FINANCIAL REVIEW

AN EXCEPTIONAL YEAR

In 2021, Metinvest delivered robust financial results that allowed it to continue to make progress on its strategic priorities, while also advancing to optimise the Group's debt profile.

REVENUES

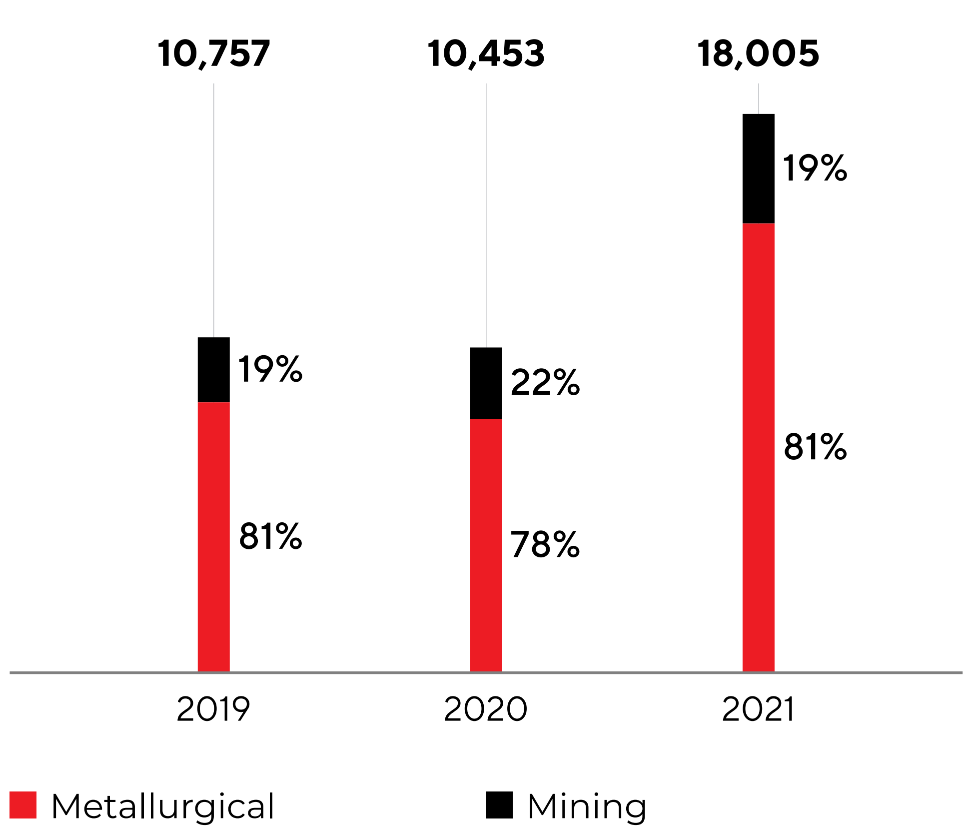
GRI 102-7

Metinvest generates revenues primarily through the sale of its own steel, iron ore, coal and coke products. It also resells goods produced by joint ventures and other third parties. Unless otherwise stated, revenues are reported net of value-added tax and discounts, and after eliminating sales within the Group.

In 2021, the Group's consolidated revenues rose by 72% year-on-year to US$18,005 million. In particular, the Metallurgical segment's revenues increased by 77% year-on-year to US$14,518 million, while its share in the top line rose by three percentage points to 81%. At the same time, the Mining segment's revenues increased by 55% year-on-year to US$3,487 million. Its share in the overall top line fell by three percentage points to 19%.

Revenues by segment

US$18,005 mn +72%



The growth in revenues was driven mainly by higher selling prices of steel and iron ore products in line with global benchmarks. In addition, Metinvest increased sales volumes of finished steel products by 11%, as demand recovered in several strategic markets and the Group's recent investments to upgrade its assets bore fruit. Metinvest also increased pellet shipments by 13% amid higher pellet premiums globally, and coking coal concentrate deliveries by 2.1 times.

During the reporting period, Metinvest sold 15,808 thousand tonnes of pig iron and steel products, of which 10,461 thousand tonnes were manufactured in-house and 5,347 thousand tonnes were purchased from third parties. This compared with a total of 15,448 thousand tonnes of pig iron and steel product sales in 2020, of which 9,288 thousand tonnes were made in-house and 6,160 thousand tonnes came from third parties.

Overall, revenues from resales totalled US$4,832 million in 2021, up 55% year-on-year. They accounted for 27% of the top line, down three percentage points year-on-year.

FOCUS ON CUSTOMERS

A STRATEGIC PRIORITY

GRI 103-2; 103-3

Metinvest relies on a blend of engagement, quality and technology to provide the responsive sales and support experience that is at the centre of its value proposition. In 2021, the Group had almost 7,200 customers worldwide.

The Group's Sales Directorate uses a customer relationship management (CRM) system to monitor and control key aspects of this experience. Metinvest ensures the effective functioning of the CRM system through internal regulations governing such factors as pricing, key accounts, segmentation, lead generation and the sales process. Every year, the Group's assets assess the effectiveness of their engagement and resulting satisfaction levels. This helps to better understand customer needs, identify areas for improvement and draw up an action plan to address any deficiencies.

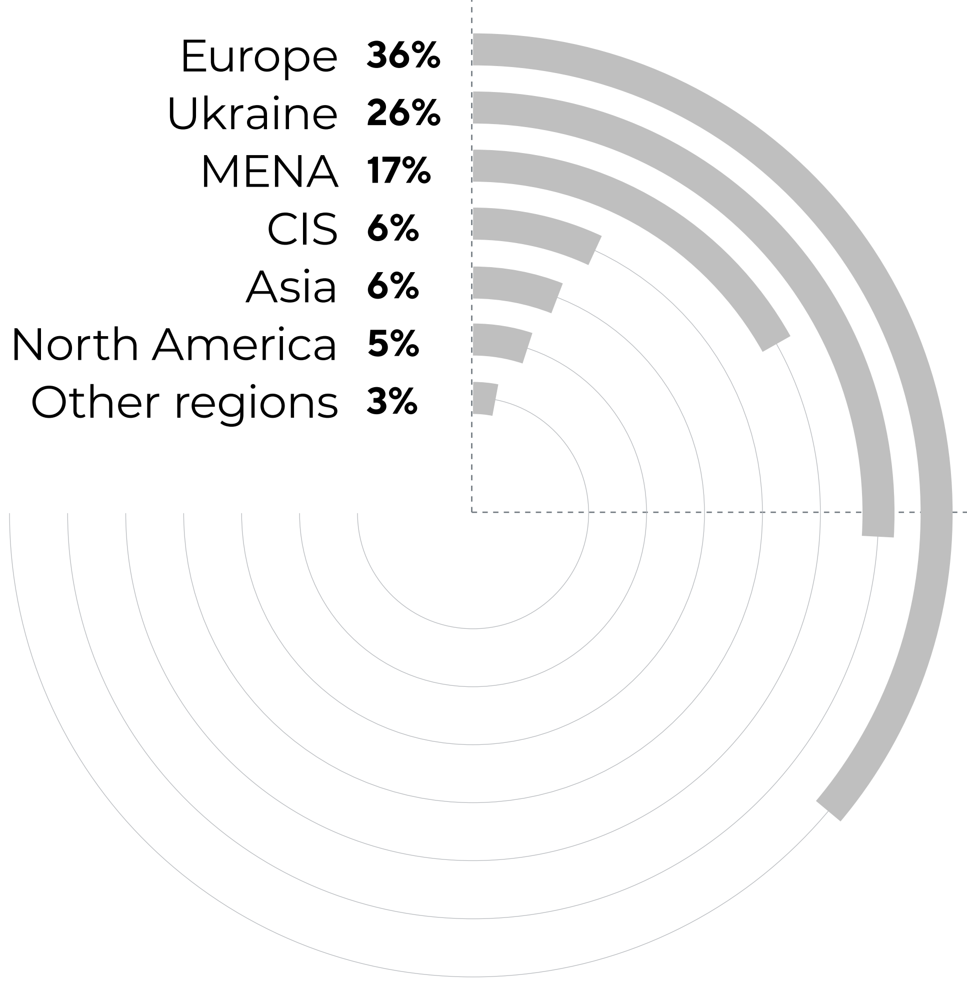
In 2021, Metinvest continued to deploy technology to improve the quality and efficiency of its engagement, including two SAP CRM modules: Cloud for Customer (C4C) and Configure Price Quote (CPQ). The platform made it easier to attract new customers and enter additional product segments in the markets where the Group operates. The deployment of the SAP CRM modules helped to control pricing policy and minimise the risk of incorrect information being provided.

During the year, SAP CRM modules were extended at Metinvest International, the Group's Swiss trading subsidiary, to enhance their functionality. In addition, Metinvest International started sales of iron ore products in the CRM system using the C4C and CPQ modules. The C4C module was also launched in Ukraine (Metinvest-SMC) and Western Europe. In 2021, Metinvest developed its Key Account Management Programme further, which helped to ensure a sustainable focus on product quality and the satisfaction of key customers.

Revenues by market

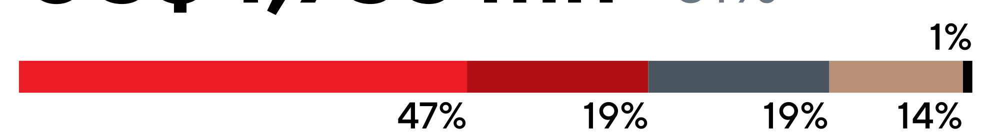
US$18,005 mn +72%

GRI 102-6



Europe[1]
US$6,495 mn +2.3x

Ukraine
US$4,735 mn +61%



MENA
US$3,005 mn +67%

CIS
US$1,170 mn +84%

Asia[1]
US$1,168 mn -20%

North America
US$919 mn +62%

Other regions
US$513 mn +2.7x

- Finished products
- Semi-finished products
- Iron ore products
- Coke and coal products
- Other products and services

[1] Asia excludes the Middle East and Central Asia. Europe excludes Ukraine, European CIS countries and Turkey.

In 2021, revenues in Ukraine climbed by 61% year-on-year to US$4,735 million, mainly because of higher average selling prices of steel and iron ore products. In addition, sales volumes of long and flat products increased by 11% and 3%, respectively, amid growth in domestic apparent rolled steel consumption. The share of Ukraine in consolidated revenues edged down by two percentage points to 26%.

Sales to other markets increased by 77% year-on-year to US$13,270 million in 2021, accounting for 74% of total revenues.

Sales to Europe grew by 2.3 times year-on-year, primarily amid higher steel and iron ore selling prices. In addition, shipments of iron ore, semi-finished and finished steel products surged by 42%, 41% and 30%, respectively. As a result, the region's share in overall revenues increased by nine percentage points to 36%.

Revenues from the Middle East and North Africa (MENA) rose by 67% year-on-year, mainly amid higher steel selling prices, as well as greater shipments of flat products (up 12%) and iron ore products (up 3.5 times). At the same time, the region's share in consolidated revenues remained unchanged at 17%.

Sales to the CIS increased by 84% year-on-year, mainly due to higher steel selling prices, as well as greater shipments of billets and flat products. The region's share in consolidated revenues remained unchanged at 6%.

Sales to Asia fell by 20% year-on-year because of lower deliveries of iron ore products (down 43%) and semi-finished and finished steel products (down 82%), primarily to China. This caused the region's share in consolidated revenues to decrease by eight percentage points to 6%.

Sales to North America increased by 62% year-on-year, attributable mainly to higher steel selling prices. At the same time, the region's share in consolidated revenues remained unchanged at 5%.

Sales in other regions rose by 2.7 times year-on-year, boosting their share in total revenues by one percentage point to 3%.

Revenues by product

Metallurgical segment

US$14,518 mn +77%

Pig iron
Sales of pig iron increased by 72% year-on-year to US$1,419 million, driven by a comparable rise in the average selling price. Shipments remained almost unchanged at 2,446 thousand tonnes, as lower resales were compensated by greater sales of in-house goods. As a result, the share of resales in total sales volumes fell by seven percentage points to 44%. Amid favourable market conditions in Europe, shipments to the region rose by 399 thousand tonnes. Meanwhile, there were lower deliveries to North America and no sales to Asia.

Slabs
Revenues from slabs rose by 40% year-on-year to US$1,258 million. This was driven by higher selling prices, which followed an increase of 81% in the slab FOB Black Sea benchmark. Sales volumes decreased by 22% to 1,698 thousand tonnes amid lower output. Shipments to Europe and other regions increased by 57 thousand tonnes and 141 thousand tonnes, while those to MENA and Asia dropped by 390 thousand tonnes and 252 thousand tonnes, respectively.

Billets
Sales of billets[2] climbed by 33% year-on-year to US$736 million because of higher selling prices, which followed a 53% increase in the square billet FOB Black Sea benchmark. Total sales volumes fell by 16% to 1,138 thousand tonnes, of which shipments of in-house goods totalled 352 thousand tonnes following the acquisition of production facilities in August 2021. Deliveries to MENA and Asia dropped by 328 thousand tonnes and 135 thousand tonnes, while those to the CIS, Europe and other regions increased by 72 thousand tonnes, 51 thousand tonnes and 108 thousand tonnes, respectively.

Flat products
Sales of flat products more than doubled year-on-year to US$8,261 million. This was primarily due to higher selling prices, which followed an 84% increase in the HRC FOB Black Sea benchmark. In addition, overall sales volumes rose by 13% to 8,737 thousand tonnes, mainly because of an increase of 930 thousand tonnes in shipments of in-house goods amid higher production. As a result, the share of resales in total volumes fell by four percentage points to 33%. Available volumes were redistributed among markets according to demand. Sales to Europe, MENA, the CIS and Ukraine rose by 974 thousand tonnes, 264 thousand tonnes, 77 thousand tonnes and 45 thousand tonnes, respectively, while those to Asia decreased by 392 thousand tonnes.

Long products
Sales of long products increased by 52% year-on-year to US$1,312 million because of higher selling prices, which followed the square billet FOB Black Sea benchmark. In addition, shipments edged up by 4% to 1,667 thousand tonnes due to a rise of 25% in sales volumes of in-house goods amid greater output. As a result, the share of resales in total sales volumes fell by 11 percentage points to 34% in 2021. Sales to Ukraine and Europe, key markets for these products, rose by 86 thousand tonnes and 47 thousand tonnes, respectively. At the same time, shipments to the CIS fell by 65 thousand tonnes.

Tubular products
Sales of tubular products soared by 48% year-on-year to US$123 million because of a higher average selling price. This was partly offset by a drop of 17% in shipments to 122 thousand tonnes.

Coke
Revenues from coke rose by 58% year-on-year to US$749 million, driven by a comparable increase in sales prices. Shipments fell by 11% to 1,910 thousand tonnes amid lower production.

Other
Sales of other products[2] and services increased by 37% year-on-year to US$660 million.

Mining segment

US$3,487 mn +55%

Iron ore concentrate
Revenues from iron ore concentrate rose by 25% year-on-year to US$1,748 million. This was driven by higher selling prices, in line with the 62% Fe iron ore fines CFR China benchmark trend. Shipments fell by 20% to 11,438 thousand tonnes, driven by lower merchant product output. Sales to Europe and MENA rose by 533 thousand tonnes and 638 thousand tonnes, respectively. Deliveries to Ukraine and Asia fell by 1,050 thousand tonnes and 2,903 thousand tonnes, respectively.

Pellets
Revenues from pellets soared by 94% year-on-year to US$1,245 million amid higher selling prices, which followed a worldwide increase in pellet premiums. In addition, shipments climbed by 13% to 5,729 thousand tonnes as a result of greater output. Deliveries to Europe and MENA rose by 869 thousand tonnes and 472 thousand tonnes, respectively. Supplies to Ukraine and Asia fell by 113 thousand tonnes and 551 thousand tonnes, respectively.

Coking coal concentrate
Revenues from coking coal concentrate tripled year-on-year to US$304 million. This was due to price growth in line with benchmark and an increase in shipments by 2.1 times to 1,617 thousand tonnes following the consolidation of Pokrovske Coal. Volumes were distributed mainly to Ukraine, Asia, Europe and North America.

Other
Sales of other products and services rose by 73% year-on-year to US$190 million.

[2] Starting 2020, revenues from sales of square billets and other products and services have been revised to include round billets in billets.

NET OPERATING COSTS

In 2021, net operating costs[3] increased by 38% year-on-year to US$13,114 million, driven by several factors.

The cost of goods and services for resale climbed by US$1,653 million, primarily as a result of stronger purchase prices of steel products following increases in benchmarks. Spending on energy materials rose by US$770 million, mainly due to higher prices of natural gas (up 2.9 times year-on-year) and electricity (up 31% year-on-year).

Spending on raw materials increased by US$415 million amid elevated market prices, increased consumption due to greater production, and the consolidation of steel production facilities in Kamianske. This was partly compensated by other factors, including improved self-sufficiency in coking coal following the consolidation of Pokrovske Coal.

Labour costs[4] grew by US$274 million due to recent merger and acquisition activity, as well as a pay rise for production and administrative personnel in Ukraine. Depreciation and amortisation (D&A) expenses climbed by US$163 million, primarily because of the consolidation of new assets. Expenses on goods transportation services rose by US$122 million amid higher railway costs and increased freight rates globally.

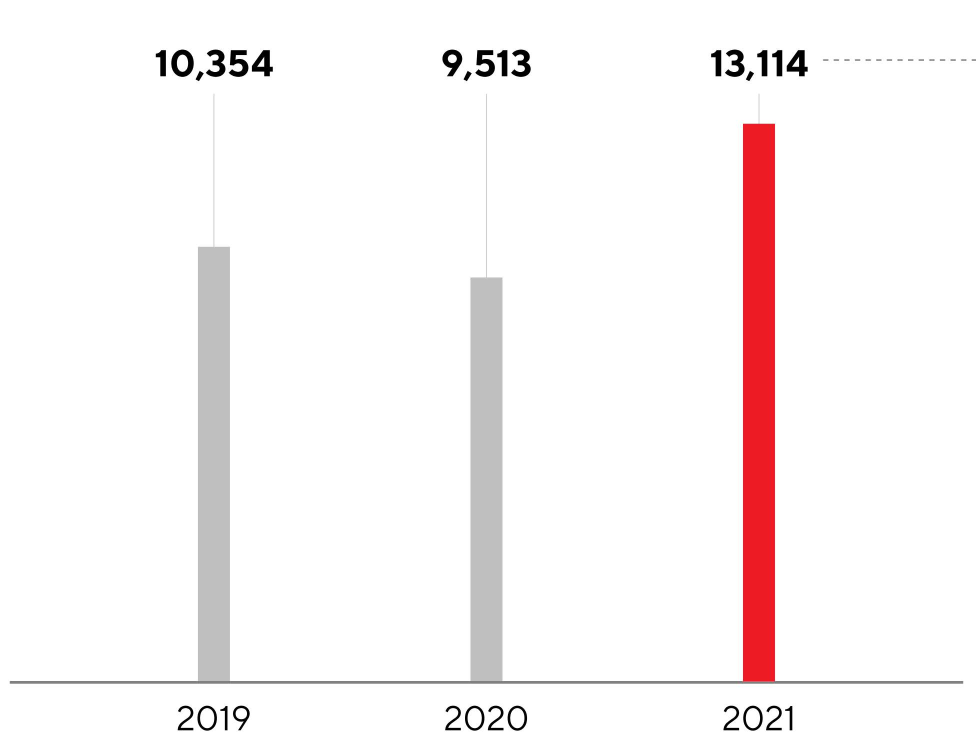
There was a loss from revaluation of financial instruments and an option of US$89 million, compared with a gain of US$74 million a year ago. Other costs also rose by US$234 million.

These drivers were partly compensated by a decrease in net operating foreign exchange losses of US$132 million, mainly due to the revaluation of outstanding accounts payable balances and intragroup dividends receivable. Also, there was a gain from a revaluation of shares in associates of US$61 million following the consolidation of Pokrovske Coal in March 2021.

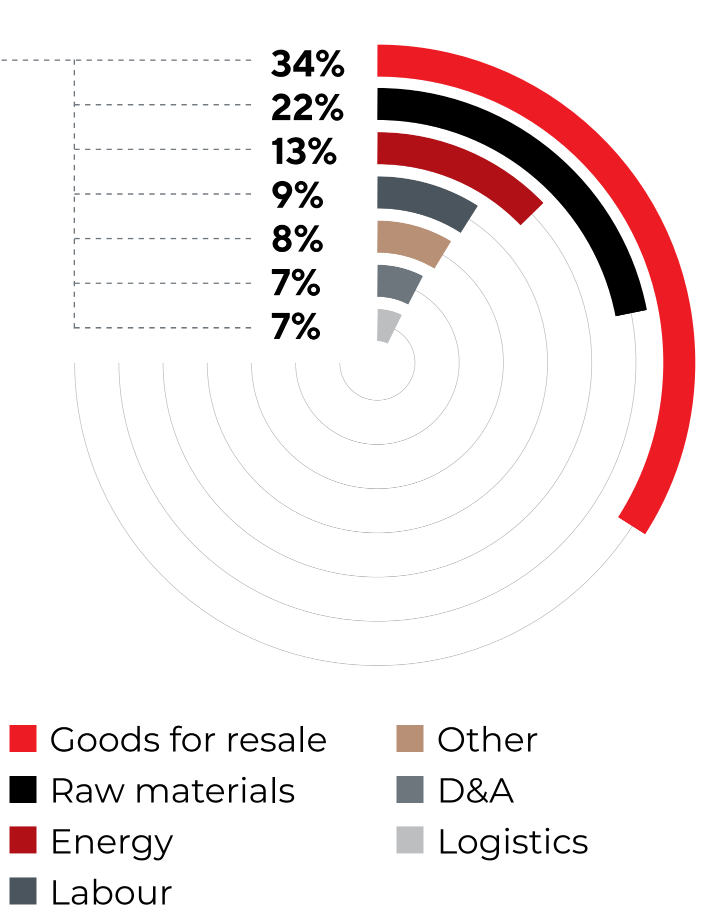
As a percentage of consolidated revenues, net operating costs fell by 18 percentage points year-on-year to 73%.

Net operating costs

US$13,114 mn +38%



Net operating costs by category in 2021



REVERSAL OF IMPAIRMENT OF FINANCIAL ASSETS

In 2021, the reversal of impairment of financial assets was US$42 million, mainly due to the settlement of previously impaired debts from a key customer. This compares with the impairment of financial assets of US$93 million in 2020, which accounted for 1% of consolidated revenues that year and was one percentage point higher than in 2021.

OPERATING PROFIT

In 2021, operating profit reached US$4,933 million, compared with US$847 million in 2020. The increase was primarily driven by higher revenues, as well as the reversal of impairment of financial assets. This was partly offset by greater net operating costs.

The operating margin climbed by 19 percentage points to 27%.

FINANCE INCOME

In 2021, finance income increased by 3.5 times year-on-year to US$212 million because of two factors. First, foreign exchange gains from financing activities totalled US$97 million (nil in 2020). Second, income from derecognition of the guarantee issued in exchange for the option to purchase the remaining 75.22% in Pokrovske Coal amounted to US$77 million, as the Group settled it during the reporting period.

As a percentage of consolidated revenues, finance income was unchanged at 1%.

FINANCE COSTS

In 2021, finance costs halved year-on-year to US$280 million, as there were no foreign exchange losses from financing activities during the reporting period. In addition, interest expenses fell by 7% to US$165 million.

As a percentage of consolidated revenues, finance costs decreased by three percentage points to 2%.

SHARE OF RESULT OF ASSOCIATES AND JOINT VENTURES

In 2021, Metinvest's share in net income of its associates and joint ventures nearly tripled year-on-year to US$799 million, primarily as a result of greater contributions from both joint ventures.

INCOME TAX EXPENSE

In 2021, the income tax expense amounted to US$899 million, up nearly seven times year-on-year, due to the Group's improved profitability. The effective tax rate, calculated as total income tax divided by profit before tax, remained unchanged year-on-year at 16%.

NET PROFIT

In 2021, net profit reached US$4,765 million, compared with US$526 million in 2020. This was due to higher revenues, greater contribution from associates and joint ventures, decreased finance costs, increased finance income and a reversal in impairment of financial assets (compared with their impairment a year earlier). These factors were partly offset by higher net operating costs and greater income tax expense.

The net profit margin amounted to 26%, up 21 percentage points year-on-year.

[3] Net operating costs (excluding items shown separately) are presented without the effects of operational improvements. In the factor analysis, all costs are presented net of the impact of exchange rate fluctuations between the hryvnia and the presentation currency, which is calculated separately and included in other costs. The data for 2019 has been adjusted to add back the impairment of property, plant and equipment to ensure comparability with the data for 2020 and 2021.

[4] Labour costs include wages and salaries, as well as pension and social security costs.

EBITDA

Adjusted EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign-exchange gains and losses, the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures. Adjusted EBITDA is referred to as EBITDA in this report.

In 2021, EBITDA rose by 3.2 times year-on-year to US$7,044 million, driven by stronger contributions from both segments.

The Mining segment's EBITDA increased by 2.9 times to US$4,214 million and the Metallurgical segment's EBITDA by 3.7 times to US$3,257 million.

Corporate overheads and eliminations totalled US$427 million in 2021 (US$134 million in 2020).

As a result, the split between the Mining and Metallurgical segments was 56% to 44% in 2021, compared with 62% to 38% in 2020.

In 2021, the Group's EBITDA margin expanded by 18 percentage points year-on-year to 39%. The Mining segment's EBITDA margin rose by 21 percentage points to 67% and the Metallurgical segment's climbed by 11 percentage points to 22%.

The increase in the Group's EBITDA was primarily driven by higher sales prices for steel and iron ore products, which also improved contributions of both joint ventures and earnings from resales.

In addition, the stronger EBITDA performance was driven by higher sales volumes of in-house goods, primarily pig iron, flat and long products, and pellets.

It was also boosted by a record amount of operational improvements.

These factors were partly offset by:

- increased expenses on energy materials primarily due to higher natural gas and electricity prices
- growth in spending on raw materials mainly due to inflated market prices, greater consumption amid higher production levels and the integration of steelmaking facilities in Kamianske
- higher labour costs due to recent acquisitions and a pay rise at Ukrainian assets
- increased railway costs and elevated freight rates globally.

[5] Net of resales.
[6] Other costs include logistics, forex, fixed costs (excluding labour costs) and other expenses. They are presented net of resales.

OPERATIONAL IMPROVEMENTS

A COMPLEX UNDERTAKING

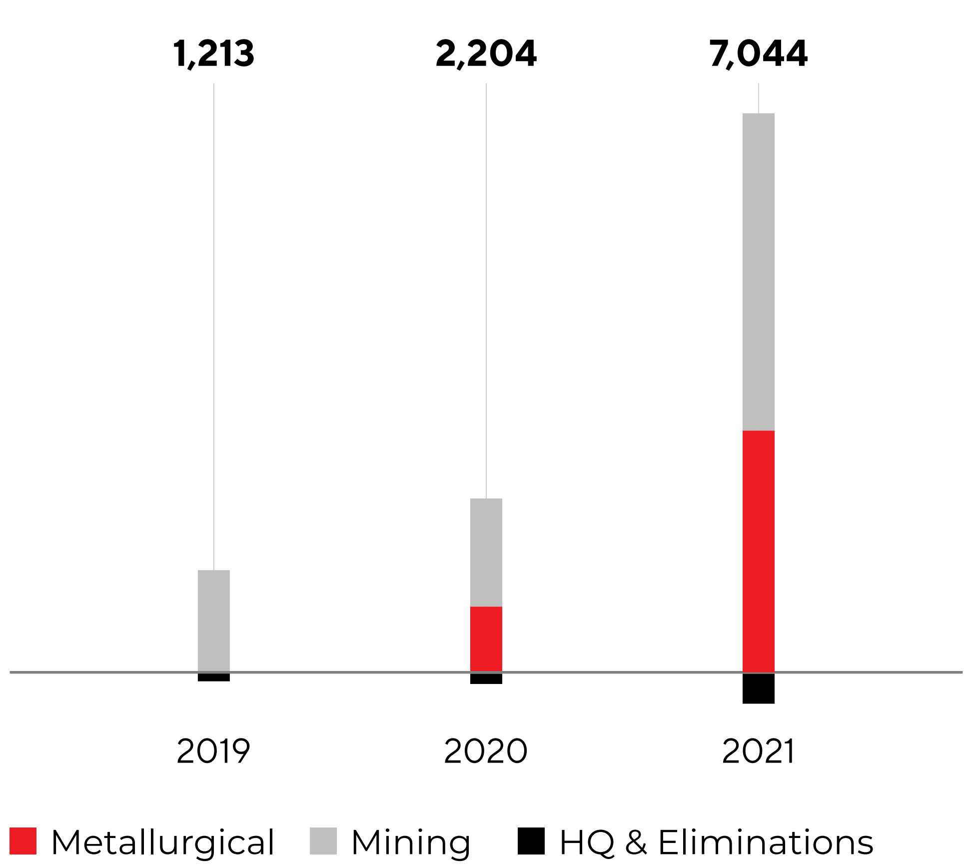
In 2021, the Group delivered strong operational improvements. It achieved these results through numerous initiatives, both small and large.

During the reporting period, Metinvest generated total operational improvements of US$568 million, an increase of 51% year-on-year.

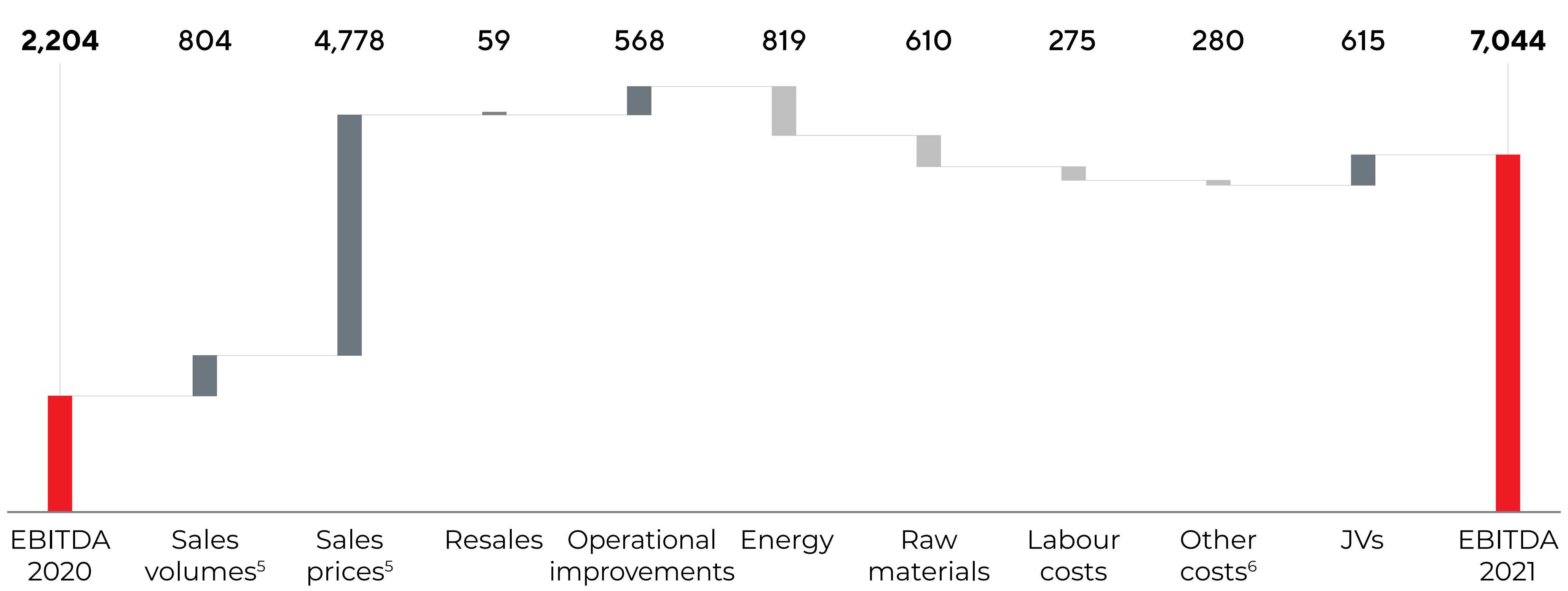
The main drivers of the additional increase were the capitalisation of the operational improvements efforts to advance equipment performance in a high market environment, as well as enhanced sales efficiency, procurement and logistics initiatives.

EBITDA by segment

US$7,044 mn +3.2x

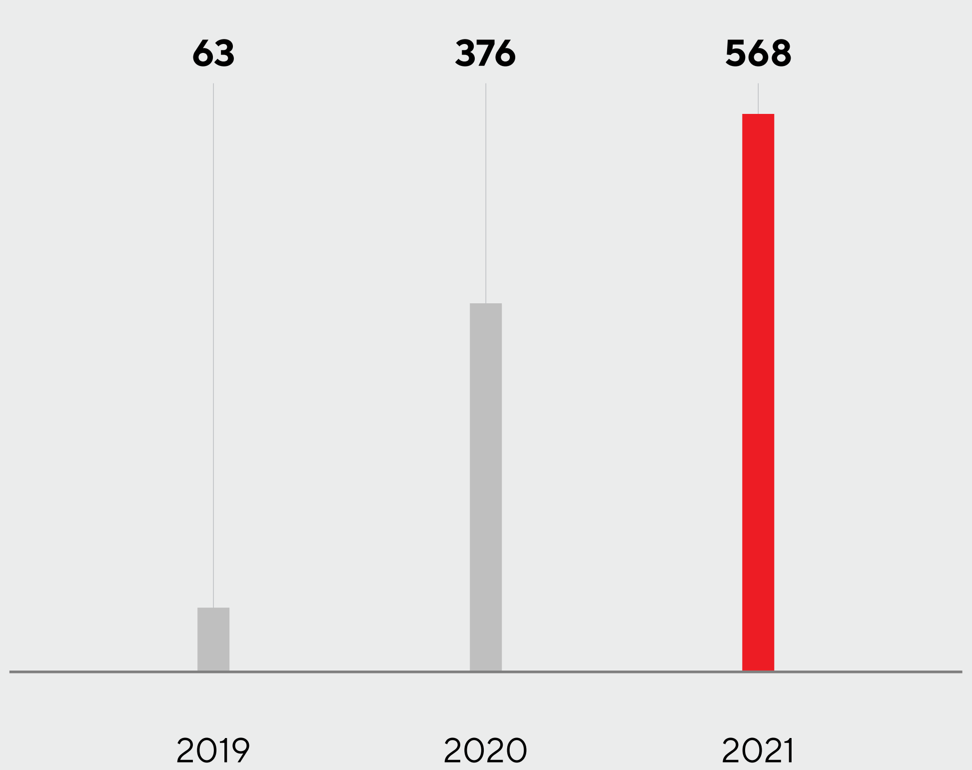


EBITDA drivers (US$ mn)



Effect of operational improvements

US$568 mn +51%



LIQUIDITY AND CAPITAL RESOURCES

Net cash from operating activities

In 2021, net cash flow from operating activities rose by 3.2 times year-on-year to US$5,526 million, mainly due to a comparable increase in operating cash flow before working capital changes.

There was also a working capital release of US$577 million due to a decrease in trade and other accounts receivable of US$736 million and a rise in trade and other accounts payable of US$251 million. This was partly offset by growth in inventory of US$410 million, which was primarily caused by:

- a build-up in pig iron and steel product volumes (up 144 thousand tonnes), mainly because of the acquisition of ex-DMK inventories and increased flat product stocks
- greater volumes of iron ore products (up 904 thousand tonnes) amid delivery delays
- higher cost of stocks

At the same time, interest paid fell by 12% to US$190 million due to deleveraging, while income tax paid rose by 7.4 times to US$885 million on improved profitability.

Net cash used in investing activities

In 2021, net cash used in investing activities totalled US$1,297 million, up 57% year-on-year. Total cash used to purchase property, plant and equipment and intangible assets increased by 50% to US$1,017 million.

Principal payments under the guarantee issued in exchange for the option to purchase the remaining 75.22% in Pokrovske Coal totalled US$455 million in 2021 (US$77 million in 2020).

In addition, the Group paid US$341 million for assets relating to the integral property complex of DMK. Of this, the property, plant and equipment and intangible assets costs were US$121 million, inventories were US$123 million, and trade and other receivables were US$97 million.

At the same time, the Group received US$446 million of dividends from the Southern GOK JV (nil in 2020).

Net cash used in financing activities

In 2021, net cash used in financing activities totalled US$3,841 million, of which the Group spent US$1,266 million on net repayment of loans, borrowings and trade finance facilities. This included a repayment of most of Pokrovske Coal's debt, part of the bonds due in 2023 and 2026, the PXF facility, several other bank loans and lease liabilities, as well as lower utilisation of trade finance facilities.

This compares with US$360 million used in financing activities in 2020, of which the Group spent US$189 million on net deleveraging.

At the end of 2021, compared with a year earlier, total debt[7] was US$2,242 million (down 24%), the cash balance was US$1,166 million (up 41%) and net debt[8] was US$1,076 million (down 49%). Coupled with the strong EBITDA generation and the deleveraging, net debt to EBITDA decreased to 0.2x as at 31 December 2021 (down 0.8x year-on-year).

[7] Total debt is calculated as the sum of bank loans, non-bank borrowings, bonds, trade finance and lease liabilities.
[8] Net debt is calculated as total debt less cash and cash equivalents.

CAPITAL EXPENDITURE

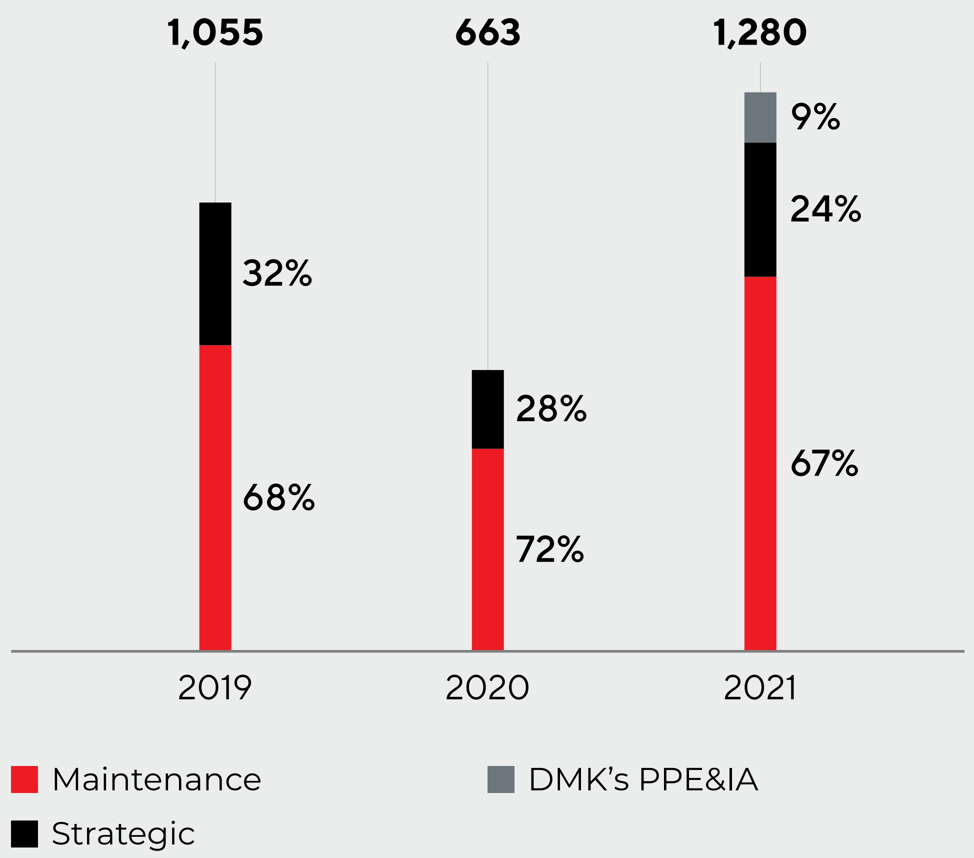
A BALANCED MIX

In 2021, Metinvest executed a capital expenditure programme that sought to balance maintaining assets, improving operational efficiency, progressing on strategic initiatives and advancing the Group's environmental agenda.

In 2021, the Group's total capital expenditure was US$1,280 million, up 93% year-on-year. Consistent with its priorities, Metinvest increased investments in maintenance by 80% and in strategic projects by 63%. This brought their respective shares in overall capital expenditure to 67% and 24% (72% and 28% in 2020), with the remaining 9% in 2021 going towards the acquisition of DMK's property, plant and equipment (PPE) and intangible assets (IA).

CAPEX by purpose

US$1,280 mn +93%



During the year, Metinvest delivered on a number of strategic projects, including the following ones.

At the iron ore producers, the Group launched a new crusher and conveyor system (CCS) at Ingulets GOK in August and a new CCS for rock transportation at Northern GOK in September 2021. The equipment, which is expected to reduce operational and capital expenditures in iron ore mining and help to maintain production volumes, cost around US$50 million at Ingulets GOK and US$200 million at Northern GOK.

At the coking coal producers, the Group continued the construction of new mine block No. 11 at the recently consolidated Pokrovske Coal. This work will help to maintain long-term production volumes.

At its Italian re-roller, Metinvest Trametal, the Group invested around EUR10 million in a new plasma cutting line, which it launched in November 2021. This helped to nearly quadruple the plant's annual production capacity of trimmed plates by around 170 thousand tonnes per year.

In terms of the segmental breakdown, the Metallurgical segment accounted for 54% of capital expenditure (50% in 2020) and Mining for 41% (47% in 2020). Corporate overheads accounted for 5% of investments in 2021 (3% in 2020).

DELEVERAGING

AN EXERCISE IN PRUDENCE

Metinvest's financial performance in 2021 made it possible to undertake a series of significant deleveraging exercises. As a result, the Group decreased its total debt to US$2,242 million as of 31 December 2021.

During the reporting period, Metinvest's most significant deleveraging move was to restructure both debt facilities of Pokrovske Coal. The interest rates were significantly decreased in line with newly agreed repayment schedules. Given an early repayment option, most of the debt was repaid ahead of schedule.

Metinvest also repurchased US$277 million of its bonds, including US$135 million of bonds due in 2023 and US$142 million of bonds due in 2026, and promptly cancelled them afterwards.

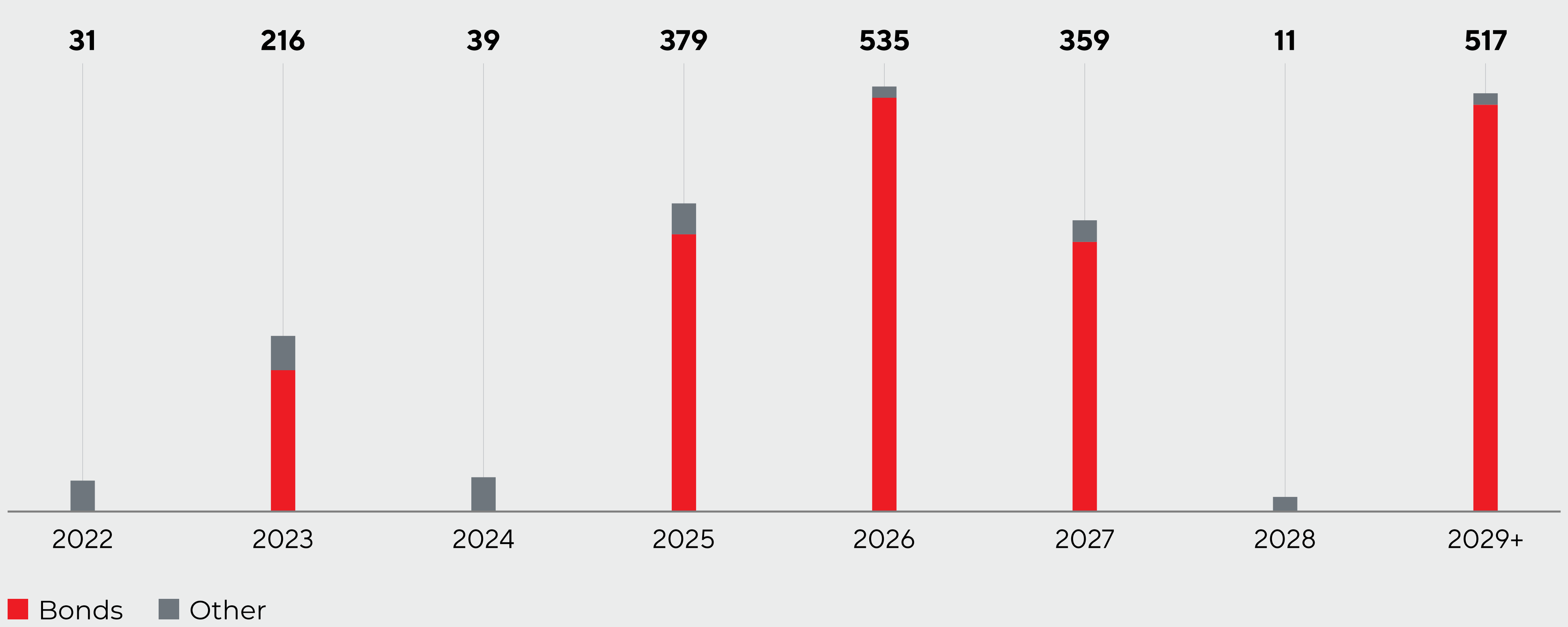
During the year, the Group repaid the PXF facility in full, made repayments on several other bank loans and lease liabilities, and reduced the use of trade finance.

International credit rating agencies improved their assessments of the Group's creditworthiness in 2021. Fitch affirmed its credit rating for Metinvest at 'BB-' while revising the outlook to 'stable' from 'negative'. S&P upgraded its credit rating for the Group to 'B+' from 'B', the outlook 'stable'. Following the Russian invasion of Ukraine, Moody's and Fitch revised their credit ratings for Metinvest downwards, while S&P suspended its ratings for Metinvest and its bonds amid the agency's reduced visibility on the Group's operations.

[9] Debt resulting from the consolidation of Pokrovske Coal in March 2021, other bank loans and other lease liabilities.

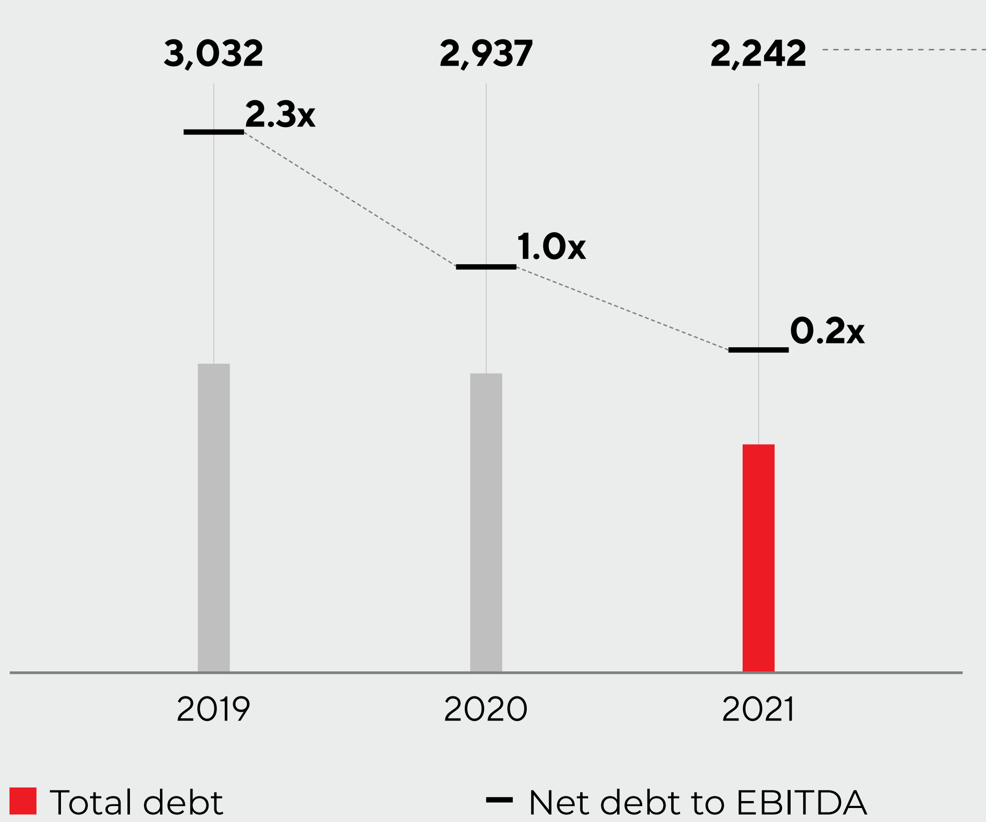
[10] Excluding trade finance and lease liability under IFRS 16. Presented amounts of scheduled instalments include principal only (without accrued interest, fees, commissions and discounts).

Corporate debt maturity as of 31 December 2021 (US$ mn)[10]



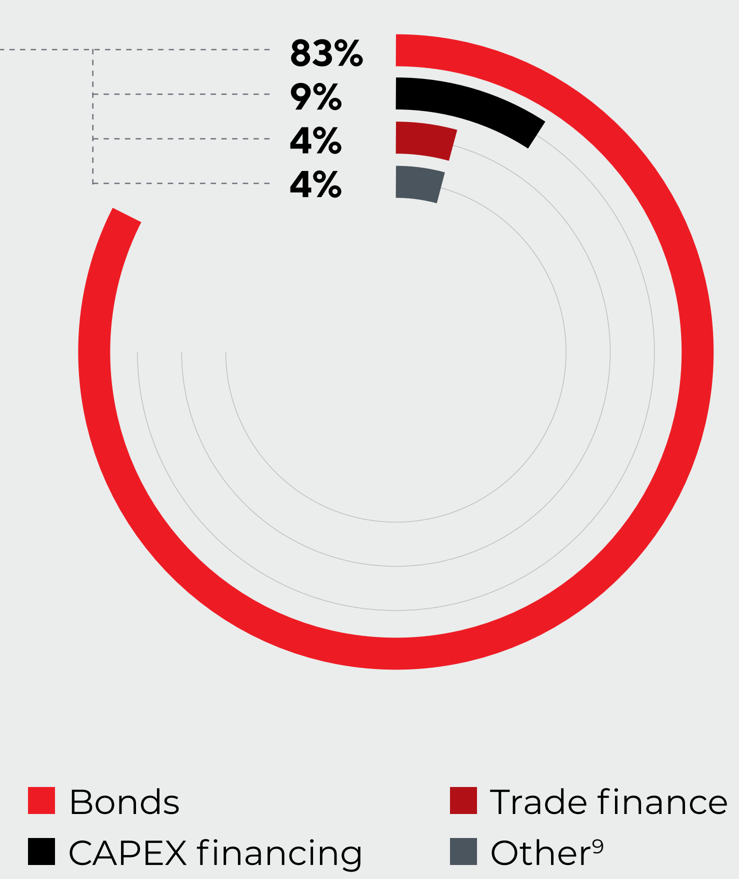
Debt portfolio metrics

US$2,242 mn -24%



Total debt by instrument

83% **public debt**



Total debt decrease in 2021

US$1,238 mn **of deleveraging**