May 30, 2018

Trading update for the first quarter of 2018

Metinvest B.V., the parent company of a vertically integrated group of steel and mining companies (jointly referred to as “Metinvest” or “the Group”), today published a trading update for the first quarter ended 31 March 2018.

The information in this press release has been prepared based on preliminary financial results. Intragroup transactions have been eliminated in consolidation. This announcement does not contain sufficient information to constitute a full set of financial statements. The following preliminary results may differ from financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The numbers in this press release have not been audited or reviewed. Metinvest B.V. publishes consolidated financial statements prepared in accordance with IFRS for the six months ending 30 June and for the year ending 31 December. Due to rounding, numbers presented throughout this release may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures.

FINANCIAL HIGHLIGHTS

(US$ mn)	1Q 2018	1Q 2017	Change
Revenues	3,019	1,853	63%
Adjusted EBITDA [1]	649	402	61%
margin	21%	22%	-1 pp
CAPEX [2]	216	103	>100%
(US$ mn)	31 Mar 2018	31 Dec 2017	Change
Gross debt [3]	3,086	3,017	2%
Cash and cash equivalents [4]	261	259	1%
Net debt [5]	2,356	2,298	3%

Revenues

In 1Q 2018, Metinvest’s consolidated revenues increased by 63% y-o-y to US$3,019 mn, driven primarily by higher selling prices, which followed global benchmarks. In addition, stronger demand spurred greater sales volumes of pig iron, slabs, flat products, coke and pellets. Moreover, the Group started resales of square billets and long products to compensate lower sales volumes of these products manufactured at seized facilities.

Revenues in Ukraine amounted to US$837 mn in 1Q 2018, up 81% y-o-y, primarily due to increased selling prices, as well as higher sales volumes of flat products (+166 kt) amid greater local demand, as the economic upturn continued. Moreover, sales of coke and pellets increased by 375 kt and 494 kt, respectively, amid stronger demand from Zaporizhstal, as well as another customer, which resumed operations in 3Q 2017. As a result, the share of Ukraine in consolidated revenues rose by 3 pp y-o-y to 28%.

International sales increased by 57% y-o-y to US$2,182 mn in 1Q 2018, accounting for 72% of consolidated revenues. Sales to Europe rose by 55% y-o-y amid higher realised prices of steel products and pellets, as well as greater sales volumes of semi-finished products (+343 kt) and iron ore products (+874 kt). At the same time, Europe’s share in consolidated revenues amounted to 35%, down 2 pp y-o-y. Sales to the Middle East and North Africa (MENA) climbed by 87% y-o-y amid higher selling prices of flat products and greater sales volumes of square billets (+264 kt), flat products (+129 kt) and pig iron (+52 kt). As a result, MENA’s share in consolidated revenues increased by 3 pp y-o-y to 19%. Sales to the CIS (ex Ukraine) rose by 25% y-o-y, primarily due to higher selling prices and volumes of flat and long products, while the region’s share decreased by 2 pp y-o-y to 7%. Sales to North America almost tripled y-o-y due to higher prices and volumes of pig iron (+275 kt), which increased the region’s share by 2 pp y-o-y to 6%. Sales in Southeast Asia dropped by 30% y-o-y, mainly due to lower volumes of iron ore products (-855 kt), reducing the market's share by 5 pp y-o-y to 3%.

Revenues by market	1Q 2018		1Q 2017		Change, y-o-y		
	US$ mn	% of revenues	US$ mn	% of revenues	US$ mn	%	pp of revenues
Total revenues	**3,019**	**100%**	**1,853**	**100%**	**1,166**	**63%**	**-**
Ukraine	837	28%	461	25%	376	81%	3
Europe	1,068	35%	688	37%	379	55%	-2
MENA	570	19%	304	16%	266	87%	3
CIS (ex Ukraine)	202	7%	161	9%	41	25%	-2
Southeast Asia	106	3%	151	8%	-45	-30%	-5
North America	185	6%	71	4%	114	>100%	2
Other regions	52	2%	16	1%	36	>100%	1

Metallurgical segment [6]

The Metallurgical segment generates revenues from sales of pig iron, steel and coke products and services. In 1Q 2018, its top line rose by 76% y-o-y to US$2,588 mn, driven by higher selling prices of steel and coke products, as well as stronger demand and greater resales (pig iron, square billets, flat and long products). Sales of flat products rose by US$393 mn, pig iron by US$240 mn, square billets by US$168mn, slabs by US$64 mn, long products by US$44 mn, coke by US$139 mn and other products and services by US$68 mn. In 1Q 2018, the segment accounted for 86% of external sales, up 6 pp y-o-y.

Metallurgical segment Sales by market	1Q 2018			1Q 2017			Change, y-o-y		Change, y-o-y %	
	US$ mn	% of revenues	kt	US$ mn	% of revenues	kt	US$ mn	kt	US$ mn	kt
Total sales	**2,588**	**100%**	**4,494**	**1,473**	**100%**	**2,836**	**1,115**	**1,658**	**76%**	**58%**
Ukraine	634	25%	1,043	314	21%	531	320	511	>100%	96%
Europe	856	33%	1,407	566	38%	1,078	291	329	51%	31%
MENA	570	22%	1,020	304	21%	641	266	380	87%	59%
CIS (ex Ukraine)	201	8%	287	161	11%	260	40	27	25%	10%
Southeast Asia	89	3%	169	49	3%	108	40	61	82%	56%
North America	185	7%	463	63	4%	178	121	285	>100%	>100%
Other regions	52	2%	106	16	1%	40	36	66	>100%	>100%

Metallurgical segment Sales by product	1Q 2018		1Q 2017		Change, y-o-y		Change, y-o-y %		
	US$ mn	kt	US$ mn	kt	US$ mn	kt	US$ mn	due to price	due to volume
Semi-finished products	**661**	**1,489**	**189**	**499**	**472**	**989**	**>100%**	**52%**	**>100%**
Pig iron	308	816	68	210	240	606	>100%	65%	>100%
incl. resales	119	312	1	4	117	308	>100%	>100%	>100%
Slabs	157	291	94	222	64	68	68%	37%	31%
Square billets	195	383	27	68	168	315	>100%	>100%	>100%
incl. resales	195	383	-	-	195	383	-	-	-
Finished products	**1,562**	**2,420**	**1,126**	**2,126**	**436**	**294**	**39%**	**25%**	**14%**
Flat products	1,305	2,034	912	1,696	393	338	43%	23%	20%
incl. resales	476	807	311	615	165	192	53%	22%	31%

Long products	241	362	197	402	44	-40	22%	32%	-10%
incl. resales	80	131	3	6	76	124	>100%	>100%	>100%
Tubular products	16	24	17	29	-1	-5	-6%	11%	-17%
Coke	**203**	**585**	**64**	**210**	**139**	**375**	**>100%**	**38%**	**>100%**
Other products and services	**162**	**-**	**94**	**-**	**68**	**-**	**72%**	**-**	**-**
Total sales	**2,588**	**4,494**	**1,473**	**2,836**	**1,115**	**1,658**	**76%**	**17%**	**58%**

Pig iron

In 1Q 2018, sales of pig iron increased by 4.5 times y-o-y to US$308 mn due to higher realised prices and volumes. Sales volumes rose by 606 kt y-o-y to 816 kt, driven by stronger demand for pig iron produced at Metinvest's facilities (+298 kt) and greater resales of pig iron produced by Zaporizhstal (215 kt) and other steel producers (93 kt). Sales to all markets climbed y-o-y, primarily to North America (+275 kt) and Europe (+190 kt) following greater orders from existing and new customers.

Slabs

In 1Q 2018, sales of slabs increased by 68% y-o-y to US$157 mn, of which 37 pp was attributable to a higher average selling price and 31 pp to greater sales volumes. Volumes rose by 68 kt y-o-y to 291 kt amid steady demand from European customers. The increase in the average selling price followed the benchmark for slabs (FOB Black Sea), which rose by 33% y-o-y.

Square billets

In 1Q 2018, sales of square billets soared seven-fold y-o-y to US$195 mn, driven by higher selling prices and greater sales volumes. Volumes rose by 315 kt y-o-y to 383 kt due to the launch of resales (383 kt), which compensated lower volumes of own products following the loss of control over Yenakiieve Steel (68 kt). All available volumes were sold to MENA and Europe. The average selling price followed the square billet FOB Black Sea benchmark, which climbed by 33% y-o-y.

Flat products

In 1Q 2018, sales of flat products increased by 43% y-o-y to US$1,305 mn, of which 23 pp was attributable to a higher average selling price and 20 pp to greater sales volumes. Total volumes rose by 338 kt y-o-y to 2,034 kt. At the same time, resales of Zaporizhstal's flat products climbed by 192 kt y-o-y to 807 kt, driving their share in total sales volumes by 4 pp y-o-y to 40% in 1Q 2018. Sales to Ukraine increased by 166 kt amid weaker competition in local market. Sales volumes to MENA rose by 129 kt due to strong demand and lower competition from Chinese producers. The average selling price were in line with the HRC FOB Black Sea benchmark, which climbed by 24% y-o-y.

Long products

In 1Q 2018, sales of long products rose by 22% y-o-y to US$241 mn, driven by a higher average realised price. Sales volumes decreased by 10% y-o-y (or 40 kt) to 362 kt due to lower production and the loss of control over Yenakiieve Steel, which was partly compensated by higher resales (124 kt). Meanwhile, volumes were allocated between markets to maximise margin. The positive y-o-y price trend on all markets for long products was due to stronger billet quotations.

Tubular products

In 1Q 2018, sales of tubular products fell by 6% y-o-y to US$16 mn, driven by a decline in sale volumes (-17 pp), which was partly compensated by an increase in the average selling price (+11 pp). Volumes dropped by 5 kt y-o-y to 24 kt, given weaker demand in the CIS.

Coke

In 1Q 2018, sales of coke tripled y-o-y to US$203 mn, reflecting a similar move in sales volumes, which rose by 375 kt y-o-y to 585 kt amid stronger demand in Ukraine. At the same time, the average selling price increased by 38% y-o-y.

Mining segment

The Mining segment generates revenues from sales of iron ore, coal and other products and services. In 1Q 2018, its top line increased by 14% y-o-y to US$431 mn, primarily due to higher sales of pellets (US$64 mn), which have higher margins than iron ore concentrate. Consequently, sales of iron ore concentrate dropped by US$18 mn. At the same time, sales of coking coal concentrate decreased by US$7 mn due to higher intragroup consumption. In 1Q 2018, the segment accounted for 14% of external sales, down 6 pp y-o-y.

Mining segment Sales by market	1Q 2018			1Q 2017			Change, y-o-y		Change, y-o-y %	
	US$ mn	% of revenues	kt	US$ mn	% of revenues	kt	US$ mn	kt	US$ mn	kt
Total sales	**431**	**100%**	**3,741**	**380**	**100%**	**3,574**	**51**	**167**	**14%**	**5%**
Ukraine	202	47%	1,559	147	39%	1,302	55	257	37%	20%
Europe	211	49%	2,024	123	32%	1,149	89	874	72%	76%
MENA	-	-	-	-	-	-	-	-	-	-
CIS (ex Ukraine)	0	0%	-	-	-	-	0	-	-	-
Southeast Asia	17	4%	144	102	27%	998	-85	-855	-84%	-86%
North America	1	0%	15	8	2%	125	-7	-110	-93%	-88%
Other regions	-	-	-	-	-	-	-	-	-	-

Mining segment Sales by product	1Q 2018		1Q 2017		Change, y-o-y		Change, y-o-y %		
	US$ mn	kt	US$ mn	kt	US$ mn	kt	US$ mn	due to price	due to volume
Iron ore products	**358**	**3,643**	**312**	**3,343**	**46**	**300**	**15%**	**6%**	**9%**
Merchant iron ore concentrate	155	1,990	173	2,173	-18	-183	-11%	-2%	-8%
Pellets	203	1,653	139	1,170	64	483	46%	5%	41%
Coking coal concentrate	**19**	**98**	**27**	**231**	**-7**	**-133**	**-27%**	**30%**	**-58%**
Other products and services	**54**	**-**	**41**	**-**	**13**	**-**	**32%**	**-**	**-**
Total sales	**431**	**3,741**	**380**	**3,574**	**51**	**167**	**14%**	**9%**	**5%**

Iron ore concentrate

In 1Q 2018, sales of merchant iron ore concentrate decreased by 11% y-o-y to US$155 mn, primarily caused by lower sales volumes. Total volumes dropped by 183 kt y-o-y to 1,990 kt, driven by a y-o-y production decline. Given the premiums in Europe and weaker demand in Ukraine, sales to Europe increased by 457 kt y-o-y, resulting in lower sales in Ukraine (-214 kt) and Southeast Asia (-426 kt). The average realised price followed the 62% Fe iron ore fines CFR China benchmark, which dropped by 14% y-o-y to an average of US$74/t in 1Q 2018, down from US$86/t a year earlier.

Pellets

In 1Q 2018, sales of pellets soared by 46% y-o-y to US$203 mn, primarily driven by a 41% y-o-y rise in sales volumes to 1,653 kt. Sales in Ukraine rose by 494 kt amid stronger demand from Zaporizhstal, as well as another customer, which resumed operations in 3Q 2017. Sales to Europe rose by 417 kt, spurred by stronger demand and a focus on this premium market, which is one of Metinvest's strategic priorities. The balance was sold to Southeast Asia, which is an opportunistic market for this product. The average selling price rose by 5% y-o-y amid strong pelletising and quality premiums in Ukraine and Europe.

Coking coal concentrate

In 1Q 2018, sales of coking coal decreased by 27% y-o-y to US$19 mn, driven by a 58% y-o-y drop in volumes to 98 kt amid greater internal consumption. This resulted in lower sales in North America.

EBITDA

In 1Q 2018, Metinvest's consolidated EBITDA increased by US$247 mn y-o-y to US$649 mn, mainly amid a rise in the Metallurgical segment's contribution of US$294 mn. The Mining segment's EBITDA fell by US$89 m and corporate overheads and eliminations by US$42 mn.

EBITDA by segment	1Q 2018		1Q 2017		Change, y-o-y	
	US$ mn	% of segment revenues	US$ mn	% of segment revenues	US$ mn	pp of segment revenues
Metallurgical segment	377	14%	83	6%	294	8
- incl. JV	39		44		-5	
Mining segment	347	40%	436	44%	-89	-4
- incl. JV	45		74		-29	
Corporate o/hs and eliminations	-75		-117		42	
Total EBITDA	**649**	**21%**	**402**	**22%**	**247**	**-1**

The increase in consolidated EBITDA was primarily attributable to greater sales volumes (US$752 mn) and realised price growth (US$414 mn). These factors were partly offset by:

- increased cost of goods and services for resale (US$590 mn) due to higher prices and volumes;
- greater logistics costs (US$105 mn), mainly amid an increase in railway expenses in the US related to internal coal supplies, upward tariff indexation by the Ukrainian state railway operator and greater rail shipments;
- higher cost of raw materials (US$100 mn) amid greater spending on coking coal, driven by a 38% y-o-y rise in coke output and purchased billets as feedstock to roll at Promet Steel;
- more spending on energy (US$27 mn), due to higher natural gas prices (+10% y-o-y) and electricity tariffs (+10% y-o-y), as well as greater consumption of natural gas amid a 9% y-o-y increase in hot metal output; and
- lower contributions from the JVs (US$34 mn).

In 1Q 2018, the Group's consolidated EBITDA margin decreased by 1 pp y-o-y to 21%. The Metallurgical segment's EBITDA margin rose by 8 pp y-o-y to 14%, while the Mining segment's declined by 4 pp y-o-y to 40%.