Period Permitted Capex Level**), provided that the Subsequent Permitted Capex Level shall automatically be increased by U.S.\$100 million on and from 1 January of the applicable calendar year if (and only for so long as) no non-payment default has occurred in respect of the payment of interest.

Key undertakings. Treasury Transactions. The PXF Facility Agreement prohibits the Issuer (which has a procurement obligation in respect of each member of the Group) from entering into any treasury transaction subject to certain exceptions.

The treasury transaction undertaking permits the following treasury transactions:

- (a) spot and forward delivery foreign exchange contracts entered into in the ordinary course of business and not for speculative purposes; and

- (b) any treasury transaction entered into for the hedging of actual or projected real exposures arising in the ordinary course of business activities of a member of the Group for a period of not more than 12 months and not for speculative purposes,

provided that (i) if the aggregate liability of all members of the Group in respect of treasury transactions exceeds U.S.\$75 million at any time, the Issuer shall procure that the relevant members of the Group terminate or unwind treasury transactions such that after such termination or unwind the aggregate liability of all members of the Group in respect of treasury transactions does not exceed U.S.\$50 million and (ii) if the aggregate liability of all members of the Group in respect of treasury transactions exceeds U.S.\$50 million at any time, the Issuer shall procure that no member of the Group shall enter into any other treasury transaction until such aggregate liability of all members of the Group is less than U.S.\$50 million.

Key undertakings. Receivables. The PXF Facility Agreement contains restrictions on the level of net receivables from certain related parties.

Key undertakings. Affiliated Bank. The PXF Facility contains an undertaking ensuring a maximum limit on the Group's cash balance and the aggregate amount held or deposited by members of the Group with First Ukrainian International Bank (**FUIB**) as follows.

The Issuer shall ensure that: at any time that the Group's cash balance is equal to or less than U.S.\$50 million, the aggregate of all amounts held or deposited by members of the Group with an Affiliated Bank does not at any time exceed U.S.\$10 million;

- (a) at any time that the Group's cash balance is equal to or less than U.S.\$100 million but greater than U.S.\$50 million, the aggregate of all amounts held or deposited by members of the Group with Affiliated Banks does not at any time exceed U.S.\$30 million; and
- (b) at all other times, the aggregate of all amounts held or deposited by members of the Group with Affiliated Banks does not at any time exceed U.S.\$60 million except that, for a maximum of four business days per calendar month, such aggregate amount may exceed U.S.\$60 million provided that it does not at any time exceed U.S.\$70 million.

To the extent that members of the Group hold Restricted Cash with affiliated banks the first U.S.\$20 million of such Restricted Cash will not be counted towards the limitations set out above.

Key undertakings. Compliance with Commercial Contracts. The PXF Facility Agreement contains undertakings relating to compliance with Commercial Contracts, including on pursuit of remedies, dealings with counterparties, payments under Commercial Contracts, deliveries under Commercial Contracts, fair market price, terms of Commercial Contract, Commercial Contract failure, offtaker failure and includes mechanism for designating additional offtakers and additional offtake contracts.

Key undertakings. UCC Sellers Notes. The PXF Facility Agreement will contain carve-outs and provisions in relation to the restructuring of the UCC Seller Notes in a manner consistent with the terms and conditions of the Notes.

Other Undertakings. The PXF Facility Agreement also contains other undertakings, including on authorisations, compliance with laws, environmental compliance, environmental claims, dangerous materials, anti-corruption law, taxation, centre of main interests and establishments, change of business, control and ownership, joint control companies, collection arrangements, preservation of assets, *pari passu* ranking, access, further assurance, performance, discharge of obligations, non-recourse party equity injections, compliance with sanctions, insurance and arm's length terms basis for transactions.

Collection account mechanics. The Issuer will procure that the proceeds of all offtake contracts (**Offtake Proceeds**) are paid directly into the collection account (subject to certain exceptions, where, for example, the failure to pay such proceeds directly into the collection account is due solely to administrative or technical delays in the transmission of funds). The Issuer will ensure that the PXF Agent is at all times authorised to apply amounts credited to the collection account to meet its payment obligations under the PXF Facility Agreement and that Metinvest International does not revoke its payment instructions. The Issuer will procure that the collection account is funded to the required amount for debt service as at the last day of each interest period.

Restrictions on withdrawal from collection account. Offtake Proceeds (and, if applicable, cash top-up payments) paid into the collection account from the beginning of an interest period will be blocked (i) at any time while a default is continuing or (ii) up to the debt service amount, which is the aggregate of:

- (a) the interest due on the last day of that interest period; and
- (b) an amount equal to:
 - (i) (in respect of an applicable Interest Period (1st)) one third of the repayment amount due on the next Cash Sweep Payment Date;
 - (ii) (in respect of an applicable Interest Period (2nd)) two thirds of the repayment amount due on the next Cash Sweep Payment Date; or
 - (iii) (in respect of an applicable Interest Period (3rd)) the repayment amount due on the next Cash Sweep Payment Date.

Withdrawal from collection account. The Issuer may request (subject to limits on frequency and in line with the relevant interest period and no default) that all or part of a blocked debt service amount be released from the collection account subject to the following conditions:

- (a) the cover ratios were complied with (without any top-up) for the interest period in which the request is made;
- (b) the Issuer demonstrates that:
 - (i) it would remain in compliance with the Offtake Debt Service Cover Ratio (taking into account relevant offtake proceeds and the amount of any letter of credit discounting proceeds payable under a letter of credit discounting facility); and
 - (ii) the aggregate of (A) the credit balance of the collection account and (B) the remaining Offtake Proceeds and any letter of credit discounting proceeds due to be received into the collection account during the remainder of that interest period, is at least equal to the debt service amount due on the last day of that interest period.

Events of Default. The PXF Facility Agreement contains events of default, including in relation to:

- (a) non-payment;
- (b) a breach of financial covenants, which constitutes an "Event of Default" referred to in clause (A) of Condition 10(a)(iii) of the Notes, and breaches of other obligations;
- (c) misrepresentation, cross-default, insolvency, insolvency proceedings, creditor's process, unlawfulness and invalidity, unrelated business, change of ownership, audit qualification, repudiation and rescission of agreements, accounts, litigation, convertibility/transferability, moratorium, intercreditor agreement and subordination agreement, revocation of authorisations, material adverse change, actions undermining security or guarantees and change in law. Agreed carve-outs: the existing judgments (A) in favour of KRIOW against Ilyich Steel and Yenakieve I&SW respectively, (B) in favour of Mako-Trading against Metinvest Holding, (C) the settlement agreement in respect of Krasnodon Coal's insolvency proceedings are carved out from the events of default relating to insolvency proceedings, creditor's process and litigation, and certain tax proceedings issued by the local tax authorities against Ingulets GOK are carved out from the events of default relating to litigation and material adverse change (subject to a threshold of U.S.\$55 million) and (D) the restructuring of the UCC Seller Notes are carved out from the events of default relating to cross-default, insolvency, insolvency proceedings, cessation of business and litigation;
- (d) the actual or deemed insolvency of a material company subject to certain exceptions including in respect of Krasnodon Coal and Khartsyzsk Pipe;
- (e) any corporate action, legal proceedings or other procedure or step taken in relation to the insolvency of a material company subject to certain exceptions including in respect of Krasnodon Coal and Khartsyzsk Pipe;

- (f) the existing judgments in favour of KRIOW against Ilyich Steel and Yenakiieve I&SW respectively and the settlement agreement in respect of Krasnodon Coal's insolvency proceedings are carved out from the events of default relating to insolvency proceedings, creditor's process and litigation;
- (g) the cessation of business of any material company subject to certain exceptions, including in respect of Avdiivka Coke, Khartsyzsk Pipe, Metalen, Yenakiieve I&SW or Krasnodon Coal:
 - (i) as a result of armed hostilities or acts of war for no longer than six months; or
 - (ii) where this would not constitute an expropriation event of default (see paragraph (i) below);
- (h) any variation or waiver of the Commercial Contracts or any circumstance giving rise to the termination, frustration, repudiation, rescission or cancellation of any Commercial Contract (likely to have a material adverse effect on the ability of a transaction party to perform its obligations under the finance documents);
- (i) any expropriation, nationalisation, sanctions, seizure, compulsory acquisition, intervention, restriction or other action by or on behalf of any governmental, regulatory or other authority or other person which effect would be to limit or substantially curtail the authority or ability of a material company to conduct its business (excluding Khartsyzsk Pipe, Krasnodon Coal, Metalen and Yenakiieve I&SW (each, an **Affected Entity**) to the extent the EBITDA of the Affected Entities, individually or in the aggregate, constitutes less than 15 per cent. of Adjusted EBITDA (excluding share in EBITDA of joint ventures));
- (j) any breach by Metinvest International:
 - (i) to accept deliveries under the export contracts above certain aggregate values (subject to applicable grace periods); or
 - (ii) of the terms of an acknowledgement of assignment.

Other key terms. Amendments and waivers. Amendments and waivers may be effected with the consent of the majority PXF Lenders and the Issuer, with exceptions which require the consent of all lenders or super majority lenders (subject to provisions around non-responsive lenders).

Other key terms. Assignments and Transfers. Lenders have the ability to make assignments and waivers subject to a *de minimis* requirement and other than to certain specified persons listed on a restricted list.

Other key terms. Disenfranchisement.

- (a) Subject to paragraph (b) below, any lender who is the Sponsor Affiliate or who has entered into a sub-participation agreement or other arrangement having a similar effect with the Sponsor Affiliate will not:
 - (i) be deemed to be a "Lender" for the purposes of ascertaining whether any request for a consent, waiver, amendment or vote has been approved;
 - (ii) attend or participate in any meeting or conference call to which the Lenders are invited or be entitled to receive any agenda or minutes (unless the PXF Agent agrees); or
 - (iii) be entitled to receive any report or other document prepared at the behest of, or on the instructions of, the PXF Agent or one or more of the Lenders.
- (b) A lender who is the Sponsor Affiliate or who has entered into a sub-participation agreement or other similar arrangement with the Sponsor Affiliate prior to the Scheme Settlement Date can benefit from grandfathering provisions, which would not strip that lender of the rights referred to above in (a)(i) to (iii), provided that such lender has given written notice to the PXF Agent by no later than 30 business days after the Scheme Settlement Date that it is the Sponsor Affiliate or has entered into a sub-participation or other arrangement with the Sponsor Affiliate.

PXF-only Security. In addition to the Common Security, the PXF Lenders under the PXF Facility Agreement will have the benefit of additional security to be granted in favour of the Offshore Security Agent. It will be a condition to the effectiveness of the Amendment and Restatement Agreement that these security documents are entered into. The security created by these documents will be enforceable by the Offshore Security Agent on behalf of the PXF Lenders on the occurrence of an event of default under the PXF Facility Agreement which is continuing. The

representations and undertakings given by each relevant group entity providing security under the PXF-only security documents align with the representations and undertakings given under the PXF Facility Agreement either by the Issuer in respect of, or by, the relevant group entity itself, in each case in connection with the relevant PXF-only security documents to which that group entity is a party.

PXF-only Security. Security assignments. Each of Azovstal, Ilyich Steel, Ingulets GOK, Yenakiieve I&SW and Northern GOK will assign its rights under a Common Security and in connection with certain export contracts under which certain of these entities supply Metinvest International with certain commodities. Metinvest International will also assign its rights under the export contracts and certain offtake contracts. Each such security assignment will be English law governed and will create security for the payment and discharge of all the secured obligations under the PXF Facility Agreement.

PXF-only Security. Commission agreement pledges. Ingulets GOK and Northern GOK will each enter into a Ukrainian law governed property rights pledge pursuant to which they will grant a first-ranking pledge over their rights under certain commission agreements. The rights being pledged will include the right to receive commission payments from the relevant principal under the commission agreements.

PXF-only Security. Bank account security. Ukrainian bank accounts. Each of Azovstal, Yenakiieve I&SW, Ilyich Steel and Ingulets GOK will enter into a Ukrainian law governed pledge of funds and rights to funds and a contractual funds debiting agreement in order to grant security over its Ukrainian current account. Each such secured current account is maintained in Ukraine with Public Joint Stock Company "Deutsche Bank DBU" in its capacity as the local account bank. If the security created under the pledge of funds and rights to funds becomes enforceable, in addition to the various methods of enforcement available to the Offshore Security Agent under Ukrainian law, the pledge provides for two additional out-of-court methods of enforcement that the Offshore Security Agent may elect to use as follows:

- (a) after the applicable cure period has expired, the Offshore Security Agent may transfer the pledged rights to the funds in the bank account to itself from the pledgor (such that the Offshore Security Agent would be expressed to assume all the pledgor's rights as a creditor under the relevant account agreement between the pledgor and the account bank and benefit from those rights until the secured obligations are discharged in full); or
- (b) it may use the contractual debiting procedure (as set out in the relevant funds debiting agreement) against any funds in the relevant account as many times as necessary or as the Offshore Security Agent desires until the secured obligations are satisfied in full.

PXF-only Security. Bank account security. Metinvest International account. Metinvest International will grant security over its Dutch bank account by entering into a Dutch law governed pledge agreement. The secured account is maintained with Deutsche Bank AG, Amsterdam Branch.

Intermediate Holdco Guarantee

Intermediate Holdco will guarantee the obligations of the Issuer and each transaction party under the finance documents and the Issuer's obligations as issuer under the Notes by entry into an English law governed guarantee and indemnity granted in favour of the Common Security Agent.

Common Security

The Noteholders and the PXF Lenders will benefit from certain shared common security (the **Common Security**). The Common Security will secure all the liabilities and obligations owing or incurred by a member of the Group or a debtor to any secured party under the Debt Documents. The Common Security will be granted to, and be enforceable by, Madison Pacific Trust Limited in its capacity as Common Security Agent for the secured parties. The security providers under the Security Documents (as defined in "*Terms and Conditions of the Notes*") will make standard representations and give certain undertakings including in respect of status, binding obligations, non-conflict with other obligations, power and authority, validity and admissibility in evidence, governing law, enforcement and negative pledge.

Share and receivables security. Intermediate Holdco share pledge and receivables assignment. The Issuer, as sole shareholder of the Intermediate Holdco, will grant security over all its shares in the Intermediate Holdco by entry into a Dutch law governed share pledge agreement. These shares must be pledged at all times until the security is released in accordance with the terms of the Intercreditor Agreement. Under the share pledge agreement:

- (a) the voting rights attaching to the shares will be transferred to the Common Security Agent only when:
 - (i) an Intermediate Holdco Collateral Enforcement Event has occurred and is continuing; and
 - (ii) the Common Security Agent has given written notice to Intermediate Holdco that it will exercise those voting rights; and
- (b) the right to receive dividends in respect of the pledged shares and all present and future rights of the Common Security Agent to acquire shares in the Intermediate Holdco and all other present and future rights arising out of or in connection with the pledged shares (other than the voting rights described above and the right to attend and address general meetings of the Intermediate Holdco) are exercisable by the Issuer on the authorisation of the Common Security Agent which may only be revoked on the occurrence of an Intermediate Holdco Collateral Enforcement Event which is continuing.

The Issuer will also grant security over its rights in connection with any amounts owed to it by Intermediate Holdco under any loans, credits or other similar financial arrangements, by entering into an English law governed receivables assignment.

The Intermediate Holdco share pledge shall be enforceable upon the occurrence of any default in the payment of the secured obligations or any part thereof, provided it is also an Intermediate Holdco Collateral Enforcement Event.

Share and receivables security. OpCo share pledge and receivables assignment. The Intermediate Holdco will hold 100 per cent. of the shares owned by the Metinvest group in each of Ingulets GOK and Ilyich Steel and will hold 50 per cent. plus 1 of the shares of Central GOK (each of Ingulets GOK, Ilyich Steel and Central GOK, an **OpCo**). The Intermediate Holdco will grant security over 50 per cent. plus 1 of the shares in each OpCo by entering into a Ukrainian law governed share pledge agreement (each an **OpCo Share Pledge**). The OpCo Share Pledges must remain in place at all times until the security is released in accordance with the terms of the Intercreditor Agreement.

The OpCo Share Pledges shall be enforceable upon the occurrence of an OpCo Collateral Enforcement Event which is continuing. The OpCo Share Pledges may be enforced by notarial writ following the occurrence of an Intermediate Holdco Collateral Enforcement Event. Otherwise, the OpCo share pledge may only be enforced through the Ukrainian courts.

Under the terms of the Intercreditor Agreement, the Issuer is also obliged to ensure that any sponsor affiliate or member of the Group who is owed more than a stated limit by any or all of the OpCos or any of their subsidiaries enters into a receivables assignment in connection with their rights under such loans, credits or financial arrangements. Such receivables assignments shall be enforceable upon the occurrence of an OpCo Collateral Enforcement Event which is continuing. In addition, the Issuer must ensure that the aggregate unsecured amounts owed by the OpCos and their subsidiaries to sponsor affiliates and members of the group does not exceed a stated limit.

Bank account security. Intermediate Holdco bank account pledges. The Intermediate Holdco is obliged to grant security over each of its bank accounts by entering into a bank account pledge agreement (the governing law of such agreement will be determined by the location of the bank account). The Intermediate Holdco will open a bank account with ING Bank N.V. This security shall be enforceable upon the occurrence of a default in the payment of the secured obligations or any part thereof provided it is also an event of default (as specified as such in the PXF Facility Agreement or terms and conditions of the Notes) which is continuing.

Bank account security. Issuer bank account pledges. The Issuer will grant security over:

- (a) a debt service reserve account, which will be used for cash sweep payments; and
- (b) a general company bank account, in which all cash of the Issuer in excess of U.S.\$40 million, must be held (except for certain limited exceptions).

These bank accounts are each currently held with ING Bank N.V. in Amsterdam. The security created under these bank account pledges shall be enforceable upon the occurrence of a default in the payment of the secured obligations or any part thereof provided it is also an event of default (as specified as such in the PXF Facility Agreement or terms and conditions of the Notes) which is continuing.

OpCos. The Issuer must ensure that no OpCo will open or maintain any bank accounts outside of Ukraine unless such account is at all times subject to the Common Security.

OpCo equipment pledges. Each OpCo will pledge certain of its equipment by entering into a Ukrainian law governed pledge agreement. The OpCos will be obliged to update the list of pledged equipment annually. At all times until the security is released in accordance with the Intercreditor Agreement, the aggregate value of the pledged equipment must be maintained to be at least a stated percentage of the value of all the pledged equipment as at the date of entry into the relevant equipment pledge. If the aggregate value of all the pledged equipment falls below that level, the OpCos must pledge such further equipment as is required to ensure that the value of the total pledged equipment equals or exceeds that percentage of the day one value. The security created under each equipment pledge shall be enforceable upon the occurrence of an event of default (as specified as such in the PXF Facility Agreement or terms and conditions of the Notes) which is continuing.

Intercreditor Agreement

To establish the relative rights of certain of the Issuer's creditors under its financing arrangements, the Issuer and other intra-group creditors and debtors under the Issuer's indebtedness will enter into the Intercreditor Agreement with, among others, the PXF Agent, the Note Trustee, the Principal Paying Agent and the Common Security Agent. Due to restrictions under Ukrainian law, certain Ukrainian Group Companies, being intra-group creditors and debtors, may enter into standalone intercreditor agreements.

The following description is a summary of certain provisions, among others, contained in the Intercreditor Agreement that relate to the rights and obligations of holders of the Notes. It does not restate the Intercreditor Agreement in its entirety nor does it describe provisions relating to the rights and obligations of holders of other classes of the Issuer's debt or capital expenditures.

Ranking and Priority

The liabilities owed by the Issuer to the PXF Lenders and agents under the Finance Documents (the **PXF Liabilities**) and the Noteholders and Trustee under the Note Documents (the **Note Liabilities**) shall rank *pari passu* and without any preference between them.

The Common Security (other than the Central GOK equipment pledge) shall rank and secure the PXF Liabilities and Note Liabilities *pari passu* and without any preference between them. The Central GOK equipment pledge shall secure the Note Liabilities ahead of the PXF Liabilities.

Enforcement of Common Recourse

Save as expressly provided otherwise in a Security Document (as defined in "*Terms and Conditions of the Notes*"), the Common Recourse shall only be enforceable by the Common Security Agent in the following circumstances.

Intermediate Holdco Collateral Enforcement Event

The Intermediate Holdco Share Pledge shall be enforceable on the occurrence of an Intermediate Holdco Collateral Enforcement Event and, for the purpose of clause 5.2 (*Enforcement*) of the Intermediate Holdco Share Pledge shall be enforceable upon the occurrence of an Intermediate Holdco Collateral Enforcement Event which is continuing.

Intermediate Holdco Collateral Enforcement Event means:

- (a) any payment default in respect of a payment of principal or interest, unless remedied within ten business days, excluding such non-payment following any acceleration of the PXF loan or the Notes, other than where such acceleration occurs as a result of a payment default or an event of default related to the occurrence of any of the following:
 - (i) any member of the Group takes any action or omits to take any action where that action or omission would undermine the legality, enforceability or priority of any of the Guarantees granted by Ukrainian Guarantors or the Intermediate Holdco Share Pledge or the Intermediate Holdco Security Assignment;
 - (ii) a disposal or other distribution of a material part of the assets of the Group or the Collateral Group as a whole (including cash, except to the extent such disposal or distribution occurs as a result of circumstances outside the control of the Group); or
 - (iii) a breach of certain terms of the shareholder subordination agreement or a breach of certain terms of the Intermediate Holdco Share Pledge or the Intermediate Holdco Security Assignment, in each

case, except to the extent that such event of default occurs as a result of circumstances outside the control of the Group and the sponsor affiliates; or

- (b) in respect of (i) the Issuer, (ii) the Intermediate Holdco, Ilyich Steel, Ingulets GOK or Central GOK (collectively, the **Collateral Group**) or (iii) any other member of the Group (except the Issuer, members of the Collateral Group, Khartsyzsk Pipe and Krasnodon Coal (until such time as the Issuer first certifies in writing that Khartsyzsk Pipe or Krasnodon Coal, as the case may be, is no longer subject to insolvency proceedings) representing in total more than one-third of the Issuer's preceding twelve months' consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures):
 - (i) the making of an order for certain bankruptcy or insolvency proceedings (excluding for the avoidance of doubt any filings, petitions or other preliminary steps or preliminary orders in respect of such proceedings) against the relevant entity or entities, save for:
 - (A) any such orders which the relevant entity is contesting in good faith and which are discharged within 60 days of being made;
 - (B) any such orders resulting from proceedings which are commenced by any of the PXF Lenders, the Trustee or the Noteholders following acceleration of the PXF loan or the Notes in circumstances where at the time of such acceleration none of the events described in paragraph (i) above has occurred; or
 - (C) any such orders which relates to a solvent liquidation of a member of the Group (other than the Issuer, the Intermediate Holdco, Ilyich Steel, Ingulets GOK or Central GOK); or
 - (ii) the relevant entity or entities commence or consent to the commencement of certain bankruptcy or insolvency proceedings on a voluntary basis; or
- (c) a final, non-appealable and enforceable court decision is made against Group entities (excluding Khartsyzsk Pipe and Krasnodon Coal until such time as the Issuer first certifies in writing that Khartsyzsk Pipe or Krasnodon Coal, as the case may be, is no longer subject to insolvency proceedings) representing a loss to the Group of in total more than one-third of the Issuer's preceding twelve months' consolidated Adjusted EBITDA (excluding share in EBITDA of joint ventures).

OpCo Collateral Enforcement Event

The OpCo Share Pledges and any OpCo Security Assignments shall be enforceable only upon the occurrence of an OpCo Collateral Enforcement Event. An OpCo Collateral Enforcement Event means any non-payment event of default (whether as a result of acceleration or otherwise) which is continuing.

Enforcement of the other Common Recourse

Any other Common Security and the Intermediate Holdco Guarantee Agreement shall be enforceable upon an event of default (as specified under the PXF Facility Agreement and the Notes) which is continuing.

Enforcement instructions

The Common Security Agent may refrain from enforcing the Common Recourse or taking any other action as to enforcement unless it receives enforcement instructions:

- (a) from the PXF Agent (on the instructions of PXF Lenders representing more than 75 per cent. of the aggregate participations in the aggregate outstanding principal amount of borrowings under the PXF Facility Agreement, subject to certain adjustments);
- (b) from the Trustee (on the instructions of Noteholders representing 50.1 per cent. or more of the aggregate outstanding principal amount of the Notes, subject to certain adjustments); or
- (c) from the PXF Agent or Trustee together with confirmation of approval from the Noteholders and PXF Lenders holding at least 50.1 per cent. of the aggregate outstanding principal amount of the Notes and the aggregate participations in the aggregate outstanding principal amount of borrowings under the PXF Facility Agreement.

Facilitation of Distressed Disposals

If a disposal of an asset, which is subject to security, is being effected in an enforcement scenario (a **Distressed Disposal**), the Common Security Agent is irrevocably authorised:

- (a) to release the Common Security or any other claim over the asset subject to the Distressed Disposal;
- (b) to release any liabilities and Common Security on a share sale;
- (c) to facilitate the disposal of any liabilities on a share sale;
- (d) to sell liabilities on a share sale; and
- (e) to transfer obligations in respect of liabilities on a share sale.

Proceeds of Distressed Disposals and Debt Disposals

The net proceeds of each Distressed Disposal and each disposal of any liabilities or debtors' intra-group receivables (a **Debt Disposal**) shall be paid, or distributed, to the Common Security Agent for application in accordance with the provisions of the Intercreditor Agreement and, to the extent that any Debt Disposal has occurred, as if that Debt Disposal had not occurred.

Application of proceeds

Subject to certain exceptions, all amounts from time to time received or recovered by the Common Security Agent in connection with the realisation or enforcement of all or any part of the Common Recourse or which is expressly provided in the Intercreditor Agreement as being payable to the Common Security Agent for application in accordance with this paragraph (the **Recoveries**) shall be held by the Common Security Agent on trust to apply them at any time as the Common Security Agent (in its discretion) sees fit, to the extent permitted by applicable law (and subject to the provisions described in this paragraph), in the following order of priority:

- (a) in discharging pro rata any sums owing to the Common Security Agent, any receiver or any delegate;
- (b) in discharging pro rata all costs and expenses incurred by the PXF Agent or the Note Trustee in connection with any realisation or enforcement of the security which is permitted under the terms of the Intercreditor Agreement;
- (c) discharging pro rata all costs and expenses incurred by the Senior Creditors in connection with any indemnity or pre-funding provided to the Common Security Agent or any action taken at the request of the Common Security Agent, each in accordance with the terms of the Intercreditor Agreement;
- (d) in discharging pro rata any accrued but unpaid cash-pay interest on the Notes and PXF loans;
- (e) in discharging liabilities under the Notes and the PXF Liabilities in accordance with the agreed waterfall but as if for the purposes of certain levels of that waterfall the accrual or calculation periods ended on the date on which the Recoveries are paid to the Principal Paying Agent and the PXF Agent;
- (f) if none of the Debtors are under any further actual or contingent liability under any debt documents, in payment or distribution to any person to whom the Common Security Agent is obliged to pay or distribute in priority to any Debtor; and
- (g) the balance, if any, in payment to the relevant Debtor.

Cash sweep

The cash sweep mechanism for payment of amounts due under the PXF Facility Agreement and the Notes is summarised as follows.

The Issuer shall pay an amount equal to the Cash Sweep Amount (Net) into the account designated for debt service and pledged in favour of the Common Security Agent (the **Debt Service Account**) no later than two business days prior to each 18 February, 18 May, 18 August and 18 November (the **Cash Sweep Payment Dates**).

The **Cash Sweep Amount (Net)** is the amount equal to the Cash Sweep Amount (Gross) for that Cash Sweep Payment Date less the UCC Allocation for that Cash Sweep Payment Date.

The **Cash Sweep Amount (Gross)** is the amount equal to the amount (if any) by which the Average Cash Balance for the then most recent calculation period exceeds U.S.\$180 million less (A) the Dividend Allocation.

The **Average Cash Balance** is, in respect of a calculation period, an amount equal to the daily average (calculated in U.S.\$ and by reference to business days only) of the aggregate Cash Balances and cash equivalents held by each member of the Group (excluding members of the UCC Group) during that calculation period as determined by reference to the relevant quarterly cash balance certificate delivered by the Issuer.

The **Cash Balance** is the end of day cash balance, but excluding Restricted Cash up to U.S.\$75 million and certain other excluded amounts.

The **Restricted Cash** is cash used as collateral for a letter of credit or other indebtedness and which is therefore blocked.

The **Dividend Allocation**, in respect of any Cash Sweep Payment Date, is an amount equal to 40 per cent. of the amount by which the Average Cash Balance for the most recent calculation period exceeds U.S.\$255 million, less the aggregate amount of any sponsorship payments, charitable donations and similar payments made by the Group to sponsor affiliates during the relevant calculation period, provided that the aggregate amount of Dividend Allocations will not exceed U.S.\$300 million in any year and the following conditions are satisfied:

- (a) the aggregate principal amount of the Notes and PXF loans outstanding (before any repayments in respect of the Notes and PXF loans on that Cash Sweep Payment Date but net of any prepayment amounts standing to the credit of the Debt Service Account as at that Cash Sweep Payment Date) does not exceed 45 per cent. of the aggregate principal amount of the Notes and PXF loans outstanding as of the Scheme Settlement Date;
- (b) for each of the twelve month periods ending on the last day of each of the four calendar quarters, in respect of which financial statements (or, in the case of the first or third quarter of any financial year, management reports) are available, immediately preceding the relevant Cash Sweep Payment Date (each such twelve month period, a **Testing Period**), the Consolidated Net Leverage Ratio (as defined in the Intercreditor Agreement) was below 1.5:1.0;
- (c) no default has occurred and is continuing on the relevant Cash Sweep Payment Date, and
- (d) if, after giving pro forma effect to the making of a dividend payment in an amount equal to a Dividend Allocation (by increasing the total net debt of the Group (excluding cash and other items) as at the last day of the most recent Testing Period by an amount equal to that Dividend Allocation), the Consolidated Net Leverage Ratio for that Testing Period would exceed 1.5:1.0, then the amount of that Dividend Allocation will be reduced accordingly so that the Consolidated Net Leverage Ratio does not exceed 1.5:1.0.

The **UCC Allocation**, in respect of any Cash Sweep Payment Date, is the cash sweep amount allocated for the UCC Seller Notes under the Intercreditor Agreement.

On each Cash Sweep Payment Date, the Issuer shall pay to the Principal Paying Agent and the PXF Agent (for the account of the Noteholders and PXF Lenders respectively) an amount equal to the aggregate of:

- (a) the Cash Sweep Amount (Net) for that Cash Sweep Payment Date;
- (b) any amount transferred to the debt service account under certain prepayment provisions in the Notes and PXF Facility Agreement (excluding the Earmarked Amounts and Expired Amounts);
- (c) certain Earmarked Amounts and Permitted Indirect Asset Swap Amounts which have not been applied for the relevant purpose and therefore were required to be applied in the cash sweep (collectively, the **Expired Amounts**),

to be applied pro rata between the Notes and PXF loans in accordance with the agreed waterfall.

Earmarked Amounts and Permitted Indirect Asset Swap Amounts

Certain disposal proceeds which the Issuer designates as earmarked amounts held on the debt service account for the purpose of discharging future debt service obligations (**Earmarked Amounts**) and certain amounts received from the disposal of assets by a member of the Group which would otherwise be required to be transferred into the debt service account, but which are retained for the purchase (within certain time limits) of a replacement asset (a **Permitted Indirect Asset Swap Amount**) shall not be automatically required to be applied in the cash sweep provided they are applied for such purpose within certain timeframes.

UCC Cash Sweep

Under the UCC cash sweep, the Issuer must procure that, not more than ten business days prior to each Cash Sweep Payment Date, the UCC Group transfers to the Issuer cash equal to the applicable UCC Cash Sweep Amount (if any) less any deductions on account of tax. The **UCC Cash Sweep Amount** is the amount by which the UCC Average Cash Balance for the relevant calculation period exceeds U.S.\$15 million, less certain amounts to be applied by the UCC Group for debt service.

The **UCC Average Cash Balance** is, in respect of a calculation period, the daily average (calculated in U.S.\$ and by reference to business days only) of the aggregate UCC Cash Balances and cash equivalents during that calculation period as determined by reference to the relevant quarterly cash balance certificate delivered by the Issuer.

The **UCC Cash Balance** is the end of day cash balance held by members of the UCC Group, but excluding any Restricted Cash and certain other excluded amounts.

Shareholder Subordination

The Issuer will subordinate the claims that each of Rainwell Limited and Eltrano Investments Limited (the **Subordinated Creditors**) hold against it by entering into English law subordination deeds with the facility agent under the PXF Facility Agreement and the trustee under the Notes (the **Shareholder Subordination Deeds**). Pursuant to the Shareholder Subordination Deeds, the Subordinated Creditors will agree that the Issuer's liabilities to the Subordinated Creditors are subordinated to the obligations under the PXF Facility Agreement and the Notes. The Shareholder Subordination Deeds are in the same form as the subordination deeds previously approved by the supervisory board except that (i) the subordination will remain in place until the discharge of the liabilities owed by the Issuer to the relevant parties under the PXF Facility Agreement and the Notes; and (ii) conforming changes will be made to align the Shareholder Subordination Deeds with the PXF Facility Agreement and the Notes.

LISTING AND GENERAL INFORMATION

- (1) The Issuer was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or B.V.) under the laws of The Netherlands on 21 May 2001 for an unlimited duration. The Issuer is registered with the Dutch Trade Register of the Chamber of Commerce under number 24321697. The registered office of the Issuer is at Nassaulaan 2A, 2514 JS, 'S-Gravenhage, The Netherlands, and its telephone number is +31 70 363 5800. The Issuer has been established as a private company with limited liability for the purpose of, among others, incorporating, participating in and financing companies and enterprises; rendering advice and other services to companies or other enterprises with which the Issuer forms a group and to third parties; lending and raising funds; providing collateral for obligations of the Issuer or affiliated companies and enterprises or those of third parties; acquiring, exploiting and managing property; developing industrial and intellectual property rights; as well as performing all that is connected to the above or which could be conducive thereto, in the broadest sense of the words. The address of the Issuer's Management Board and senior management is the same as the address of the Issuer's registered office.
- (2) Application has been made to the Irish Stock Exchange plc for the Notes to be admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange. These Listing Particulars constitute listing particulars for the purposes of such application. Notification of any optional redemption, change of control or any change in the rate of interest payable on the Notes will be provided by the Issuer to the Irish Stock Exchange. These Listing Particulars were approved by the Irish Stock Exchange.
- (3) The Issuer has obtained all necessary consents, approvals and authorisations in The Netherlands in connection with the issuance of the Notes. The issue of the Notes was authorised by resolutions of the Supervisory Board and the general meeting of shareholders both passed on 14 December 2016.
- (4) There has been no significant change in the financial or trading position of the Issuer, the Guarantors or the Pledgors since 30 June 2016 and no material adverse change in the financial position or prospects of the Issuer, the Guarantors or the Pledgors since 31 December 2015.
- (5) Other than disclosed in "Business", none of the Issuer, the Guarantors and the Pledgors has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the Guarantors or any member of Metinvest is aware) during the 12 months preceding the date of these Listing Particulars which may have or has had in the recent past significant adverse effect on the financial position or profitability of the Issuer, the Guarantors or the Pledgors.
- (6) Notes will be accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records).
- (7) The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.
- (8) Except as described in "*Description of Indebtedness*" and "*Distribution of the Notes*", there is no other material contract, other than entered into in the ordinary course of business, to which the Issuer is a party, for the two years immediately preceding publication of the Listing Particulars, or any other contracts, other than contract entered into in the ordinary course of business, entered into by the Issuer which contain any provisions under which the issuer has any obligation or entitlement material to it at the date of these Listing Particulars.
- (9) For so long as Notes are outstanding pursuant to these Listing Particulars, the following documents will be available for physical inspection, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Principal Paying Agent:
 - (i) the Trust Deed (which includes the form of the Global Note Certificates);
 - (ii) the Guarantees;
 - (iii) the Intercreditor Agreement;
 - (iv) the Articles of Association of the Issuer, each of the Guarantors and the Pledgors;

- (v) the published annual report and audited consolidated accounts of the Issuer and unaudited semi-annual interim consolidated financial statements of the Issuer;
- (vi) a copy of these Listing Particulars; and
- (vii) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in these Listing Particulars.

(10) Information Relating to the Guarantors

Information concerning the incorporation, status and directors of each Guarantor is listed directly below.

Metinvest Management B.V. (Intermediate Holdco)

Incorporation and Status

Intermediate Holdco was incorporated as a private company with limited liability under the laws of the Netherlands on 10 November 2016 and is currently acting as a private company with limited liability pursuant to applicable laws. The registration number of Metinvest Management B.V. is 67253598 and its registered address is Nassaulaan 2 A, 2514JS's-Gravenhage, the Netherlands. The Intermediate Holdco will hold shares in operating subsidiaries. The Issuer holds a 100 per cent. effective interest in the Intermediate Holdco.

Director

Management powers in the Intermediate Holdco are vested in the Board. The Board comprises Mr Yuriy Ryzhenkov in its capacity as Director A and ITPS (Netherlands) B.V. in its capacity as Director B. Intermediate Holdco neither has a supervisory board, nor has it a secretary.

Private Joint Stock Company "Avdiivka Coke Plant" (Avdiivka Coke)

Incorporation and Status

Avdiivka Coke was incorporated as an open joint stock company under the Companies law of Ukraine 1991 on 30 December 1993. The registration number of Avdiivka Coke is 00191075 and its registered address is 86065 Donetsk oblast, Advdeevka, driveway Industrialnyi, 1, Ukraine. Avdiivka Coke's principal activity is production of coke. The Issuer holds a 94.72 per cent. effective interest in Avdiivka Coke.

Director

Management powers in Avdiivka Coke are vested in its sole executive body, the General Director. Musa Serhoievych Mahomedov is the current General Director of Avdiivka Coke. The supervisory board of Avdiivka Coke consists of five members, including four representatives of the Issuer and one independent director. The supervisory board of Avdiivka Coke does not have a secretary.

Private Joint Stock Company "Azovstal Iron & Steel Works" (Azovstal)

Incorporation and Status

Azovstal was incorporated as an open joint stock company under the Companies law of Ukraine 1991 on 1 October 1996. The registration number of Azovstal is 00191158 and its registered address is 87500 Donetsk oblast, Mariupol, Leporskogo Str., 1, Ukraine. Azovstal's principal activity is production of steel products. The Issuer holds a 96.65 per cent. effective interest in Azovstal.

Director

Management powers in Azovstal are vested in its sole executive body, the General Director. Enver Omarevych Tskitishvili is the current General Director of Azovstal. The supervisory board of Azovstal consists of five members, including four representatives of the Issuer and one independent director. The supervisory board of Azovstal does not have a secretary.

Private Joint Stock Company "Central Iron Ore Enrichment Works" (Central GOK)

Incorporation and Status

Central GOK was incorporated as an open joint stock company under the Companies law of Ukraine 1991 on 17 January 1997. The registration number of Central GOK is 00190977 and its registered address is 50066 Dnipropetrovsk oblast, Kryvyi Rig, Zhovtnev region, Ukraine. Central GOK's principal activity is production of iron ore. The Issuer holds a 99.75 per cent. effective interest in Central GOK.

Director

Management powers in Central GOK are vested in its sole executive body, the General Director. Pavlo Gennadiyovych Tymoshenko is the current General Director of Central GOK. The supervisory board of Central GOK consists of five members, including four representatives of the Issuer and one independent director. The supervisory board of Central GOK does not have a secretary.

Private Joint Stock Company "Ingulets Iron Ore Enrichment Works" (Ingulets GOK)

Incorporation and Status

Ingulets GOK was incorporated as an open joint stock company under the Companies law of Ukraine 1991 on 17 January 1997. The registration number of Ingulets GOK is 00190905 and its registered address is 50064 Dnipropetrovsk oblast, Kryvyi Rig, Inguletsk region, Rudna Str., 47, Ukraine. Ingulets GOK's principal activity is production of iron ore. The Issuer holds a 99.77 per cent. effective interest in Ingulets GOK.

Director

Management powers in Ingulets GOK are vested in its sole executive body, the General Director. Oleksandr Mykolaiiovych Herasymchuk is the current General Director of Ingulets GOK. The supervisory board of Ingulets GOK consists of five members, including four representatives of the Issuer and one independent director. The supervisory board of Ingulets GOK does not have a secretary.

Private Joint Stock Company "Khartsyzsk Pipe Plant" (Khartsyzsk Pipe)

Incorporation and Status

Khartsyzsk Pipe was incorporated as an open joint stock company under the Companies law of Ukraine 1991 on 7 December 1994. The registration number of Khartsyzsk Pipe is 00191135 and its registered address is 87504 Donetsk oblast, Mariupol, Ilyich Steel av., 54, building 4, Ukraine. Khartsyzsk Pipe's principal activity is production of rolled products. The Issuer holds a 98.54 per cent. effective interest in Khartsyzsk Pipe.

Director

Management powers in Khartsyzsk Pipe are vested in its sole executive body, the General Director. Denys Viktorovych Novikov is the current General Director of Khartsyzsk Pipe. The supervisory board of Khartsyzsk Pipe consists of five members, including four representatives of the Issuer and one independent director. The supervisory board of Khartsyzsk Pipe does not have a secretary.

Ukraine-Switzerland Joint Venture Limited Liability Company "Metalen" (Metalen)

Incorporation and Status

Metalen was incorporated as a limited liability company under the Companies law of Ukraine 1991 on 18 October 1999. The registration number of Metalen is 30615347 and its registered address is 87534 Donetsk oblast, Mariupol, Nakhimova av., 116A, Ukraine. Metalen's principal activity is trade of steel products. The Issuer holds a 100.0 per cent. effective interest in Metalen.

Director

Management powers in Metalen are vested in its Directorate, which consists of the General Director and the directors of Metalen's business segments. Oleksandr Leonidovych Podkorytov is the current General Director of Metalen. The participants in Metalen are Limited Liability Company "Metinvest Holding" and the Issuer. Mr. Podkorytov is the secretary of the General Participants' Meeting of Metalen.

Private Joint Stock Company "Northern Iron Ore Enrichment Works" (Northern GOK)

Incorporation and Status

Northern GOK was incorporated as an open joint stock company under the Companies law of Ukraine 1991 on 28 October 1996. The registration number of Northern GOK is 00191023 and its registered address is 50079 Dnipropetrovsk oblast, Kryvyi Rig, Ukraine. Northern GOK's principal activity is production of iron ore. The Issuer holds a 96.42 per cent. effective interest in Northern GOK.

Director

Management powers in Northern GOK are vested in its sole executive body, the General Director. Pavlo Hennadiiovych Tymoshenko is the current General Director of Northern GOK. The supervisory board of Northern GOK consists of five members, including four representatives of the Issuer and one independent director. The supervisory board of Northern GOK does not have a secretary.

Private Joint Stock Company "Yenakiieve Iron and Steel Works" (Yenakiieve I&SW)

Incorporation and Status

Yenakiieve I&SW was incorporated as an open joint stock company under the Companies law of Ukraine 1991 on 23 June 2003. The registration number of Yenakiieve I&SW is 00191193 and its registered address is 87504 Donetsk oblast, Mariupol, Ilyich av., 54, block 4, Ukraine. Yenakiieve I&SW's principal activity is production of steel products. The Issuer holds a 92.17 per cent. effective interest in Yenakiieve I&SW.

Director

Management powers in Yenakiieve I&SW are vested in its sole executive body, the General Director. Oleksandr Leonidovych Podkorytov is the current General Director of Yenakiieve I&SW. The supervisory board of Yenakiieve I&SW consists of five members, including four representatives of the Issuer and one independent director. The supervisory board of Yenakiieve I&SW does not have a secretary.

Private Joint Stock Company "Ilyich Iron and Steel Works of Mariupol" (Ilyich Steel)

Incorporation and Status

Ilyich Steel was incorporated as a closed joint stock company under the Companies law of Ukraine 1991 on 30 December 1996. The registration number of Ilyich Steel is 00191129 and its registered address is 87504 Donetsk oblast, Mariupol, Levchenko Str., 1, Ukraine. Ilyich Steel's principal activity is production of steel products. The Issuer holds approximately 99.32 per cent. effective interest in Ilyich Steel.

Director

Management powers in Ilyich Steel are vested in its sole executive body, the General Director. Yuriy Anatoliiovych Zinchenko is the current General Director of Ilyich Steel. The supervisory board of Ilyich Steel consists of five members, including four representatives of the Issuer and one independent director. The supervisory board of Ilyich Steel does not have a secretary.

APPENDIX I: GLOSSARY OF SELECTED TERMS

Air separation unit (ASU)	A unit that separates atmospheric air into its component elements, including oxygen and nitrogen. In the steelmaking process, the unit provides the large volumes of oxygen needed to ignite carbon dissolved in steel and remove unwanted chemical elements.
Alloy steel	Steel alloyed with other elements, usually molybdenum, manganese, chromium, vanadium, silicon, boron or nickel, in amounts greater than 10 per cent. by weight.
Angle	Angle shaped section used in construction.
Basic oxygen furnace	A pear-shaped furnace lined with refractory brocks that refines molten iron from the blast furnace and scrap into steel.
Bars	Long steel products that are rolled from billets.
Batteries	Coke ovens are constructed in batteries of 10 to 100 ovens.
Beneficiation	A series of unit operations to liberate and then separate ore minerals from gangue minerals. The products of beneficiation are referred to as: concentrates (enriched in ore minerals), tailings (depleted of ore minerals) and slimes (fines rejected by washing).
Billet	A semi-finished steel product with a square cross section of up to 150 millimetres x 150 millimetres. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products.
Blast furnace	A cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. It name comes from the "blast" of hot air and gases forced up through the iron ore, coke and limestone that load the furnace.
Blast furnace gas	A by-product of blast furnaces that is generated when the iron ore is reduced with coke to metallic iron. It consists primarily of nitrogen, oxygen and monoxide. It is commonly used as a fuel within steel works.
Bloom	A semi-finished steel product with a square cross section greater than 150 millimetres x 150 millimetres. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products.
Bulb flat	Bulb flats and tailor-made for plate stiffening application.
Carbon steel	Steel in which the only main alloying constituent is carbon; the other elements present are in quantities too small to affect the properties.
Channel	U shaped section used in construction.
Charge	A given weight of metal introduced into the furnace.
Coil Steckel mill	A reversing steel sheet reduction mill with heated coil boxes at each end. Steel sheet or plate is sent through the rolls of the reversing mill and coiled at the end of the mill, reheated in the coil box, and sent back through the Steckel stands and recoiled. By reheating the steel prior to each pass, the rolls can squeeze the steel thinner per pass and impart a better surface finish.

Coils	Steel sheets that have been wound. A slab, once rolled in a hot-strip mill, can be more than one mile long; coils are the most efficient way to store and transport sheet steel.
Coke	The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coal. About 450 kilogrammes of coke are needed to process a tonne of hot metal, an amount which constitutes more than 50 per cent. of an integrated steel mill's total energy use. Coke is used because coking coal burns sporadically and reduces into a sticky mass. Processed coke, however, burns steadily inside and out, and is not crushed by the weight of the iron ore in the blast furnace. It is produced inside the narrow confines of a coke oven, in which coal is heated without oxygen for 18 hours to drive off gases and impurities.
Coke oven	A set of ovens that process coal into coke.
Coking coal	Bituminous coal used in the production of steel in basic oxygen furnaces, generally low in sulphur and phosphorous.
Cold-rolling	Cold-rolling occurs with the metal below its re-crystallisation temperature (usually at room temperature), which increases the strength via strain hardening up to 20 per cent. It also improves the surface finish and supports tighter tolerances. Commonly cold-rolled products include sheets, coils and strips.
Concentrate	Material which has been processed to increase the percentage of the valuable mineral to facilitate transportation and downstream processing.
Continuous casting	A method of pouring steel directly from a ladle through a tundish into a mould, shaped to form billets or slabs. Continuous casting avoids the need for large mills for rolling ingots into slabs. Continuous cast slabs also solidify into a few minutes, versus several hours for an ingot. Because of this, the chemical composition and mechanical properties are more uniform.
Continuous Improvement (CI)	An aspect of lean production, CI encompasses various changes in business processes that aim to improve operational results by taking a systematic approach to analysing problems and finding solutions throughout an organisation.
Dolomite	A sedimentary carbonate rock consisting mainly of the mineral dolomite
Electric arc furnace	A furnace which refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100 per cent. of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat which melts the charge. Alloying elements can be added during the process.
Ferroalloy	A metal product commonly used as a raw material feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.
Finished Products	Products obtained through the hot-rolling or forging of semi-finished steel (blooms/billets/slabs). These cover two broad categories of products, namely long and flat products.
Flat product	A product that is produced by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. Flat products are used in the automotive and white goods industries, for production of large welded pipes, ship building, construction, major works and boilers. They include heavy plates and coils.

Flotation	A process in which a prepared mixture of minerals is conditioned with reagents and subjected to agitation and aeration to cause those minerals rendered hydrophobic to float and the other minerals to sink.
Flux	Limestone, dolomite or other substances used in iron and steelmaking, which react with undesirable impurities.
Heavy plate	Steel sheet with a width up to five metres and a thickness of at least five millimetres. It is mainly used for construction, heavy machinery, shipbuilding or large diameter pipes.
Hot rolled	Product that is sold in its "as produced" state off the hot rolling mill with no further reduction or processing steps, aside from being pickled and oiled (if specified).
Hot rolling mill	A rolling mill that reduces hot slab into a coil of specified thickness; the whole processing is done at a relatively high temperature (when the steel is still red).
Ingots	A form of semi-finished type of metal. Liquid metal is teemed (poured) into moulds, where it slowly solidifies. Once the metal is solid, the mould is stripped, and the 25- to 30-ton ingots are then ready for subsequent rolling or forging.
Iron ore	Mineral containing enough iron to be a commercially viable source of the element for use in steelmaking.
Iron ore concentrate	Iron ore containing the valuable minerals of an ore from which most the waste material has been removed by undergoing treatment.
JORC Code	The 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.
Ladle furnace	A furnace used for refining hot metal between the basic oxygen furnaces or electric arc furnaces and casting.
Limestone	A sedimentary rock composed largely of the mineral calcite (calcium carbonate or CaCO_3). It is used in the blast furnace to form slags, which are then used in construction and other applications.
Long products	Classification of steel products that includes bars, rods and structural products that are "long" rather than "flat" and that are produced from blooms or billets.
Lost Time Incident Frequency Rate (LTIFR)	An internationally recognised safety indicator, the LTIFR is the ratio of lost-time injuries per million hours worked. It is calculated using the total number of incidents leading to the loss of one day/shift or more from work.
Lurgi machine	The Lurgi process is an above-ground coal liquefaction and oil shale extraction technology. It is classified as a hot recycled solids technology.
Magnetic Separation	Magnetic separation is a process in which magnetically susceptible material is extracted from a mixture using a magnetic force
Merchant iron ore concentrate	A term used to designate various types of iron ore concentrate, which are sold to external customers for further processing or for direct use/consumption.
Merchant concentrate	Iron ore concentrate sold as a finished product.
Mineral	A natural, inorganic, homogenous material that can be expressed by a chemical formula.

Megapascal	One megapascal, which is equal to 1,000,000 pascals. Pascal is the SI derived unit for pressure and one pascal is equivalent to one newton per square meter.
Open hearth furnace	A broad, shallow hearth used to refine pig iron and scrap into steel. Heat is supplied from a large flame over the surface and the refining takes seven to nine hours.
OHSAS	Management system standards, developed in order to facilitate the integration of quality and occupational health and safety management systems by organisations.
Open pit	Surface mining in which the ore is extracted from a pit or quarry.
Pellet plant	A processing facility that takes as its input iron concentrate and produces iron ore pellets.
Pellets	An enriched form of iron ore shaped into small balls or pellets. Pellets are used as raw material in the steel making process.
Pig iron	Crude iron obtained directly from the blast furnace and cast in moulds.
Pulverised Coal Injection (PCI)	Pulverised coal injection (PCI) technology involves injecting pulverised coal directly into a blast furnace through tuyeres (instead of using cokes) which reduces the consumption of coke and increases furnace productivity.
Rails	A steel bar laid on the ground, forming a railway track.
Rail fasteners	Metal devices used to link rails on railway lines.
Rebar/Debar bar/deformed bar) (reinforcing	A commodity grade steel used to strengthen concrete in highway and building construction.
Refining	A stage in the process of making crude steel, during which most residual impurities are removed from the cured steel and additions of other metals may be made before it is cast (see also "Ladle furnace").
Rolled steel (products)	Steel produced to a desired thickness by being passed through a set of rollers.
Scrap	Steel waste that is not usable as such in its existing form, which is further re-melted to produce crude steel or sold.
Sections	Blooms or billets that are hot-rolled in a rolling mill to form, among other shapes, "L", "U", "T" or "I" shapes. Sections can also be produced by welding together pieces of flat products. Sections can be used for a wide variety of purposes in the construction, machinery and transport industries.
Semi-finished products	A product category that includes slabs, blooms and billets. Slabs, blooms and billets are the first solid forms in the steel making process. These usable shapes are further processed to become more finished products rebars and shapes, structural steel and wire rod.
Shapes	Steel shapes in a variety of shapes such as beams, longs, bars, etc.
Sinter	An aggregate which is normally produced from relatively coarse fine iron ore and other metallurgical return wastes used as an input/raw material in blast furnaces.

Slab	The most common type of semi-finished steel. Traditional slabs measure 18 to 25 centimetres thick, 75 to 225 centimetres wide and are usually about 6 to 12 metres long, while the output of recently developed "thin slab" casters is approximately five centimetres thick. Subsequent to casting, slabs are sent to the hot strip mill to be rolled into coiled sheet and plate products.
Slag	Slag is a by-product generated when nonferrous substances in iron ore, limestone and coke are separated from the hot metal. Slag is used in cement and fertiliser production as well as for base course material in road construction.
Slimes	Fine particulate material that can interfere with flotation due to excessive reagent consumption, excessive frothing, or slimes coating. Frequently, the fine gangue material is removed from iron ore by washing and size classification.
Steam Coal	A term used to describe coal that is used primarily to generate heat. It is defined as all other hard coal not classified as coking coal. Also included in this category are recovered slurries, middlings and other low-grade coal products not further classified by type. Coal of this quality is also commonly known as thermal coal.
Tailings	Waste material produced from ore after economically recoverable metals or minerals have been extracted. Changes in metal prices and improvements in technology can sometimes make the tailings economic to process at a later date.
Turbine Air Blower	A device that compresses and blows air into a blast furnace at high pressure.
Wharf coke	Moist wharf coke, a finished coke product containing 6.0 per cent. moisture which was discharged from a coking battery and normalized to shipping temperature (quenched with water and processed with inert gas) and was not screened.
Wire	A broad range of products produced by cold and hot reducing, or drawing, wire rod through a series of dies to reduce the diameter, improve surface finish, dimensional accuracy, and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.
Wire rod	Formed from billets, wire rod in coils is an intermediate product of uniform round cross section dimension.

APPENDIX II: CLASSIFICATION OF RESERVES AND RESOURCES

International Reporting Methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes in current use are: United States Securities and Exchange Commission Industry Guide 7 (**SEC**) (United States); Canadian National Instrument 43-101 (Canada); Australasian Joint Ore Reserves Committee (**JORC**) Code (Australia); Institute of Materials, Minerals and Mining (**IMMM**) Reporting Code (United Kingdom and Ireland); and South African Institute of Mining and Metallurgy (**SAIMM**) Reporting Code (South Africa).

Each of these codes recognises the difference between mineral resources and ore reserves. Conversion from a mineral resource to an ore reserve requires the application of "modifying factors", including mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. A "resource" is geologically defined; it becomes a "reserve" when the modifying factors, especially technical and economic factors, are taken into account. Each of these codes also includes strict guidelines for data quality and reporting in mining commodities.

Mineral resources

A mineral resource is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust (a "deposit") in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories. Portions of a deposit that do not have reasonable prospects for eventual economic extraction are not included as mineral resources.

Inferred mineral resource

An inferred mineral resource is that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity, and based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and/or reliability.

Indicated mineral resource

An indicated mineral resource is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity but are spaced closely enough for continuity to be assumed.

Measured mineral resource

A measured mineral resource is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

Ore reserves

All data relating to Metinvest's iron ore reserves and resources were reported in accordance with the terms and definitions of the JORC Code and based on the Reserves Report prepared by SRK.

Ore reserves are the economically mineable parts of an indicated or measured mineral resource. Ore reserves take account of diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments establish that at the time of reporting extraction is reasonably justified.

Proved ore reserve

A proved ore reserve is the economically mineable part of a measured mineral resource.

Probable ore reserve

A probable ore reserve is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource.

Coal reserves

All data relating to Metinvest's coal reserves and resources located on the United States were prepared in accordance with SEC Industry Guide 7 and based on the Reserves Report prepared by Cardno.

Coal reserves are estimated based on industry-accepted guidelines for total coal/seam thickness, coal quality, coal recoverability, product yield, and other practical permitting and mining limitations. The industry standard methodology providing reasonable assurance that the coal reserves are recoverable considering geologic, technical, economic and legal limitations at the time of the reserve evaluation has been used.

Proved coal reserve

A proved coal reserve is a reserve for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings, or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspections, sampling, and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth, and mineral are well established. Proved coal reserves lie within one fourth of a mile arc around a coal measurement site.

Probable coal reserve

A probable coal reserve is a reserve for which quantity and grade and/or quality are computed from information similar to that used for proved reserves, but the sites for inspection, sampling, and measurement are farther apart or are less adequately spaced. The degree of assurance, although lower than that for proved reserves, is high enough to assume continuity between points of observation. Probable reserves lie within more than one fourths of a mile, but less than three fourths of a mile from a coal measurement site.

Ukrainian Reporting Methodologies

All data relating to Metinvest's coal reserves and resources located in Ukraine is presented in accordance with Ukrainian standards.

Ukraine has a long-established system of reserve and resource reporting, set forth by the State Commission of Ukraine on Mineral Resource. The primary difference between Ukrainian and international methodologies is that Ukrainian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilise sampling and extrapolation techniques. Deposits are classified into one of four classes, based on the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralisation. This initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration, mineral resources are subsequently divided into "explored" and "evaluated" deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources. Explored and evaluated deposits are further classified based on the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A reserves

Category A reserves include only explored deposits, and must meet the following criteria:

1. the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and offgrade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;

2. the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;
3. the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and
4. the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs.

Category B reserves

Category B reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accuracy than Category A reserves.

Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 reserves

Category C1 reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves.

Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 reserves

Category C2 reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that:

1. the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and
2. the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable resources, in categories P1, P2 or P3. Such deposits have undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves.

Comparison of international and Ukrainian reporting methodologies

While a direct comparison between international and Ukrainian reporting methodologies is difficult because each is founded on different principles, it is often the case that category A and B Ukrainian reserves correlate to proved reserves, and C1 Ukrainian reserves to probable reserves. However, these relationships may vary among deposits, and at different times for the same deposits.

APPENDIX III: FORM OF NOTICE

Company name: Metinvest B.V.

Headline: Issuance of PIK Notes

IRISH STOCK EXCHANGE ANNOUNCEMENT

[Date]

Metinvest B.V. (*Issuer*)

SENIOR MEDIUM TERM NOTES DUE 2021 (NOTES)

ISIN: [●], Common Code: [●]

ISIN: [●], Common Code: [●]

Issuance of PIK Notes

Reference is made to the Listing Particulars dated [●] 2017 and the Trust Deed dated [●] 2017. Capitalised terms in this notice, unless otherwise defined, have the meaning given to those terms in the Listing Particulars and the Trust Deed.

In accordance with Condition 5(c)(A), the Issuer will pay interest on [●] (the **Interest Payment Date**) at the rate of 2.793 per cent. per annum (the **Cash-pay Interest Amount**) in cash in the amount of U.S.\$[●]. In addition to the Cash-pay Interest Amount, the Issuer is required to pay interest on the Interest Payment Date at the rate of 6.5795 per cent. per annum (the **PIYC Interest Amount**) in cash in the amount of U.S.\$[●] in case the Notes Cash Sweep Amount is available. The Notes Cash Sweep Amount is [available in the amount of U.S.\$[●]][not available]. In accordance with Condition 5(c)(C), the Issuer hereby informs you of [the issuance by the Issuer of U.S.\$[●] of PIK Notes on [●] (the **PIK Notes**)/the increase in the principal amount of the Notes in the amount of U.S.\$[●]] as payment for the PIYC Interest Amount due on its U.S.\$[●] [●] Senior Secured Medium Term Notes due 2021 (the **Original Notes** and, together with the PIK Notes, the **Notes**) and not paid in cash.

Prior to [the issuance by the Issuer of U.S.\$[●] of PIK Notes on [●]/the increase in the principal amount of the Notes in the amount of U.S.\$[●]], the principal amount of the Original Notes was U.S.\$[●]. Following the [the issuance by the Issuer of U.S.\$[●] of PIK Notes on [●]/the increase in the principal amount of the Notes in the amount of U.S.\$[●]], the principal amount of the Notes is U.S.\$[●].

The aggregate principal amount of the Notes that are admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange shall be increased on the Interest Payment Date.

The pool factor is [●].

This notice is given by:

Metinvest B.V.

Nassaulaan 2A

2514 JS

'S-Gravenhage

The Netherlands

[Date]

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Metinvest B.V.

**Unaudited Interim Condensed
Consolidated Financial Information**

30 June 2016

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Metinvest B.V.
Unaudited Interim Condensed Consolidated Balance Sheet
All amounts in millions of US dollars

	Note	30 June 2016	31 December 2015
ASSETS			
Non-current assets			
Goodwill		584	601
Other intangible assets		153	164
Property, plant and equipment	7	4,508	4,822
Investments in associates and joint ventures	8	818	779
Deferred tax asset		86	105
Income tax prepaid		50	105
Trade and other receivables	9	174	229
Total non-current assets		6,373	6,805
Current assets			
Inventories		798	766
Income tax prepaid		44	66
Trade and other receivables	9	1,632	1,365
Cash and cash equivalents		183	180
Total current assets		2,657	2,377
TOTAL ASSETS		9,030	9,182
EQUITY			
Share capital		0	0
Share premium		6,225	6,225
Other reserves		(8,319)	(8,013)
Retained earnings		5,890	5,674
Equity attributable to the owners of the Company		3,796	3,886
Non-controlling interest		140	138
TOTAL EQUITY		3,936	4,024
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations		337	335
Deferred tax liability		307	348
Other non-current liabilities		107	103
Total non-current liabilities		751	786
Current liabilities			
Loans and borrowings	10	2,892	2,858
Seller's notes	11	89	88
Trade and other payables	12	1,362	1,426
Total current liabilities		4,343	4,372
TOTAL LIABILITIES		5,094	5,158
TOTAL LIABILITIES AND EQUITY		9,030	9,182

Signed and authorized for release on behalf of Metinvest B.V. on "29" September 2016:

Originally signed by Director A, Yuriy Ryzhenkov

Originally signed by Director B, ITPS (Netherlands) B.V.

Metinvest B.V.**Unaudited Interim Condensed Consolidated Income Statement**

All amounts in millions of US dollars

	Note	Six months ended 30 June 2016	2015
Revenue	6	2,880	3,650
Cost of sales		(2,240)	(3,047)
Gross profit		640	603
Distribution costs		(347)	(463)
General and administrative expenses		(82)	(96)
Other operating income/ (expenses), net	13	(5)	47
Operating profit		206	91
Finance income		13	11
Finance costs	14	(178)	(374)
Share of result of associates and joint ventures		70	99
Profit / (loss) before income tax		111	(173)
Income tax (expense) / credit		(21)	7
Profit / (loss) for the period		90	(166)
Profit / (loss) attributable to:			
Owners of the Company		87	(167)
Non-controlling interests		3	1
Profit / (loss) for the period		90	(166)

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

All amounts in millions of US dollars

	Note	Six months ended 30 June 2016	2015
Profit / (loss) for the period		90	(166)
Other comprehensive loss:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		(175)	(1,731)
<i>Items that will not be reclassified to profit or loss:</i>			
(Impairment) / revaluation of property, plant and equipment		(2)	872
Share in other comprehensive (loss) / income of joint venture	8	(2)	56
Remeasurement of retirement benefit obligations		-	47
Income tax related to items that will not be reclassified subsequently to profit or loss		1	(166)
Total other comprehensive loss		(178)	(922)
Total comprehensive loss for the period		(88)	(1,088)
Total comprehensive loss attributable to:			
Owners of the Company		(90)	(1,063)
Non-controlling interest		2	(25)
Total comprehensive loss for the period		(88)	(1,088)

The accompanying notes form an integral part of this unaudited interim condensed consolidated financial information

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Metinvest B.V.
Unaudited Interim Condensed Consolidated Statement of Cash Flows
All amounts in millions of US Dollars

	Note	Six months ended 30 June 2016	2015
Cash flows from operating activities			
Profit / (loss) before income tax		111	(173)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortisation of intangible assets		268	295
Impairment of property, plant and equipment and intangible assets		1	165
Impairment of goodwill		-	39
Finance income		(13)	(11)
Finance costs		178	374
Unrealised operating foreign exchange differences		(3)	(82)
Net change in retirement benefit obligations, except for interest costs, remeasurements and currency translation		(9)	(23)
Share of result of associates and joint ventures		(70)	(99)
(Reversal of write-down) / write-down of inventories, net		(43)	8
Impairment of trade receivables		2	2
Other non-cash operating income, net		(2)	(12)
Operating cash flows before working capital changes		420	483
Decrease / (increase) in inventories		3	(24)
Increase in trade and other accounts receivable		(237)	(309)
(Decrease) / increase in trade and other accounts payable		(19)	315
Cash generated from operations		167	465
Income taxes refunded / (paid)		45	(22)
Interest paid		(49)	(89)
Net cash from operating activities		163	354
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(130)	(113)
Proceeds from sale of property, plant and equipment		6	8
Proceeds from sale of Black Iron (Cyprus) Limited		6	-
Interest received		9	10
Proceeds from disposal of other non-current assets		-	1
Net cash used in investing activities		(109)	(94)
Cash flows from financing activities			
Prepayment under consent solicitation agreement		-	(33)
Repayment of loans and borrowings		(8)	(82)
Net trade financing repayments		(33)	(94)
Other finance costs		(9)	(3)
Net cash used in financing activities		(50)	(212)
Effect of exchange rate changes on cash and cash equivalents		(1)	(11)
Net increase in cash and cash equivalents		3	37
Cash and cash equivalents at the beginning of the year		180	114
Cash and cash equivalents at the end of the period		183	151

The accompanying notes form an integral part of this unaudited interim condensed consolidated financial information

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Metinvest B.V.**Unaudited Interim Condensed Consolidated Statement of Changes in Equity**

All amounts in millions of US Dollars

	Attributable to owners of the Company					Non-controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 31 December 2015	0	6,225	(8,013)	5,674	3,886	138	4,024
Impairment of property, plant and equipment	-	-	(2)	-	(2)	-	(2)
Share in other comprehensive income of joint venture	-	-	(2)	-	(2)	-	(2)
Income tax related to items included in other comprehensive income	-	-	1	-	1	-	1
Currency translation differences	-	-	(174)	-	(174)	(1)	(175)
Other comprehensive loss for the period	-	-	(177)	-	(177)	(1)	(178)
Profit for the period	-	-	-	87	87	3	90
Total comprehensive loss for the period	-	-	(177)	87	(90)	2	(88)
Realised revaluation reserve	-	-	(129)	129	-	-	-
Balance at 30 June 2016	0	6,225	(8,319)	5,890	3,879	140	3,936
Balance at 31 December 2014	0	6,225	(6,034)	6,372	6,563	199	6,762
Revaluation of property, plant and equipment	-	-	853	-	853	19	872
Share in other comprehensive income of joint venture	-	-	56	-	56	-	56
Remeasurement of retirement benefit obligation	-	-	-	44	44	3	47
Income tax related to items included in other comprehensive income	-	-	(154)	(8)	(162)	(4)	(166)
Currency translation differences	-	-	(1,687)	-	(1,687)	(44)	(1,731)
Other comprehensive loss for the period	-	-	(932)	36	(896)	(26)	(922)
Profit for the period	-	-	-	(167)	(167)	1	(166)
Total comprehensive loss for the period	-	-	(932)	(131)	(1,063)	(25)	(1,088)
Realised revaluation reserve	-	-	(139)	139	-	-	-
Balance at 30 June 2015	0	6,225	(7,105)	6,380	5,500	174	5,674

The accompanying notes form an integral part of this unaudited interim condensed consolidated financial information

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Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016**

All tabular amounts in millions of US Dollars

1 Metinvest B.V. and its operations

Metinvest B.V. (the "Company" or "Metinvest"), is a private limited liability company registered in the Netherlands. The Company is beneficially owned by Mr. Rinat Akhmetov, through various entities commonly referred to as System Capital Management ("SCM"), and Mr. Vadim Novinsky, through various entities commonly referred to as "SMART" or "Smart Group".

The Company and its subsidiaries (together referred to as the "Group" or "Metinvest Group") are an integrated steel producer, owning assets in each link of the production chain – from iron ore mining, coking coal mining and coke production, through to semi-finished and finished steel production. The steel products, iron ore and coke and coal are sold on both the Ukrainian and export markets.

Until November 2007, the Company was indirectly 100% controlled by SCM (System Capital Management) Limited ("SCM Cyprus").

In November 2007 the Company acquired from parties known as Smart Group 82% of PJSC Ingulets Iron Ore Enrichment Works in exchange for the transfer to SMART of 25% of the Company. Following the November 2007 transaction, Metinvest B.V. was owned 75% by SCM Cyprus and 25% by SMART. SCM Cyprus and SMART additionally agreed that both would sell/contribute to the Group their remaining equity interests in certain metals and mining assets owned by SCM and SMART. In exchange SMART would acquire certain additional rights over the management of the Company and the Group. Due to the complexity of the transaction, it was executed in several stages during 2007 through 2014, and was completed in July 2014.

In 2011, as part of the acquisition of Ilyich Group, the Company issued 5% of its share capital to the sellers of Ilyich Group.

As of 30 June 2016, 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, thus SCM remaining as the controlling shareholder.

The principal subsidiaries of Metinvest B.V. are presented below:

Name	Effective % 30 June 2016	interest as at 31 December 2015	Segment	Country of incorporation
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
PJSC Azovstal Iron and Steel Works	96.2%	96.2%	Metallurgical	Ukraine
PJSC Yenakiieve Iron and Steel Works	91.5%	91.5%	Metallurgical	Ukraine
JV Metalen LLC	100.0%	100.0%	Metallurgical	Ukraine
PJSC Khartsyzsk Pipe Plant	98.5%	98.5%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	70.0%	70.0%	Metallurgical	Italy
Metinvest Tramel S.p.A.	100.0%	100.0%	Metallurgical	Italy
Spartan UK Limited	100.0%	100.0%	Metallurgical	UK
Metinvest International SA	100.0%	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	100.0%	100.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	100.0%	100.0%	Metallurgical	Ukraine
Metinvest Ukraine LLC	100.0%	100.0%	Metallurgical	Ukraine
JSC Promet Steel	100.0%	100.0%	Metallurgical	Bulgaria
PJSC Makiivka Iron and Steel Works	90.2%	90.2%	Metallurgical	Ukraine
PJSC Ilyich Iron and Steel Works	99.2%	99.2%	Metallurgical	Ukraine
PSC Ilyich Steel	100.0%	100.0%	Metallurgical	Ukraine
PJSC Avdiivka Coke Plant	93.0%	93.0%	Metallurgical	Ukraine
JSC Zaporozhzhsk	52.2%	52.2%	Metallurgical	Ukraine
JSC Donetskoks	93.6%	93.6%	Metallurgical	Ukraine
PJSC Northern Iron Ore Enrichment Works	96.4%	96.4%	Mining	Ukraine
PJSC Central Iron Ore Enrichment Works	99.8%	99.8%	Mining	Ukraine
PJSC Ingulets Iron Ore Enrichment Works	99.8%	99.8%	Mining	Ukraine
OSC Komsomolske Flux Plant	99.7%	99.7%	Mining	Ukraine
United Coal Company LLC	100.0%	100.0%	Mining	USA
PJSC Krasnodon Coal Company	92.9%	92.9%	Mining	Ukraine

As at 30 June 2016, the Group employed approximately 84 thousand people (31 December 2015: 91 thousand).

The Company's registered address is Nassaulaan 2A, 2514 JS, The Hague. The company is registered with the commercial trade register under the number 24321697. The principal places of production facilities of the Group are in Ukraine, Italy, the UK and the USA.

2 Operating environment of the Group

The ongoing political and economic instability in Ukraine has led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies and has continued in the first half of 2016, though to somewhat lesser extent as compared to 2014–2015. The inflation in Ukraine in the first half of 2016 approximated 5% (2015: 43%). The National Bank of Ukraine ("NBU"), among other measures, imposed a requirement for Ukrainian companies to sell majority of their foreign currency revenue and other foreign currency inflows on the inter-bank market, restrictions on the purchase of foreign currency on the inter-bank market, and ban for payment of dividends abroad. The above restrictions were prolonged several times, however in 2016 NBU has made certain steps to ease the currency control restrictions. In particular, the required share of foreign currency for mandatory sale was decreased from 75% to 65% starting from 9 June 2016 and the settlement period for export-import transactions in foreign currency was increased from 90 to 120 days starting from 28 July 2016. Also starting from 13 June 2016, NBU allowed Ukrainian companies to pay dividends to non-residents with a limit of USD 5 million per month. As of 30 June 2016, the amount of undistributed retained earnings of the Group's Ukrainian subsidiaries was approximately USD 1,311 million.

As of the date of this report the official NBU exchange rate of Hryvnya against US dollar was UAH 25.90 per USD 1, compared to UAH 24.85 per USD 1 as at 30 June 2016 and UAH 24.00 per USD 1 as at 31 December 2015.

On 11 March 2015, the IMF Executive Board approved a four-year Extended Fund Facility ("EFF") programme for Ukraine in the amount exceeding USD 17 billion. During 2015 Ukraine obtained first and second tranches in accordance with EFF programme in the amount of USD 5 billion and USD 1.7 billion, respectively. Further disbursements of IMF tranches depend on the implementation of Ukrainian government reforms, and other economic, legal and political factors. In October 2015, Ukraine reached an agreement with the majority of its creditors for restructuring of the part of the national external debt in the amount of USD 15 billion. After Ukraine reached the above restructuring agreement on external debt with the majority of its creditors, the credit rating of Ukraine has improved. There remains a significant portion of debt for which a restructuring has not been agreed to. There were no substantial changes related to the Ukraine's external debt in the first half of 2016.

On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. The Russian government reacted to this event by implementing a trading embargo or import duties on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products.

The banking system of Ukraine remains fragile due to its weak level of capital, its weakening asset quality caused by the economic situation, currency devaluation and other factors.

The conflict in the parts of Eastern Ukraine which started in spring 2014 has not been resolved to date. However, there was no substantial escalation of the conflict since the signing of ceasefire agreements in September 2014. The majority of the Group's Metallurgical segment and some of the Mining segment is located in, or near to, the parts of the Donetsk and Lugansk regions where there has been armed conflict. This includes the city of Mariupol (where the Group's two largest steel plants, PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works, are located), which is approximately 20 kilometres from the line of contact of conflicting parties. Production at these plants has been negatively impacted by the situation starting from the second half of 2014. The Group retains operational controls over all its assets.

The negative impact on production volumes has been caused primarily by disruptions in infrastructure (rail transportation, road transport and electricity and gas supply). This has resulted in some temporary suspensions of operations or decrease of production at some plants during 2014–2016. Management have sought to actively manage and limit the impact of these events on the Group's operations by adopting a number of contingency arrangements. There has been no significant impact to the physical condition of the Group's assets.

During the period ended 30 June 2016 management of the Group continued to use certain measures in order to maintain profitability and liquidity, such as reduction in capital expenditures and administrative costs.

The increase in the Group's steel production in the first half of 2016 (as compared to the first half of 2015) was 8%, while iron ore production remained unchanged. There was also a slight 4% reduction of production of coking coal.

The prices of steel, coking coal and iron ore experienced both volatility and an overall decline during 2014–2015 and reached the decade-lowest levels in the fourth quarter of 2015 and January–February 2016. Since March 2016, there was a notable increase in price levels, with some correction/stabilisation thereafter. The average benchmark price for hot-rolled coil (Metal Expert HRC CIS export FOB Black Sea) reached April-June 2016 period average of USD 417 which is 56% higher compared to December 2015. Benchmark iron ore price (Platts 62% Fe CFR China) increased from USD 39 per dry tonne in December 2015 to April-June 2016 period average of USD 55 per dry tonne. Coupled with decrease of freight costs in the first half of 2016, these price dynamics had positive impact on the Group's financial results starting March 2016 as compared to the fourth quarter of 2015 and January–February 2016.

Despite some positive developments in the first half of 2016, the events in Ukraine and volatility in commodity markets continue to create uncertainties, including the Group's assessment of the fair value of property, plant and equipment and the recoverable amount of property, plant and equipment, goodwill and other intangible assets under impairment testing for assets located in Ukraine.

2 Operating environment of the Group (continued)

As of 30 June 2016, the Group had significant balances receivable from and prepayments made to the State mainly including prepaid income taxes and VAT recoverable. The timing of settlement of these balances is uncertain and is dependent upon the availability of State funds and amounts of future taxable profits of Group's subsidiaries. During the first half of 2016, the Group's Ukrainian subsidiaries have received the refunds of prepaid income taxes and VAT recoverable of USD 53 million and USD 146 million, respectively.

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further negative implications on the Ukrainian economy and the Group's business.

3 Going concern

In March 2015, the Group sought approval for a partial deferral of principal payments to May 2015 in respect of the pre-export financing (PXF) facilities due in March and April 2015. Whilst approval for the above deferral was obtained from the majority of PXF lenders under the facilities, the Group was unable to obtain the required consent of all PXF lenders. The Group was obliged to start a broader restructuring and consequently did not make the necessary principal payment, triggering default and cross defaults under its bank and non-bank loans and borrowings, as well as bonds. This has resulted in a reclassification from non-current loans and borrowings to current loans and borrowings of USD 974 million as of 30 June 2016. The amount of liability to bondholders and PXF lenders is disclosed in Note 10.

The Group undertook a number of measures to ensure a stable platform for negotiating the restructuring of its debt.

In April 2015, the Group launched consent solicitations with respect to its bonds. Following bondholders' meetings for the 2015, 2017 and 2018 bonds, the majority of bondholders agreed to waive existing and related potential events of default until the end of January 2016. Moreover, 2015 bondholders agreed to extend the maturity of the 2015 bonds from 20 May 2015 to 31 January 2016 in exchange for a redemption of 25% of principal. Following the launch by the Group of a scheme of arrangement procedure on 29 January 2016 a competent English Court sanctioned a moratorium of the Group on taking enforcement action or initiation of insolvency proceedings by holders of 2016, 2017, 2018 bonds of Metinvest B.V. until 27 May 2016.

Further in December 2015 the Group concluded and signed on 1 December 2015 (with expiry on 29 January 2016) a standstill agreement with its PXF lenders which provides for a forbearance on the taking of enforcement action or the initiation of insolvency proceedings by the PXF lenders. The standstill period has been extended until 27 May 2016.

Both groups of lenders have agreed to support the liquidity of the Group by permitting the reduced payment of accrued interest to 30% (with remaining 70% being capitalized) starting from 31 January 2016; these terms were in place up to the date of this report. Since the date of default, the Group continues to pay interest due on its loans and borrowings.

On 24 May 2016, the Group agreed the non-binding heads of terms for the restructuring of the bonds and PXF facilities (the Heads of Terms) with the coordinating committee of lenders to the PXF facilities and the ad hoc committee of bondholders. Among other terms, the Heads of Terms include an extension of the Group's debt maturities until the end of 2021, including a grace period on scheduled amortisation of principal until the end of 2018. The Heads of Terms impose certain limitations on transactions with related parties and require the debt owed to shareholders to be subordinated to the PXF facilities and bonds.

On 25 May 2016, the Group issued a practice statement letter proposing a new scheme of arrangement under English law to extend the moratorium on enforcement actions in respect of its bonds until 30 November 2016 at the latest. This scheme of arrangement was sanctioned by the High Court of England and Wales on 30 June 2016.

On June 24, the second extension of the standstill agreement with PXF lenders was signed with effect to 30 November 2016 at the latest.

Discussions with creditors are currently ongoing with a view to document and implement a consensual restructuring based on the Heads of Terms.

Management has prepared monthly cash flow projections for the remainder of 2016 and quarterly for 2017. Additionally, management has performed a high-level liquidity analysis for 2018 through to 2022 and considers that there is sufficient liquidity to maintain operations under the current circumstances. Based on cash flow projections, liquidity and other factors analysis, management plans to negotiate with the lenders a mutually acceptable schedule of repayment of principal and interest.

Although management remains in discussions with its lenders, it has not yet concluded a restructuring agreement. Thus, there is an uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

3 Going concern (continued)

The Group's ability to continue as a going concern is crucially dependent on the following conditions:

- willingness of the Group's lenders not to demand early repayment of borrowings in default;
- ability of the Group to negotiate with the lenders a mutually acceptable and feasible debt repayment schedule; and
- absence of escalation of the conflict in the Eastern Ukraine (Note 2).

Despite these material uncertainties with respect to the repayment of the Group's loans and borrowings and with respect to the debts restructuring, based on cash flow projections performed and an anticipated favourable outcome of the discussions with its lenders, management considers that the application of the going concern assumption for the preparation of this interim condensed consolidated financial information is appropriate.

4 Basis of preparation and significant accounting policies

This interim condensed consolidated financial information for the six months ended 30 June 2016 has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union ("EU"). The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS as adopted by EU.

Except as described below, the basis of preparation, accounting policies and critical accounting estimates and judgments applied are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015.

Current and deferred taxes. Income tax expense in the interim period is recognised based on management's best estimate of the weighted average effective annual income tax rate expected for the full financial year.

Exchange rate fluctuations. The following table summarises exchange rates of UAH against USD and Euro ("EUR") as of the dates used for translating foreign currency balances:

	30 June 2016	31 December 2015
USD / UAH	24.85	24.00
EUR / UAH	27.56	26.22

The following table summarises average exchange rates of UAH against USD and EUR:

	Six months ended 30 June	
	2016	2015
USD / UAH	25.46	21.37
EUR / UAH	28.42	23.83

Valuation techniques and inputs used to determine fair values of financial assets and liabilities in this interim condensed consolidated financial information for the six months ended 30 June 2016 are consistent with those used for the preparation of the annual financial statements for the year ended 31 December 2015. Unless otherwise stated, fair values of financial instruments approximate their carrying values as at 30 June 2016 and 31 December 2015.

In 2016 the Group changed presentation of legal and consulting expenses related to debt restructuring. Such expenses were reclassified from general and administrative expenses to finance costs to better reflect the substance of such expenditures. This resulted in change in comparative information for the six months ended 30 June 2015 amounting to USD 3 million.

5 Adoption of new or revised standards and interpretations

The following new standards and amendments to the standards which are relevant to the Group and have been adopted by the European Union are effective in the European Union for the annual periods beginning on or after 1 January 2016:

- Annual improvements to IFRSs 2012. The improvements consist of changes to seven standards, three of which are relevant to the Group. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The Group is not expecting any impact of the above amendments on its financial statements.

The following new standards relevant to the Group have been issued, but have not been adopted by the European Union:

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers;
- IFRS 16, Leases;
- Amendments to IFRS 10 and IAS 28;
- Amendments to IAS 7; and
- Amendment to IAS 12.

The Group is currently assessing the possible impact of adoption of the above standards but it is not currently expected that it will be significant. IFRS 16 will require the Group to recognise in the balance sheet assets taken in an operating lease and the related lease liabilities.

Other new or revised standards or interpretations that will become effective for annual periods starting after 1 January 2017 will likely have no material impact to the Group.

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016***All tabular amounts in millions of US Dollars***6 Segment information**

The Group is a vertically integrated steel and mining business. A significant portion of the Group's iron ore and coke and coal production is used in its steel production operations.

Segment information for the period ended 30 June 2016 was as follows:

	Metallurgical	Mining	Corporate overheads	Eliminations	Total
Six months ended 30 June 2016					
Sales – external	2,290	590	-	-	2,880
Sales to other segments	38	397	-	(435)	-
Total of the reportable segments' revenue	2,328	987	-	(435)	2,880
Adjusted EBITDA	332	214	(32)	(44)	470
Share in EBITDA of joint ventures	69	41	-	-	110
Adjusted EBITDA including share in EBITDA of joint ventures	401	255	(32)	(44)	580
<i>Reconciling items:</i>					
Depreciation and amortisation					(268)
Finance income					13
Finance costs					(178)
Share of result of associates and share of depreciation, amortisation, tax and finance income and costs of joint ventures					(40)
Foreign exchange gains less losses, net					3
Other reconciling items					1
Profit before tax					111
	Metallurgical	Mining	Corporate overheads	Eliminations	Total
Capital expenditure	61	53	2	-	116

There were no significant non-cash items included into adjusted EBITDA for six months ended 30 June 2016.

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016***All tabular amounts in millions of US Dollars***6 Segment information (continued)**

	Metallurgical	Mining	Corporate overheads	Eliminations	Total
Six months ended 30 June 2015					
Sales – external	2,839	811	-	-	3,650
Sales to other segments	32	690	-	(722)	-
Total of the reportable segments' revenue	2,871	1,501	-	(722)	3,650
Adjusted EBITDA	320	181	(30)	14	485
Share in EBITDA of joint venture	101	37	-	-	138
Adjusted EBITDA including share in EBITDA of joint venture	421	218	(30)	14	623
<i>Reconciling items:</i>					
Depreciation and amortisation					(295)
Finance income					11
Finance costs					(374)
Reversal of impairment / (impairment) of property, plant and equipment and intangible assets	5	(170)	-	-	(165)
Goodwill impairment	-	(39)	-	-	(39)
Share of result of associates and share of depreciation, amortisation, tax and finance income and costs of joint venture					(39)
Foreign exchange gains less losses, net					104
Other reconciling items					1
Profit before tax					(173)
	Metallurgical	Mining	Corporate overheads	Eliminations	Total
Capital expenditure	49	63	5	-	117

There were no significant non-cash items included into adjusted EBITDA for six months ended 30 June 2015.

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016***All tabular amounts in millions of US Dollars***7 Property, plant and equipment**

The movements of property, plant and equipment during six-months period ended 30 June 2015 and 30 June 2016 were as follows:

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
As at 1 January 2015	72	2,082	3,684	52	648	6,538
Additions	-	-	-	-	110	110
Transfers	-	31	50	3	(84)	-
Disposals and other movements	-	-	(1)	-	(8)	(9)
Depreciation charge	-	(70)	(208)	(5)	-	(283)
Currency translation differences	(6)	(477)	(853)	(13)	(144)	(1,493)
Impairment	-	(8)	(5)	-	-	(13)
Revaluation	-	290	584	5	2	881
As at 30 June 2015	66	1,848	3,251	42	524	5,731

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
As at 1 January 2016	50	1,612	2,704	36	420	4,822
Additions	-	-	-	-	111	111
Transfers	-	39	76	2	(117)	-
Disposals and other movements	-	-	(1)	(2)	(6)	(9)
Depreciation charge	-	(67)	(188)	(5)	-	(260)
Currency translation differences	-	(50)	(88)	(1)	(14)	(153)
Impairment	-	(2)	(1)	-	-	(3)
As at 30 June 2016	50	1,532	2,502	30	394	4,508

As at 30 June 2016 the Group considered that the fair value of property, plant and equipment is not substantially higher than its carrying value and no revaluation is required for these interim financial statements. In this consideration management analysed the developments in the operating environment of the Group (Note 2) since the last revaluation of property, plant and equipment performed as at 30 June 2015.

As at 30 June 2016 no indicators of impairment of property, plant and equipment were identified by management.

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016**

All tabular amounts in millions of US Dollars

8 Investments in associates and joint ventures

The principal associates and joint ventures of the Group are as follows:

Name	Type of relationship	Segment	30 June 2016		31 December 2015	
			% of ownership	Carrying value	% of ownership	Carrying value
Zaporozhstal Group	Joint venture	Metallurgical	49.9%	481	49.9%	458
PJSC Southern Iron Ore Enrichment Works	Joint venture	Mining	45.9%	318	45.9%	298
JSC Yenakievskiy	Associate	Metallurgical	50.0%	8	50.0%	7
Koksohimprom	Associate	Metallurgical	49.9%	7	49.9%	7
IMU	Associate	Metallurgical	45.4%	3	45.4%	2
PJSC Zaporozhneupor	Associate	Metallurgical				
Black Iron (Cyprus) Limited	Associate	Mining	0%	-	49.0%	6
Other	Associate	Mining	n/a	1	n/a	1
Total				818		779

Key changes in the carrying amount of the Group's investments in associates and joint ventures during six months ended 30 June 2016 were due to Group's share in their after tax results of USD 70 million, share in other comprehensive loss of USD 2 million (originated due to revaluation of property plant and equipment), sale of investments in Black Iron (Cyprus) Limited in January 2016 and negative currency translation differences of USD 23 million due to devaluation of UAH against USD.

9 Trade and other receivables and other non-current assets

	30 June 2016	31 December 2015
Non-current assets		
Trade receivables	141	201
Loans issued to related parties	12	11
Other non-current financial assets	10	7
Other non-current non-financial assets	11	10
Total non-current assets	174	229
Current financial assets		
Trade receivables and receivables on commission sales	941	757
Loans issued to related parties	200	198
Other financial receivables	75	56
Total current financial assets	1,216	1,011
Recoverable value added tax	196	148
Prepayments made	170	142
Prepaid expenses and other non-financial receivables	50	64
Total current non-financial assets	416	354
Total current assets	1,632	1,365
Total trade and other receivables	1,806	1,594

The trade receivables increased since 31 December 2015 mainly as a reflection of increased prices for the Group's products, as described in Note 2.

The prepayments made are a reflection of requirements of non-Ukrainian suppliers of goods and services for the increased risks and uncertainties of doing business with Ukrainian counterparties.

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016***All tabular amounts in millions of US Dollars***10 Loans and borrowings**

	30 June 2016	31 December 2015
Bonds	1,181	1,146
Bank borrowings	1,106	1,091
Non-bank borrowings	408	393
Trade finance	197	228
Total current loans and borrowings	2,892	2,858

As disclosed in Note 3, when the Group breached its payment covenants and consequently as a result of this breach and the associated impact of cross default all loans and borrowing were reclassified to current loans and borrowings. As at 30 June 2016, the bank borrowings include PXF facilities in the amount USD 1,089 million (31 December 2015: USD 1,073 million).

As of 30 June 2016, the Group's 2018 bonds were traded on open markets with discount of approximately 35% (31 December 2015: 57%) to their nominal value. However, as trading volumes are low, these trades may not represent the fair value of bonds. Further, given the current default status on loans and borrowings and the uncertainties on the timing of cash flows on their repayment, management considers it is impracticable to estimate a fair value of the loans and borrowings as at 30 June 2016.

11 Seller's notes

As of 30 June 2016 seller's notes were carried at USD 89 million (31 December 2015: USD 88 million). During the period ended 30 June 2016 the Group did not make the due payments and is currently negotiating the new terms in parallel to the Group-wide restructuring (Note 3). However as at 30 June 2016 no binding restructuring agreement on Seller's notes was signed.

12 Trade and other payables

	30 June 2016	31 December 2015
Trade payables and payables on sales made on commission	946	984
Dividends payable to shareholders of Metinvest B.V.	88	88
Dividends payable to non-controlling shareholders of Company subsidiaries	2	2
Payable for acquired property, plant and equipment and other intangible assets	24	54
Other financial liabilities	42	46
Total financial liabilities	1,102	1,174
Prepayments received	90	101
Accruals for employees' unused vacations and other payments to employees	44	51
Income tax payable	26	19
Other taxes payable	53	45
Wages and salaries payable	18	17
Other allowances	29	19
Total trade and other payables	1,362	1,426

As at 30 June 2016, the Group had contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 152 million (31 December 2015: USD 266 million).

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016***All tabular amounts in millions of US Dollars***13 Other operating income/ (expenses), net**

Other operating income and expenses for the six months ended 30 June were as follows:

	Six months ended 30 June	
	2016	2015
Foreign exchange gains less losses, net	3	104
Maintenance of social infrastructure	(7)	(14)
Sponsorship and other charity payments	(2)	(8)
Impairment of trade and other receivables	(2)	(2)
Goodwill impairment	-	(39)
Other income, net	3	6
Total other operating income/ (expenses), net	(5)	47

The decrease in foreign exchange gains less losses, net is a reflection of stabilisation of UAH against major foreign currencies in the first half of 2016, as described in Note 4.

14 Finance costs

Finance costs for the six months ended 30 June were as follows:

	Six months ended 30 June	
	2016	2015
Net foreign exchange loss	30	239
Interest expense		
- borrowings	47	39
- bonds	60	56
- seller's notes	3	3
- imputed interest on seller's notes	2	3
Interest cost on retirement benefit obligations	22	29
Other finance costs	14	5
Total finance costs	178	374

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016***All tabular amounts in millions of US Dollars***15 Balances and transactions with related parties**

Unless stated otherwise, other related parties are related through common control under SCM. As at 30 June 2016 and 31 December 2015 significant balances outstanding with related parties are detailed below:

30 June 2016						31 December 2015				
	SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	Smart Group	SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	Smart Group
ASSETS										
Other non-current assets, including:	-	-	-	12	-	-	-	-	12	-
Long-term loans issued	-	-	-	11	-	-	-	-	11	-
Other non-current assets	-	-	-	1	-	-	-	-	1	-
Trade and other receivables, including:	-	48	275	129	80	-	50	274	124	77
Trade receivables and receivables on commission sales	-	48	177	27	2	-	50	172	35	2
Prepayments made	-	-	-	44	-	-	-	-	30	-
Loans issued	-	-	98	24	78	-	-	101	24	75
Other financial receivables	-	-	-	34	-	-	-	1	35	-
Cash and cash equivalents	-	-	-	71	-	-	-	-	71	-
30 June 2016						31 December 2015				
	SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	Smart Group	SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	Smart Group
LIABILITIES										
Non-bank borrowings	-	-	-	303	105	-	-	-	292	101
Other non-current liabilities	-	-	-	14	-	-	-	-	15	-
Trade and other payables, including:	41	57	440	125	48	40	58	410	137	48
Dividends payable	40	-	-	-	48	39	-	-	-	48
Trade payables and payables on sales made on commission	-	36	438	95	-	-	41	402	99	-
Prepayments received	-	21	-	8	-	-	17	6	8	-
Other financial liabilities	1	-	2	22	-	1	-	2	30	-

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016***All tabular amounts in millions of US Dollars***15 Balances and transactions with related parties (continued)**

Significant transactions with related parties during the six months ended 30 June 2016 are detailed below:

	Associates	Joint ventures	SCM and related entities	Smart Group	Total
Sales, including:	10	214	16	1	241
Steel	-	8	13	1	22
Scrap metal	-	13	1	-	14
Coke and coking coal	8	96	-	-	104
Iron ore	-	62	-	-	62
Other	2	35	2	-	39
Finance income / (expense), including:	-	5	(11)	(2)	(8)
Interest income	-	5	4	2	11
Interest expense	-	-	(15)	(4)	(19)

Significant transactions with related parties during the six months ended 30 June 2015 are detailed below:

	Associates	Joint ventures	SCM and related entities	Smart Group	Total
Sales, including:	25	302	22	-	349
Steel	-	12	19	-	31
Scrap metal	-	22	1	-	23
Coke and coking coal	23	156	-	-	179
Iron ore	-	72	-	-	72
Other	2	40	2	-	44
Other operating income / (expense) net, including	-	-	(4)	-	(4)
Sponsorship and other charity payments	-	-	(5)	-	(5)
Other operating income	-	-	1	-	1
Finance income / (expense), including:	-	5	(10)	(1)	(6)
Interest income	-	5	3	3	11
Interest expense	-	-	(13)	(4)	(17)

Metinvest B.V.**Notes to the Unaudited Interim Condensed Consolidated Financial Information – 30 June 2016***All tabular amounts in millions of US Dollars***15 Balances and transactions with related parties (continued)**

The following is a summary of purchases from related parties during the six months ended 30 June 2016:

	Associates	Joint ventures	SCM and related entities	Total
Purchases, including:	37	462	484	983
Steel products	1	450	-	451
Coke and coking coal	28	-	19	47
Raw materials and spare parts	5	10	30	45
Electricity	-	-	189	189
Gas	2	1	82	85
Fuel	-	-	24	24
Services, including transportation	1	-	138	139
Other	-	1	2	3

The following is a summary of purchases from related parties during the six months ended 30 June 2015:

	Associates	Joint ventures	SCM and related entities	Total
Purchases, including:	34	647	460	1,141
Steel products	-	640	2	642
Coke and coking coal	31	1	-	32
Raw materials and spare parts	2	5	19	26
Electricity	-	-	223	223
Gas	-	-	55	55
Fuel	-	-	9	9
Services, including transportation	-	-	150	150
Other	1	1	2	4

Not included in the tables above are Group's transactions on purchase and further re-sale of iron ore, coal and steel products from or to joint ventures where the Group is acting as an agent and not as principal. Income and costs related to such transactions are presented net within other operating income / (expense). Group's net gain on such transactions was USD 2 million during the six months ended 30 June 2016 (six months ended 30 June 2015: USD 1 million)

During the six months ended 30 June 2016, the remuneration of key management personnel of the Group comprised current salaries and related bonuses totalling USD 6 million (six months ended 30 June 2015: USD 4.3 million).

As at 30 June 2016, key management holds the Group's bonds in the total amount of less than USD 1 million. Rights of these bondholders are not different from the rights of other bondholders.

16 Events after the balance sheet date

On 9 August 2016 the Decree of Cabinet of Ministers of Ukraine No 461, regulating pension entitlement on preferential terms, came into force. Under the Decree, the list of positions and professions eligible to the early retirement pension was reduced. The change is expected to reduce the defined benefit obligation of the Group. Management is currently assessing impact of these changes on its financial statements.

Metinvest B.V.

Abbreviated IFRS Consolidated Financial Statements

31 December 2015

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Independent auditor's report

To: the general meeting of Metinvest B.V.

We have audited the accompanying summary financial statements 2015 of Metinvest B.V., The Hague ('the company'). The accompanying summary financial statements, which comprises the summary consolidated balances sheet as at 31 December 2015, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow for the year then ended, and related notes, are derived from the audited financial statements of Metinvest B.V. and its subsidiaries (together: 'the Group') for the year 2015. We expressed an unqualified audit opinion on those financial statements in our report dated 26 April 2016. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain the company financial statements as required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements, therefore, is not a substitute for reading the complete audited financial statements of Metinvest B.V.

Director's responsibility

The directors are responsible for the preparation of the summary of the audited financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and the related explanatory notes based on our procedures, which we conducted in accordance with Dutch law, including the Dutch Standard 810 "Engagements to report on summary financial statements".

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Metinvest B.V. for the year 2015 are consistent, in all material respects, with those financial statements.

Material uncertainty related to going-concern

We draw your attention to Note 3 to the consolidated financial statements, which states that the Group is in default with respect to the majority of its loans and borrowings and is continuing the negotiations on the restructuring. This default gives a number of the Group's lenders the ability to legally require repayment of the respective debt on demand.

Ref.: e0377587

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As a consequence, in order for the Group to achieve positive cash flow for the period throughout 2016 and the first four months of 2017, the Group is crucially dependent on the willingness of the Group's lenders not to demand early repayment, and to continue their support to the Group by postponing the payment of interest in excess of 30% of the total due amount and restructuring a significant portion of payments due in 2016 and the first four months of 2017 to future periods. This matter, along with other matters as set forth in Note 3 and the uncertainties set forth in Note 2, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Emphasis of an uncertainty in the financial statements with respect to the political and economic uncertainties in Ukraine

We draw your attention to Note 2 and Note 5 of the consolidated financial statements. As disclosed in Note 2, the operations of the Group have been affected, and may continue to be affected for the foreseeable future, by the continuing political and economic uncertainties in Ukraine as well as negative developments of the global commodity prices. These factors increase uncertainties regarding the Group's assessment of the carrying amounts of property, plant and equipment under revaluation model and the recoverable amounts of property, plant and equipment, goodwill and other intangible assets under impairment testing, as disclosed in Note 5.

Our opinion is not modified in respect of this matter.

Amsterdam, 26 April 2016
PricewaterhouseCoopers Accountants N.V.

Original signed by P.C. Dams RA

Metinvest B.V.
Abbreviated Consolidated Balance Sheet
All amounts in millions of US dollars

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Goodwill	8	601	754
Other intangible assets	9	164	534
Property, plant and equipment	10	4,822	6,538
Investments in associates and joint ventures	11	779	906
Deferred tax asset	28	105	89
Income tax prepaid	12	105	108
Trade and other receivables	14	229	139
Total non-current assets		6,805	9,068
Current assets			
Inventories	13	766	1,222
Income tax prepaid	12	66	110
Trade and other receivables	14	1,365	2,042
Cash and cash equivalents	15	180	114
Total current assets		2,377	3,488
TOTAL ASSETS		9,182	12,556
EQUITY			
Share capital	16	0	0
Share premium	16	6,225	6,225
Other reserves	17	(8,013)	(6,034)
Retained earnings		5,674	6,372
Equity attributable to the owners of the Company		3,886	6,563
Non-controlling interest	18	138	199
TOTAL EQUITY		4,024	6,762
LIABILITIES			
Non-current liabilities			
Loans and borrowings	19	-	1,878
Retirement benefit obligations	21	335	473
Deferred tax liability	28	348	504
Other non-current liabilities	22	103	67
Total non-current liabilities		786	2,922
Current liabilities			
Loans and borrowings	19	2,858	1,268
Seller's notes	20	88	86
Trade and other payables	23	1,426	1,518
Total current liabilities		4,372	2,872
TOTAL LIABILITIES		5,158	5,794
TOTAL LIABILITIES AND EQUITY		9,182	12,556

Signed and authorised for release on behalf of Metinvest B.V. on "25" April 2016:

Originally signed by Managing Director A, Yuriy Ryzhenkov

Originally signed by Managing Director B, ITPS (Netherlands) B.V.

The accompanying notes form an integral part of these consolidated financial statements

1

Metinvest B.V.
Abbreviated Consolidated Income Statement
All amounts in millions of US Dollars

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	7	6,832	10,565
Cost of sales	24	(6,087)	(8,240)
Gross profit		745	2,325
Distribution costs	24	(920)	(1,063)
General and administrative expenses	24	(211)	(287)
Other operating income / (expenses), net	25	(300)	130
Operating (loss) / profit		(686)	1,105
Finance income	26	26	25
Finance costs	27	(635)	(902)
Share of result of associates and joint ventures	11	131	142
(Loss) / profit before income tax		(1,164)	370
Income tax benefit / (expense)	28	161	(211)
(Loss) / profit for the year		(1,003)	159
Profit is attributable to:			
Owners of the Company		(988)	116
Non-controlling interests		(15)	43
(Loss) / profit for the year		(1,003)	159

Abbreviated Consolidated Statement of Comprehensive Income
All amounts in millions of US dollars

	Note	Year ended 31 December 2015	Year ended 31 December 2014
(Loss) / profit for the year		(1,003)	159
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of retirement benefit obligation		(7)	(38)
Revaluation and impairment of property, plant and equipment	10, 24	886	2,902
Share in other comprehensive income of joint ventures		72	123
Income tax relating to items that will not be reclassified subsequently to profit or loss	28	(161)	(514)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		(2,525)	(5,389)
Total other comprehensive loss		(1,735)	(2,916)
Total comprehensive loss for the period		(2,738)	(2,757)
Total comprehensive loss attributable to:			
Owners of the Company		(2,680)	(2,560)
Non-controlling interest		(58)	(197)
Total comprehensive loss for the period		(2,738)	(2,757)

The accompanying notes form an integral part of these consolidated financial statements

2

Metinvest B.V.
Abbreviated Consolidated Statement of Cash Flow
All amounts in millions of US Dollars

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
(Loss) / profit before income tax		(1,164)	370
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment ("PPE") and amortisation of intangible assets	24	615	850
Impairment and devaluation of PPE and other intangible assets	24	364	315
Impairment of goodwill		74	102
Impairment of associates and joint ventures		4	-
Gain on disposal of property, plant and equipment	25	(8)	(8)
Finance income	26	(26)	(25)
Finance costs	27	635	902
Unrealised operating foreign exchange differences		(115)	(315)
Net change in retirement benefit obligations, except for interest costs and remeasurements		(34)	(44)
Impairment of trade and other accounts receivable	25	292	60
Share of result of associates and joint ventures	11	(131)	(142)
Inventory write down, net	13	21	16
Other non-cash operating (gains) / losses		(14)	14
Operating cash flows before working capital changes		513	2,095
Decrease / (increase) in inventories		123	(267)
(Increase) / decrease in trade and other accounts receivable		13	211
Increase in trade and other accounts payable		215	38
Cash generated from operations		864	2,077
Income taxes paid		(39)	(353)
Interest paid		(200)	(235)
Net cash from operating activities		625	1,489
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(275)	(549)
Proceeds from sale of property, plant and equipment		21	15
Acquisition of associates and joint ventures		-	(45)
Loans issued to related parties	14	-	(21)
Proceeds from repayments of loans issued	14	3	19
Interest received		14	22
Net cash used in investing activities		(237)	(559)
Cash flows from financing activities			
Proceeds from loans and borrowings	19	4	446
Repayment of loans and borrowings	19	(134)	(951)
Repayment of seller's notes	20	-	(90)
Net trade financing repayment	19	(179)	(484)
Payment for acquisition of non-controlling interest in subsidiaries		-	(75)
Dividends paid		-	(388)
Net cash used in financing activities		(309)	(1,542)
Effect of exchange rate changes on cash and cash equivalents		(13)	(57)
Net (decrease) / increase in cash and cash equivalents		66	(669)
Cash and cash equivalents at the beginning of the year		114	783
Cash and cash equivalents at the end of the year	15	180	114

The accompanying notes form an integral part of these consolidated financial statements

3

Metinvest B.V.
Abbreviated Consolidated Statement of Changes in Equity
All amounts in millions of US Dollars

<i>In million of US Dollars</i>	Attributable to owners of the Company					Non-controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2014	0	5,461	(3,088)	6,277	8,650	981	9,631
Revaluation of property, plant and equipment (Note 10, 24)	-	-	2,752	-	2,752	150	2,902
Share in other comprehensive income of joint venture	-	-	123	-	123	-	123
Remeasurement of retirement benefit obligation	-	-	-	(36)	(36)	(2)	(38)
Income tax relating to components of other comprehensive income (Note 28)	-	-	(494)	7	(487)	(27)	(514)
Currency translation differences	-	-	(5,028)	-	(5,028)	(361)	(5,389)
Other comprehensive (loss) / income for the period	-	-	(2,647)	(29)	(2,676)	(240)	(2,916)
Profit for the period	-	-	-	116	116	43	159
Total comprehensive (loss) / income for the period	-	-	(2,647)	87	(2,560)	(197)	(2,757)
Realised revaluation reserve, net of tax	-	-	(256)	256	-	-	-
Acquisition of 2% interest in PJSC Nothern Iron Ore Enrichment Works from parties under common control	-	-	(43)	-	(43)	(32)	(75)
Acquisition and disposals of non-controlling interest in subsidiaries	-	-	-	(2)	(2)	5	3
Contribution of a joint venture and non-controlling interest in two existing subsidiaries by SMART (Note 11.16)	-	764	-	154	918	(558)	360
Dividends declared by the Company	-	-	-	(400)	(400)	-	(400)
Balance at 31 December 2014	0	6,225	(6,034)	6,372	6,563	199	6,762
Revaluation and impairment of property, plant and equipment (Note 10, 24)	-	-	859	-	859	27	886
Share in other comprehensive income of joint venture	-	-	72	-	72	-	72
Remeasurement of retirement benefit obligation	-	-	-	(6)	(6)	(1)	(7)
Income tax relating to components of other comprehensive income (Note 28)	-	-	(157)	1	(156)	(5)	(161)
Currency translation differences	-	-	(2,461)	-	(2,461)	(64)	(2,525)
Other comprehensive loss for the period	-	-	(1,687)	(5)	(1,692)	(43)	(1,735)
Loss for the period	-	-	-	(988)	(988)	(15)	(1,003)
Total comprehensive income for the period	-	-	(1,687)	(993)	(2,680)	(58)	(2,738)
Realised revaluation reserve, net of tax	-	-	(292)	292	-	-	-
Acquisition of non-controlling interest in subsidiaries	-	-	-	3	3	(3)	-
Balance at 31 December 2015	0	6,225	(8,013)	5,674	3,886	138	4,024

The accompanying notes form an integral part of these consolidated financial statements

4

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***1 Metinvest B.V. and its operations**

Metinvest B.V. (the "Company" or "Metinvest"), is a private limited liability company registered in the Netherlands. The Company is beneficially owned by Mr. Rinat Akhmetov, through various entities commonly referred to as System Capital Management ("SCM"), and Mr. Vadim Novinsky, through various entities commonly referred to as "SMART" or "Smart Group".

The Company and its subsidiaries (together referred to as the "Group" or "Metinvest Group") are an integrated steel producer, owning assets in each link of the production chain – from iron ore mining, coking coal mining and coke production, through to semi-finished and finished steel production. The steel products, iron ore and coke and coal are sold on both the Ukrainian and export markets.

Until November 2007, the Company was indirectly 100% controlled by SCM (System Capital Management) Limited ("SCM Cyprus").

In November 2007 the Company acquired from parties known as Smart Group 82% of PJSC Ingulets Iron Ore Enrichment Works in exchange for the transfer to SMART of 25% of the Company. Following the November 2007 transaction, Metinvest B.V. was owned 75% by SCM Cyprus and 25% by SMART. SCM Cyprus and SMART additionally agreed that both would sell/contribute to the Group their remaining equity interests in certain metals and mining assets owned by SCM and SMART. In exchange SMART would acquire certain additional rights over the management of the Company and the Group. Due to the complexity of the transaction, it was executed in several stages during 2007 through 2014; and was completed in July 2014.

In 2011, as part of the acquisition of Ilyich Group, the Company issued 5% of its share capital to the sellers of Ilyich Group.

As of 31 December 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 in the form of Class C shares 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, thus SCM remaining as the controlling shareholder.

The principal subsidiaries of Metinvest B.V. are presented below:

Name	Effective % interest as at 31 December		Segment	Country of incorporation
	2015	2014		
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
PJSC Azovstal Iron and Steel Works	96.2%	96.1%	Metallurgical	Ukraine
PJSC Yenakiieve Iron and Steel Works	91.5%	90.8%	Metallurgical	Ukraine
JV Metalen LLC	100.0%	100.0%	Metallurgical	Ukraine
PJSC Khartsyzsk Pipe Plant	98.5%	98.3%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	70.0%	70.0%	Metallurgical	Italy
Metinvest Trametel S.p.A.	100.0%	100.0%	Metallurgical	Italy
Spartan UK Limited	100.0%	100.0%	Metallurgical	UK
Metinvest International SA	100.0%	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	100.0%	100.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	100.0%	100.0%	Metallurgical	Ukraine
Metinvest Ukraine LLC	100.0%	100.0%	Metallurgical	Ukraine
JSC Promet Steel	100.0%	100.0%	Metallurgical	Bulgaria
PJSC Makiivka Iron and Steel Works	90.2%	90.2%	Metallurgical	Ukraine
PJSC Ilyich Iron and Steel Works	99.2%	99.2%	Metallurgical	Ukraine
PSC Ilyich Steel	100.0%	100.0%	Metallurgical	Ukraine
PJSC Avdiivka Coke Plant	93.0%	92.5%	Metallurgical	Ukraine
JSC Zaporozhkoks	52.2%	51.0%	Metallurgical	Ukraine
JSC Donetskoks	93.6%	93.6%	Metallurgical	Ukraine
PJSC Northern Iron Ore Enrichment Works	96.4%	96.4%	Mining	Ukraine
PJSC Central Iron Ore Enrichment Works	99.8%	99.6%	Mining	Ukraine
PJSC Ingulets Iron Ore Enrichment Works	99.8%	99.8%	Mining	Ukraine
OSC Komsomolske Flux Plant	99.7%	99.7%	Mining	Ukraine
United Coal Company LLC ("UCC")	100.0%	100.0%	Mining	USA
PJSC Krasnodon Coal Company	92.9%	92.4%	Mining	Ukraine

As at 31 December 2015, the Group employed approximately 91 thousand people (31 December 2014: 94 thousand).

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***1 Metinvest B.V. and its operations (continued)**

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 25 April 2016.

For better understanding of Metinvest's financial position and the results of operations, these abbreviated financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2015, which include all disclosures required by Dutch legislation.

The complete set of financial statements together with the auditor's report is available on request at Nassaulaan 2A, 2514 JS, Den Haag.

2 Operating environment of the Group

The recent political and economic instability in Ukraine has led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies and has continued in 2015. The National Bank of Ukraine, among other measures, imposed a requirement for Ukrainian companies to sell 75% of their foreign currency revenue and other foreign currency inflows on the inter-bank market, restrictions on the purchase of foreign currency on the inter-bank market, and ban for payment of dividends abroad. These restrictions were prolonged several times and are currently effective until 8 June 2016. As of 31 December 2015, the amount of undistributed retained earnings of the Group's Ukrainian subsidiaries was approximately USD 1,732 million.

On 11 March 2015, the IMF Executive Board approved a four-year Extended Fund Facility ("EFF") programme for Ukraine in the amount exceeding USD 17 billion. During 2015 Ukraine obtained first and second tranches in accordance with EFF programme in the amount of USD 5 billion and USD 1.7 billion, respectively. Further disbursements of IMF tranches depend on the implementation of Ukrainian government reforms, and other economic, legal and political factors. In October 2015, Ukraine reached an agreement with the majority of its creditors for restructuring of the part of the national external debt in the amount of USD 15 billion. After reaching the above restructuring agreement on external debt with the majority of its creditors, the credit rating of Ukraine has improved. There remains a significant portion of debt for which a restructuring has not been agreed to.

On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. The Russian government reacted to this event by implementing a trading embargo on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products.

The banking system of Ukraine remains fragile due to its weak level of capital, its weakening asset quality caused by the economic situation, currency devaluation and other factors.

The conflict in the parts of Eastern Ukraine which started in spring 2014 has not been resolved to date. However, there was no substantial escalation of the conflict since the signing of ceasefire agreements in September 2014. The majority of the Group's Metallurgical segment and some of the Mining segment is located in, or near to, the parts of the Donetsk and Lugansk regions where there has been armed conflict. This includes the city of Mariupol (where the Group's two largest steel plants, PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works, are located), which is approximately 20 kilometres from the line of contact of conflicting parties. Production at these plants has been negatively impacted by the situation, starting from the second half of 2014. The Group retains operational controls over all its assets.

The negative impact on production volumes has been caused primarily by disruptions in infrastructure (rail transportation, road transport and electricity and gas supply). This has resulted in some temporary suspensions of operations or decrease of production at some plants during 2014 and 2015. Management have sought to actively manage and limit the impact of these events on the Group's operations by adopting a number of contingency arrangements. There has been no significant impact to the physical condition of the Group's assets.

During 2015 management of the Group has implemented certain measures in order to maintain profitability and liquidity, such as reduction in capital expenditures, reduction in administrative costs, termination of sea transportation of iron ore to plants located in Mariupol, suspension of production in open-hearth furnaces at PJSC Ilyich Iron and Steel Works, and other measures.

The reduction of steel production in 2015 (as compared to 2014) was 14%, a reduction of production of iron ore products was 7%. As of the beginning of 2016, PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works are working at approximately 72% of their capacity. In March 2015, after a one-month suspension of operations, PJSC Yenakiieve Iron and Steel Works, located within an area not controlled by the Ukrainian government, recommenced production. PJSC Khartsyzsk Pipe Plant has been idle starting June 2015 due to a lack of orders.

As of the date of this report the official NBU exchange rate of Hryvnya against US dollar was UAH 25.34 per USD 1, compared to UAH 24.00 per USD 1 as at 31 December 2015 and UAH 15.77 per USD 1 as at 1 January 2015. The devaluation of the Ukrainian Hryvnya ("UAH") during 2015 had a short-term positive impact on Group's financial results given that revenues are mostly USD-denominated and costs are partially UAH-denominated.

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The accompanying notes form an integral part of these consolidated financial statements

2 Operating environment of the Group (continued)

The prices of steel, coal and iron ore experienced both volatility and an overall decline during 2014 and 2015. The average benchmark price for hot-rolled coil (Metal Expert HRC CIS export FOB Black Sea) decreased by 32% year on-year in the first three quarters of 2015. In the fourth quarter of 2015 its price continued to decrease reaching the lowest level over the last 12 years. The trend in iron ore prices has been generally downwards since the start of 2014. Benchmark (Platts 62% Fe CFR China) prices decreased from USD 136 per dry tonne in December 2013 to USD 69 per dry tonne in December 2014 and further decreased to USD 39 per dry tonne in December 2015, the lowest level in the last ten years.

These events in Ukraine and in commodity markets increase uncertainties, including the Group's assessment of the fair value of property, plant and equipment and the recoverable amount of property, plant and equipment, goodwill and other intangible assets under impairment testing for assets located in Ukraine (Notes 8 and 10).

As of 31 December 2015, the Group had significant balances receivable from and prepayments made to the State mainly including prepaid income taxes and VAT recoverable (Notes 12 and 14). The timing of settlement of these balances is uncertain and is dependent upon the availability of State funds and amounts of future taxable profits of Group's subsidiaries.

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further negative implications on the Ukrainian economy and the Group's business.

3 Going concern

In March 2015, the Group sought approval for a partial deferral of principal payments to May 2015 in respect of the pre-export financing (PXF) facilities due in March and April 2015. Whilst approval for the above deferral was obtained from the majority of PXF lenders under the facilities, the Group was unable to obtain the required consent of all PXF lenders. The Group was obliged to target a broader restructuring and consequently did not make the necessary principal payment, triggering default and cross defaults under its bank and non-bank loans and borrowings, as well as bonds. This has resulted in a reclassification from non-current loans and borrowings to current loans and borrowing of USD 1,585 million as of 31 December 2015. The amount of liability to bond holders and PXF lenders is disclosed in Note 19.

Discussions with creditors are currently ongoing with a view to agreeing a rescheduling plan, including a repayment extension.

In April 2015, the Group launched consent solicitations with respect to its bonds (totalling USD 1,145 million as of 31 December 2015). Following bondholders' meetings for the 2015, 2017 and 2018 bonds, the majority of bondholders agreed to waive existing and related potential events of default until the end of January 2016. Moreover, 2015 bondholders agreed to extend the maturity of the 2015 bonds from 20 May 2015 to 31 January 2016 in exchange for a redemption of 25% of principal (a payment of approximately USD 28.4 million was made by the Group in July 2015). Following the launch by the Group of a scheme of arrangement procedure on 29 January 2016 a competent English Court sanctioned a moratorium of the Group on taking enforcement action or initiation of insolvency proceedings by holders of 2016, 2017, 2018 bonds of Metinvest B.V. until 27 May 2016.

Further in December 2015 the Group concluded and signed on December 1, 2015 (expiring 29 January 2016) a standstill agreement with its PXF lenders which provides for a forbearance on the taking of enforcement action or the initiation of insolvency proceedings by the PXF lenders. The standstill period has been extended and is valid until 27 May 2016, but can be terminated at any time by resolution of two thirds of lenders. Lenders have agreed to support the liquidity of the Group by permitting the reduced payment of accrued interest to 30% starting from 31 January 2016. Since the date of default and up to the date of this report, the Group continues to pay interest on its loans and borrowings.

Management has prepared monthly cash flow projections for the remainder of 2016 and for the first four months of 2017. Additionally, management has performed a high-level liquidity analysis for the remainder of 2017 through to 2020 and considers that there is sufficient liquidity to maintain operations under the current circumstances. Based on cash flow projections, liquidity and other factors analysis, management plans to negotiate with the lenders a mutually acceptable schedule of repayment of borrowings and interest.

Although management remains in discussions with its lenders, it has not yet concluded a restructuring agreement. Thus there is an uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

3 Going concern (continued)

The Group's ability to continue as a going concern is crucially dependent on the following conditions:

- willingness of the Group's lenders not to demand early repayment of borrowings in default;
- ability of the Group to negotiate with the lenders a mutually acceptable and feasible debt repayment schedule. The cash flow projections prepared by management assumes for a period of at least the next 12 months payment of 30% of accrued interest as well as no principal repayment of borrowings and seller's notes;
- absence of further deterioration of the situation on global iron ore and steel markets from that observed in December 2015 and January 2016. Monthly production and sales volumes for 2016 and 2017 were assumed to be consistent with the beginning of 2016; and
- absence of escalation of the conflict in the Eastern Ukraine (Note 2).

Despite these material uncertainties with respect to the repayment of the current loans and the debt restructuring, based on cash flow projections performed and an anticipated favourable outcome of the discussions with its lenders, management considers that the application of the going concern assumption for the preparation of this consolidated financial statements is appropriate.

4 Basis of preparation and significant accounting policies

Basis of preparation and statement of compliance. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union. The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. New and revised standards and interpretations adopted by Group are disclosed in Note 6.

These consolidated financial statements are presented in millions of US dollars and all values are rounded off to the nearest million except where otherwise indicated.

Critical accounting estimates and judgements in applying accounting policies. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 5.

Principles of consolidation. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. Where a business combination is achieved in stages, the previously held interest in an acquired business is included into the cost of business combination at fair value as of the acquisition date with resulting gains recognised in consolidated income statement.

Costs directly related to acquisition of subsidiaries are recognised in the consolidated income statement in the period when incurred and the services are received.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

4 Basis of preparation and significant accounting policies (continued)

Non-controlling interest ("NCI") is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of equity.

Purchases of subsidiaries from parties under common control and merger reserve in equity. Purchases of subsidiaries from parties under common control are accounted under the predecessor values method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's book values. The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. This is recorded as a merger reserve. No additional goodwill is created by such purchases.

Transactions with non-controlling interests The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Non-controlling interest is valued on proportionate basis of net assets.

Investments in associates and joint ventures. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. A joint venture is an arrangement whereby the parties that contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates and joint ventures includes goodwill identified on acquisition, and is reduced for accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates and joint ventures is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate, including any other unsecured accounts receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and their associates and joint ventures are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Any excess of the fair value of the Group's share in the acquired associate's or joint venture's net assets ("negative goodwill") is recognised immediately in the consolidated income statement.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Group that makes strategic decisions.

Company reports separately information about an operating segment that meets any of the following quantitative thresholds unless aggregation criteria are met:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
- (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Foreign currency translation. The functional currency of each of consolidated entity is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is either Ukrainian hryvnia ("UAH") or US dollar ("USD").

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in the consolidated income statement.

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***4 Basis of preparation and significant accounting policies (continued)**

The principal rate of exchange used for translating foreign currency balances is as follows:

	31 December 2015	31 December 2014
USD/UAH	24.00	15.77
EUR/UAH	26.22	19.23

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Translation at year end does not apply to non-monetary items. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation from functional to presentation currency. The Group has selected the US dollar ("USD") as the presentation currency. The USD has been selected as the presentation currency for the Group as: (a) management of the Group manages business risks and exposures, and measures the performance of its businesses in the USD; (b) the USD is widely used as a presentation currency of companies engaged primarily in metallurgy; and (c) the USD is the most convenient presentation currency for non-Ukrainian users of these IFRS consolidated financial statements.

The results and financial position of each consolidated entity are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised through comprehensive income and they accumulate as a separate component of equity. All the components of consolidated equity at each balance sheet date are translated at the historical rate. The balancing figure goes to cumulative currency translation reserve in other reserves in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and at each balance sheet date are translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the currency translation differences deferred in equity are reclassified to the consolidated income statement.

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign accounts receivable within 90 days of sales, need for exporters to sell 75% of foreign currency revenue and restrictions on the purchase of foreign currency on the inter-bank market. At present, the UAH is not a freely convertible currency outside of Ukraine.

Property, plant and equipment. Property, plant and equipment are stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Subsequent additions to property, plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. As at 31 December 2014 and 31 December 2013 property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases that offset previous increases in the carrying amount of the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense when incurred.

4 Basis of preparation and significant accounting policies (continued)

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement.

Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs or revalued amounts of individual assets to their residual value over the estimated remaining useful lives. Depreciation commences at the moment when assets is ready for use. The estimated remaining useful lives are as follows:

	Remaining useful lives in years
Buildings and structures	from 2 to 60
Plant and machinery	from 2 to 35
Furniture, fittings and equipment	from 2 to 10

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and machinery, with annual reassessments. Changes in estimates are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents prepayments for property, plant and equipment, and the cost of property, plant and equipment, construction of which has not yet been completed. No depreciation is charged on such assets until they are ready for use.

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Asset retirement obligations. According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents, the Group is responsible for site restoration and soil rehabilitation upon abandoning its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate are recognised in the income statement or other reserves in equity to the extent of any revaluation balance existence in respect of the related asset. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in these consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates and are specific to a liability.

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. It is carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, licences, coal reserves and long-term sales contracts. Acquired computer software and other licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. Cost of SAP ERP system is amortised on a straight-line basis over estimated useful life of 10 years. Licences and coal reserves are amortised using the units-of-production method over all estimated proven and probable reserve assigned to the mines. Proven and probable reserves exclude non-recoverable coal and ore reserves and estimated processing losses. Amortization rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when events and circumstances indicate a reserve change is needed. Long-term sales contracts are amortised using a units-of-production method, based on fulfilment of the contract.

4 Basis of preparation and significant accounting policies (continued)

Impairment of non-financial assets. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Classification of financial assets. The Group classifies financial assets as loans and receivables.

Loans and receivables are financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term or which are quoted in an active market. Loans and receivables comprise primarily loans, trade and other accounts receivable including purchased loans and promissory notes. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Initial recognition of financial instruments. The Group's principal financial instruments comprise loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

The Group's financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price, except for the transactions with related parties which are based on contract value. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost.

Subsequent measurement of financial instruments. Subsequent to initial recognition, the Group's financial liabilities and loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Derecognition of financial assets. Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Group enters into transactions in the normal course of business by which it transfers financial assets to third parties. Depending on the circumstances, these transfers may either result in these financial assets being derecognised or continuing to be recognised.

Full derecognition occurs when Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, foreign currency, prepayment and other price risks.

Derecognition does not occur when Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but either:

- retains substantially all of the risks and rewards of ownership of the transferred asset; or
- neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control of the financial asset. In this situation, the financial assets are recognised on the balance sheet to the extent of Group's continuing involvement.

4 Basis of preparation and significant accounting policies (continued)

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge is recognised in the consolidated income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average principle. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement against other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement against other operating expenses.

Renegotiated trade and other receivables are measured at amortised cost based on the new pattern of renegotiated cash flows. A gain or loss is recognised in the consolidated income statement on the date of renegotiation, which is subsequently amortised using the effective interest method. If the terms of a receivable are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

4 Basis of preparation and significant accounting policies (continued)

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets. Cash and cash equivalents are carried at amortised cost using effective interest rate method.

Share capital. Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue. If settlement of a dividend liability exceeds twelve months from the balance sheet date it is included within long-term liabilities and measured at the present value of the future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Loans and borrowings. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Cash flows related to receipt and repayment of trade finance borrowings are presented within the statement of cash flows on a net basis.

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments. Subsequently, instruments with a fixed maturity are re-measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Derecognition of financial liabilities. A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, are recognised in profit or loss. If the exchange or modification of financial liability is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Prepayments received. Prepayments are carried at amounts originally received, net of VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent assets and liabilities. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. When the realisation of income is virtually certain, then the related asset is not a contingent asset and Group recognises such assets.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

4 Basis of preparation and significant accounting policies (continued)

Employee benefits. Defined benefit plan. Certain Ukrainian entities within the Group participate in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. Certain Ukrainian entities also provide lump sum benefits upon retirement subject to certain conditions, as well as some other long-term employee benefits. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by professional actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Past service costs are recognised immediately in profit or loss.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods, by-products and merchandise

The Group manufactures and sells a range of steel products to large, medium and small size customers. By-products and merchandise are sold to the same range of customers. Revenues from sales of goods, by-products and merchandise are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. The Group uses standardised INCOTERMS such as cost-and-freight (CFR), free-carrier (FCA), cost-insurance-freight (CIF), free-on-board (FOB) and ex-works (EXW) which define the point of risks and rewards transfer. Revenue is recorded on an accrual basis as earned.

Sales are recorded based on the price indicated in the specifications to the sales contracts. The sales price is established separately for each specification.

The Group also engages in sale and purchase transactions the objective of which is to manage cash flows. Such transactions are not revenue generating to the Group and accordingly such sales and purchases are presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(c) Sale of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Commission income

The Group acts as an agent for sales transactions on behalf of the third parties. The commission income received by the Group as a fee for facilitating such transactions is recognised at the point of transfer of risks and rewards of ownership of the goods to the customers of the third parties. Such income is reported as part of other operating income.

4 Basis of preparation and significant accounting policies (continued)

Value added tax. VAT in Ukraine where the majority of the Group operations are concentrated is levied at two rates: 20% on domestic sales and imports of goods, works and services and 0% on export of goods. Export of services is exempt from VAT. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and for domestic operations arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer; for export operations arises on the date of customs clearance of exported goods. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. For domestic and export operations rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT assets recoverable in cash from the State are included into Group's assets. All other VAT assets and liabilities are netted only within the individual companies of the Group.

Recognition of expenses. Expenses are accounted for on an accrual basis. Cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, pension obligations, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments and foreign exchange gains and losses.

All interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method if not capitalised. Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to changes in the presentation in the current year.

5 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the IFRS consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment, goodwill and other intangible assets. The Group and its subsidiaries are required to perform impairment tests for their assets or cash-generating units when there is indication that an asset or a cash-generating unit ("CGU") may be impaired. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. Within the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit. Therefore judgement is needed in determining a cash-generating unit.

Annually the Group assesses whether goodwill is impaired. This requires estimation of the value in use / fair value less costs to sell of the cash-generating units or groups of cash-generating units to which goodwill is allocated. Allocation of goodwill to groups of cash generating units requires significant judgement related to expected synergies. Estimating value in use / fair value less costs to sell requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. The estimates used to assess the impairments are impacted by the uncertainty caused by events in Eastern Ukraine and decline on the global commodity markets, including importantly future planned production and expected market prices (see discussion of operating environment in Note 2). The impact of the uncertainties is discussed further in Notes 8 and 10.

Impairment of trade and other accounts receivable. Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of individual accounts. IAS 39 requires the estimate of an impairment loss which is computed as the difference between the carrying value of a receivable and the present value of the future cash flows discounted at the receivables effective interest rate.

As discussed in Note 14, during the 2015 the Group has recognised impairment of trade receivables from some of its key customers in the total amount of USD 255 million. Factors taken into consideration by management when estimating the future cash flow included an ageing analysis of trade and other accounts receivable, and the financial position of and collection history with the customer. In the current environment there is significant judgement in estimating the expected payment date, the discount rate and whether penalty interest will be collected.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. In particular, had the discount rates used (15% for USD denominated receivables for Ukrainian and CIS customers) be higher by 1 p.p., the impairment loss would be USD 3 million higher; had the expected repayment dates be further delayed by 1 year, the impairment loss would be USD 29 million higher.

Additionally, the estimates used to assess the impairment of trade and other accounts receivable from certain Ukrainian customers are impacted by the uncertainty caused by events in Eastern Ukraine (see discussion of operating environment in Note 2).

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the long term strategy and plans prepared by management. The strategy is based on management's expectations that are believed to be reasonable under the circumstances and are disclosed in Note 8. In addition, a number of feasible tax planning opportunities are available to the Group to recover the deferred tax asset recognised.

Post-employment and other long-term employee benefits obligations. Management assesses post-employment and other long-term employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State of Ukraine, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation.

5 Critical accounting estimates and judgements in applying accounting policies (continued)

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and future salary and benefits increase rate. Any changes in these assumptions will impact the carrying amount of pension obligations as disclosed in sensitivity analysis in Note 21.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 21.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 30).

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market terms, where there is no active market for such transactions, and also in estimating the timing of settlement of the balances due from related parties, where there is a history of prolongations. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Further, estimation of timing of settlement and recoverability of balances due from related parties requires judgement. Ability of shareholders and parties under their control to repay the amounts due to the Group is dependent to large extent on cash flows from the Group. Such cash flows in the current circumstances may be limited (Note 3). Herewith, the Group is in net payable position with major groups of its related parties (Note 29). No impairment was recognised in respect of balances due from related parties in these consolidated financial statements.

Revaluation of property, plant and equipment. On an annual basis management of the Group carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property plant and equipment differ materially from the carrying amounts, further revaluation is performed involving independent valuers.

As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2). For some assets which were revalued as of previous balance sheet date, the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices or changes in foreign exchange rates (Level 3).

When performing valuation using these methods, the key estimates and judgments applied by the independent valuers, in discussion with the Group's internal valuation team and technicians, are as follows:

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc.);
- determination of comparatives for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
- selection of market data when determining market value where it is available; and
- determination of applicable cumulative price indices or changes in foreign exchange rates which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts.

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for goodwill impairment testing (Note 8), except for discount rates which are specific to each of the Group's subsidiaries and are pre-tax.

The results of this revaluation of property, plant and equipment is disclosed further in Note 10.

5 Critical accounting estimates and judgements in applying accounting policies (continued)

Changes in the above estimates and judgments could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued. The estimates used to assess the fair value of property, plant and equipment are impacted by the uncertainty caused by events in Eastern Ukraine and decline on the global commodity markets, including importantly future planned production and expected market prices (see discussion of operating environment in Note 2). The impact of the uncertainties is discussed further in Notes 8 and 10.

Remaining useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the technical characteristics, physical conditions, management's expectations on use of the respective assets and other factors.

Remaining useful lives for iron ore mining licences and coal reserves (Note 9) are estimated by management based on reserves' studies performed by independent experts. Results of such studies depend, inter alia, on expert's assessment of geological conditions and feasibility of extraction of mineral resources which is dependent on future levels of prices for iron ore and coking coal and costs of such extraction.

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, United States of America and other countries. The functional currency of Metinvest B.V. was determined on the basis that (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US Dollars. Management therefore determined the US Dollar as the functional currency of Metinvest B.V. Amount of loans and other payables of Metinvest B.V. totalled USD 2,720 million as at 31 December 2015 (31 December 2014: USD 2,945 million) where potential foreign exchange gains/losses could arise should a different functional currency (UAH) be determined.

6 Adoption of new or revised standards and interpretations

There are no new standards and amendments to the standards which are relevant to the Group and became effective for the annual periods beginning on 1 January 2015.

The following new standards and amendments to the standards which are relevant to the Group and have been adopted by the European Union are effective in the European Union for the annual periods beginning on or after 1 January 2016, and have not been early adopted by the Group:

- Annual improvements to IFRSs 2012. The improvements consist of changes to seven standards, three of which are relevant to the Group. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The Group is not expecting any impact of the above amendments on its financial statements.

The following new standards relevant to the Group have been issued, but are not effective yet:

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers;
- IFRS 16, Leases;
- Amendments to IFRS 10 and IAS 28;
- Annual improvements to IFRSs 2014;
- Amendments to IAS 7; and
- Disclosure initiative amendments to IAS 1.

The Group is currently assessing the possible impact of adoption of the above standards but it is not currently expected that it will be significant. IFRS 16 will require the Group to recognise in the balance sheet assets taken in an operating lease and the related lease liabilities.

Other new or revised standards or interpretations that will become effective for annual periods starting after 1 January 2016 will likely have no material impact to the Group.

7 Segment information

The Group's business is organised on the basis of the following main operating segments:

- Metallurgical – comprising the production and sale of coke, semi-finished and finished steel products;
- Mining – comprising the production, enrichment and sale of iron ore and coal by the Group's Ukrainian operations, including UCC – comprising the production, enrichment and sale of coal by the Group's US operations. UCC operating segment has been aggregated with the Group's other Mining operations into the Mining reportable segment.

The Group is a vertically integrated steel and mining business. A significant portion of the Group's iron ore and coke and coal production are used in its steel production operations.

Operating segments' performance is assessed based on a measure of adjusted EBITDA. This measurement basis excludes dividend income, impairment of goodwill, other intangible assets and property, plant and equipment, the effects of non-recurring expenditures from the operating segments and, since 1 January 2015, foreign exchange gains / losses. Revenues and expenses for internal reporting purposes have been accounted for using IFRS principles. Certain adjustments are applied by management to contractual prices for intersegment sales.

Starting from 1 January 2015, management has changed the method of measurement of adjusted EBITDA so that both realised and unrealised foreign exchange gains and losses are now excluded from adjusted EBITDA. The effect of this change on adjusted EBITDA for the year ended 31 December 2015 is to decrease it by USD 115 million (compared with previous method of measurement). The comparative figures for adjusted EBITDA for 2014 are unchanged in the tables below, as those amounts were provided to chief operating decision maker in 2014. Should the new method of measurement been applied for the year ended 31 December 2014, adjusted EBITDA of Metallurgical segment would have been higher by USD 89 million (amounting to USD 1,212 million), adjusted EBITDA of Mining segment would have been lower by USD 536 million (amounting to USD 1,218 million) and total adjusted EBITDA would have been lower by USD 391 million (amounting to USD 2,311 million).

Segment information for the year ended 31 December 2015 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
2015					
Sales – external	5,407	1,425	-	-	6,832
Sales to other segments	109	1,436	-	(1,545)	-
Total of the reportable segments' revenue	5,516	2,861	-	(1,545)	6,832
Adjusted EBITDA	333	29	(95)	34	301
Share in EBITDA of joint ventures	153	59	-	-	212
Adjusted EBITDA including share in EBITDA of joint ventures	486	88	(95)	34	513
<i>Reconciling items:</i>					
Depreciation and amortisation					(615)
Impairment and revaluation of PPE and other intangible assets	(22)	(342)	-	-	(364)
Goodwill impairment	-	(74)	-	-	(74)
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					(81)
Finance income					26
Finance costs					(635)
Foreign exchange gains less losses, net					115
Other					(49)
Loss before income tax					(1,164)
	Metallurgical	Mining	Corporate		Total
Capital expenditure	137	136	12		285
Significant non-cash items included into adjusted EBITDA:					
- impairment of trade and other receivables	(45)	(247)	-		(292)

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All tabular amounts in millions of US Dollars

7 Segment information (continued)

Analysis of revenue by category:

	Metallurgical	Mining	Total
2015			
Sales of own products	4,011	1,362	5,373
- Steel products	3,532	-	3,532
- Iron ore products	-	1,139	1,139
- Coal and coke	291	136	427
- Other	188	87	275
Resale of purchased goods	1,396	63	1,459
- Steel products	1,206	-	1,206
- Coal and coke	89	63	152
- Other	101	-	101
Total	5,407	1,425	6,832

Segment information for the year ended 31 December 2014 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
2014					
Sales – external	8,165	2,400	-	-	10,565
Sales to other segments	81	1,694	-	(1,775)	-
Total of the reportable segments' revenue	8,246	4,094	-	(1,775)	10,565
Adjusted EBITDA	941	1,636	(140)	(35)	2,402
Share in EBITDA of joint venture	182	118	-	-	300
Adjusted EBITDA including share in EBITDA of joint venture	1,123	1,754	(140)	(35)	2,702
<i>Reconciling items:</i>					
Depreciation and amortisation				-	(850)
Impairment and devaluation of PPE	15	(330)	-	-	(315)
Goodwill impairment	-	(102)	-	-	(102)
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint venture					(158)
Finance income					25
Finance costs					(902)
Other					(30)
Profit before income tax					370
	Metallurgical	Mining	Corporate		Total
Capital expenditure	276	304	33		613
Significant non-cash items included into adjusted EBITDA:					
- unrealised operating foreign exchange gains less losses, net	(136)	505	2	(56)	315
- impairment of trade receivables	(9)	(51)	-		(60)

7 Segment information (continued)

Analysis of revenue by category:

	Metallurgical	Mining	Total
2014			
Sales of own products	6,226	2,358	8,584
- Steel products	5,662	-	5,662
- Iron ore products	-	2,127	2,127
- Coal and coke	320	176	496
- Other	244	55	299
Resale of purchased goods	1,939	42	1,981
- Steel products	1,667	-	1,667
- Coal and coke	24	42	66
- Other	248	-	248
Total	8,165	2,400	10,565

The Group's two business segments operate in six main geographical areas. Revenue by location of customers is presented below:

2015	Metallurgical	Mining	Total
Ukraine	1,151	468	1,619
Rest of Europe	2,090	165	2,255
Middle East and Northern Africa	1,266	39	1,305
South Eastern Asia	116	635	751
Commonwealth of Independent States ("CIS")	602	-	602
North America	111	118	229
Other countries	71	-	71
Total	5,407	1,425	6,832

2014	Metallurgical	Mining	Total
Ukraine	1,578	918	2,496
Rest of Europe	2,751	199	2,950
Middle East and Northern Africa	1,872	-	1,872
South Eastern Asia	516	1,150	1,666
Commonwealth of Independent States ("CIS")	1,073	1	1,074
North America	281	124	405
Other countries	94	8	102
Total	8,165	2,400	10,565

As at 31 December 2015 94% of the Group's non-current assets, other than financial instruments and deferred tax assets, were located in Ukraine (as at 31 December 2014: 93%).

8 Goodwill

The movements of goodwill were as follows:

	2015	2014
Book amount as at 1 January, net	754	1,005
Impairment	(74)	(102)
Currency translation differences	(79)	(149)
Book amount as at 31 December, net	601	754

Management allocates and monitors goodwill at the following groups of cash generating units ("CGUs") which represent operating segments:

	31 December 2015	31 December 2014
Metallurgical	544	594
Mining	57	86
UCC	-	74
Total	601	754

After conducting the impairment testing of property, plant and equipment and other intangible assets (Notes 9 and 10), management has assessed the recoverable amount of goodwill. The recoverable amount has been determined based on fair value less cost to sell estimations.

To ensure that impairment testing model fully reflects the anticipated long-term changes in cash flows, for the impairment test the Group used cash flow projections for 10 years which are consistent with the Group's strategy approved by senior management; first year of forecast is based on the Group's approved business plan for the year.

Valuation method used for determination of each CGU fair value is mostly based on unobservable market data, which is within Level 3 of the fair value hierarchy.

The following table and further paragraphs summarize key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill:

	2015	2014
Metallurgical		
Post-tax discount rate (USD)	13.10%	16.0% for 2015–2016 and 12.6% for 2017 onwards
EBITDA margins	2016: 14%, 2017: 18%, further – from 16% to 17%	10% to 18%
Growth rate in perpetual period	3%	3%
Mining		
Post-tax discount rate (USD)	13.68%	16.0% for 2015–2016 and 12.6% for 2017 onwards
EBITDA margins	2016: 15%, 2017: 22%, further – from 21% to 27%	25% to 40%
Growth rate in perpetual period	3%	3%

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Discount rate reflects the current market assessment of the time value of money and risks specific to the Group. The discount rate has been determined using the Capital Asset Pricing Model based on observable inputs, inputs from third party financial analysts and Group-specific inputs.

8 Goodwill (continued)

Forecasted iron ore prices for Fe 62% fines (CFR North China) are USD 52 per tonne in 2016, USD 56 per tonne in 2017 and recover at 2.8 % p.a. to USD 70 per tonne in 2025 (31 December 2014: range from USD 80 per tonne in 2016 to USD 98 per tonne in 2024). Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, applicable transportation costs and historic discounts or premiums usual for those markets.

Forecasted coal prices used in the impairment test for all CGUs for low volatile hard coking coal (FOB Queensland) start from USD 89 per tonne in 2016, recover to USD 108 per tonne in 2018 and grow at 1.3 % p.a. on average thereafter (31 December 2014: start from USD 129 per tonne in 2015 per ton and grow at 2.5% on average thereafter). Forecasted prices for other types of coal and prices at other markets were determined based on respective historic discounts for differences in quality of each particular coal type and estimated transportation costs.

Forecasted prices for hot-rolled coils at Ukrainian ports are estimated to gradually increase from current levels (Note 2) to USD 458 per ton in 2025 (31 December 2014: from USD 464 in 2015 to USD 593 per ton in 2024). Forecasted prices for other steel products are based on historic discounts or premiums to prices for hot-rolled coils.

Forecasts from industry experts and other external reputable sources, as well as internal analysis were used by management to determine price levels used in the impairment test.

For entities of the Metallurgical segment which have been affected by the conflict in the Eastern Ukraine, the production volumes used in the model for 2016 are consistent with those achieved in the beginning of 2016 as described in the Note 2, and subsequently gradually increasing in 2017 and 2018 to approximately 75-85% of the plants' capacity (31 December 2014: 80-95% of the plants' capacity) and remaining stable onwards. Iron ore mining entities are expected to continue production at or close to full capacity (31 December 2014: full capacity).

Exchange rate of 24 UAH for 1 USD in 2016 with gradual increase to 27.8 UAH for 1 USD in 2025 was used in the impairment test for all CGUs as of 31 December 2015 (31 December 2014: from 16 UAH for 1 USD in 2015 to 21.4 UAH for 1 USD in 2024).

Metallurgical segment. As at 31 December 2015 the Metallurgical segment's recoverable amount is USD 5,223 million and exceeds its total carrying amount by USD 671 million (31 December 2014: recoverable amount of USD 6,014 million, exceeded carrying value by USD 1,139 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill (and subsequently to property, plant and equipment and intangible assets) related to the Metallurgical segment:

	31 December 2015	31 December 2014
Volumes of production/sales		
Decrease in all the periods by 5.2%	Recoverable amount equals carrying amount	-
Decrease in all the periods by 9%	Impairment of USD 501 million required	Recoverable amount equals carrying amount
Steel prices		
Decrease in all the periods by 1.4%	Recoverable amount equals carrying amount	-
Decrease in all the periods by 2.6%	Impairment of USD 603 million required	Recoverable amount equals carrying amount
Decrease in all the periods by 4%	Impairment of USD 1,227 million required	Impairment of USD 647 million required
Iron ore prices		
Increase in all the periods by 7.5%	Recoverable amount equals carrying amount	Recoverable amount exceeds carrying amount by USD 182 million
Increase in all the periods by 10%	Impairment of USD 226 million required	Impairment of USD 137 million required
Coal prices		
Increase in all the periods by 9%	Recoverable amount equals carrying amount	Impairment of USD 64 million required
Increase in all the periods by 15%	Impairment of USD 450 million required	Impairment of USD 871 million required
UAH/USD exchange rates		
Increase in all the periods by UAH 1	Carrying amount increases by USD 696 million	Carrying amount increases by USD 1,441 million

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8 Goodwill (continued)

	31 December 2015	31 December 2014
Discount rates		
Increase in all the periods by 2.1 pp	Recoverable amount equals carrying amount	-
Increase in all the periods by 2.3 pp	Impairment of USD 72 million required	Recoverable amount equals carrying amount
Growth rate in perpetual period	No reasonable changes would lead to impairment	No reasonable changes would lead to impairment

Mining segment. As at 31 December 2015 the recoverable amount of the Mining segment is USD 1,571 million (31 December 2014: USD 2,537 million) and exceeds its total carrying amount by USD 93 million (31 December 2014: USD 400 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to this group of CGUs:

	31 December 2015	31 December 2014
Iron ore prices		
Decrease in all the periods by 0.8%	Recoverable amount equals carrying amount	
Decrease in all the periods by 5%	Impairment of USD 480 million required	Recoverable amount equals carrying amount
Decrease in all the periods by 10%	Impairment of USD 1,053 million required	Impairment of USD 381 million required
UAH/USD exchange rates		
Increase in all the periods by UAH 1	Carrying amount increases by USD 190 million	Carrying amount increases by USD 305 million
Discount rates		
Increase in all the periods by 0.5 pp	Recoverable amount equals carrying amount	-
Increase in all the periods by 1.7 pp	Impairment of USD 157 million required	Recoverable amount equals carrying amount
Growth rate in perpetual period	No reasonable changes would lead to impairment	No reasonable changes would lead to impairment

UCC. As at 31 December 2015 goodwill in UCC impaired to 0 (as at 31 December 2014 amount of goodwill in UCC was USD 74 million).

As at 31 December 2015 recoverable amount of UCC was estimated at USD 195 million (31 December 2014: USD 603 million). Total impairment charge of USD 399 million (31 December 2014: USD 209 million) has been recorded for UCC, out of which USD 74 million (31 December 2014: USD 103 million) were recorded against goodwill, USD 270 million (31 December 2014: USD 106 million) – against coal reserves and mining permits of separate mines (Note 9), and USD 54 million (31 December 2014: USD 3 million) – against property, plant and equipment (Note 10).

The discount rate used for the impairment testing of UCC was 13.27% (31 December 2014: 12.99%). Change of discount rate by 1 p.p. leads to change of the recoverable amount by USD 23 million (31 December 2014: USD 64 million).

The impairment losses resulted from the decline in coal prices in 2014 and further decline in 2015 (benchmark price of hard coking coal, FOB Queensland, decreased from USD 130 per ton in December 2013 to USD 110 in December 2014 and then further to USD 75 in December 2015) which were not expected to recover in full in the near future. The decrease of coal prices in all forecasted periods by 5% with all other variables held constant would result in additional impairment charge of USD 73 million (31 December 2014: USD 152 million). No other reasonable changes to the assumptions used would result in material change of the recoverable amounts of UCC as of 31 December 2015 and 2014.

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***9 Other intangible assets**

The movements of other intangible assets were as follows:

	Coal reserves	Licenses and mining permits	Other intangible assets	Total
As at 1 January 2014				
Cost	418	726	112	1,256
Accumulated amortisation and impairment	(31)	(272)	(41)	(344)
Net carrying amount	387	454	71	912
Additions	-	-	24	24
Impairment (Note 8)	(106)	(3)	-	(109)
Currency translation differences	-	(207)	(38)	(245)
Amortisation	(6)	(34)	(8)	(48)
As at 31 December 2014				
Cost	418	373	220	1,011
Accumulated amortisation and impairment	(143)	(163)	(171)	(477)
Net carrying amount	275	210	49	534
Additions	-	-	10	10
Impairment (Note 8)	(263)	(7)	-	(270)
Currency translation differences	-	(68)	(15)	(83)
Amortisation	(5)	(16)	(6)	(27)
As at 31 December 2015				
Cost	418	241	209	868
Accumulated amortisation and impairment	(411)	(122)	(171)	(704)
Net carrying amount	7	119	38	164

The iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 10 years.

The coal reserves were acquired as part of the acquisition of UCC in 2009. The coal reserves are being amortised using the units-of-production method over their useful lives of approximately 6-30 years.

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10 Property, plant and equipment

The movements of property, plant and equipment were as follows:

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Cost or valuation						
As at 1 January 2014	83	3,400	4,957	138	937	9,515
Additions	-	-	-	-	589	589
Transfers	-	77	285	16	(378)	-
Disposals	-	(6)	(22)	(4)	(4)	(36)
Reclassification to inventory	-	-	-	-	(15)	(15)
Elimination against gross carrying amount upon revaluation	-	(203)	(591)	(15)	-	(809)
Revaluation	-	899	1,955	16	32	2,902
Currency translation differences	(11)	(1,749)	(2,328)	(62)	(479)	(4,629)
As at 31 December 2014	72	2,418	4,256	89	682	7,517
Additions	-	-	-	-	275	275
Transfers	-	94	135	9	(238)	-
Disposals	-	(4)	(36)	(3)	(8)	(51)
Reclassification to inventory	-	-	-	-	(13)	(13)
Elimination against gross carrying amount upon revaluation	(12)	(134)	(234)	(4)	-	(384)
Revaluation	-	297	584	5	-	886
Currency translation differences	(10)	(789)	(1,322)	(29)	(251)	(2,401)
As at 31 December 2015	50	1,882	3,383	67	447	5,829
Accumulated depreciation and impairment						
As at 1 January 2014	-	(381)	(853)	(48)	(21)	(1,303)
Charge for the year	-	(212)	(579)	(21)	-	(812)
Disposals	-	3	18	3	2	26
Elimination against gross carrying amount upon revaluation	-	203	591	15	-	809
Impairment	-	(125)	(63)	(3)	(15)	(206)
Currency translation differences	-	176	314	17	-	507
As at 31 December 2014	-	(336)	(572)	(37)	(34)	(979)
Charge for the year	-	(149)	(428)	(11)	-	(588)
Disposals	-	3	32	1	1	37
Transfers	-	-	-	-	-	-
Elimination against gross carrying amount upon revaluation	12	134	234	4	-	384
Impairment	(12)	(25)	(49)	(1)	(7)	(94)
Currency translation differences	-	103	104	13	13	233
As at 31 December 2015	-	(270)	(679)	(31)	(27)	(1,007)
Net book value as at						
31 December 2014	72	2,082	3,684	52	648	6,538
31 December 2015	50	1,612	2,704	36	420	4,822

10 Property, plant and equipment (continued)

During 2015 and 2014, management performed assessments whether the carrying amounts of items of property, plant and equipment are materially different from their fair values. Where the material differences were identified as probable, the Group determined the fair value of its property, plant and equipment through a combination of independent appraisers and internal assessments. The Group aims to revalue a class of property, plant and equipment simultaneously; in case of revaluing a class on a rolling basis, the Group completes the revaluation within a short period, and keeps revaluations up to date. Substantially all the property, plant and equipment balance was either revalued or tested for impairment (whenever impairment indicators existed) during both 2015 and 2014.

As at 30 June 2015, the Group decided to revalue its property, plant and equipment mainly due to significant inflation in Ukraine and further devaluation of UAH against USD and EUR during the six months ended 30 June 2015. This revaluation resulted in the revaluation surplus of USD 859 million recorded in other comprehensive income and USD 9 million recorded in profit or loss (being reversal of previously recognised impairment or devaluation). No uplift was recorded in respect of property, plant and equipment located in the area not controlled by the government of Ukraine due to uncertainties as discussed in Note 2.

Fair values of items of property, plant and equipment located in Ukraine were estimated as follows: carrying amounts were adjusted to account for relevant cumulative price indices (for construction works and materials, different types of equipment, etc.) in Ukraine since the date of the latest revaluation of such items; and the resulting fair values were validated using discounted cash flow forecasts (income approach), and were adjusted if the values obtained using income approach are lower than those obtained using indexation of carrying amounts.

Further, a revaluation of USD 27 million and an impairment of USD 23 million was recognised as a result of fair valuation of Ferriera Valsider S.p.A. as of 31 December 2015 (book value of 58 million spread over plant and machinery, buildings and structures and land as of 31 December 2015). A revaluation exercise was considered unnecessary for other property, plant and equipment balances located outside of Ukraine as management estimated that their fair value as of 31 December 2015 were not materially different from their cumulative carrying amount of USD 421 million.

Given that in the second half of 2015 the inflation and devaluation in Ukraine were not significant (2% and 12%, respectively), management concluded that the further material uplift in fair values of the property, plant and equipment compared to 30 June 2015 is highly unlikely. Instead, significant further deterioration of the steel and iron ore markets' current situation and the outlook (Note 2) represented an impairment indicator for Group's non-current assets (including goodwill, other intangible assets, and PPE) in metallurgical and mining businesses. Therefore, management has performed impairment testing of property, plant and equipment and other intangible assets such as mining licences at the level of individual CGUs (being individual plants) and, subsequently, impairment testing of goodwill at the level of Metallurgical, Mining and UCC segments (Note 8).

The recoverable amount has been determined based on fair value less costs of disposal calculations. Assumptions used in impairment testing of property, plant and equipment and other intangible assets are consistent with those used in goodwill impairment test (Note 8), except for discount rates for individual CGUs which included incremental size risk premia (as compared to size risk premia applicable to the whole segment) and were, therefore higher than that used for impairment testing of goodwill by 0.59%-0.87% p.p. for metallurgical CGUs (resulting discount rates for individual metallurgical CGUs being 13.69%-13.97%) and 0.29% p.p. for mining CGUs (resulting discount rates for individual mining CGUs being 13.97%).

The specific risk of future severe physical damage or loss of control over entities located within or in close proximity to the areas not controlled by Ukrainian government were not taken into account when building cash flow projections nor was this included within the discount rate in either goodwill or CGU impairment testing. If a 20% probability that this risk crystallises was applied with respect to the CGUs located within the territories not controlled by the Ukrainian government and 10% for CGUs in close proximity to it, all other factors remaining constant, then impairment of USD 18 million (31 December 2014: USD 464 million) of property, plant and equipment would need to be recognised.

Mining segment – 2014 impairment losses and 2015 update. Resulting from the test an impairment loss of USD 215 million and a revaluation reserve reversal of USD 249 million have been recognised in 2014 on two CGUs being iron ore mining (USD 316 million in aggregate) and coal mining (USD 145 million in aggregate) operations in Ukraine. These impairments were largely driven by decrease in iron ore and coal prices in 2014. These conditions continued to be in place in 2015 and resulted in an additional impairment charge of USD 7 million. An increase of iron ore prices by 13% (31 December 2014: 15%) would increase recoverable amount of iron ore mining CGU to its carrying amount before impairment. No reasonably possible change in any of the assumptions of the impairment model of coal mining CGU would change the amount of impairment.

During 2015 USD 28 million of borrowing costs were capitalised, capitalisation rate was 8% (2014: USD 23 million, capitalisation rate 7%).

As at 31 December 2015 and 2014 no buildings, plant and machinery were pledged to third parties as collateral for loans and borrowings.

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The Group's investment in joint ventures and associates were as follows as at 31 December 2015 and 2014:

Name	Type of relationship	Segment	% of ownership	2015	% of ownership	2014
				Carrying value		Carrying value
PJSC Southern Iron Ore Enrichment Works	Joint venture	Mining	45.9%	298	45.9%	345
Zaporozhstal Group	Joint venture	Metallurgical	49.9%	458	49.9%	522
PJSC Zaporozhstal	Associate	Metallurgical	45.4%	2	45.4%	4
PrJSC Yenakievskiy Koksoimprom	Associate	Metallurgical	50.0%	7	50.0%	6
IMU	Associate	Metallurgical	49.9%	7	49.9%	13
Black Iron (Cyprus) Limited	Associate	Mining	49.0%	6	49.0%	14
Other	Associate	Mining	n/a	1	n/a	2
Total				779		906

All Group's associates and joint ventures are accounted for using the equity method.

None of the joint ventures and associates is traded on active markets and there are no reliable market prices available.

PJSC Southern Iron Ore Enrichment Works

On 14 July 2014 the Company acquired a 44.8% ownership interest in PJSC Southern Iron Ore Enrichment Works. This ownership interest, together with the acquisition of non-controlling interests in two already consolidated subsidiaries made in consideration of an additional share in the Company together with a change in the ownership rights assigned to each share (see Note 16). Additional 1.1% of ownership interest in PJSC Southern Iron Ore Enrichment Works had been acquired in a separate transaction earlier in the year.

The Company has assessed the cost of acquisition of PJSC Southern Iron Ore Enrichment Works through valuation of its business using estimated discounted cash flows (Level 3). The resulting fair value of a USD 360 million is considered to be the fair value of consideration transferred and has been credited to share premium. Management has attributed fair values to identifiable assets and liabilities, including a mining license.

As of the date of acquisition, this investment was classified as a joint venture due to the fact that decisions about relevant activities require participation of and unanimous consent from both Metinvest and another major shareholder of PJSC Southern Iron Ore Enrichment Works.

PJSC Southern Iron Ore Enrichment Works is a large Ukrainian iron ore mining plant which produces iron ore concentrate and sinter. Its products are used by the Group's integrated steel plants and are also sold to the third parties (mostly in China, Ukraine and Europe) primarily through the Group's trading companies.

Zaporozhstal Group

Investment in Zaporozhstal Group is represented by the number of interests in the steel and mining businesses, the most significant being:

- 49.9% effective interest in JSC Zaporozhstal Integrated Iron & Steel Works ("Zaporozhstal"), a large Ukrainian integrated steel plant which sources majority of its iron ore and coke consumption from the Group and sells majority of its finished products through the Group's trading companies;
- 24% effective interest in JSC Zaporizhzhya Iron Ore Plant, large iron ore mining enterprise in Ukraine which sells part of its iron ore output to Zaporozhstal; and
- 42.8% effective interest in JSC Zaporozhkoks and a 49.2% effective interest in JSC Zaporozhstal which are Group's subsidiary and associate respectively.

As at 31 December 2015 and 2014, Metinvest's investment in Zaporizhstal Group was classified as a joint venture due to the fact that decisions on the key relevant activities require participation of and unanimous consents both from Metinvest and from the other shareholders of the Zaporizhstal Group.

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015**

All tabular amounts in millions of US Dollars

11 Investments in associates and joint ventures (continued)

Movements in the carrying amount of the Group investments in associates and joint venture are presented below:

	2015	2014
Carrying amount at 1 January	906	786
Acquisition of share in PJSC Southern Iron Ore Enrichment Works	-	369
Acquisition of share in Black Iron (Cyprus) Limited	-	20
Impairment of share in Black Iron (Cyprus) Limited	(4)	-
Share of after tax results of joint ventures and associates	131	142
Share of other comprehensive income of joint ventures and associates	72	123
Currency translation difference	(326)	(534)
Carrying amount at 31 December	779	906

The nature of the activities of the Group's associates, Group's relationships with its associates and their key financial information is as follows:

- JSC Zaporozhzhneupor, Ukrainian producer of refractories, with revenues of USD 46 million and net loss of USD 1 million in 2015 (2014: USD 54 and USD 6, respectively) and total assets of USD 24 million as at 31 December 2015 (31 December 2014: USD 29 million);
- Yenakievskiy Koksohimprom, Ukrainian producer of coke which sources majority of its coal consumption from the Group and sells majority of its coke output to the Group's steel plants; Yenakievskiy Koksohimprom had revenues of USD 72 million and net profit of USD 7 million in 2015 (2014: USD 83 and USD 4, respectively) and total assets of USD 76 million as at 31 December 2015 (31 December 2014: USD 46 million)
- Black Iron (Cyprus) Limited, entity which owns licences for development of two iron ore deposits nearby Kryvyi Rih, Ukraine. In January 2016, the Group sold its investment in Black Iron (Cyprus) Limited for consideration of USD 6 million which equals the carrying amount of investment as at 31 December 2015; and
- Industrial-Metallurgical Union ("IMU"), entity which owns 4.5% interest in ArcelorMittal Kryvyi Rih, the largest integrated steel plant in Ukraine.

The summarised financial information of the Group's joint ventures is as follows:

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Balance sheet:				
Non-current assets	864	1,077	318	488
Cash and cash equivalents	17	12	9	5
Other current assets	459	470	396	392
Total current assets	476	482	405	397
Trade and other payables and provisions	366	74	-	-
Other non-current financial liabilities	113	109	35	53
Total non-current liabilities	479	183	35	53
Trade and other payables and provisions	108	448	21	80
Other current financial liabilities	33	186	18	-
Total current liabilities	141	634	39	80
Net assets	720	742	649	752

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***11 Investments in associates and joint ventures (continued)**

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Profit or loss for the year ended (selected items):				
Revenue	1,463	1,862	483	316
Depreciation and amortisation	(77)	(75)	(37)	(26)
Interest income	-	-	1	4
Interest expense	(32)	(147)	(5)	(3)
Income tax expense	(15)	(16)	(41)	(46)
Profit or loss	106	111	169	190
Statement of comprehensive income for the year ended:				
Other comprehensive income	145	245	3	-
Total comprehensive income	251	346	172	190
Dividends received by the Group during the year ended	-	-	-	-

The information above reflects the amounts presented in the financial statements of the joint ventures and associates and impact of fair value adjustments made on acquisition of these joint ventures and associates, if any.

As at 31 December 2015, Zaporozhstal had a contingent liability with potential maximum outflow of USD 13 million (31 December 2014: nil). This contingent liability represents default interest on a loan taken by then a Zaporozhstal's subsidiary (deconsolidated by Zaporozhstal in 2015) which defaulted on this loan. The loan is guaranteed by Zaporozhstal. The financial guarantee was recognised in full by Zaporozhstal, but the default interest has not been accrued as there is uncertainty as to this amount.

The reconciliation of the net assets of the Group's joint ventures presented above to the carrying amounts of the respective investments is presented below.

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Net assets	720	742	649	752
Group's ownership, %	49.9%	49.9%	45.9%	45.9%
Group's interest in net assets	359	370	298	345
Goodwill	99	152	-	-
Carrying value	458	522	298	345

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***12 Income tax prepaid**

	31 December 2015	31 December 2014
Non-current portion	105	108
Current portion	66	110
Total income tax prepaid	171	218

Group's income tax prepayments originated mainly on principal Ukrainian production subsidiaries due to legislative requirement of advance payment of corporate profit tax. The classification of prepayments as of 31 December 2015 is based on Group management's assessment of taxable profits of subsidiaries and amounts of expected cash refunds from the State during 2016.

Starting from 1 January 2016 changes to Ukrainian Tax Code were enforced, including the cancellation of required advance payments of corporate profit tax.

13 Inventories

	31 December 2015	31 December 2014
Finished goods and work in progress	367	566
Raw materials	255	409
Ancillary materials, spare parts and consumables	114	210
Goods for resale	30	37
Total inventories	766	1,222

In 2015, inventory write down expense was USD 21 million (2014: USD 16 million).

As at 31 December 2015, inventories totalling USD 69 million (31 December 2014: USD 151 million) have been pledged as collateral for borrowings (Note 19).

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***14 Trade and other receivables**

	31 December 2015	31 December 2014
Non-current assets		
Trade receivables	201	-
Loans issued to related party (USD denominated, 9% effective interest rate, mature during 2017)	11	20
Loans issued to joint venture (USD denominated, 11% effective interest rate, mature in 2016)	-	98
Other non-current financial assets	7	11
Other non-current non-financial assets	10	10
Total non-current assets	229	139
Current financial assets		
Trade receivables and receivables on commission sales	757	1,544
Loans issued to joint venture (USD denominated, 11% effective interest rate, mature in 2016)	101	3
Loans issued to SMART (USD denominated, 9% effective interest rate, mature in 2015 and 2016)	75	70
Loans issued to SCM (USD denominated, 9% effective interest rate, mature in 2015 and 2016)	22	11
Other receivables	56	80
Total current financial assets	1,011	1,708
Current non-financial assets		
Recoverable value added tax	148	225
Prepayments made	142	45
Prepaid expenses and other non-financial receivables	64	64
Total current non-financial assets	354	334
Total current assets	1,365	2,042
Total trade and other receivables (including non-current assets)	1,594	2,181

The increased prepayments made are a reflection of requirements of non-Ukrainian suppliers of goods and services for the increased risks and uncertainties of doing business with Ukrainian counterparties.

Recoverable VAT mainly relates to Ukrainian subsidiaries of the Group. During 2015, VAT refunds of USD 479 million were received by the Group. Although there are certain delays with refund of part of this balance amounting to USD 43 million related to the subsidiaries located in the non-controlled territory, the Group has a proved right for refund of this amount and considers this balance as fully recoverable.

During 2015, trade accounts receivable in the amount of USD 491 million has been sold to a third party (2014: USD 175 million). As at 31 December 2015 amount of such unsettled receivables was USD 67 million (31 December 2014: USD 71 million). The carrying amount of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets is USD 2 million (31 December 2014: USD 2 million). The maximum exposure to loss from such receivables relates to customer default only and is pre-agreed with the third party purchasing the receivables as the percentage of their nominal amount sold. Such percentage is determined with reference to the historical loss ratio and the statistical model of the respective markets the Group.

14 Trade and other receivables (continued)

Movements in the impairment provision for trade and other receivables are as follows:

	31 December 2015		31 December 2014	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	77	27	56	25
Net impairment during the year	263	29	50	10
Currency translation differences	(11)	(7)	(29)	(8)
Provision for impairment at 31 December	329	49	77	27

Analysis by credit quality of financial trade and other receivables is as follows:

	31 December 2015		31 December 2014	
	Trade receivables and receivables on commission sales	Other financial receivables	Trade receivables and receivables on commission sales	Other financial receivables
Key customers	20	-	18	-
SCM and other related companies, including associates and joint ventures	54	145	73	244
Balances covered by bank letters of credit	77	-	202	-
Balances insured	147	-	249	-
Existing and new counterparties with no history of default	75	24	69	36
Balances renegotiated with SCM and other related companies, including associates and joint ventures	27	26	28	-
Balances renegotiated with key customers	46	-	12	-
Total fully performing (not past due)	446	195	651	280
<i>Past due:</i>				
- less than 30 days overdue	81	53	162	-
- 30 to 90 days overdue	54	12	91	-
- 90 to 180 days overdue	58	2	73	2
- 180 to 360 days overdue	64	3	33	2
- over 360 days overdue	34	8	16	9
Total past due, but not impaired	291	78	375	13
Total individually impaired	550	49	595	27
Less impairment provision	(329)	(49)	(77)	(27)
Total	958	273	1,544	293

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***14 Trade and other receivables (continued)**

As at 31 December 2015, 10% of receivables overdue but not impaired related to key customers (2014: 12%) and 69% to SCM and other related parties (2014: 61%). Following further delays in payments from some of the Group's key customers beyond the originally expected dates and their certain operational and financial issues, management has re-assessed the recoverable amounts of receivables from these entities. As a result, during 2015 the Group has increased the impairment provision related to these receivables from USD 62 million as of 31 December 2014 to USD 317 million as of 31 December 2015 and classified USD 201 million of these balances as non-current assets (Note 5).

As at 31 December 2015, trade and other receivables totalling USD 99 million (31 December 2014: USD 175 million) have been pledged as collateral for borrowings (Note 19).

15 Cash and cash equivalents

	31 December 2015	31 December 2014
Current accounts	176	105
Bank deposits up to 3 months	4	9
Total cash and cash equivalents	180	114

The bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2015	31 December 2014
<i>As rated by Moody's:</i>		
- A1	53	-
- A2	2	35
- A3	-	1
- Baa2	12	3
- Ba1	-	2
- Ba2	21	-
- Ca	-	60
Not rated – Ukrainian banks	71	1
Not rated – other banks	21	12
Total cash and cash equivalents	180	114

As at 31 December 2015, amounts in not rated Ukrainian banks (31 December 2014: banks rated Ca) relate to First Ukrainian International Bank (a related party which is under common control of SCM).

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***16 Share capital and share premium**

	Number of outstanding shares			Ordinary shares	Share premium	Total
	Class A	Class B	Class C			
At 31 December 2014	6,750	2,251	474	0	6,225	6,225
At 31 December 2015	6,750	2,251	474	0	6,225	6,225

As at 31 December 2015, the issued share capital comprised 6,750 ordinary class A shares (2014: 6,750), 2,251 ordinary class B shares (2014: 2,251) and 474 class C shares (2014: 474) with a par value of EUR 10. Each ordinary share carries one vote and is fully paid.

In 2014 the Company changed its Articles of Association and created three classes of shares (A, B and C). Ownership interests of SCM Limited were transferred to new Class A shares. Ownership interests of SMART were transferred to new Class B shares. Ownership interests of the previous Class B shares were transferred to new Class C shares. Additional rights of these new classes of shares were established, the most significant of which were:

- Class C shareholders have the right to a portion of net assets of the Company and are represented at shareholders' meetings.
- the establishment of a Supervisory Board of ten members, where seven are appointed by the majority of Class A and Class C shareholders and three are appointed by the Class B shareholder;
- a number of decisions with respect to acquisitions and financing decisions above a specified amount require effectively consent of Class A and B shareholder; and
- Class C shares are not entitled to receive dividends.

In 2014, as a result of the acquisition of 44.8% of PJSC Southern Iron Ore Enrichment Works, an additional 14.1% interest in PJSC Ingulets Iron Ore Enrichment Works and 16% interest PJSC Northern Iron Ore Enrichment Works (Notes 11 and 18) and the issuance of additional share and share rights, management recognised Share premium of USD 764 million on these transactions, being the fair value of shares contributed.

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***17 Other reserves**

	Revaluation of available- for-sale investments and share in OCI of associates	Revaluation of property, plant and equipment	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2014	(13)	2,269	(2,995)	(2,349)	(3,088)
Total comprehensive income for the period	-	2,381	-	(5,028)	(2,647)
Depreciation transfer, net of tax	-	(256)	-	-	(256)
Acquisition of subsidiaries from parties under common control	-	-	(43)	-	(43)
Balance as at 31 December 2014	(13)	4,394	(3,038)	(7,377)	(6,034)
Total comprehensive income / (loss) for the period	-	774	-	(2,461)	(1,687)
Depreciation transfer, net of tax	-	(292)	-	-	(292)
Balance as at 31 December 2015	(13)	4,876	(3,038)	(9,838)	(8,013)

The revaluation reserve for available-for-sale investments is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. Company subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however this legislation and other statutory laws and regulations are open to legal interpretation. Since December 2014, there is temporary ban for Ukrainian entities to pay dividends abroad, which has been prolonged till 8 June 2016 (Note 2).

The ability of the Group to pay dividends has been limited by the terms and conditions of the Group's agreements with its lenders and bondholders related to the debt restructuring process (Note 3).

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***18 Material non-controlling interests in subsidiaries**

Subsidiaries that have non-controlling interest that is material to the Group have been determined by management based on combination of the following factors: (i) the percentage of shares held by non-controlling shareholders; (ii) accumulated amount of non-controlling interest ("NCI") in the subsidiary; and (iii) total assets, revenues, profit or loss and OCI of the respective subsidiaries.

The following table provides information about subsidiaries that have non-controlling interest that is material to the Group:

	Proportion of NCI (same as voting rights held by NCI)	Profit or loss attributable to NCI	OCI attributable to NCI	Amount of NCI in the subsidiary	Dividends paid to NCI during the year
As at 31 December 2015					
PJSC Azovstal Iron and Steel Works	3.8%	(4)	(7)	37	-
PJSC Avdiivka Coke Plant	7.0%	2	(10)	21	-
JSC Zaporozhkoks	47.8%	6	(12)	26	-
PJSC Northern Iron Ore Enrichment Works	3.6%	(2)	(16)	36	-
PJSC Ingulets Iron Ore Enrichment Works	0.2%	-	(1)	1	-
Ferrieria Valsider S.p.A.	30.0%	(8)	3	24	-
Total		(6)	(43)	145	-
As at 31 December 2014					
PJSC Azovstal Iron and Steel Works	3.9%	2	(6)	51	-
PJSC Avdiivka Coke Plant	7.5%	(6)	(7)	31	-
JSC Zaporozhkoks	49.0%	(3)	(19)	33	-
PJSC Northern Iron Ore Enrichment Works	3.6%	32	(117)	54	-
PJSC Ingulets Iron Ore Enrichment Works	0.2%	32	(92)	2	1
Ferrieria Valsider S.p.A.	30.0%	(2)	(4)	29	-
Total		55	(245)	199	1

The summarised financial information of these subsidiaries (including the impact of consolidation fair value adjustments, but before intercompany eliminations), was as follows at 31 December 2015 and 2014:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
As at 31 December 2015					
PJSC Azovstal Iron and Steel Works	782	1,145	785	159	983
PJSC Avdiivka Coke Plant	390	314	357	52	295
JSC Zaporozhkoks	57	40	36	7	54
PJSC Northern Iron Ore Enrichment Works	490	745	156	81	998
PJSC Ingulets Iron Ore Enrichment Works	994	650	1,091	57	496
Ferrieria Valsider S.p.A.	179	123	210	11	81
As at 31 December 2014					
PJSC Azovstal Iron and Steel Works	1,044	1,402	970	179	1,297
PJSC Avdiivka Coke Plant	186	483	207	44	418
JSC Zaporozhkoks	137	64	123	11	67
PJSC Northern Iron Ore Enrichment Works	946	1,110	365	201	1,490
PJSC Ingulets Iron Ore Enrichment Works	1,083	1,083	983	272	911
Ferrieria Valsider S.p.A.	252	72	226	1	97

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***18 Material non-controlling interests in subsidiaries (continued)**

	Revenue	Profit/ (loss)	Total comprehensive (loss) / income
Year ended 31 December 2015			
PJSC Azovstal Iron and Steel Works	1,532	(117)	(314)
PJSC Avdiivka Coke Plant	608	26	(123)
JSC Zaporozhkoks	209	12	(13)
PJSC Northern Iron Ore Enrichment Works	616	(49)	(492)
PJSC Ingulets Iron Ore Enrichment Works	610	(149)	(415)
Ferriera Valsider S.p.A.	398	(26)	(16)
Year ended 31 December 2014			
PJSC Azovstal Iron and Steel Works	1,900	55	(119)
PJSC Avdiivka Coke Plant	568	(76)	(177)
JSC Zaporozhkoks	312	(6)	(44)
PJSC Northern Iron Ore Enrichment Works	1,101	164	(527)
PJSC Ingulets Iron Ore Enrichment Works	984	173	(744)
Ferriera Valsider S.p.A.	482	(8)	(22)

The Group's centralised treasury monitors the cash flows of the Group's subsidiaries and adjusts the subsidiaries' operating cash flows (e.g. by means of changing intragroup trading balances) to provide sufficient funds for the approved investing activities or payment of taxes, interest and dividends.

In partial consideration for the 2014 increase in shares and change in rights to the Smart Group the Company obtained additional 14% in Ingulets Iron Ore Enrichment works and 16% in Northern Iron Ore Enrichment works (both subsidiaries of the Group) resulting in a reduction in non-controlling interest of USD 558 million in 2014. The difference of USD 154 million between the carrying value of non-controlling interest derecognised and consideration transferred (i.e. share premium recognised – Note 16) was recognised in 2014 as a reduction in the equity attributable to the parent's shareholders (reflected directly in retained earnings).

In 2011 and 2014, the Company issued guaranteed bonds with aggregate amount of USD 1,146 million outstanding which were in default as at 31 December 2015 (Notes 3 and 19). The bonds are guaranteed on a joint and several basis by the Group's subsidiaries PJSC Avdiivka Coke Plant, PJSC Ingulets Iron Ore Enrichment Works, PJSC Khartsyzsk Pipe Plant, PJSC Northern Iron Ore Enrichment Works, PJSC Central Iron Ore Enrichment Works, PJSC Azovstal Iron and Steel Works, PJSC Yenakieve Iron and Steel Works, PJSC Ilyich Iron and Steel Works. The terms of bonds, subject to certain exceptions and qualifications, limit the ability of the Group to:

- undertake any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring;
- incur additional indebtedness;
- pay dividends or distributions in respect of its share capital or redeem or repurchase capital stock or subordinated debt;
- create mortgages, pledges, security interests, encumbrances, liens or other charges;
- transfer or sell assets; and
- enter into transactions with affiliates.

Also, Metinvest entered into a number of PXF loans for an aggregate amount of USD 1,073 million which were in default as at 31 December 2015 (Notes 3 and 19). These loans are guaranteed by Ingulets GOK and PJSC Ilyich Iron and Steel Works. Also, as a condition of these loans, certain subsidiaries of Metinvest (PJSC Azovstal Iron and Steel Works, PJSC Yenakieve Iron and Steel Works, PJSC Northern Iron Ore Enrichment Works, PJSC Ingulets Iron Ore Enrichment Works, Metinvest International S.A., PJSC Ilyich Iron and Steel Works) are jointly committed to perform sales of steel products to Metinvest International S.A. from the date when the funds are drawn down by Metinvest. The commitment to sell steel products mirrors the repayment schedule of the loans balances and extends to loans' maturity dates. The proceeds from such sales are transferred through special accounts of the lenders and banks will have rights to these proceeds only in case when Metinvest does not make a scheduled payment under the credit facilities. There are no other restrictions to these accounts. The amount of funds on such accounts as at 31 December 2015 is USD 0 million (31 December 2014: USD 0 million).

19 Loans and borrowings

As at 31 December, loans and borrowings were as follows:

	31 December 2015	31 December 2014
Non-current		
Bank borrowings	-	476
Bonds issued	-	1,032
Non-bank borrowings from related parties	-	370
	-	1,878
Current		
Bank borrowings	1,091	714
Non-bank borrowings from related parties	393	-
Trade finance	228	416
Bonds issued	1,146	138
	2,858	1,268
Total loans and borrowings	2,858	3,146

The majority of the Group's bank borrowings and trade finance have variable interest rates. The weighted average effective interest rates and currency denomination of loans and borrowings as at the balance sheet dates are as follows:

	31 December 2015		31 December 2014	
<i>In % per annum</i>	USD	EUR	USD	EUR
Bank borrowings	6%	3%	4%	3%
Bonds issued	9%	-	9%	-
Non-bank borrowings from related parties	10%	-	10%	-
Trade finance	4%	-	3%	-
Reported amount	2,840	18	3,124	22

As disclosed in Note 3, the Group breached its payment covenants and consequently as a result of this breach and the associated impact of cross default the vast majority of loans and borrowing were reclassified to current loans and borrowings. As at 31 December 2015, the bank borrowing includes PXF in the amount USD 1,073 million (31 December 2014: USD 1,172 million).

As of 31 December 2015, the Group's 2018 bonds were traded on open markets with discount of approximately 57% (31 December 2014: 48%) to their nominal value, 2017 bonds were traded on open markets with discount of approximately 55% (31 December 2014: 48%) and 2016 bonds were traded on open markets with discount of approximately 58% (31 December 2014: 25%). As at 31 December 2015, the fair value of bonds was USD 514 million (31 December 2014: USD 676 million) as determined by reference to observable market quotations. Have these market quotations been used to determine the fair values of the bank borrowings as at 31 December 2015 would be in the range of USD 462 million to USD 495 million (31 December 2014: USD 629 million and USD 906 million respectively). Despite the trading volumes are low and these quotations may not represent the fair value of the bonds and bank borrowings, that approach is the most appropriate in the distressed situation given the company's default and cross default clauses on its bank and non-bank loans and borrowings, as well as bonds a vast majority of which were reclassified to current debt.

Metinvest B.V.
Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015
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20 Seller's notes

	31 December 2015	31 December 2014
Current portion	88	86
Total seller's notes	88	86

Seller's notes are secured with a 100% of the capital of United Coal Company LLC (Group's subsidiary) and subordinated to other borrowings of the Group to the extent that total borrowings do not exceed USD 3 billion excluding interest.

Seller's notes bear nominal interest rate of 7% p.a., and are recorded at an effective interest rate of 12.5% p.a. The repayment of the notes was initially due in 2015. In January 2015 the Group renegotiated terms of the seller's notes to be repaid in 12 equal monthly instalments during 2016. There are no cross-default provisions related to the seller's notes.

As of 31 December 2015 and 31 December 2014, the fair value of seller's notes approximated their carrying amount.

21 Retirement benefit obligations

The Group's defined benefit obligations relate to:

	31 December 2015	31 December 2014
State-defined early pensions for employees working in hazardous and unhealthy working conditions	289	434
Long-term employee benefits under collective bargaining agreements	46	39
Total defined benefit obligations	335	473

Nature and the risks and uncertainties associated with the Group's defined benefit obligations are further disclosed in the Note 5.

Adoption of certain changes to the pension legislation in Ukraine during 2015, being an increase of the required overall service period for men and women and gradual increase of the early retirement age for women by 5 years resulted in the negative past service cost recognised in profit and loss for year ended 31 December 2015.

Changes in the present value of the defined benefit obligation were as follows:

	2015	2014
Defined benefit obligation as at 1 January	473	803
Current service cost	10	17
Remeasurements of the defined benefit liability resulting from:		
- changes in financial assumptions	(18)	16
- changes in demographic assumptions	(1)	3
- experience adjustments	26	19
Past service cost	(10)	-
Interest cost	49	70
Benefits paid	(34)	(61)
Currency translation difference	(160)	(394)
Defined benefit obligation as at 31 December	335	473

21 Retirement benefit obligations (continued)

The amounts recognised in the consolidated income statement were as follows:

	2015	2014
Current service cost	10	17
Past service cost	(10)	-
Interest cost	49	70
Total	49	87

The principal actuarial assumptions used were as follows:

	31 December 2015	31 December 2014
Nominal discount rate	16.04%	16.04%
Nominal salary increase	0% in 2016, 12.9% - later	12.9%-15.0%
Nominal pension entitlement increase (indexation)	3.6%	3.6%
Long-term inflation	5.0%	5.0%

Assumptions about mortality are based on the publicly available mortality tables for city population of the respective regions of Ukraine (depending on the location of Group's subsidiaries) for 2012 and are consistent with prior year.

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented below:

	2015	2014
Nominal discount rate increase / decrease by 1 pp	(23) / 26	(35) / 40
Nominal salary increase / decrease by 1 pp	8 / (8)	11 / (12)
Nominal pension entitlement (indexation) increase / decrease by 1 pp	7 / (7)	12 / (11)
Inflation increase / decrease by 1 pp	8 / (9)	10 / (12)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

As at 31 December 2015, the weighted average maturity of the Group's defined benefit obligations is 7.9 years and it varies across different Group's subsidiaries from 6 to 9.5 years (31 December 2014: 9.3 years, varying from 6 to 12 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2016 are USD 38 million.

22 Other non-current liabilities

	31 December 2015	31 December 2014
Asset retirement obligations	74	45
Long-term advances received from related parties (Note 29)	15	-
Tax liabilities under moratorium (Note 30)	8	12
Other non-current liabilities	6	10
Total other non-current liabilities	103	67

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***23 Trade and other payables**

	31 December 2015	31 December 2014
Trade payables and payables on sales made on commission	984	996
Dividends payable to shareholders of Metinvest B.V.	88	88
Dividends payable to non-controlling shareholders of Company's subsidiaries	2	3
Payables for acquired property, plant and equipment and other intangible assets	54	95
Other financial liabilities	46	37
Total financial liabilities	1,174	1,219
Prepayments received	101	114
Accruals for employees' unused vacations and other payments to employees	51	67
Income tax payable	19	9
Other taxes payable	45	73
Wages and salaries payable	17	20
Other allowances	19	16
Total trade and other payables	1,426	1,518

24 Expenses by nature

	2015	2014
Raw materials including change in finished goods and work in progress	1,476	2,016
Goods for resale	1,574	1,935
Energy materials including gas, electricity and fuel	1,005	1,593
Wages and salaries	507	787
Transportation services	957	1,074
Repairs and maintenance expenses	200	296
Pension and social security costs	111	220
Pension costs – defined benefit obligations (Note 21)	-	17
Depreciation and amortisation	615	850
Impairment and devaluation of property, plant and equipment and other intangible assets (Notes 9 and 10)	364	315
Taxes and duties	84	149
Services and other costs	325	338

Total operating expenses	7,218	9,590

Classified in the income statement as

- cost of sales	6,087	8,240
- distribution costs	920	1,063
- general and administrative expenses	211	287
Total operating expenses	7,218	9,590

Raw materials include externally purchased coke and coal, iron ore, scrap metal, ferroalloys, ancillary and other materials and cost of their transportation.

Unallocated fixed production costs incurred at the Group's subsidiaries during the months of operations at levels substantially below normal capacity are not included in the cost of inventories, are expensed in the profit or loss and presented within cost of sales according to their nature.

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***24 Expenses by nature (continued)****Auditor's fees.** The following fees were expensed in the income statement in the reporting period:

	2015	2014
Audit of the financial statements (including audit fee of the signing firm of USD 0.1 million)	2	2
Total	2	2

25 Other operating (expense) / income, net

Other operating income and expenses for the year ended 31 December were as follows:

	2015	2014
Impairment of trade and other receivables (Note 14)	(292)	(60)
Impairment of goodwill (Note 8)	(74)	(102)
VAT on sales below cost	(27)	(8)
Maintenance of social infrastructure	(12)	(22)
Sponsorship and other Charity and social payments	(17)	(39)
Impairment of share in Black Iron (Cyprus) Limited (Note 11)	(4)	-
Operating foreign exchange gains less losses, net	124	391
Gain on disposal of property, plant and equipment, net	8	8
Other income / (expense), net	(6)	(38)
Total other operating (expense) / income, net	(300)	130

26 Finance income

Finance income for the year ended 31 December was as follows:

	2015	2014
Interest income:		
- loans issued	20	20
- bank deposits	3	3
- imputed interest on other financial instruments	3	-
Other finance income	-	2
Total finance income	26	25

The majority of finance income relates to term deposits and long term loans issued to related parties.

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***27 Finance costs**

Finance costs for the year ended 31 December were as follows:

	2015	2014
Net foreign exchange loss	372	593
Interest expense		
- borrowings	86	100
- bonds	113	118
- seller's notes	6	8
- imputed interest on seller's notes	3	10
Interest cost on retirement benefit obligations	49	70
Other finance costs	6	3
Total finance costs	635	902

Net foreign exchange losses arise on intragroup loans and dividends payable between the entities with different functional currencies.

28 Income tax

Income tax for the year ended 31 December was as follows:

	2015	2014
Current tax	28	198
Deferred tax	(189)	13
Income tax (benefit) / expense	(161)	211

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2015 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2014: 18%). In 2015, the tax rate for Swiss operations was 10% (2014: 10%) and for European companies tax rate in 2015 varied from 10% to 34% (2014: varied from 10% to 31%). The tax rate for US operations was 35% (2014: 35%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2015	2014
IFRS profit / (loss) before tax	(1,164)	370
Tax calculated at domestic tax rates applicable to profits in the respective countries	(340)	(10)
Tax effect of items not deductible or assessable for taxation purposes:		
- impairment of non-current assets at UCC (Notes 8, 9, 10)	144	36
- impairment of trade and other receivables	22	-
- other non-deductible expenses	49	78
- non-taxable income	(10)	(14)
Write-down / (reversal) of write-down of deferred tax assets, net	(26)	168
Indexation of tax base of PPE in Ukraine	-	(51)
Effect of other changes in estimates regarding realisability and timing of realisation of deferred tax balances	-	4
Income tax (benefit) / expense	(161)	211

The weighted average applicable tax rate was 29% in 2015 (2014: -2.7%). Variation in weighted average tax rate is mostly due to variation in profitability of Group's subsidiaries in Ukraine some of which are profitable and some are loss making.

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***28 Income tax (continued)**

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	1 January 2015	Credited/ (charged) to income statement	Credited/ (charged) to other compre- hensive income	Currency translation difference	31 December 2015
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	105	(73)	-	(11)	21
Long-term receivables	-	1	-	-	1
Inventory valuation	18	(9)	-	(5)	4
Trade and other accounts receivable	-	13	-	-	13
Accrued expenses	35	(27)	-	(1)	7
Tax losses carried forward	103	69	-	(36)	136
Retirement benefit obligations	82	2	1	(28)	57
Other	3	38	-	6	47
Gross deferred tax asset	346	14	1	(75)	286
Less offsetting with deferred tax liabilities	(257)	28	(2)	50	(181)
Recognised deferred tax asset	89	42	(1)	(25)	105
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(703)	142	(162)	215	(508)
Inventory tax differences	(8)	-	-	1	(7)
Borrowings and long-term payables	(2)	2	-	-	-
Other	(48)	31	-	3	(14)
Gross deferred tax liability	(761)	175	(162)	219	(529)
Less offsetting with deferred tax assets	257	(28)	2	(50)	181
Recognised deferred tax liability	(504)	147	(160)	169	(348)

Deferred tax asset on unused tax losses not recognised as at 31 December 2015 comprised USD 48 million (31 December 2014: USD 144 million). There are no expiry dates on tax losses carried forward. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable; future taxable profits are estimated using the cash flow forecasts used for impairment testing of non-current assets (Note 8).

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***28 Income tax (continued)**

	1 January 2014	Credited/ (charged) to income statement	Credited/ (charged) to other compre- hensive income	Currency translation difference	31 December 2014
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	93	20	14	(22)	105
Long-term receivables	92	(47)	-	(45)	-
Inventory valuation	35	(8)	-	(9)	18
Trade and other accounts receivable	8	(3)	-	(5)	-
Accrued expenses	75	(36)	-	(4)	35
Tax losses carried forward	297	(91)	-	(103)	103
Retirement benefit obligations	128	10	7	(63)	82
Prepayments received	3	(3)	-	-	-
Other differences	24	2	(1)	(22)	3
Gross deferred tax asset	755	(156)	20	(273)	346
Less offsetting with deferred tax liabilities	(529)	90	(9)	191	(257)
Recognised deferred tax asset	226	(66)	11	(82)	89
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(588)	135	(535)	285	(703)
Advances paid	(3)	3	-	-	-
Inventory tax differences	(7)	(2)	-	1	(8)
Borrowings and long-term payables	(92)	45	-	45	(2)
Other differences	(31)	(38)	1	20	(48)
Gross deferred tax liability	(721)	143	(534)	351	(761)
Less offsetting with deferred tax assets	529	(90)	9	(191)	257
Recognised deferred tax liability	(192)	53	(525)	160	(504)

The accompanying notes form an integral part of these consolidated financial statements

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***28 Income tax (continued)**

The tax charge relating to components of other comprehensive income is as follows:

	2015			2014		
	Before tax	Deferred tax charge	After tax	Before tax	Deferred tax charge	After tax
Revaluation of property, plant and equipment	886	(162)	724	2,902	(521)	2,381
Remeasurement of retirement benefit obligation	(7)	1	(6)	(38)	7	(31)
Other comprehensive income	879	(161)	718	2,864	(514)	2,350

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

Revisions were introduced to the Tax Code of Ukraine from 1 January 2015. Further revisions were introduced to the Tax Code from 1 January 2016 (Note 35). These changes were considered to be substantially enacted with respect of calculation of deferred taxes as at 31 December 2014 and 31 December 2015, respectively.

29 Balances and transactions with related parties

For the purposes of these IFRS consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2015 and 2014 significant balances outstanding with related parties are detailed below:

31 December 2015						31 December 2014				
SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	SMART Group		SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	SMART Group
ASSETS										
Non-current trade and other receivables, including:										
	-	-	-	14	-	-	-	98	20	-
Long-term loans issued	-	-	-	13	-	-	-	98	20	-
Other non-current assets	-	-	-	1	-	-	-	-	-	-
Current trade and other receivables, including:	-	50	274	122	77	1	27	274	92	74
Trade receivables and receivables on commission sales	-	50	172	35	2	-	27	270	34	4
Prepayments made	-	-	-	30	-	-	-	1	4	-
Loans issued	-	-	101	22	75	-	-	3	11	70
Other financial receivables (short-term, non-interest bearing)	-	-	1	35	-	1	-	-	43	-
Cash and cash equivalents	-	-	-	71	-	-	-	-	60	-

31 December 2015						31 December 2014				
SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	SMART Group		SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	SMART Group
LIABILITIES										
Other non-current liabilities	-	-	-	15	-	-	-	1	1	-
Non-bank borrowings	-	-	-	292	101	-	-	-	278	92
Trade and other payables, including:	40	58	410	137	48	41	35	396	159	60
Dividends payable	40	-	-	-	48	40	-	-	-	48
Trade payables and payables on sales made on commission	-	41	402	99	-	-	32	394	118	-
Prepayments received	-	17	6	8	-	-	3	2	29	-
Other financial liabilities	-	-	2	30	-	1	-	-	12	12

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***29 Balances and transactions with related parties (continued)**

Significant transactions (excluding purchases) with related parties during 2015 and 2014 are detailed below:

2015	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Sales, including:	28	646	59	1	734
Steel	-	23	44	1	68
Scrap metal	-	46	3	-	49
Coke and coking coal	23	326	-	-	349
Iron ore	-	162	1	-	163
Other	5	89	11	-	105
Other operating income/(expense) net	-	-	(7)	-	(7)
Charity and social payments	-	-	(11)	-	(11)
Other	-	-	4	-	4
Finance income / (expenses), including:	-	11	(24)	(3)	(16)
Interest income - bank deposits	-	-	1	-	1
Interest income - other	-	11	3	6	20
Other finance income (expenses)	-	-	(28)	(9)	(37)
2014	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Sales, including:	49	684	68	39	840
Steel	9	20	56	10	95
Scrap metal	-	82	3	-	85
Coke and coking coal	29	260	2	4	295
Iron ore	-	271	1	-	272
Other	11	51	6	25	93
Other operating income / (expense) net	1	-	(15)	-	(14)
Charity and social payments	-	-	(29)	-	(29)
Other	1	-	14	-	15
Finance income / (expenses), including:	-	11	(14)	(1)	(4)
Interest income - bank deposits	-	-	1	-	1
Interest income - other	-	11	4	5	20
Other finance income (expenses)	-	-	(19)	(6)	(25)

29 Balances and transactions with related parties (continued)

The following is a summary of purchases from related parties in 2015 and 2014:

2015	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Purchases, including:	77	1,135	981	-	2,193
Metal products	1	1,119	7	-	1,127
Coke and coking coal	67	1	11	-	79
Raw materials and spare parts	6	12	51	-	69
Electricity	-	-	454	-	454
Gas	-	-	105	-	105
Fuel	-	-	13	-	13
Services	1	-	330	-	331
Other	2	3	10	-	15

2014	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Purchases, including:	93	1,563	1,569	56	3,281
Metal products	10	1,528	12	-	1,550
Coke and coking coal	73	15	49	-	137
Raw materials and spare parts	7	18	139	55	219
Electricity	-	-	689	-	689
Gas	-	-	230	-	230
Fuel	-	-	38	-	38
Services	2	2	402	-	406
Other	1	-	10	1	12

Not included in the tables above are Group's transactions on purchase and further re-sale of iron ore, coal and steel products from or to joint ventures where the Group is acting as an agent and not as principal. Income and costs related to such transactions are presented net within other operating income / (expense). Group's net gain on such transactions was USD 3 million in 2015 (2014: USD 9 million).

In 2014 the Group has obtained USD 444 million of loans from the related parties (9.5% p.a. repayable in 2017) and repaid USD 75 million of it during the year.

In 2015, the remuneration of key management personnel of the Group comprised current salaries and related bonuses totalling USD 11.5 million (in 2014: USD 10.9 million).

As at 31 December 2015, key management holds the Group's bonds in the total amount of less than USD 1 million. Rights of these bondholders are not different from the rights of other bondholders.

30 Contingencies, commitments and operating risks

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. With effect from 1 January 2011, Ukraine adopted the new Tax Code of Ukraine. Applicable taxes include value-added tax, corporate income tax, customs duties and other taxes. As a result, there is significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and State authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's operations are vertically integrated and a significant portion of the Group's iron ore, coke and coal production is used in the subsequent production operations. Because of non-explicit requirements of the applicable tax legislation, intercompany transactions may be assessed by Ukrainian tax authorities as non-market. Such transactions have not been challenged in the past by the tax authorities. However, it is possible with evolution of the interpretation of tax law in Ukraine and other jurisdictions plus changes in the approach of tax authorities, that such transactions could be challenged in the future.

The tax legislation had been expanded with the new transfer pricing rules effective from 1 September 2013 that are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles. The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and is not supported by relevant documentation. Since 1 January 2015, the transfer pricing rules were amended so that transactions between Ukrainian companies (irrespective whether they are related parties or not) ceased to be treated as controlled transactions.

Management believes it is taking appropriate measures to ensure compliance with the new transfer pricing legislation.

Bankruptcy proceedings. During 2006, bankruptcy proceedings were initiated against the Group's subsidiary JSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relate to the Group thus are eliminated on consolidation. As at 31 December 2015, the amount of the financial liabilities recorded in these financial statements is USD 15 million. USD 8 million are presented as non-current liability related to the bankruptcy moratorium (Note 22).

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations (including asset retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital expenditure commitments. As at 31 December 2015, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 266 million (31 December 2014: USD 166 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

Guarantees issued. As at 31 December 2015 and 2014, the Group has no outstanding guarantees to third parties.

Compliance with covenants. The Group breached its payment covenants and consequently as a result of this breach and the associated impact of cross default the vast majority of loans and borrowing were reclassified to current loans and borrowings. (Note 3).

Insurance. Metinvest maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law, including life and health insurance; third party liability insurance on hazardous industrial assets and in respect of cargo and motor vehicles; voluntary insurance cover for most of its production facilities and in respect of cargo and motor vehicles; "All Risk" insurance to cover property damage and provide business interruption coverage including "inter-dependency" coverage for its key production facilities in Ukraine; property damage and business interruption policies in respect of its European and US assets.

31 Financial risk management

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

(a) Market risk.

(i) Foreign exchange risk.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through (i) borrowings denominated in the relevant foreign currencies; (ii) different treasury operations like forward, swap and other.

Foreign exchange risk is managed centrally by the Group treasury. The Group treasury has set up a policy to manage foreign exchange risk. The Group treasury sets limits on the level of exposure by currency and maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks without permission of the Group treasury.

At 31 December 2015, if the UAH had strengthened / weakened by 50% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 44 million higher / lower (2014: if the UAH strengthened / weakened by 50% against USD dollar, post tax profit for the year would have been USD 190 million higher / lower), mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and foreign exchange gains/losses on translation of US dollar denominated borrowings.

(ii) Price risk.

Metinvest's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that Metinvest sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that Metinvest receives from the sale of its steel or mined products.

Metinvest's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self sufficient for iron ore and certain portion of coking coal requirements.

No financial instruments are exposed to price risk.

(iii) Cash flow and fair value interest rate risk.

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings attracted at variable rates expose the Group to cash flow interest rate risk. Borrowings attracted at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2015, 54% of the total borrowings were provided to the Group at fixed rates (31 December 2014: 49%). During 2015 and 2014, the Group's borrowings at variable rate were denominated in USD and EUR.

31 Financial risk management (continued)

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of attracting new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Refer to Note 14, 19 and 31 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2015, if interest rates on USD and EUR denominated borrowings had been by 1 pp higher / lower (2014: 1 pp) with all other variables held constant, post-tax profit for the year would have been USD 11 million lower / higher (2014: USD 13 million).

(b) Credit risk

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable.

Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk at 31 December 2015 is USD 1,410 million (2014: USD 1,951 million) being the carrying value of long and short-term loans issued and receivables and cash. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance. The Group does not hold any collateral as security.

Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets, and management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Currently the Group is in the process of renegotiating its debts to achieve healthy liquidity position and maintain its ability to continue operating on a going concern basis (Note 3).

The Group treasury analyses the ageing of their assets and the maturity of their liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

Metinvest B.V.**Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015***All tabular amounts in millions of US Dollars***31 Financial risk management (continued)**

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Cash flows from borrowings were calculated using spot rates.

At 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	1,099	-	-	-
Trade finance	228	-	-	-
Bonds	1,153	-	-	-
Non-bank borrowings	393	-	-	-
Seller's notes	93	-	-	-
Financial trade and other payables	1,174	-	-	-
Total	4,140	-	-	-

At 31 December 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	750	326	184	8
Trade finance	416	-	-	-
Bonds	215	237	1,005	-
Non-bank borrowings	35	35	381	-
Seller's notes	92	-	-	-
Financial trade and other payables	1,219	-	-	-
Total	2,727	598	1,570	8

32 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and Seller's Notes (including current and non-current parts) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The Group has yet to determine its optimum gearing ratio. Presently, all of its debt is either in default or matures within 1 year, but the Group is actively pursuing mechanisms to restructure its debt in order (Note 3) to extend the credit terms to match its long-term investment strategy.

	31 December 2015	31 December 2014
Total borrowings (Note 19)	2,858	3,146
Seller's notes (Note 20)	88	86
Less: cash and cash equivalents (Note 15)	(180)	(114)
Net debt	2,766	3,118
Total equity	4,024	6,762
Total capital	6,790	9,880
Gearing ratio	41%	32%

33 Fair values of financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date, which is Level 1 of fair valuation hierarchy. The quoted market price used for financial assets held by the Group is the current bid price. This valuation technique is used for fair value disclosures of bonds issued.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows, are used to determine fair value for seller's notes. Calculation is based on current interest rates for new instruments with similar credit risk, currency and remaining maturity; such estimation represents Level 3 of fair value hierarchy.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of financial assets carried at amortised cost approximate their fair values.

Financial liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Note 19, 20 and 22).

34 Reconciliation of classes of financial instruments with measurement categories

All of the Group's financial assets and financial liabilities are carried at amortised cost, except for investments in associates and joint ventures which are accounted for by the equity method of accounting.

35 Events after the balance sheet date

The developments after the balance sheet date which are related to the operating environment and the debt restructuring are disclosed in the Notes 2 and 3, respectively.

Revisions to the Tax Code of Ukraine were adopted from 1 January 2016. The main changes affecting the Group were as follows:

- Cancellation of advance payment of corporate profit tax which was based on taxable profit of previous period; and
- Decrease of the rate of unified social contribution tax accrued on employee benefits from standard rates of 37%-50% in previous years (depending on companies' accident risk level; lower rates could be applied in 2015 subject to companies' compliance with certain criteria) to 22% in 2016 onwards.

There were certain improvements in the global market prices for steel and iron ore in February-April 2016 compared to levels observed in December 2015 and January 2016.

Metinvest B.V.

Abbreviated IFRS Consolidated Financial Statements

31 December 2014

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Independent auditor's report

To: the general meeting of Metinvest B.V.

The accompanying summary financial statements, which comprises the summary consolidated balances sheet as at 31 December 2014, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow for the year then ended, and related notes, are derived from the audited financial statements of Metinvest B.V. for the year 2014. We expressed an unqualified audit opinion on those financial statements in our report dated 4 March 2015. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain the company financial statements as required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements, therefore, is not a substitute for reading the complete audited financial statements of Metinvest B.V.

Director's responsibility

The directors are responsible for the preparation of the summary of the audited financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and the related explanatory notes based on our procedures, which we conducted in accordance with Dutch law, including the Dutch Standard 810 "Engagements to report on summary financial statements", misstatement.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Metinvest B.V. for the year 2014 are consistent, in all material respects, with those financial statements.

Ref.: e0348524

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Emphasis of an uncertainty in the financial statements with respect to the political and economic uncertainties in Ukraine

We draw your attention to Note 2 and Note 4 of the consolidated financial statements. As disclosed in Note 2, the operations of the Group have been affected and may continue to be affected for the foreseeable future, by the continuing political and economic uncertainties in Ukraine. These events in Ukraine increase uncertainties regarding the Group's assessment of the revaluation of property, plant and equipment and the recoverable amount of property, plant and equipment and goodwill under impairment testing, as disclosed in Note 4. Our opinion is not qualified in respect of these matters.

Amsterdam, 4 March 2015
PricewaterhouseCoopers Accountants N.V.

Original has been signed by P.C. Dams RA

Metinvest B.V., Ref.: e0348524

Page 2 of 2

Metinvest B.V.
Abbreviated Consolidated Balance Sheet
All amounts in millions of US dollars

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Goodwill	7	754	1,005
Other intangible assets	8	534	912
Property, plant and equipment	9	6,538	8,212
Investments in associates and joint ventures	10	906	786
Deferred tax asset	27	89	226
Income tax prepaid		108	-
Other non-current assets	11	139	188
Total non-current assets		9,068	11,329
Current assets			
Inventories	12	1,222	1,863
Income tax prepaid		110	193
Trade and other receivables	13	2,042	2,738
Cash and cash equivalents	14	114	783
Total current assets		3,488	5,577
TOTAL ASSETS		12,556	16,906
EQUITY			
Share capital	15	-	-
Share premium	15	6,225	5,461
Other reserves	16	(6,034)	(3,088)
Retained earnings		6,372	6,277
Equity attributable to the owners of the Company		6,563	8,650
Non-controlling interest	17	199	981
TOTAL EQUITY		6,762	9,631
LIABILITIES			
Non-current liabilities			
Loans and borrowings	18	1,878	2,425
Seller's notes	19	-	75
Retirement benefit obligations	20	473	803
Deferred tax liability	27	504	192
Other non-current liabilities	21	39	63
Total non-current liabilities		2,894	3,558
Current liabilities			
Loans and borrowings	18	1,268	1,718
Seller's notes	19	86	90
Trade and other payables	22	1,546	1,909
Total current liabilities		2,900	3,717
TOTAL LIABILITIES		5,794	7,275
TOTAL LIABILITIES AND EQUITY		12,556	16,906

Signed and authorised for release on behalf of Metinvest B.V. on 4 March 2015:

Originally signed by Managing Director A, Yuriy Ryzhenkov

Originally signed by Managing Director B, ITPS (Netherlands) B.V.

The accompanying notes form an integral part of these consolidated financial statements

1

Metinvest B.V.
Abbreviated Consolidated Income Statement
All amounts in millions of US dollars

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	6	10,565	12,807
Cost of sales	23	(8,240)	(10,406)
Gross profit		2,325	2,401
Distribution costs	23	(1,063)	(1,121)
General and administrative expenses	23	(287)	(391)
Other operating income/(expenses), net	24	130	137
Operating profit		1,105	1,026
Finance income	25	25	66
Finance costs	26	(902)	(341)
Share of result of associates and joint ventures	10	142	14
Profit before income tax		370	765
Income tax expense	27	(211)	(373)
Profit for the year		159	392
Profit is attributable to:			
Owners of the Company		116	158
Non-controlling interests		43	234
Profit for the year		159	392

Abbreviated Consolidated Statement of Comprehensive Income
All amounts in millions of US dollars

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Profit for the year		159	392
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of retirement benefit obligation		(38)	(70)
Revaluation and impairment of property, plant and equipment	9, 23	2,902	553
Share in other comprehensive income of joint ventures		123	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	27	(514)	(81)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		(5,389)	29
Total other comprehensive income		(2,916)	431
Total comprehensive (loss) / income for the period		(2,757)	823
Total comprehensive (loss) / income attributable to:			
Owners of the Company		(2,560)	567
Non-controlling interest		(197)	256
Total comprehensive (loss) / income for the period		(2,757)	823

The accompanying notes form an integral part of these consolidated financial statements

2

Metinvest B.V.
Abbreviated Consolidated Statement of Cash Flows
All amounts in millions of US Dollars

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Profit before income tax		370	765
Adjustments for:			
Depreciation of property, plant and equipment ("PPE") and amortisation of intangible assets	23	850	1,070
Impairment and devaluation of PPE and other intangible assets	23	315	192
(Gain)/loss on disposal of property, plant and equipment and intangible assets	24	(8)	1
Finance income	25	(25)	(66)
Finance costs	26	902	341
Unrealised foreign exchange differences		(315)	7
Change in retirement benefit obligation		(44)	(71)
Impairment of accounts receivable	24	60	(56)
Share of result of associates and joint venture	10	(142)	(14)
Inventory write down	12	16	14
Impairment of goodwill		102	-
Other non-cash operating losses		14	10
Operating cash flows before working capital changes		2,095	2,193
(Increase) / decrease in inventories		(267)	318
Decrease / (increase) in trade and other accounts receivable		211	(383)
Increase / (decrease) in trade and other accounts payable		40	(81)
Decrease in other non-current liabilities		(2)	(1)
Cash generated from operations		2,077	2,046
Income taxes paid		(353)	(330)
Interest paid		(235)	(251)
Net cash from operating activities		1,489	1,465
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(549)	(763)
Proceeds from sale of property, plant and equipment		15	82
Settlement of receivables for subsidiaries and associates sold to related parties in prior periods		-	277
Settlement of receivables for bonds, promissory notes and deposit certificates sold to related parties in prior periods		-	409
Acquisition of associates and joint ventures		(45)	(8)
Acquisition of subsidiaries from parties under common control		-	(33)
Loans issued to related parties	11, 13	(21)	(15)
Proceeds from repayments of loans issued	11, 13	19	240
Interest received		22	60
Proceeds from disposal of other non-current assets		-	14
Net cash (used in) / generated from investing activities		(559)	263
Cash flows from financing activities			
Proceeds from loans and borrowings	18	446	579
Repayment of loans and borrowings	18	(951)	(542)
Repayment of seller's notes	19	(90)	(90)
Net trade financing proceeds	18	(484)	73
Payment for acquisition of non-controlling interest in subsidiaries		(75)	(952)
Dividends paid		(388)	(544)
Net cash used in financing activities		(1,542)	(1,476)
Effect of exchange rate changes on cash and cash equivalents		(57)	-
Net (decrease) / increase in cash and cash equivalents		(669)	252
Cash and cash equivalents at the beginning of the year		783	531
Cash and cash equivalents at the end of the year	14	114	783

The accompanying notes form an integral part of these consolidated financial statements

3

Metinvest B.V.
Abbreviated Consolidated Statement of Changes in Equity
All amounts in millions of US Dollars

<i>In million of US Dollars</i>	Attributable to owners of the Company					Non-controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2013	-	5,461	(3,213)	6,957	9,205	1,201	10,406
Revaluation of property, plant and equipment (Note 9, 23)	-	-	528	-	528	25	553
Remeasurement of retirement benefit obligation	-	-	-	(67)	(67)	(3)	(70)
Income tax relating to components of other comprehensive income (Note 27)	-	-	(87)	9	(78)	(3)	(81)
Currency translation differences	-	-	26	-	26	3	29
Other comprehensive (loss) / income for the period	-	-	467	(58)	409	22	431
Profit for the period	-	-	-	158	158	234	392
Total comprehensive (loss) / income for the period	-	-	467	100	567	256	823
Realised revaluation reserve, net of tax	-	-	(309)	309	-	-	-
Acquisition of non-controlling interest in subsidiaries	-	-	-	(479)	(479)	(476)	(955)
Acquisition of subsidiaries from parties under common control	-	-	(33)	-	(33)	-	(33)
Dividends declared by the Company	-	-	-	(610)	(610)	-	(610)
Balance at 31 December 2013	-	5,461	(3,088)	6,277	8,650	981	9,631
Revaluation and impairment of property, plant and equipment (Note 9, 23)	-	-	2,752	-	2,752	150	2,902
Share in other comprehensive income of joint venture	-	-	123	-	123	-	123
Remeasurement of retirement benefit obligation	-	-	-	(36)	(36)	(2)	(38)
Income tax relating to components of other comprehensive income (Note 27)	-	-	(494)	7	(487)	(27)	(514)
Currency translation differences	-	-	(5,028)	-	(5,028)	(361)	(5,389)
Other comprehensive income for the period	-	-	(2,647)	(29)	(2,676)	(240)	(2,916)
Profit for the period	-	-	-	116	116	43	159
Total comprehensive income for the period	-	-	(2,647)	87	(2,560)	(197)	(2,757)
Realised revaluation reserve, net of tax	-	-	(256)	256	-	-	-
Acquisition of 2% interest in PJSC Nothern Iron Ore Enrichment Works from parties under common control	-	-	(43)	-	(43)	(32)	(75)
Acquisition and disposals of non-controlling interest in subsidiaries	-	-	-	(2)	(2)	5	3
Contribution of a joint venture and non-controlling interest in two existing subsidiaries by SMART (Note 10,15)	-	764	-	154	918	(558)	360
Dividends declared by the Company	-	-	-	(400)	(400)	-	(400)
Balance at 31 December 2014	-	6,225	(6,034)	6,372	6,563	199	6,762

The accompanying notes form an integral part of these consolidated financial statements

4

Metinvest B.V.
Notes to the Abbreviated Consolidated Financial Statements – 31 December 2014

1 Metinvest B.V. and its operations

Metinvest B.V. (the "Company" or "Metinvest"), is a private limited liability company registered in the Netherlands. The Company is beneficially owned by Mr. Rinat Akhmetov, through various entities commonly referred to as System Capital Management ("SCM") and by Mr. Vadim Novinsky, through various entities commonly referred to as SMART-Holding ("SMART").

The Company and its subsidiaries (together referred to as the "Group" or "Metinvest Group") are an integrated steel producer, owning assets in each link of the production chain – from iron ore mining, coking coal mining and coke production, through to semi-finished and finished steel production; as well as pipe rolling and plate/coil production. The steel products, iron ore and coke are sold on both the Ukrainian and export markets.

Until November 2007, the Company was indirectly 100% controlled by SCM (System Capital Management) Limited ("SCM Limited").

In November 2007 the Company acquired from SMART 82% of PJSC Ingulets Iron Ore Enrichment Works in exchange for the transfer to SMART of 25% of the Company. Following the November 2007 transaction, Metinvest B.V. was owned 75% by SCM Limited and 25% by SMART. SCM Limited and SMART additionally agreed that both would sell/contribute to the Group their remaining equity interests in certain metals and mining assets owned by SCM and SMART. In exchange SMART would acquire certain additional rights over the management of the Company and the Group. Due to the complexity of the transaction, it was executed in several stages during 2007 through 2014; and was completed in July 2014 through purchase of a 44.8% interest in PJSC Southern Iron Ore Enrichment Works, 14.1% interest in PJSC Ingulets Iron Ore Enrichment Works and 16% interest PJSC Northern Iron Ore Enrichment Works and the issue of an additional share and a revised Articles of Association of the Company (Notes 10 and 15).

In 2011, as part of the acquisition of Ilyich Group, the Company issued 5% of its share capital to the sellers of Ilyich Group.

As of 31 December 2014, Metinvest B.V. is owned 71.24% by SCM Limited and 23.76% by SMART, and 5% by a company linked to previous owners of Ilyich Group.

The principal subsidiaries of Metinvest B.V. are presented below:

Name	Effective % interest as at 31 December		Segment	Country of Incorporation
	2014	2013		
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
PJSC Azovstal Iron and Steel Works	96.1%	96.2%	Metallurgical	Ukraine
PJSC Yenakiieve Iron and Steel Works	90.8%	91.4%	Metallurgical	Ukraine
JV Metalen LLC	100.0%	100.0%	Metallurgical	Ukraine
PJSC Khartsyzsk Pipe Plant	98.3%	98.2%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	70.0%	70.0%	Metallurgical	Italy
Metinvest Trametel S.p.A.	100.0%	100.0%	Metallurgical	Italy
Spartan UK Limited	100.0%	100.0%	Metallurgical	UK
Metinvest International SA	100.0%	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	100.0%	100.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	100.0%	100.0%	Metallurgical	Ukraine
Metinvest Ukraine LLC	100.0%	100.0%	Metallurgical	Ukraine
JSC Promet Steel	100.0%	100.0%	Metallurgical	Bulgaria
PJSC Makiivka Iron and Steel Works	90.2%	90.2%	Metallurgical	Ukraine
PJSC Ilyich Iron and Steel Works	99.2%	99.2%	Metallurgical	Ukraine
PSC Ilyich Steel	100.0%	100.0%	Metallurgical	Ukraine
PJSC Avdiivka Coke Plant	92.5%	92.8%	Metallurgical	Ukraine
JSC Zaporozhkoks	51.0%	53.1%	Metallurgical	Ukraine
JSC Donetskoks	93.6%	93.6%	Metallurgical	Ukraine
PJSC Northern Iron Ore Enrichment Works	96.4%	78.4%	Mining	Ukraine
PJSC Central Iron Ore Enrichment Works	99.6%	99.8%	Mining	Ukraine
PJSC Ingulets Iron Ore Enrichment Works	99.8%	85.6%	Mining	Ukraine
OSC Komsomolske Flux Plant	99.7%	99.7%	Mining	Ukraine
United Coal Company LLC ("UCC")	100.0%	100.0%	Mining	USA
PJSC Krasnodon Coal Company	92.4%	92.7%	Mining	Ukraine

The shareholdings as of 31 December 2013 for the subsidiaries that have been acquired from entities under common control during 2013 have been presented as if the Group had these shareholdings as of 31 December 2013.

As at 31 December 2014, the Group employed approximately 94 thousand people (31 December 2013: 101 thousand).

The Company's registered address is Alexanderstraat 23, 2514 JM, The Hague. The company is registered with the commercial trade register under the number 24321697. The principal places of production facilities of the Group are in Ukraine, Italy, UK and the USA.

1 Metinvest B.V. and its operations (continued)

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Management Board on 4 March 2015.

For better understanding of Metinvest's financial position and the results of operations, these abbreviated financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2014, which include all disclosures required by Dutch legislation.

The complete set of financial statements together with the auditor's report is available on request at Alexanderstraat 23, 2514 JM, The Hague.

2 Operating environment of the Group

Starting in late 2013 the political situation in Ukraine has experienced instability with numerous protests and continued political uncertainty that has led to a deterioration of the State's finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies (since early 2014). The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The National Bank of Ukraine, among other measures, imposed requirement for exporters to sell 75% of foreign currency received as payments for revenue and restrictions on the purchase of foreign currency on the inter-bank market. The political situation in 2014 has also been volatile, with changes in the Ukrainian Parliament and the Presidency. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. The Group has no significant operations in Crimea.

The majority of the Group's Metallurgical segment and some of the Mining segment is located in, or near to, the parts of the Donetsk and Lugansk regions where there has been armed conflict. This includes the city of Mariupol (where the Group's two largest steel plants, PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works, are located), which is approximately 20 kilometres from the area of conflict. Production at these plants has been negatively impacted by the situation, primarily in the second half of 2014.

The negative impact on production volumes has been caused primarily by disruptions in infrastructure (rail transportation, road transport and electricity supply). This has resulted in some temporary suspensions of operations or decrease of production at some plants during 2014. Management have sought to actively manage and limit the impact of these events on the Group's operations by adopting a number of contingency arrangements. Plants that were suspended have re-commenced operations. Whilst operations have re-commenced these impacted plants are still operating below capacity as a result of necessary start up time and continuing infrastructure bottlenecks. As of December 2014 and January 2015, the production levels at the assets affected by the military action or its consequences were as follows:

- PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works representing in total 35% of the Group's property, plant and equipment and approximately 64% of the Group's steel output in 2014 (calculated taking into account 50% of JSC Zaporozhstal Integrated Iron & Steel Works steel output) were working at approximately 60-70% capacity;
- PJSC Yenakiieve Iron and Steel Works, JV Metalen LLC and JSC Makiivka Iron and Steel Works (all located within an area not controlled by the Ukrainian government and representing total 12% of the Group's property, plant and equipment and approximately 18% of the Group's steel output) were working at approximately 80% capacity; and
- PJSC Avdiivka Coke Plant, PJSC Krasnodon Coal Company and PJSC Khartsyzsk Pipe Plant (representing in total 7% of the Group's property, plant and equipment; the latter two located within an area not controlled by the Ukrainian government) were working at approximately 50%, and 15% and normal capacity, respectively.

There has been no significant impact to the physical conditions of the Group's assets.

The recovery in production levels noted in the last few months of 2014 has slowed in January and February 2015 as a result of a number of short-term disruptions. As of the date of this report PJSC Yenakiieve Iron and Steel Works is in suspension mode since February 2015. Management expects operations to recommence in the nearest future.

The reduction in production in 2014 of approximately 26% in steel volume term has reduced revenue and cost of sales, whilst raw material transportation costs have increased due to these disruptions in transportation infrastructure.

As of the date of this report the official NBU exchange rate of Hryvnya against US dollar was UAH 28.29 per USD 1, compared to 15.77 per USD 1 as at 31 December 2014. The devaluation of the Ukrainian Hryvnya ("UAH") during 2014 had a short-term positive impact on the Group's overall profitability, given that a large part of Group's costs is UAH based while its sales are largely US dollar ("USD") denominated.

As of 31 December 2014, the Group had significant balances receivable from and prepayments made to the State including prepaid income taxes and VAT recoverable. The timing of settlement of these balances is uncertain and is dependent upon the availability of State funds. Additionally, there has been a reduction in the market price for iron ore and coking coal in 2014 as compared to 2013 and several prior years. This, together with the impact of situation in Ukraine, has triggered the need for impairment testing of non-current assets (Notes 7 and 9).

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further negative implications on the Ukrainian economy and the Group's business.

3 Basis of preparation and significant accounting policies

Basis of preparation and statement of compliance. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union. The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. New and revised standards and interpretations adopted by Group are disclosed in Note 5.

These consolidated financial statements are presented in millions of US dollars and all values are rounded off to the nearest million except where otherwise indicated.

Critical accounting estimates and judgements in applying accounting policies. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 4.

Principles of consolidation. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. Where a business combination is achieved in stages, the previously held interest in an acquired business is included into the cost of business combination at fair value as of the acquisition date with resulting gains recognised in consolidated income statement.

Costs directly related to acquisition of subsidiaries are recognised in the consolidated income statement in the period when incurred and the services are received.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Non-controlling interest ("NCI") is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of equity.

Purchases of subsidiaries from parties under common control and merger reserve in equity. Purchases of subsidiaries from parties under common control are accounted under the predecessor values method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's book values. The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. This is recorded as a merger reserve. No additional goodwill is created by such purchases.

Transactions with non-controlling interests The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Non-controlling interest is valued on proportionate basis of net assets.

3 Basis of preparation and significant accounting policies (continued)

Investments in associates and joint ventures. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. A joint venture is an arrangement whereby the parties that contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates and joint ventures includes goodwill identified on acquisition, and is reduced for accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates and joint ventures is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate, including any other unsecured accounts receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and their associates and joint ventures are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Any excess of the fair value of the Group's share in the acquired associate's or joint venture's net assets ("negative goodwill") is recognised immediately in the consolidated income statement.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Group that makes strategic decisions.

Foreign currency translation. The currency of each of consolidated entity is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is either Ukrainian hryvnya ("UAH") or US dollar ("USD").

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in the consolidated income statement.

The principal rate of exchange used for translating foreign currency balances is as follows:

	31 December 2014	31 December 2013
USD/UAH	15.77	7.99
EUR/UAH	19.23	11.04

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Translation at year end does not apply to non-monetary items. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation from functional to presentation currency. The Group has selected the US dollar ("USD") as the presentation currency. The USD has been selected as the presentation currency for the Group as: (a) management of the Group manages business risks and exposures, and measures the performance of its businesses in the USD; (b) the USD is widely used as a presentation currency of companies engaged primarily in metallurgy; and (c) the USD is the most convenient presentation currency for non-Ukrainian users of these IFRS consolidated financial statements.

The results and financial position of each consolidated entity are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity. All the components of consolidated equity at each balance sheet date are translated at the closing rate, except for retained earnings, which is stated at historical rates. The balancing figure goes to cumulative currency translation reserve in other reserves in equity.

3 Basis of preparation and significant accounting policies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and at each balance sheet date are translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the currency translation differences deferred in equity are reclassified to the consolidated income statement.

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign accounts receivable within 90 days of sales, need for exporters to sell 75% of foreign currency revenue and restrictions on the purchase of foreign currency on the inter-bank market. At present, the UAH is not a freely convertible currency outside of Ukraine.

Property, plant and equipment. Property, plant and equipment are stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Subsequent additions to property, plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. As at 31 December 2014 and 31 December 2013 property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases that offset previous increases in the carrying amount of the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense when incurred.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement.

Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs or revalued amounts of individual assets to their residual value over the estimated remaining useful lives. Depreciation commences at the moment when assets is ready for use. The estimated remaining useful lives are as follows:

	Remaining useful lives in years
Buildings and structures	from 2 to 60
Plant and machinery	from 2 to 35
Furniture, fittings and equipment	from 2 to 10

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and machinery, with annual reassessments. Changes in estimates are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents prepayments for property, plant and equipment, and the cost of property, plant and equipment, construction of which has not yet been completed. No depreciation is charged on such assets until they are ready for use.

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

3 Basis of preparation and significant accounting policies (continued)

Asset retirement obligations. According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents, the Group is responsible for site restoration and soil rehabilitation upon abandoning its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate are recognised in the income statement or other reserves in equity to the extent of any revaluation balance existence in respect of the related asset. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in these consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates and are specific to a liability.

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. It is carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, licences, coal reserves and long-term sales contracts. Acquired computer software and other licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. Cost of SAP ERP system is amortised on a straight-line basis over estimated useful life of 10 years. Licences and coal reserves are amortised using the units-of-production method over all estimated proven and probable reserve assigned to the mines. Proven and probable reserves exclude non-recoverable coal and ore reserves and estimated processing losses. Amortization rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when events and circumstances indicate a reserve change is needed. Long-term sales contracts are amortised using a units-of-production method, based on fulfilment of the contract.

Impairment of non-financial assets. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Classification of financial assets. The Group classifies financial assets as loans and receivables.

Loans and receivables are financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term or which are quoted in an active market. Loans and receivables comprise primarily loans, trade and other accounts receivable including purchased loans and promissory notes. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Initial recognition of financial instruments. The Group's principal financial instruments comprise loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

The Group's financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price, except for the transactions with related parties which are based on contract value. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost.

3 Basis of preparation and significant accounting policies (continued)

Subsequent measurement of financial instruments. Subsequent to initial recognition, the Group's financial liabilities and loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Derecognition of financial assets. Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge is recognised in the consolidated income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

3 Basis of preparation and significant accounting policies (continued)

Deferred income tax is provided on post acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average principle. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement against other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement against other operating expenses.

Renegotiated trade and other receivables are measured at amortised cost based on the new pattern of renegotiated cash flows. A gain or loss is recognised in the consolidated income statement on the date of renegotiation, which is subsequently amortised using the effective interest method. If the terms of a receivable are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets. Cash and cash equivalents are carried at amortised cost using effective interest rate method.

Share capital. Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue. If settlement of a dividend liability exceeds twelve months from the balance sheet date it is included within long-term liabilities and measured at the present value of the future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The effect of initial discounting and subsequent accretion of the discount is recognised directly in equity.

Loans and borrowings. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Cash flows related to receipt and repayment of trade finance borrowings are presented within the statement of cash flows on a net basis.

3 Basis of preparation and significant accounting policies (continued)

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments. Subsequently, instruments with a fixed maturity are re-measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Prepayments received. Prepayments are carried at amounts originally received, net of VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent assets and liabilities. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Employee benefits. Defined benefit plan. Certain Ukrainian entities within the Group participate in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. Certain Ukrainian entities also provide lump sum benefits upon retirement subject to certain conditions, as well as some other long-term employee benefits. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by professional actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Past service costs are recognised immediately in profit or loss.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

3 Basis of preparation and significant accounting policies (continued)

(a) Sale of goods, by-products and merchandise

The Group manufactures and sells a range of steel products to large, medium and small size customers. By-products and merchandise are sold to the same range of customers. Revenues from sales of goods, by-products and merchandise are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. The Group uses standardised INCOTERMS such as cost-and-freight (CFR), free-carrier (FCA), cost-insurance-freight (CIF), free-on-board (FOB) and ex-works (EXW) which define the point of risks and rewards transfer. Revenue is recorded on an accrual basis as earned.

Sales are recorded based on the price indicated in the specifications to the sales contracts. The sales price is established separately for each specification.

The Group also engages in sale and purchase transactions the objective of which is to manage cash flows. Such transactions are not revenue generating to the Group and accordingly such sales and purchases are presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(c) Sale of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Commission income

The Group acts as an agent for sales transactions on behalf of the third parties. The commission income received by the Group as a fee for facilitating such transactions is recognised at the point of transfer of risks and rewards of ownership of the goods to the customers of the third parties. Such income is reported as part of other operating income.

Value added tax. VAT in Ukraine where the majority of the Group operations are concentrated is levied at two rates: 20% on domestic sales and imports of goods, works and services and 0% on export of goods. Export of services is exempt from VAT. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and for domestic operations arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer; for export operations arises on the date of customs clearance of exported goods. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. For domestic and export operations rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT assets recoverable in cash from the State are included into Group's assets. All other VAT assets and liabilities are netted only within the individual companies of the Group.

Recognition of expenses. Expenses are accounted for on an accrual basis. Cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, pension obligations, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments and foreign exchange gains and losses.

All interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method if not capitalised. Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to changes in the presentation in the current year.

4 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the IFRS consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment and goodwill. The Group and its subsidiaries are required to perform impairment tests for their cash-generating units when there is indication that a cash-generating unit may be impaired. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. Within the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit. Therefore judgement is needed in determining a cash-generating unit.

Annually the Group assesses whether goodwill is impaired. This requires estimation of the value in use / fair value less costs to sell of the cash-generating units or groups of cash-generating units to which goodwill is allocated. Allocation of goodwill to groups of cash generating units requires significant judgement related to expected synergies. Estimating value in use / fair value less costs to sell requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. The estimates used to assess the impairments are impacted by the uncertainty caused by events in Eastern Ukraine, including importantly future planned production (see discussion of operating environment in Note 2). The impact of the uncertainties is discussed further in Notes 7 and 9.

Impairment of trade and other accounts receivable. Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of individual accounts. IAS 39 requires the estimate of an impairment loss which is computed as the difference between the carrying value of a receivable and the present value of the future cash flows discounted at the receivables effective interest rate. Factors taken into consideration when estimating the future cash flow include an ageing analysis of trade and other accounts receivable in comparison with the credit terms allowed to customers, and the financial position of and collection history with the customer. In the current environment there is significant judgement in estimating the expected payment date, the discount rate and whether penalty interest will be collected. Should actual collections be less than management's estimates, the Group would be required to record an additional impairment expense.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. The estimates used to assess the impairments are impacted by the uncertainty caused by events in Eastern Ukraine (see discussion of operating environment in Note 2).

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the long term strategy prepared by management. The strategy is based on management's expectations that are believed to be reasonable under the circumstances and are disclosed in Note 7. In addition, a number of tax planning opportunities are available to the Group to recover the deferred tax asset recognised.

Post-employment and other long-term employee benefits obligations. Management assesses post-employment and other long-term employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State of Ukraine, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and future salary and benefits increase rate. Any changes in these assumptions will impact the carrying amount of pension obligations as disclosed in sensitivity analysis in Note 20.

4 Critical accounting estimates and judgements in applying accounting policies (continued)

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 20.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 0).

Fair value of acquired interest in joint venture, non-controlling interest and additional shareholders' rights issued. As explained in Notes 2 and 15, in July 2014 the Company acquired from SMART, one of its shareholders, a 44.8% interest in PJSC Southern Iron Ore Enrichment Works, a 14.1% interest in PJSC Ingulets Iron Ore Enrichment Works and a 16% interest PJSC Northern Iron Ore Enrichment Works. In exchange, the Articles of Association of the Company were changed amending the rights of the shareholders and an additional share in the Company's share capital was issued to SMART. As it was concluded impracticable to fair value the additional rights obtained by SMART, the value of this consideration given was deemed equal to the fair value of the interests acquired. Fair valuation of the acquired interests in the aforementioned entities involved numerous estimates and judgements, the most significant being future prices for iron ore in Ukraine which ranged from USD 61 to USD 43 per ton. If prices were 10% higher/lower then the result of valuation would have been USD 51 million lower/higher.

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market terms, where there is no active market for such transactions. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Revaluation of property, plant and equipment. On an annual basis management of the Group carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property plant and equipment differ materially from the carrying amounts, further revaluation is performed involving independent valuers.

As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2). For some assets which were revalued as of previous balance sheet date, the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices or changes in foreign exchange rates (Level 3).

When performing valuation using these methods, the key estimates and judgments applied by the independent valuers, in discussion with the Group's internal valuation team and technicians, are as follows:

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc.);
- determination of comparatives for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
- selection of market data when determining market value where it is available; and
- determination of applicable cumulative price indices or changes in foreign exchange rates which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts.

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for goodwill impairment testing (Note 7), except for discount rates which are specific to each of the Group's subsidiaries and are pre-tax.

The results of this revaluation of property, plant and equipment is disclosed further in Note 9.

Changes in the above estimates and judgments could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued. The estimates used to assess the fair value of property, plant and equipment are impacted by the uncertainty caused by events in Eastern Ukraine, including importantly future planned production (see discussion of operating environment in Note 2). The impact of the uncertainties is discussed further in Notes 7 and 9.

4 Critical accounting estimates and judgements in applying accounting policies (continued)

Remaining useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the technical requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, United States of America and other countries. The functional currency of Metinvest B.V. was determined on the basis that (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US Dollars. Management therefore determined the US Dollar as the functional currency of Metinvest B.V. Amount of loans and other payables of Metinvest B.V. totalled USD 2,945 million as at 31 December 2014 (31 December 2013: USD 3,312 million) where potential foreign exchange gains/losses could arise should a different functional currency be determined.

5 Adoption of new or revised standards and interpretations

The following new standards and amendments to the standards which are relevant to the Group and have been adopted by the European Union are effective in the European Union for the annual periods beginning on or after 1 January 2014, and have been adopted by the Group:

- IFRS 10, Consolidated Financial Statements;
- Amended IAS 28, Investments in Associates and Joint Ventures;
- IFRS 11, Joint Arrangements and
- IFRS 12, Disclosure of Interest in Other Entities which resulted in additional disclosures presented in Notes 10 and 17.

These and other new or revised standards or interpretations that became effective from 1 January 2014 had no material impact to the Group.

The following new standards which are relevant to the Group, have been issued, but have not been adopted by the European Union:

- IFRS 9, Financial Instruments; and
- IFRS 15, Revenue from Contracts with Customers.

The Group is currently assessing the possible impact of adoption of the above standards but it is not currently expected that it will be significant.

Other new or revised standards or interpretations that will become effective for annual periods starting after 1 January 2015 will likely have no material impact to the Group.

6 Segment information

The Group's business is organised on the basis of two main business segments:

- Metallurgical – comprising the production and sale of coke, semi-finished and finished steel products;
- Mining – comprising the production, enrichment and sale of iron ore and coal.

The Group is a vertically integrated steel and mining business. A significant portion of the Group's iron ore and coke and coal production are used in its steel production operations.

Operating segments' performance is assessed based on a measure of adjusted EBITDA. This measurement basis excludes dividend income, charity, royalty, property, plant and equipment and inventory impairment and the effects of non-recurring expenditure from the operating segments such as goodwill impairments. Revenues and expenses for internal reporting purposes have been accounted for using the IFRS principles.

Segment information for the year ended 31 December 2014 was as follows:

	Metallurgical	Mining	Corporate overheads	Eliminations	Total
2014					
Sales – external	8,165	2,400	-	-	10,565
Sales to other segments	81	1,694	-	(1,775)	-
Total of the reportable segments' revenue	8,246	4,094	-	(1,775)	10,565
Adjusted EBITDA	941	1,636	(140)	(35)	2,402
Share in EBITDA of joint ventures	182	118	-	-	300
Adjusted EBITDA including share in EBITDA of joint ventures	1,123	1,754	(140)	(35)	2,702
<i>Reconciling items:</i>					
Depreciation and amortisation					(850)
Impairment and devaluation of PPE and other intangible assets	15	(330)	-	-	(315)
Goodwill impairment	-	(102)	-	-	(102)
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					(158)
Finance income					25
Finance costs					(902)
Other					(30)
Profit before income tax					370
	Metallurgical	Mining	Corporate overheads		Total
Capital expenditure	276	304	33		613
Significant non-cash items included into adjusted EBITDA:					
- unrealised operating foreign exchange gains less losses, net	(136)	505	2	(56)	315
- impairment of trade receivables	(9)	(51)	-		(60)
- net change in retirement benefit obligations	(9)	(8)	-		(17)

6 Segment information (continued)

Analysis of revenue by category:

	Metallurgical	Mining	Total
2014			
Sales of own products	6,226	2,358	8,584
- Steel products	5,662	-	5,662
- Iron ore products	-	2,127	2,127
- Coke, coal and coal concentrate	290	176	466
- Other	274	55	329
Sales of purchased goods	1,939	42	1,981
- Steel products	1,667	-	1,667
- Iron ore products	-	-	-
- Coke, coal and coal concentrate	-	42	42
- Other	272	-	272
Total	8,165	2,400	10,565

Segment information for the year ended 31 December 2013 was as follows:

	Metallurgical	Mining	Corporate overheads	Eliminations	Total
2013					
Sales – external	9,727	3,080	-	-	12,807
Sales to other segments	80	2,214	-	(2,294)	-
Total of the reportable segments' revenue	9,807	5,294	-	(2,294)	12,807
Adjusted EBITDA	204	2,252	(130)	(35)	2,291
Share in EBITDA of joint venture	70	-	-	-	70
Adjusted EBITDA including share in EBITDA of joint venture	274	2,252	(130)	(35)	2,361
<i>Reconciling items:</i>					
Depreciation and amortisation					(1,070)
Impairment and devaluation of PPE	(100)	(92)	-	-	(192)
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint venture					(56)
Finance income					66
Finance costs					(341)
Other					(3)
Profit before income tax					765
	Metallurgical	Mining	Corporate overheads		Total
Capital expenditure	313	359	75		747
Significant non-cash items included into adjusted EBITDA:					
- reversal of receivables impairment	56	-	-		56
- net change in retirement benefit obligations	(6)	(6)	-		(12)

6 Segment information (continued)

Analysis of revenue by category:

	Metallurgical	Mining	Total
2013			
Sales of own products	8,209	2,956	11,165
- Steel products	7,424	-	7,424
- Iron ore products	-	2,619	2,619
- Coal and coal concentrate	331	275	606
- Other	454	62	516
Sales of purchased goods	1,518	124	1,642
- Steel products	1,505	-	1,505
- Coal and coal concentrate	-	109	109
- Other	13	15	28
Total	9,727	3,080	12,807

The Group's two business segments operate in six main geographical areas. Revenue by location of customers is presented below:

	Metallurgical	Mining	Total
2014			
Ukraine	1,578	918	2,496
Rest of Europe	2,751	199	2,950
Middle East and Northern Africa	1,872	-	1,872
South Eastern Asia	516	1,150	1,666
Commonwealth of Independent States ("CIS")	1,073	1	1,074
North America	281	124	405
Other countries	94	8	102
Total	8,165	2,400	10,565

	Metallurgical	Mining	Total
2013			
Ukraine	2,330	1,348	3,678
Rest of Europe	2,761	323	3,084
Middle East and Northern Africa	2,131	35	2,166
South Eastern Asia	792	1,164	1,956
Commonwealth of Independent States ("CIS")	1,471	2	1,473
North America	153	178	331
Other countries	89	30	119
Total	9,727	3,080	12,807

As at 31 December 2014 91% of the Group's property, plant and equipment were located in Ukraine (as at 31 December 2013 92%).

As at 31 December 2014, 46% and 54% of the Group's other intangible assets were owned by Group's subsidiaries in Ukraine and the US, respectively (31 December 2013: 56% and 44%, respectively).

7 Goodwill

The movements of goodwill were as follows:

	2014	2013
Book amount as at 1 January, net	1,005	980
Impairment	(102)	-
Currency translation differences	(149)	25
Book amount as at 31 December, net	754	1,005

Management allocates and monitors goodwill at the following groups of cash generating units ("CGUs"):

	31 December 2014	31 December 2013
Metallurgical	594	659
Mining (including UCC)	160	346
Total	754	1,005

The recoverable amount has been determined based on fair value less cost of disposal estimations. Management estimated in 2013 that market conditions, under which iron ore and coal suppliers earn significant margins while steelmakers nearly breakeven, would change in the next few years, resulting in a partial reallocation of margins from producers of raw materials to steel producers. Management had anticipated that this would take place in 2016. Reduction in iron ore and coal prices started to be observed in 2014.

To ensure that impairment testing model fully reflects the anticipated changes in cash flows, for the goodwill impairment test the Group used cash flow projections for 10 years which are based on Group's strategy approved by senior management; first year of forecast is based on the Group's approved business plan for the year. Valuation method used for determination of each CGU fair value is based on unobservable market data, which is within Level 3 of the fair value hierarchy.

The following table summarizes key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill:

	2014	2013
Metallurgical		
Post-tax discount rate (USD)	16.0% for 2015–2016 and 12.6% for 2017 onwards)	12.0%
Revenue growth rate	-1% to 4%	0% to 12%
EBITDA margins	10% to 18%	5% to 17%
Growth rate in perpetual period	3%	3%
Mining (except for UCC)		
Post-tax discount rate (USD)	16.0% for 2015–2016 and 12.6% for 2017 onwards)	12.0%
Revenue growth rate	-23% to 6%	-7% to 6%
EBITDA margins	25% to 40%	35% to 44%
Growth rate in perpetual period	3%	3%

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Discount rate reflects the current market assessment of the time value of money and risks specific to the Group. The discount rate has been determined using the Capital Asset Pricing Model based on observable inputs, inputs from third party financial analysts and Group-specific inputs.

Forecasted iron ore prices for Fe 62% fines (CFR North China) are USD 85 per tonne in 2015, USD 80 per tonne in 2016 and recover at 2.5% p.a. to USD 98 per tonne in 2024 (31 December 2013: range from USD 105 per tonne to USD 125 per tonne in 2023). Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, applicable transportation costs and historic discounts or premiums usual for those markets.

7 Goodwill (continued)

Forecasted coal prices used in the impairment test for all CGUs for low volatile hard coking coal (FOB Queensland) start from USD 129 per tonne in 2015, recover to USD 165 per tonne in 2017 and grow at 2.5% p.a. on average thereafter (31 December 2013: start from USD 165 per tonne in 2014 per ton and grow at 3.6% on average thereafter). Forecasted prices for other types of coal and prices at other markets were determined based on respective historic discounts for differences in quality of each particular coal type and estimated transportation costs.

Forecasted prices for hot-rolled coils at Ukrainian ports are estimated to gradually increase from current levels to USD 593 per ton in 2024 (31 December 2013: USD 666 per ton in 2023). Forecasted prices for other steel products are based on historic discounts or premiums to prices for hot-rolled coils.

Forecasts from industry experts and other external reputable sources, as well as internal analysis were used by management to determine price levels used in the impairment test.

For entities of the Metallurgical segment which have been affected by the conflict in the Eastern Ukraine, the production volumes used in the model for first half of 2015 are consistent with those achieved in December 2014 and January 2015 as described in the Note 2, and subsequently increasing to approximately 80-95% of the plants' capacity.

Revenue growth rates depend mainly on projections of future prices for steel and iron ore products and production volumes.

As at 31 December 2014 Metallurgical division recoverable amount is USD 6,014 million and exceeds its total carrying amount by USD 1,139 million (31 December 2013: recoverable amount of USD 4,224 million, exceeded carrying value by USD 279 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to the Metallurgical division:

	31 December 2014	31 December 2013
Volumes of production/sales		
Decrease in all the periods by 2.5%	-	Recoverable amount equals carrying amount
Decrease in all the periods by 9%	Recoverable amount equals carrying amount	
Steel prices		
Decrease in all the periods by 0.4%	-	Recoverable amount equals carrying amount
Decrease in all the periods by 1%	-	Impairment of USD 545 million required
Decrease in all the periods by 2.6%	Recoverable amount equals carrying amount	-
Decrease in all the periods by 4%	Impairment of USD 647 million required	-
Iron ore prices		
Increase in all the periods by 0.7%	-	Recoverable amount equals carrying amount
Increase in all the periods by 1%	-	Impairment of USD 131 million required
Discount rates		
Increase in all the periods by 0.3 pp	-	Recoverable amount equals carrying amount
Increase in all the periods by 1 pp	-	Impairment of USD 531 million required
Increase in all the periods by 2.3 pp	Recoverable amount equals carrying amount	-
Growth rate in perpetual period		
Decrease by 0.6 pp	-	Recoverable amount equals carrying amount
Decrease by 1 pp	-	Impairment of USD 168 million required
Decrease by 1.5 pp	Recoverable amount exceeds carrying amount by USD 763 million	

Metinvest B.V.**Notes to the Consolidated Financial Statements – 31 December 2014***All tabular amounts in millions of US Dollars***7 Goodwill (continued)**

As at 31 December 2014 the recoverable amount of Mining group of CGUs (except for UCC) is USD 2,537 million and exceeds its total carrying amount by USD 400 million. The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to this group of CGUs:

	31 December 2014	31 December 2013
Iron ore prices		
Decrease in all the periods by 5%	Recoverable amount equals carrying amount	
Decrease in all the periods by 10%	Impairment of USD 381 million required	N/a
Discount rates		
Increase in all the periods by 1.7 pp	Recoverable amount equals carrying amount	N/a

With regard to impairment testing of the goodwill related to Mining group of CGUs as at 31 December 2013, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value to materially exceed the recoverable amount.

As at 31 December 2014, the Mining group of CGUs includes goodwill which arose on the acquisition of UCC in the amount of USD 73 million (31 December 2013: USD 176 million). Starting from 2014 management started to monitor and test this goodwill for impairment separately from other Mining CGUs. This change has been driven by reassessment of synergies available from acquisition of UCC.

As at 31 December 2014 recoverable amount of UCC was estimated at USD 603 million. Total impairment charge of USD 209 million has been recorded for UCC, out of which USD 103 million were recorded against goodwill and USD 106 million were recorded against coal reserves of separate mines (Note 8).

The impairment loss resulted from the decline in coal prices in 2014 which are not expected to recover in full in the near future. The decrease of coal prices in all forecasted periods by 5% with all other variables held constant would result in additional impairment charge of USD 152 million, out of which USD 72 million will be charged to goodwill.

8 Other intangible assets

The movements of other intangible assets were as follows:

	Coal reserves	Licenses and mining permits	Other intangible assets	Total
As at 1 January 2013				
Cost	418	726	71	1,215
Accumulated amortisation	(23)	(222)	(32)	(277)
Net carrying amount	395	504	39	938
Additions	-	-	41	41
Amortisation	(8)	(50)	(9)	(67)
As at 31 December 2013				
Cost	418	726	112	1,256
Accumulated amortisation	(31)	(272)	(41)	(344)
Net carrying amount	387	454	71	912
Additions	-	-	24	24
Impairment (Note 7)	(106)	(3)	-	(109)
Currency translation differences	-	(207)	(38)	(245)
Amortisation	(6)	(34)	(8)	(48)
As at 31 December 2014				
Cost	312	373	220	905
Accumulated amortisation	(37)	(163)	(171)	(371)
Net carrying amount	275	210	49	534

The iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 8 years.

The coal reserves were acquired as part of the acquisition of UCC in 2009. The coal reserves are being amortised using the units-of-production method over their useful life of approximately 30 years.

9 Property, plant and equipment

The movements of property, plant and equipment were as follows:

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Cost or valuation						
As at 1 January 2013	78	3,126	4,979	153	937	9,273
Additions	-	-	-	-	706	706
Transfers	-	220	424	(10)	(634)	-
Disposals	-	(43)	(101)	(1)	(2)	(147)
Reclassification to inventory	-	-	-	-	(50)	(50)
Elimination against gross carrying amount upon revaluation	-	(192)	(676)	(14)	-	(882)
Revaluation	2	288	329	10	(20)	609
Currency translation differences	3	1	2	-	-	6
As at 31 December 2013	83	3,400	4,957	138	937	9,515
Additions	-	-	-	-	589	589
Transfers	-	77	285	16	(378)	-
Disposals	-	(6)	(22)	(4)	(4)	(36)
Reclassification to inventory	-	-	-	-	(15)	(15)
Elimination against gross carrying amount upon revaluation	-	(203)	(591)	(15)	-	(809)
Revaluation	-	899	1,955	16	32	2,902
Currency translation differences	(11)	(1,749)	(2,328)	(62)	(479)	(4,629)
As at 31 December 2014	72	2,418	4,256	89	682	7,517
Accumulated depreciation and impairment						
As at 1 January 2013	-	(209)	(762)	(48)	(6)	(1,025)
Charge for the year	-	(236)	(741)	(33)	-	(1,010)
Disposals	-	34	69	1	-	104
Transfers	-	1	(22)	21	-	-
Elimination against gross carrying amount upon revaluation	-	192	676	14	-	882
Impairment	-	(161)	(69)	(3)	(15)	(248)
Currency translation differences	-	(2)	(4)	-	-	(6)
As at 31 December 2013	-	(381)	(853)	(48)	(21)	(1,303)
Charge for the year	-	(212)	(579)	(21)	-	(812)
Disposals	-	3	18	3	2	26
Transfers	-	-	-	-	-	-
Elimination against gross carrying amount upon revaluation	-	203	591	15	-	809
Impairment	-	(125)	(63)	(3)	(15)	(206)
Currency translation differences	-	176	314	17	-	507
As at 31 December 2014	-	(336)	(572)	(37)	(34)	(979)
Net book value as at						
31 December 2013	83	3,019	4,104	90	916	8,212
31 December 2014	72	2,082	3,684	52	648	6,538

9 Property, plant and equipment (continued)

During 2014, management performed assessments whether the carrying amounts of items of property, plant and equipment are materially different from their fair values. Where the material differences were identified as probable, the Group determined the fair value of its property, plant and equipment through a combination of independent appraisers and internal assessments. The Group aims to revalue a class of property, plant and equipment simultaneously; in case of revaluing a class on a rolling basis, the Group completes the revaluation within a short period, and keeps revaluations up to date. Substantially all the property, plant and equipment balance was revalued during 2014.

As of 30 June 2014 the Group decided to revalue majority of its property, plant and equipment mainly due to significant devaluation of UAH against USD and EUR. The fair values of property, plant and equipment were estimated by independent appraisers as follows:

- carrying amounts of items of plant and machinery which are priced in hard currency were adjusted for changes in USD / UAH and EUR / UAH exchange rates during six months ended 30 June 2014; and
- carrying amounts of other items of property, plant and equipment were adjusted for relevant cumulative price indices (for construction works and materials, different types of equipment, etc.) in Ukraine since the date of the latest revaluation of such items.

The revised carrying amounts were then compared to the estimated recoverable amount of groups of assets and the net revaluation amount was then recorded. The revaluations as at 30 June 2014 resulted in a USD 1,651 million revaluation surplus recorded in other comprehensive income and USD 41 million of reversal of previously recognised impairment in profit and loss.

As of 31 December 2014 due to further devaluation of UAH and increased inflation in Ukraine the Group performed another revaluation of assets where fair value was expected to be significantly higher than their carrying amounts. These revalued assets represent 76% of total value of the Group's property, plant and equipment as of 31 December 2014. The revaluations as at 31 December 2014 together with the below discussed tests for impairment resulted in a USD 1,251 million revaluation surplus recorded in other comprehensive income and USD 247 million of recognised impairment in profit and loss.

The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of structures, plant and machinery was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of Ukrainian and international markets for similar property, plant and equipment. Various market data was collected from published information, catalogues, statistical data etc., and industry experts and suppliers.

Where it was considered that the fair value of assets is unlikely to be substantially higher than the carrying value as of 31 December 2014, only a test for impairment has been performed. These assets represented 17% of total value of the Group's property, plant and equipment as of 31 December 2014 before impairment.

The recoverable amount has been determined based on fair value less costs of disposal calculations over a period of expected usage of the assets. Valuation method used for determination of each CGU recoverable value is based on unobservable market data, which is within Level 3 of the fair value hierarchy. Assumptions used in impairment testing of PPE are consistent with those used in goodwill impairment test (Note 7).

Resulting from the test an impairment loss of USD 215 million and a revaluation reserve reversal of USD 249 million have been recognised on two CGUs being iron ore mining (USD 316 million in aggregate) and coal mining (USD 145 million in aggregate) operations in Ukraine. These impairments were largely driven by decrease in iron ore and coal prices in 2014. Increase of iron ore prices by 15% would increase recoverable amount of iron ore mining CGU to its carrying amount before impairment. No reasonably possible change in any of the assumptions of the impairment model of coal mining CGU would change the amount of impairment.

The specific risk of future severe physical damage or loss of control over entities located within or in close proximity to the areas not controlled by Ukrainian government were not taken into account when building cash flow projections nor was this included within the discount rate in either goodwill or CGU impairment testing. If a 20% probability that this risk crystallises was applied with respect to the CGUs located within the territories not controlled by the Ukrainian government and 10% for CGUs in close proximity to it, all other factors remaining constant, then impairment of USD 464 million of property, plant and equipment would need to be recognised.

During 2014 USD 23 million of borrowing costs were capitalised, capitalisation rate was 7% (2013: USD 37 million, capitalisation rate 6%).

As at 31 December 2014 and 2013 no buildings, plant and machinery were pledged to third parties as collateral for loans and borrowings.

10 Investments in associates and joint ventures

The Group's investment in joint ventures and associates were as follows as at 31 December 2014 and 2013:

Name	Type of relationship	Segment	% of ownership	2014	% of ownership	2013
				Carrying value		Carrying value
PJSC Southern Iron Ore Enrichment Works	Joint venture	Mining	45.9%	345	-	-
Zaporozhstal Group	Joint venture	Metallurgical	49.9%	522	49.9%	742
Zaporozhstal Group	Associate	Metallurgical	45.4%	4	39.7%	11
Yenakievskiy Koksohimprom	Associate	Metallurgical	50.0%	6	50.0%	8
IMU	Associate	Metallurgical	49.9%	13	49.9%	22
Black Iron (Cyprus) Limited	Associate	Mining	49.0%	14	-	-
Other	Associate	Mining	n/a	2	n/a	3
Total				906		786

All Group's associates and joint ventures are accounted for using equity method.

None of the joint ventures and associates is traded on active markets and there are no reliable market prices available.

PJSC Southern Iron Ore Enrichment Works

On 14 July 2014 the Company acquired a 44.8% ownership interest in PJSC Southern Iron Ore Enrichment Works. This ownership interest, together with the acquisition of non-controlling interests in two already consolidated subsidiaries made in consideration of an additional share in the Company together with a change in the ownership rights assigned to each share (see Note 15). Additional 1.1% of ownership interest in PJSC Southern Iron Ore Enrichment Works had been acquired in a separate transaction earlier in the year.

The Company has assessed the cost of acquisition of PJSC Southern Iron Ore Enrichment Works through valuation of its business using estimated discounted cash flows (Level 3). The resulting fair value of a USD 360 million is considered to be the fair value of consideration transferred and has been credited to share premium. Management has attributed fair values to identifiable assets and liabilities, including a mining license.

As of the date of acquisition, this investment was classified as a joint venture due to the fact that strategic financial and operating decisions require participation of and consent from both Metinvest and another major shareholder of PJSC Southern Iron Ore Enrichment Works.

PJSC Southern Iron Ore Enrichment Works is a large Ukrainian iron ore mining plant which produces iron ore concentrate and sinter. Its products are used by the Group's integrated steel plants and are also sold to the third parties (mostly in China, Ukraine and Europe) primarily through the Group's trading companies.

Zaporozhstal Group

Investment in Zaporozhstal Group is represented by the number of interests in the steel and mining businesses, the most significant being:

- 49.9% effective interest in JSC Zaporozhstal Integrated Iron & Steel Works ("Zaporozhstal"), a large Ukrainian integrated steel plant which sources majority of its iron ore and coke consumption from the Group and sells majority of its finished products through the Group's trading companies;
- 38.9% effective interest in JSC Zaporizhya Iron Ore Plant, large iron ore mining enterprise in Ukraine which sells part of its iron ore output to Zaporozhstal;
- 42.7% effective interest in JSC Zaporozhkoks and a 49.2% effective interest in JSC Zaporozhogneupor which are Group's subsidiary and associate respectively.

As at 31 December 2014 and 2013, Metinvest's investment in Zaporizhstal Group was classified as a joint venture due to the fact that direction of key relevant activities (strategic financial and operating decisions) requires participation of and consents from the other shareholders of Zaporizhstal Group.

10 Investments in associates and joint ventures (continued)

Movements in the carrying amount of the Group investments in associates and joint venture are presented below:

	2014	2013
Carrying amount at 1 January	786	764
Acquisition of share in PJSC Southern Iron Ore Enrichment Works	369	-
Acquisition of share in Black Iron (Cyprus) Limited	20	-
Acquisition of associate	-	8
Share of after tax results of joint ventures and associates	142	14
Share of other comprehensive income of joint ventures and associates	123	-
Currency translation difference	(534)	-
Carrying amount at 31 December	906	786

The nature of the activities of the Group's associates, Group's relationships with its associates and their key financial information is as follows:

- JSC Zaporozhzhneupor, Ukrainian producer of refractories, with revenues of USD 54 million and net loss of USD 6 million in 2014 (2013: USD 64 and nil, respectively) and total assets of USD 29 million as at 31 December 2014 (31 December 2013: USD 50 million);
- Yenakievskiy Koksohimprom, Ukrainian producer of coke which sources majority of its coal consumption from the Group and sells majority of its coke output to the Group's steel plants; Yenakievskiy Koksohimprom had revenues of USD 83 million and net profit of USD 4 million in 2014 (2013: USD 126 and USD 5, respectively) and total assets of USD 46 million as at 31 December 2014 (31 December 2013: USD 66 million)
- Black Iron (Cyprus) Limited, entity which owns licences for development of two iron ore deposits nearby Kryvyi Rih, Ukraine; and
- Industrial-Metallurgical Union ("IMU"), entity which owns 4.5% interest in ArcelorMittal Kryvyi Rih, the largest integrated steel plant in Ukraine.

The summarised financial information of the Group's joint ventures is as follows:

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works
	31 December 2014	31 December 2013	31 December 2014
Balance sheet:			
Non-current assets	1,077	1,527	488
Cash and cash equivalents	12	27	5
Other current assets	470	481	392
Total current assets	482	508	397
Trade and other payables and provisions	74	97	-
Other non-current financial liabilities	109	112	53
Total non-current liabilities	183	209	53
Trade and other payables and provisions	448	713	80
Other current financial liabilities	186	225	-
Total current liabilities	634	938	80
Net assets	742	888	752

10 Investments in associates and joint ventures (continued)

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works
	31 December 2014	31 December 2013	31 December 2014
Profit or loss for the year ended:			
Revenue	1,862	1,710	316
Depreciation and amortisation	(75)	(109)	(26)
Interest income	-	16	4
Interest expense	(147)	(55)	(3)
Income tax expense/ income	(16)	7	(46)
Profit or loss	111	(1)	190
Statement of comprehensive income for the year ended:			
Other comprehensive income	245	-	-
Total comprehensive income	348	(2)	190
Dividends received by the Group during the year ended	-	-	-

The information above reflects the amounts presented in the financial statements of the joint ventures and associates and impact of fair value adjustments made on acquisition of these joint ventures and associates, if any.

The reconciliation of the net assets of the Group's joint ventures presented above to the carrying amounts of the respective investments is presented below:

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works
	31 December 2014	31 December 2013	31 December 2014
Net assets	742	888	752
Group's ownership, %	49.9%	49.9%	45.9%
Group's interest in net assets	370	443	345
Goodwill	152	299	-
Carrying value	522	742	345

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11 Other non-current assets

	31 December 2014	31 December 2013
Long-term loans issued to related parties (USD denominated, 9% effective interest rate, mature during 2014-2017)	20	30
Long-term loans issued to related parties (USD denominated, 11% effective interest rate, mature in 2016)	98	98
Long-term loans issued to related parties (USD denominated, 9% effective interest rate, mature in 2015)	-	26
Other non-current financial assets	11	26
Other non-current non-financial assets	10	8
Total	139	188

Analysis by credit quality of financial non-current assets is as follows:

	31 December 2014	31 December 2013
Balances neither past due nor impaired:		
- related parties	118	154
- other	11	26
Total non-current and not impaired	129	180

The maximum exposure to credit risk at the reporting date is the carrying value of financial non-current assets. The Group does not hold any collateral as security.

12 Inventories

	31 December 2014	31 December 2013
Finished goods and work in progress	566	928
Raw materials	409	450
Ancillary materials, spare parts and consumables	210	414
Goods for resale	37	71
Total inventories	1,222	1,863

In 2014, inventory write down expense was USD 16 million (2013: USD 14 million).

As at 31 December 2014, inventories totalling USD 151 million (31 December 2013: USD 158 million) have been pledged as collateral for borrowings (Note 18).

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13 Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables and receivables on commission sales	1,544	1,844
Current portion of loans issued to related parties (Note 11)	86	48
Other receivables	78	148
Total financial assets	1,708	2,040
Recoverable value added tax	225	308
Prepayments made	45	298
Prepaid expenses and other non-financial receivables	64	92
Total trade and other receivables	2,042	2,738

Movements in the impairment provision for trade and other receivables are as follows:

	31 December 2014		31 December 2013	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	56	25	118	18
Net impairment during the year	50	10	(64)	8
Reclassification	-	-	1	(1)
Currency translation differences	(29)	(8)	1	-
Provision for impairment at 31 December	77	27	56	25

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13 Trade and other receivables (continued)

Analysis by credit quality of financial trade and other receivables is as follows:

	31 December 2014		31 December 2013	
	Trade receivables and receivables on commission sales	Other financial receivables	Trade receivables and receivables on commission sales	Other financial receivables
Key customers	30	-	120	-
SCM and other related companies, including associates and joint venture(s)	73	126	67	119
Balances covered by bank letters of credit	202	-	295	-
Balances insured	249	-	265	-
Existing and new customers with no history of default	69	25	141	20
Balances renegotiated with SCM and other related companies, including associates and joint venture(s)	28	-	37	40
Total current and not impaired	651	151	925	179
<i>Past due:</i>				
- less than 30 days overdue	162	-	190	-
- 30 to 90 days overdue	91	-	282	2
- 90 to 180 days overdue	73	2	279	2
- 180 to 360 days overdue	33	2	32	5
- over 360 days overdue	16	9	21	8
Total past due	375	13	804	17
Total individually impaired	595	27	171	25
Less impairment provision	(77)	(27)	(56)	(25)
Total	1,544	164	1,844	196

As at 31 December 2014, 12% of overdue receivables related to key customers (2013: 59%) and 61% to SCM and other related parties (2013: 32%). The payments from one of key customers have been delayed. During 2014 Group has recorded impairment charge totalling USD 50 million related to this receivable.

As at 31 December 2014, trade and other receivables totalling USD 175 million (31 December 2013: USD 182 million) have been pledged as collateral for borrowings (Note 18).

During 2014 trade accounts receivable in the amount of \$175 million has been sold to a third party. The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets is USD 2 million. The maximum exposure to loss is determined with reference to the historical loss ratio and the statistical model of the respective markets the Group.

14 Cash and cash equivalents

	31 December 2014	31 December 2013
Current accounts	105	765
Bank deposits up to 3 months	9	18
Total cash and cash equivalents	114	783

The bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2014	31 December 2013
<i>As rated by Moody's:</i>		
- A2	35	607
- A3	1	-
- Baa2	3	3
- Ba1	2	3
- Caa1	-	122
- Ca	61	-
Not covered by Moody's rating	12	48
Total cash and cash equivalents	114	783

As at 31 December 2014, amounts in banks rated Ca (31 December 2013: Caa1) relate mainly to First Ukrainian International Bank which is under common control of SCM.

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	Number of outstanding shares			Ordinary shares	Share premium	Total
	Class A	Class B	Class C			
At 31 December 2013	9,000	474	-	0	5,461	5,461
At 31 December 2014	6,750	2,251	474	0	6,225	6,225

As at 31 December 2014, the issued share capital comprised 6,750 ordinary class A shares (2013: 9,000), 2,251 ordinary class B shares (2013: 474) and 474 class C shares (2013: nil) with a par value of EUR 10. Each ordinary share carries one vote and is fully paid.

In 2014 the Company changed its Articles of Association and created three classes of shares (A, B and C). Ownership interests of SCM Limited were transferred to new Class A shares. Ownership interests of SMART were transferred to new Class B shares. Ownership interests of the previous Class B shares were transferred to new Class C shares. Additional rights of these new classes of shares were established, the most significant of which were:

- the establishment of a Supervisory Board of ten members, where seven are appointed by the Class A shareholder and three are appointed by the Class B shareholder;
- a number of decisions with respect to acquisitions and financing decisions above a specified amount require effectively consent of Class A and B shareholder; and
- Class C shares are not entitled to receive dividends.

As a result of the acquisition of 44.8% of PJSC Southern Iron Ore Enrichment Works, an additional 14.1% interest in PJSC Ingulets Iron Ore Enrichment Works and 16% interest PJSC Northern Iron Ore Enrichment Works (Note 10 and 17) and the issuance of additional share and share rights, management recognised Share premium of USD 764 million on these transactions, being the fair value of shares contributed.

16 Other reserves

	Revaluation of available- for-sale investments and share in OCI of associates	Revaluation of property, plant and equipment	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2013	(13)	2,137	(2,962)	(2,375)	(3,213)
Total comprehensive income for the period	-	441	-	26	467
Depreciation transfer, net of tax	-	(309)	-	-	(309)
Acquisition of subsidiaries from parties under common control	-	-	(33)	-	(33)
Balance as at 31 December 2013	(13)	2,269	(2,995)	(2,349)	(3,088)
Total comprehensive income / (loss) for the period	-	2,381	-	(5,028)	(2,647)
Depreciation transfer, net of tax	-	(256)	-	-	(256)
Acquisition of subsidiaries from parties under common control	-	-	(43)	-	(43)
Balance as at 31 December 2014	(13)	4,394	(3,038)	(7,377)	(6,034)

The revaluation reserve for available-for-sale investments is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. Company subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose the amount of distributable reserves in these consolidated financial statements.

During the fourth quarter of 2014 the National Bank of Ukraine issued a number of instructions which limited the ability of Ukrainian legal entities other than those whose securities are traded on a stock exchange to pay dividends in foreign currency. The Group believes it still can lawfully repay the dividends from such subsidiaries abroad therefore has not classified any of such retained earnings as undistributable reserves.

The ability of the Group to pay dividends has been limited with terms and conditions of the Group's bonds (Note 17).

17 Material non-controlling interests in subsidiaries

Subsidiaries that have non-controlling interest that is material to the Group have been determined by management based on combination of the following factors: (i) the percentage of shares held by non-controlling shareholders; (ii) accumulated amount of non-controlling interest ("NCI") in the subsidiary; and (iii) total assets and revenues of the respective subsidiaries.

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Proportion of NCI (same as voting rights held by NCI)	Profit or loss attributable to NCI	OCI attributable to NCI	Amount of NCI in the subsidiary	Dividends paid to NCI during the year
As at 31 December 2014					
PJSC Azovstal Iron and Steel Works	3.9%	2	(6)	50	-
PJSC Avdiivka Coke Plant	7.5%	(6)	(7)	32	-
JSC Zaporozhkoks	49.0%	(3)	(19)	34	-
PJSC Northern Iron Ore Enrichment Works	3.6%	32	(117)	54	-
PJSC Ingulets Iron Ore Enrichment Works	0.2%	32	(92)	2	1
Total		57	(241)	172	1
As at 31 December 2013					
PJSC Azovstal Iron and Steel Works	3.8%	(12)	-	53	-
PJSC Avdiivka Coke Plant	7.1%	(2)	-	43	-
JSC Zaporozhkoks	47.9%	(4)	18	54	-
PJSC Northern Iron Ore Enrichment Works	21.6%	164	(1)	433	2
PJSC Ingulets Iron Ore Enrichment Works	14.4%	94	(2)	302	-
Total		240	15	885	2

The summarised financial information of these subsidiaries (including the impact of consolidation fair value adjustments, but before intercompany eliminations), was as follows at 31 December 2014 and 2013:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
As at 31 December 2014					
PJSC Azovstal Iron and Steel Works	1,044	1,399	970	179	1,294
PJSC Avdiivka Coke Plant	186	490	207	44	425
JSC Zaporozhkoks	137	66	123	11	69
PJSC Northern Iron Ore Enrichment Works	946	1,109	365	201	1,489
PJSC Ingulets Iron Ore Enrichment Works	1,087	886	1,012	204	757
As at 31 December 2013					
PJSC Azovstal Iron and Steel Works	1,416	1,476	1,353	123	1,416
PJSC Avdiivka Coke Plant	416	579	350	41	604
JSC Zaporozhkoks	87	120	76	19	112
PJSC Northern Iron Ore Enrichment Works	1,292	1,438	312	412	2,006
PJSC Ingulets Iron Ore Enrichment Works	2,072	939	676	233	2,102

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	Revenue	Profit/ (loss)	Total comprehensive (loss) / income
Year ended 31 December 2014			
PJSC Azovstal Iron and Steel Works	1,900	55	(119)
PJSC Avdiivka Coke Plant	568	(76)	(177)
JSC Zaporozhkoks	312	(6)	(44)
PJSC Northern Iron Ore Enrichment Works	1,101	164	(527)
PJSC Ingulets Iron Ore Enrichment Works	984	173	(744)
Year ended 31 December 2013			
PJSC Azovstal Iron and Steel Works	2,613	(314)	(327)
PJSC Avdiivka Coke Plant	918	(24)	(30)
JSC Zaporozhkoks	172	(8)	30
PJSC Northern Iron Ore Enrichment Works	1,670	556	550
PJSC Ingulets Iron Ore Enrichment Works	1,295	590	578

The Group's centralised treasury monitors the cash flows of the Group's subsidiaries and adjusts the subsidiaries' operating cash flows (e.g. by means of changing intragroup trading balances) to provide sufficient funds for the approved investing activities or payment of dividends.

In partial consideration for the increase in shares and change in rights to the Smart Group the Company obtained additional 14% in Ingulets Iron Ore Enrichment works and 16% in Northern Iron Ore Enrichment works (both subsidiaries of the Group) resulting in a reduction in non-controlling interest of USD 558 million. The difference of USD 154 million between the carrying value of non-controlling interest derecognised and consideration transferred (i.e. share premium recognised – Note 15) is recognised as reduction in the equity attributable to the parent's shareholders (reflected directly in retained earnings).

On 20 May 2010, 14 February 2011 and 28 November 2014, the Company issued guaranteed bonds with aggregate amount of USD 1,150 million outstanding as at 31 December 2014 that mature from May 2015 through to February 2018 (see Note 30). The bonds are guaranteed on a joint and several basis by PJSC Avdiivka Coke Plant, PJSC Ingulets Iron Ore Enrichment Works, PJSC Khartsyzsk Pipe Plant, PJSC Northern Iron Ore Enrichment Works, PJSC Central Iron Ore Enrichment Works, PJSC Azovstal Iron and Steel Works, PJSC Yenakieve Iron and Steel Works. The terms of bonds, subject to certain exceptions and qualifications, limit the ability of the Group to:

- undertake any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring;
- incur additional indebtedness;
- pay dividends or distributions in respect of its share capital or redeem or repurchase capital stock or subordinated debt;
- create mortgages, pledges, security interests, encumbrances, liens or other charges;
- transfer or sell assets; and
- enter into transactions with affiliates.

Also, Metinvest entered into a number of credit facility agreements for an aggregate amount of USD 1,181 million which mature from 2015 to 2018. These loans are guaranteed by Ingulets GOK. Also, as a condition of these loans, the certain subsidiaries of Metinvest (PJSC Azovstal Iron and Steel Works, PJSC Yenakieve Iron and Steel Works, PJSC Northern Iron Ore Enrichment Works, PJSC Ingulets Iron Ore Enrichment Works, Metinvest International SA) are jointly committed to perform sales of steel products to Metinvest International S.A. from the date when the funds are drawn down by Metinvest. The commitment to sell steel products mirrors the repayment schedule of the loans balances and extends to loans' maturity dates. The proceeds from such sales are transferred through special accounts of the lenders and banks will have rights to these proceeds only in case when Metinvest does not make a scheduled payment under the credit facilities. There are no other restrictions to these accounts. The amount of funds on such accounts as at 31 December 2014 is USD 0 million (31 December 2013: USD 0 million).

18 Loans and borrowings

As at 31 December, loans and borrowings were as follows:

	31 December 2014	31 December 2013
Non-current		
Bank borrowings	476	1,186
Bonds	1,032	1,239
Non-bank borrowings	370	-
	1,878	2,425
Current		
Bank borrowings	714	777
Trade finance	416	911
Bonds	138	30
	1,268	1,718
Total loans and borrowings	3,146	4,143

	31 December 2014	31 December 2013
Loans and borrowings due:		
- within 1 year	1,268	1,718
- between 1 and 5 years	1,872	2,416
- after 5 years	6	9
Total borrowings	3,146	4,143

The majority of the Group's bank borrowings and trade finance have variable interest rates. The weighted average effective interest rates and currency denomination of loans and borrowings as at the balance sheet dates are as follows:

	31 December 2014		31 December 2013	
<i>In % per annum</i>	USD	EUR	USD	EUR
Bank borrowings	4%	3%	4%	2%
Bonds issued	10%	-	9%	-
Non-bank borrowings	10%	-	-	-
Trade finance	3%	-	3%	2%
Reported amount	3,124	22	3,990	153

As at 31 December 2014, bonds issued carry fixed interest rates (31 December 2013: fixed interest rate); bank borrowings and trade finance denominated in EUR carry interest rates of EURIBOR 1–6 months plus margins of 2% (31 December 2013: EURIBOR 1–6 months plus margins of 0.5%–2.5%); the bank borrowings and trade finance denominated in USD carry interest rates of LIBOR 1–6 months plus margins of 2%–5.3% (31 December 2013: LIBOR 1–6 months plus margins of 1%–6%).

In April 2013 the Group increased a three-year loan originally received in 2012 from USD 300 million to USD 560 million.

In April 2013 the Group repaid two credit lines from Sberbank and ING Ukraine in the amount of USD 175 million and USD 85 million respectively.

In November 2013, the Group obtained a syndicate loan in the nominal amount of USD 300 million bearing nominal interest of LIBOR 3 month plus margin of 5.25% per annum. Principal is repayable in equal monthly instalments starting from June 2015 through November 2018.

In 2014 the Group has obtained USD 444 million of loans from the related parties (9.5% p.a. repayable in 2017) and repaid USD 75 million of it during the year.

In November 2014, the Group agreed with the holders of its USD 386 million (at nominal value) guaranteed bonds due in May 2015 to exchange them for immediately paid cash component of USD 97 million and new 10.5% p.a. bonds of USD 289 million repayable in 4 semiannual instalments from May 2016 through to November 2017. After this exchange, USD 114 million (at nominal value) of bonds due in May 2015 remained outstanding.

As at 31 December 2014, borrowings totalling USD 151 million were secured with inventories (31 December 2013: USD 134 million), borrowings totalling USD 175 million were secured with trade and other accounts receivable (31 December 2013: USD 182 million) and borrowings totalling USD 2,383 million were secured with the future sales proceeds (31 December 2013: USD 1,940 million).

18 Loans and borrowings (continued)

As at 31 December 2014, the fair value of bonds was USD 676 million (31 December 2013: USD 1,240 million) as determined by reference to observable market quotations. However, as the trading volumes are low, these quotations may not represent the fair value of the bonds. If the fair value of bonds is estimated based on expected cash flows discounted at 12.3% which is close to the new effective interest rate for the Group's bonds which were exchanged in November 2014, then their fair value as at 31 December would be USD 1,108 million. The fair value of bank borrowings was USD 1,118 million (31 December 2013: USD 1,948 million) as estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2014 and 31 December 2013, the fair value of trade finance borrowings is approximately equal to their carrying value.

19 Seller's notes

	31 December 2014	31 December 2013
Non-current portion	-	75
Current portion	86	90
Total seller's notes	86	165

Seller's notes are secured with a 100% of the capital of United Coal Company LLC and subordinated to other borrowings of the Group to the extent that total borrowings do not exceed USD 3 billion excluding interest.

Seller's notes bear nominal interest rate of 5% p.a., and are recorded at an effective interest rate of 12.5% p.a. In January 2015 the Group renegotiated to extend the repayments till 2016.

As of 31 December 2014, the fair value of seller's notes was USD 80 million (31 December 2013: USD 178 million).

20 Retirement benefit obligations

The Group's defined benefit obligations relate to:

	31 December 2014	31 December 2013
State-defined early pensions for employees working in hazardous and unhealthy working conditions	434	749
Long-term employee benefits under collective bargaining agreements	39	54
Total defined benefit obligations	473	803

Changes in the present value of the defined benefit obligation were as follows:

	2014	2013
Defined benefit obligation as at 1 January	803	714
Current service cost	17	17
Remeasurements of the defined benefit liability resulting from:		
- changes in financial assumptions	16	59
- changes in demographic assumptions	3	(3)
- experience adjustments	19	14
Past service cost	-	(5)
Interest cost	70	90
Benefits paid	(61)	(83)
Currency translation difference	(394)	-
Defined benefit obligation as at 31 December	473	803

20 Retirement benefit obligations (continued)

The amounts recognised in the consolidated income statement were as follows:

	2014	2013
Current service cost	17	17
Past service cost	-	(5)
Interest cost	70	90
Total	87	102

The principal actuarial assumptions used were as follows:

	31 December 2014	31 December 2013
Nominal discount rate	16.04%	14%
Nominal salary increase	12.9%-15.0%	4%-10%
Nominal pension entitlement increase (indexation)	3.6%	5.2%
Long-term inflation	5.0%	5.2%

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented below:

	2014	2013
Nominal discount rate increase / decrease by 1 pp	(35) / 40	(55) / 62
Nominal salary increase / decrease by 1 pp	11 / (12)	28 / (26)
Inflation increase / decrease by 1 pp	10 / (12)	27 / (26)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

As at 31 December 2014, the weighted average maturity of the Group's defined benefit obligations is 9.3 years and it varies across different Group's subsidiaries from 6 to 12 years (31 December 2013: 9.5 years, varying from 6 to 12 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2015 are USD 51 million.

21 Other non-current liabilities

	31 December 2014	31 December 2013
Tax liabilities under moratorium (Note 29)	12	23
Asset retirement obligations	17	17
Other non-current liabilities	10	18
Deferred income	-	5
Total other non-current liabilities	39	63

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22 Trade and other payables

	31 December 2014	31 December 2013
Trade payables and payables on sales made on commission	996	1,255
Payables for acquired non-controlling interest	-	3
Dividends payable to shareholders of Metinvest B.V.	88	70
Dividends payable to non-controlling shareholders of Company subsidiaries	3	12
Payable for acquired property, plant and equipment and other intangible assets	95	98
Other financial liabilities	37	18
Total financial liabilities	1,219	1,456
Prepayments received	114	189
Accruals for employees' unused vacations and other payments to employees	67	116
Income tax payable	9	15
Other taxes payable	73	57
Wages and salaries payable	20	35
Other allowances	44	41
Total trade and other payables	1,546	1,909

23 Expenses by nature

	2014	2013
Raw materials including change in finished goods and work in progress	2,016	3,569
Goods for resale	1,935	1,608
Energy materials including gas, electricity and fuel	1,593	2,221
Wages and salaries	787	949
Transportation services	1,074	912
Repairs and maintenance expenses	296	355
Pension and social security costs	220	301
Pension costs – defined benefit obligations (Note 20)	17	12
Depreciation and amortisation	850	1,070
Impairment and devaluation of property, plant and equipment and other intangible assets (Notes 8 and 9)	315	192
Taxes and duties	149	133
Services and other costs	338	596
Total operating expenses	9,590	11,918
Classified in the income statement as:		
- cost of sales	8,240	10,406
- distribution costs	1,063	1,121
- general and administrative expenses	287	391
Total operating expenses	9,590	11,918

Raw materials include externally purchased coke and coal, iron ore, scrap metal, ferroalloys, ancillary and other materials and cost of their transportation.

23 Expenses by nature (continued)

Auditor's fees. The following fees were expensed in the income statement in the reporting period:

	2014	2013
Audit of the financial statements (including audit fee of the signing firm of USD 0.1 million)	2	3
Tax services	-	-
Other non-audit services	-	-
Total	2	3

24 Other operating income / (expense), net

Other operating income and expenses for the year ended 31 December were as follows:

	2014	2013
(Impairment) / reversal of impairment of trade and other receivables (Note 13)	(60)	56
Maintenance of social infrastructure	(30)	(66)
Operating foreign exchange gains less losses, net	391	101
Sponsorship and other charity payments	(39)	(15)
(Loss) / gain on disposal of property, plant and equipment and intangible assets, net	8	(1)
Impairment of goodwill (Note 7)	(102)	-
Other (expense) / income, net	(38)	62
Total other operating income, net	130	137

25 Finance income

Finance income for the year ended 31 December was as follows:

	2014	2013
Interest income:		
- loans issued	20	28
- bank deposits	3	5
- imputed interest on other financial instruments	-	13
Other finance income	2	20
Total finance income	25	66

The majority of finance income relates to term deposits and long term loans issued to related parties.

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26 Finance costs

Finance costs for the year ended 31 December were as follows:

	2014	2013
Net foreign exchange loss	593	6
Interest expense		
- borrowings	100	95
- bonds	118	118
- seller's notes	8	12
- imputed interest on seller's notes	10	16
Interest cost on retirement benefit obligations	70	90
Other finance costs	3	4
Total finance costs	902	341

Net foreign exchange losses arise on intragroup loans and dividends payable between the entities with different functional currencies.

27 Income tax

Income tax for the year ended 31 December was as follows:

	2014	2013
Current tax	198	394
Deferred tax	13	(21)
Income tax expense	211	373

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2014 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2013: 19%). In 2014, the tax rate for Swiss operations was 10% (2013: 10%) and for European companies tax rate in 2014 varied from 10% to 31% (2013: varied from 10% to 35%). The tax rate for US operations was 35% (2013: 35%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2014	2013
IFRS profit before tax	370	765
Tax calculated at domestic tax rates applicable to profits in the respective countries	(10)	95
Tax effect of items not deductible or assessable for taxation purposes:		
- impairment of goodwill (Note 7)	36	-
- charitable donations and sponsorship	3	1
- other non-deductible expenses	75	50
- non-taxable income	(14)	(12)
Write-down / reversal of write-down of deferred tax assets, net	168	155
Indexation of tax base of PPE in Ukraine	(51)	-
Effect of other changes in estimates regarding realisability and timing of realisation of deferred tax balances	4	84
Income tax expense	211	373

The weighted average applicable tax rate was -2.7% in 2014 (2013: 12.4%). Variation in weighted average tax rate is mostly due to variation in profitability of Group's subsidiaries in Ukraine some of which are profitable and some are loss making.

27 Income tax (continued)

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	1 January 2014	Credited/ (charged) to income statement	Credited/ (charged) to other compre- hensive income	Currency translation difference	31 December 2014
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	93	20	14	(22)	105
Long-term receivables	92	(47)	-	(45)	-
Inventory valuation	35	(8)	-	(9)	18
Trade and other accounts receivable	8	(3)	-	(5)	-
Accrued expenses	75	(36)	-	(4)	35
Tax losses carried forward	297	(91)	-	(103)	103
Retirement benefit obligations	128	10	7	(63)	82
Prepayments received	3	(3)	-	-	-
Other	24	2	(1)	(22)	3
Gross deferred tax asset	755	(156)	20	(273)	346
Less offsetting with deferred tax liabilities	(529)	90	(9)	191	(257)
Recognised deferred tax asset	226	(66)	11	(82)	89
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(588)	135	(535)	285	(703)
Advances paid	(3)	3	-	-	-
Inventory tax differences	(7)	(2)	-	1	(8)
Borrowings and long-term payables	(92)	45	-	45	(2)
Other	(31)	(38)	1	20	(48)
Gross deferred tax liability	(721)	143	(534)	351	(761)
Less offsetting with deferred tax assets	529	(90)	9	(191)	257
Recognised deferred tax liability	(192)	53	(525)	160	(504)

During the year ended 31 December 2014 the Group recognised a valuation provision in the amount of USD 186 million against deferred tax asset due to a change in estimate regarding recoverability of the related balance (2013: USD 155 million).

Deferred tax asset on unused tax losses not recognised as at 31 December 2014 comprised USD 167 million (31 December 2013: USD 86 million).

27 Income tax (continued)

	1 January 2013	Credited/ (charged) to income statement	Credited/ (charged) to other compre- hensive income	Currency translation difference	31 December 2013
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	69	1	23	-	93
Long-term receivables	105	(13)	-	-	92
Inventory valuation	29	6	-	-	35
Trade and other accounts receivable	23	(15)	-	-	8
Accrued expenses	67	8	-	-	75
Tax losses carried forward	339	(42)	-	-	297
Retirement benefit obligations	114	4	10	-	128
Prepayments received	33	(30)	-	-	3
Other	24	-	-	-	24
Gross deferred tax asset	803	(81)	33	-	755
Less offsetting with deferred tax liabilities	(526)	(3)	-	-	(529)
Recognised deferred tax asset	277	(84)	33	-	226
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(524)	51	(114)	(1)	(588)
Advances paid	(33)	30	-	-	(3)
Inventory tax differences	(13)	6	-	-	(7)
Borrowings and long-term payables	(115)	23	-	-	(92)
Other	(23)	(8)	-	-	(31)
Gross deferred tax liability	(708)	102	(114)	(1)	(721)
Less offsetting with deferred tax assets	526	3	-	-	529
Recognised deferred tax liability	(182)	105	(114)	(1)	(192)

27 Income tax (continued)

The tax charge relating to components of other comprehensive income is as follows:

	2014			2013		
	Before tax	Deferred tax charge	After tax	Before tax	Deferred tax charge	After tax
Revaluation of property, plant and equipment	2,902	(521)	2,381	553	(91)	462
Remeasurement of retirement benefit obligation	(38)	7	(31)	(70)	10	(60)
Other comprehensive income	2,864	(514)	2,350	483	(81)	402

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

As discussed in the Note 34, there were revisions introduced to the Tax Code of Ukraine from 1 January 2015. These changes were considered to be substantially enacted with respect of calculation of deferred taxes as at 31 December 2014. The application of these revisions to the Tax Code is yet to be reviewed by the tax authorities. Consequently, the management interpretation of these changes (and the related impact on tax base of assets and liabilities as at 31 December 2014) may be challenged.

28 Balances and transactions with related parties

For the purposes of these IFRS consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2014 and 2013 significant balances outstanding with related parties are detailed below:

31 December 2014						31 December 2013				
	SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	SMART	SCM Limited	Asso- ciates	Joint venture	SCM and related entities	SMART
ASSETS										
Other non-current assets, including:	-	-	98	20	-	-	-	98	32	26
Long-term loans issued	-	-	98	20	-	-	-	98	30	26
Other non-current assets	-	-	-	-	-	-	-	-	2	-
Trade and other receivables, including:	1	27	274	92	74	3	34	505	178	40
Trade receivables and receivables on commission sales	-	27	270	33	3	-	34	291	51	7
Prepayments made	-	-	1	4	-	-	-	214	2	-
Loans issued	-	-	3	12	71	3	-	-	10	31
Interest accrued on long term loans issued	-	-	-	-	-	-	-	-	1	2
Receivables for disposal of subsidiaries and associates	-	-	-	2	-	-	-	-	5	-
Receivables for deposit certificates sold	-	-	-	1	-	-	-	-	1	-
Other financial receivables	1	-	-	40	-	-	-	-	108	-
Cash and cash equivalents	-	-	-	60	-	-	-	-	122	-

31 December 2014						31 December 2013				
	SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	SMART	SCM Limited	Asso- ciates	Joint venture	SCM and related entities	SMART
LIABILITIES										
Non-current liabilities, including:	-	-	1	279	92	-	-	1	1	-
Non-bank borrowings	-	-	-	278	92	-	-	-	-	-
Other non-current liabilities	-	-	1	1	-	-	-	1	1	-
Trade and other payables, including:	41	35	396	159	60	15	48	55	154	590
Dividends payable	40	-	-	-	48	12	-	-	-	58
Trade payables and payables on sales made on commission	-	32	394	118	-	-	47	55	84	531
Prepayments received	-	3	2	29	-	-	-	-	66	-
Other financial liabilities	1	-	-	12	12	3	1	-	4	1

28 Balances and transactions with related parties (continued)

Significant transactions (excluding purchases) with related parties during 2014 and 2013 are detailed below:

2014	SCM Limited	Asso- ciates	Joint ventures	SCM and related entities	SMART	Total
Sales, including:	-	49	684	68	39	840
Steel	-	9	20	56	10	95
Scrap metal	-	-	82	3	-	85
Coke and coking coal	-	29	260	2	4	295
Iron ore	-	-	271	1	-	272
Other	-	11	51	6	25	93
Other operating income/(expense) net	-	1	-	(15)	-	(30)
Sponsorship and other charity payments	-	-	-	(29)	-	(29)
Other	-	1	-	14	-	(1)
Finance income / (expenses), including:	-	-	11	(14)	(1)	(4)
Interest income - bank deposits	-	-	-	1	-	1
Interest income - other	-	-	11	4	5	20
Other finance income (expenses)	-	-	-	(19)	(6)	(25)
2013	SCM Limited	Asso- ciates	Joint venture	SCM and related entities	SMART	Total
Sales, including:	-	56	775	114	61	1,006
Steel	-	8	11	71	22	112
Scrap metal	-	-	138	6	-	144
Coke and coking coal	-	42	331	30	3	406
Iron ore	-	-	284	2	-	286
Other	-	6	11	5	36	58
Other operating income / (expense) net	-	-	-	4	-	4
Sponsorship and other charity payments	-	-	-	-	-	-
Other	-	-	-	4	-	4
Finance income / (expenses), including:	9	-	11	21	7	48
Interest income - bank deposits	-	-	-	2	-	2
Interest income - other	6	-	11	4	7	28
Other finance income (expenses)	3	-	-	15	-	18

28 Balances and transactions with related parties (continued)

The following is a summary of purchases from related parties in 2014 and 2013:

2014	Associates	Joint ventures	SCM and related entities	SMART	Total
Purchases, including:	93	1,563	1,569	56	3,281
Metal products	10	1,528	12	-	1,550
Coke and coking coal	73	15	49	-	137
Raw materials and spare parts	7	18	139	55	219
Electricity	-	-	689	-	689
Gas	-	-	230	-	230
Fuel	-	-	38	-	38
Services	2	2	402	-	406
Other	1	-	10	1	12

2013	Associates	Joint venture	SCM and related entities	SMART	Total
Purchases, including:	78	1,307	2,028	79	3,492
Metal products	-	1,278	14	1	1,293
Coke and coking coal	69	2	107	-	178
Raw materials and spare parts	9	11	215	78	313
Electricity	-	-	972	-	972
Gas	-	-	322	-	322
Fuel	-	-	13	-	13
Services	-	-	333	-	333
Other	-	16	52	-	68

In 2014 the Group has obtained USD 444 million of loans from the related parties (9.5% p.a. repayable in 2017) and repaid USD 75 million of it during the year.

In 2014, the remuneration of key management personnel of the Group comprised current salaries and related bonuses totalling USD 10.9 million (in 2013: USD 8.6 million).

30 Contingencies, commitments and operating risks

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. With effect from 1 January 2011, Ukraine adopted the new Tax Code of Ukraine. Applicable taxes include value-added tax, corporate income tax, customs duties and other taxes. As a result, there is significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and State authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's operations are vertically integrated and a significant portion of the Group's iron ore, coke and coal production is used in the subsequent production operations. Because of non-explicit requirements of the applicable tax legislation, intercompany transactions may be assessed by Ukrainian tax authorities as non-market. Such transactions have not been challenged in the past by the tax authorities. However, it is possible with evolution of the interpretation of tax law in Ukraine and other jurisdictions plus changes in the approach of tax authorities, that such transactions could be challenged in the future.

The tax legislation had been expanded with the new transfer pricing rules effective from 1 September 2013 that are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles. The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and is not supported by relevant documentation.

Management believes it is taking appropriate measures to ensure compliance with the new transfer pricing legislation.

Bankruptcy proceedings. During 2006, bankruptcy proceedings were initiated against the Group's subsidiary JSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relate to the Group thus are eliminated on consolidation. As at 31 December 2014, the amount of the financial liabilities recorded in these financial statements is USD 15 million. USD 12 million are presented as non-current liability related to the bankruptcy moratorium (Note 21).

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations (including asset retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital expenditure commitments. As at 31 December 2014, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 166 million (31 December 2013: USD 346 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

Guarantees issued. As at 31 December 2013 and 2012, the Group has no outstanding guarantees to third parties.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non compliance with such covenants may result in negative consequences for the Group including increase in the cost of borrowings and declaration of default. As at 31 December 2014 and as at 31 December 2013 and during 2014 and 2013 the Group was in compliance with the covenants.

Insurance. Metinvest maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law, including life and health insurance; third party liability insurance on hazardous industrial assets and in respect of cargo and motor vehicles; voluntary insurance cover for most of its production facilities and in respect of cargo and motor vehicles; "All Risk" insurance to cover property damage and provide business interruption coverage including "inter-dependency" coverage for its key production facilities in Ukraine; property damage and business interruption policies in respect of its European and US assets.

30 Financial risk management

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

(a) Market risk.

(i) Foreign exchange risk.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through (i) borrowings denominated in the relevant foreign currencies; (ii) different treasury operations like forward, swap and other.

Foreign exchange risk is managed centrally by the Group treasury. The Group treasury has set up a policy to manage foreign exchange risk. The Group treasury sets limits on the level of exposure by currency and maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks without permission of the Group treasury.

At 31 December 2014, if the UAH had strengthened/ weakened by 50% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 190 million higher/lower (2013: if the UAH strengthened/weakened by 10% against USD dollar, post tax profit for the year would have been USD 17 million higher/lower), mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and foreign exchange gains/losses on translation of US dollar denominated borrowings.

(ii) Price risk.

Metinvest's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that Metinvest sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that Metinvest receives from the sale of its steel or mined products.

Metinvest's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self sufficient for iron ore and certain portion of coking coal requirements.

No financial instruments are exposed to price risk.

(iii) Cash flow and fair value interest rate risk.

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings attracted at variable rates expose the Group to cash flow interest rate risk. Borrowings attracted at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2014, 49% of the total borrowings were provided to the Group at fixed rates (31 December 2013: 29%). During 2014 and 2013, the Group's borrowings at variable rate were denominated in USD and EUR.

30 Financial risk management (continued)

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of attracting new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Refer to Note 13, 18 and 30 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2014, if interest rates on USD and EUR denominated borrowings had been by 1 pp higher/lower (2013: 1 pp) with all other variables held constant, post-tax profit for the year would have been USD 13 million lower/higher (2013: USD 25 million).

(b) Credit risk

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable.

Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk at 31 December 2014 is USD 1,951 million (2013: USD 3,002 million) being the carrying value of long and short-term loans issued and receivables and cash. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance. The Group does not hold any collateral as security.

Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets, and management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Group treasury analyses the ageing of their assets and the maturity of their liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

30 Financial risk management (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Cash flows from borrowings were calculated using spot rates.

At 31 December 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	750	326	184	8
Trade finance	416	-	-	-
Bonds	215	237	1,005	-
Non-bank borrowings	35	35	381	-
Seller's notes	92	-	-	-
Trade and other payables	1,219	-	-	-
At 31 December 2013				
Bank borrowings	849	751	509	15
Trade finance	911	-	-	-
Bonds	117	591	914	-
Seller's notes	98	93	-	-
Trade and other payables	1,456	-	-	-

31 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and Seller's Notes (including current and non-current parts) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The Group needs to comply with certain restrictive covenants such as maintaining certain financial ratios determined by the loan agreements (e.g. gearing). Covenants are monitored by the management and there were no cases of non-compliance with the covenants at 31 December 2014 and 31 December 2013.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 1–5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has credit ratings assigned by two international rating agencies, Fitch ('CCC') and Moody's ('Caa2'), updated on 05 December 2014 and 02 December 2014, respectively, capped both by the Ukraine's country ceiling.

	31 December 2014	31 December 2013
Total borrowings (Note 18)	3,146	4,143
Seller's notes (Note 19)	86	165
Less: cash and cash equivalents (Note 14)	(114)	(783)
Net debt	3,118	3,525
Total equity	6,762	9,631
Total capital	9,880	13,156
Gearing ratio	32%	27%

32 Fair values of financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date, which is Level 1 of fair valuation hierarchy. The quoted market price used for financial assets held by the Group is the current bid price. This valuation technique is used for fair value disclosures of bonds issued.

32 Fair values of financial instruments (continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows, are used to determine fair value for bank loans and seller's notes. Calculation is based on current interest rates for new instruments with similar credit risk, currency and remaining maturity; such estimation represents Level 3 of fair value hierarchy. Discount rate used to determine fair value for bank loans and seller's notes as at 31 December 2014 is 12.3% (31 December 2013: 6.2%).

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of financial assets carried at amortised cost approximate their fair values.

Financial liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Note 18, 19 and 21).

33 Reconciliation of classes of financial instruments with measurement categories

All of the Group's financial assets and financial liabilities are carried at amortised cost.

34 Events after the balance sheet date

In late December 2014 the Parliament of Ukraine passed a law which significantly revised the tax code effective 1 January 2015. The most significant changes that are expected to impact the Group are:

- Revised corporate tax computation rules, whereby the basis for calculating corporation tax is now an adjusted accounting profit, rather than through a separate calculation of taxable income and deductible expenses. The enacted corporate tax rates were not change as a result of this revision. The Group is currently estimating the impact of these new tax changes but does not expect these to result in a significant change in the effective tax rate;
- Revision to rules governing the payment of VAT, which require output VAT to be paid to the tax authorities based on the supply of the good or service, net of input VAT if this VAT is determined to have been paid to the tax authorities by the Group's suppliers. The prior VAT settlement mechanism was based on a monthly payment computed through a VAT return where the net VAT payment was calculated based on accrued net of input and output VAT. The Group has estimated that the impact of this is to increase the cash outflow of VAT payments in 2015 following the implementation of these new rules. The amount of this increased cash outflow cannot be determined;
- New real estate (property) tax has been introduced. This tax is levied based on the floor area of the Group's buildings (subject to certain reliefs). This new tax will increase the tax burden of the Group. The Group is currently assessing the magnitude of this new tax;

The developments after the balance sheet date which are related to the operating environment are disclosed in Note 2.

On 3 March 2015 the National Bank of Ukraine issued a regulation which temporarily prohibits payment of dividends by Ukrainian legal entities abroad. The restriction is effective until 3 June 2015. Management is currently assessing the legal basis for this and the possible impact of this restriction on the Group.

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