

Metinvest announces 3Q and 9M 2015 operational results

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 announces its operational results for the third quarter of 2015 and nine months ended 30 September 2015.

OPERATIONAL HIGHLIGHTS

('000 tonnes)	3Q 2015	2Q 2015	Δ '000 t	Δ %	9M 2015	9M 2014	Δ '000 t	Δ %
Crude steel	2 082	2 202	-120	-5%	5 957	7 455	-1 498	-20%
Iron ore concentrate (total)	8 189	8 357	-168	-2%	23 995	26 451	-2 456	-9%
Coal concentrate (total)	844	793	51	6%	2 482	3 316	-834	-25%

METALLURGICAL DIVISION

Hot metal production

('000 tonnes)	3Q 2015	2Q 2015	Δ '000 t	Δ %	9M 2015	9M 2014	Δ '000 t	Δ %
Hot metal	2 247	2 084	163	8%	6 087	7 410	-1 323	-18%
Azovstal	746	743	3	0%	2 193	2 404	-211	-9%
Ilyich Steel	999	863	136	16%	2 682	3 435	-753	-22%
Yenakieve Steel	502	478	24	5%	1 212	1 571	-359	-23%

Crude steel production

('000 tonnes)	3Q 2015	2Q 2015	Δ '000 t	Δ %	9M 2015	9M 2014	Δ '000 t	Δ %
Crude steel	2 082	2 202	-120	-5%	5 957	7 455	-1 498	-20%
Azovstal	843	869	-26	-3%	2 531	2 740	-209	-8%
Ilyich Steel	697	770	-73	-9%	2 059	2 957	-898	-30%
Yenakieve Steel	542	563	-21	-4%	1 367	1 758	-391	-22%

In 3Q 2015, hot metal production increased by 8% q-o-q, as output at Ilyich Steel and Yenakieve Steel rose by 136 thousand tonnes and 24 thousand tonnes, respectively.

Despite the greater hot metal output, crude steel production decreased by 5% q-o-q in 3Q 2015. Volumes dropped by 26 thousand tonnes at Azovstal, 73 thousand tonnes at Ilyich Steel and 21 thousand tonnes at Yenakieve Steel. The fall in steel output at Azovstal and Ilyich Steel resulted from the reallocation of hot metal to produce more higher-margin merchant pig iron, while the drop at Yenakieve Steel was caused by limited supplies of scrap to eastern Ukraine.

In 9M 2015, hot metal output fell by 18% y-o-y, as operations were significantly affected by the conflict in Eastern Ukraine, which escalated considerably in 2H 2014. Production declined due to:

- the complete shutdown of Yenakieve Steel from 7 February to 16 March 2015;
- constraints in raw material supplies to Azovstal and Ilyich Steel;
- interruptions in natural gas supplies to the steel plants in Mariupol on 12-14 June 2015, after artillery shelling damaged a key gas pipeline.

These events caused hot metal output to decrease by 211 thousand tonnes at Azovstal, 753 thousand tonnes at

Ilyich Steel and 359 thousand tonnes at Yenakieve Steel.

The decline in hot metal output caused a comparable fall in crude steel production, which dropped by 20% y-o-y in 9M 2015. Production decreased by 209 thousand tonnes at Azovstal, 898 thousand tonnes at Ilyich Steel and 391 thousand tonnes at Yenakieve Steel.

Metal product output

[1]

('000 tonnes)	3Q 2015	2Q 2015	Δ '000 t	Δ %	9M 2015	9M 2014	Δ '000 t	Δ %
Semi-finished products	666	562	104	19%	1 828	2 221	-393	-18%
Pig iron	367	154	213	138%	810	869	-59	-7%
Slabs	197	190	7	4%	558	789	-231	-29%
Square billets	102	218	-116	-53%	460	563	-103	-18%
Finished products	1 569	1 590	-21	-1%	4 406	5 498	-1 092	-20%
Flat products	1 002	1 163	-161	-14%	3 148	3 741	-593	-16%
Long products	535	376	159	42%	1 130	1 476	-346	-23%
Railway products	12	2	10	500%	19	75	-56	-75%
Tubular products	20	49	-29	-59%	109	206	-97	-47%
Large diameter pipes	0	34	-34	-100%	66	161	-95	-59%
Other pipes	20	15	5	33%	43	45	-2	-4%
TOTAL	2 235	2 152	83	4%	6 234	7 719	-1 485	-19%

In 3Q 2015, output of merchant semi-finished products grew by 19% q-o-q due to an increase of 213 thousand tonnes in the production of higher-margin merchant pig iron, mainly at Ilyich Steel.

Production of merchant slabs increased by 7 thousand tonnes q-o-q in 3Q 2015, due to a decrease in internal consumption following a one-day shutdown for maintenance on the plate mill at Azovstal in September 2015. Output of merchant square billets decreased by 116 thousand tonnes due to a reduction in crude steel output of 21 thousand tonnes at Yenakieve Steel. This came amid an increase in internal consumption for in-house re-rolling and a recovery in supplies to Promet Steel in Bulgaria for the production of sections.

In 9M 2015, output of merchant semi-finished products dropped by 18% y-o-y due to lower production of all types of semi-finished products: pig iron fell by 59 thousand tonnes, merchant slabs by 231 thousand tonnes, and square billets by 103 thousand tonnes. Merchant pig iron production declined due to lower hot metal output and its redistribution to make more finished goods in 2Q 2015. The fall in production of merchant slabs and square billets at Azovstal and Yenakieve Steel was due to an overall decrease in crude steel output.

Production of finished goods decreased by 21 thousand tonnes q-o-q in 3Q 2015.

Output of flat products fell by 161 thousand tonnes q-o-q in 3Q 2015, mainly due to the shutdown of rolling mills for maintenance in August-September 2015. Production at the European plants decreased by 97 thousand tonnes due to annual maintenance overhauls in August 2015. Maintenance of the rolling mills at Azovstal and Ilyich Steel resulted in a decrease in output of 64 thousand tonnes.

Output of long products increased by 159 thousand tonnes q-o-q in 3Q 2015 due to:

- an increase in production of 56 thousand tonnes at the Makiivka branch of Yenakieve Steel following improvements in shipments of finished goods;
- a rise in production of 43 thousand tonnes at Azovstal to fulfil orders placed amid seasonal demand growth;
- an increase in production of 60 thousand tonnes at Promet Steel following the recovery of square billet supplies from Yenakieve Steel.

Output of tubular products decreased by 29 thousand tonnes q-o-q, driven by a decline in large-diameter pipe (LDP) production of 34 thousand tonnes at Khartsyzk Pipe, which was partly compensated by a rise in pipe production of 5 thousand tonnes at Ilyich Steel. Given a lack of orders, Khartsyzk Pipe has been idle since June 2015.

Production of finished goods decreased by 20% (1,092 thousand tonnes) y-o-y in 9M 2015 as a result of the conflict in Eastern Ukraine, which escalated considerably in 2H 2014:

- output of flat products decreased by 593 thousand tonnes, mainly driven by lower production of plates (522 thousand tonnes) and coils (113 thousand tonnes) at Ilyich Steel, which was partly compensated by an increase in production of 38 thousand tonnes at Azovstal and 4 thousand tonnes at the European assets;
- output of long products decreased by 346 thousand tonnes due to a decline in production at Azovstal (68 thousand tonnes), caused by a lack of orders, the suspension of operations at Yenakieve Steel and its Makiivka branch (226 thousand tonnes), and a decrease in production at Promet Steel (53 thousand tonnes) driven by a shortage of billets from Yenakieve Steel in February-March 2015;
- output of rail products fell by 56 thousand tonnes at Azovstal due to decreased demand;
- output of pipe products dropped by 97 thousand tonnes, mainly due to a decrease in LDP production of 95 thousand tonnes at Khartsyzk Pipe. The conflict in the region limited supplies of coating materials for pipes and shipments of finished goods. In addition, since June 2015, there has been a lack of orders. As a result, the plant has been idle.

Coke production

[2]

('000 tonnes)	3Q 2015	2Q 2015	Δ '000 t	Δ %	9M 2015	9M 2014	Δ '000 t	Δ %
Coke production (total)	1 141	955	186	19%	2 974	3 894	-920	-24%
Coke (dry)	208	189	19	10%	634	844	-210	-25%

Coke output increased by 19% (186 thousand tonnes) q-o-q in 3Q 2015, due to the recovery of operations at Donetsk Coke and Avdiivka Coke, which are located in the conflict zone in Eastern Ukraine. Production at those plants increased by 14 thousand tonnes and 177 thousand tonnes, respectively. Azovstal's coke output rose by 16 thousand tonnes, while production at Zaporizhia Coke decreased by 22 thousand tonnes due to overhauls of core equipment.

Coke production fell by 24% (920 thousand tonnes) y-o-y in 9M 2015, due to raw material supply constraints and unstable operations at Avdiivka Coke, Azovstal and Donetsk Coke amid the conflict in Eastern Ukraine.

On average, in 9M 2015, the Group used around 79% of total coke output for its own steel production.

MINING DIVISION

Iron ore concentrate and pellet output

[3]

('000 tonnes)	3Q 2015	2Q 2015	Δ '000 t	Δ %	9M 2015	9M 2014	Δ '000 t	Δ %
Iron ore concentrate (total)	8 189	8 357	-168	-2%	23 995	26 451	-2 456	-9%
Iron ore products	4 663	5 402	-739	-14%	14 856	16 493	-1 637	-10%
Iron ore concentrate	3 145	3 536	-391	-11%	9 335	10 572	-1 237	-12%
Pellets	1 518	1 866	-348	-19%	5 521	5 921	-400	-7%

In 3Q 2015, overall production of iron ore concentrate fell by 2% (168 thousand tonnes) q-o-q. Ingulets GOK and Central GOK decreased output by 210 thousand tonnes and 20 thousand tonnes, respectively, which was compensated by an increase in output of 62 thousand tonnes at Northern GOK. Production decreased at Ingulets GOK due to the unsatisfactory technical condition of equipment and at Central GOK due to one-day scheduled maintenance repairs in September. Output increased at Northern GOK due to a rise in intragroup demand.

In 3Q 2015, output of merchant iron ore products fell by 14% (739 thousand tonnes) q-o-q, as:

- merchant concentrate output decreased by 391 thousand tonnes due to lower production of total concentrate (168 thousand tonnes) and higher internal consumption (223 thousand tonnes) following the recovery of operations at the Group's steel mills;
- merchant pellet output decreased by 348 thousand tonnes due to an increase in intragroup consumption.

In 9M 2015, total iron ore concentrate production dropped by 9% (2,456 thousand tonnes) y-o-y, mainly driven by high inventories in 1Q 2015 due to an inability to ship products and lower intragroup consumption amid the conflict in Eastern Ukraine (Yenakieve Steel was idle in February-March, while Ilyich Steel and Azovstal reduced hot metal production).

Merchant concentrate output fell by 1,237 thousand tonnes y-o-y to 9,335 thousand tonnes in 9M 2015. This was driven by decreases in merchant concentrate production at Ingulets GOK and Northern GOK of 1,226 thousand tonnes and 58 thousand tonnes, respectively, due to high inventories in 1Q 2015. The latter was caused by an inability to ship products and the unsatisfactory technical condition of equipment at Ingulets GOK, which was partly compensated by an increase in output of 46 thousand tonnes at Northern GOK.

In 9M 2015, merchant pellet production declined by 400 thousand tonnes y-o-y. This was due to an overall decrease in concentrate output given the aforementioned reasons.

Coal concentrate production

[4]

('000 tonnes)	3Q 2015	2Q 2015	Δ '000 t	Δ %	9M 2015	9M 2014	Δ '000 t	Δ %
Coal concentrate (total)	844	793	51	6%	2 482	3 316	-834	-25%
Coal concentrate	409	416	-7	-2%	1 288	928	360	39%

Coal concentrate output rose by 6% (51 thousand tonnes) q-o-q in 3Q 2015 due to an increase in production of 90 thousand tonnes at Krasnodon Coal, which was partly offset by a decrease in output of 39 thousand tonnes at United Coal.

The higher volumes at Krasnodon Coal were due to a recovery of inventory supplies to support operations. The fall in output at United Coal was caused by the annual holiday season.

Coal concentrate production decreased by 25% (834 thousand tonnes) y-o-y in 9M 2015. This was due to a fall in coal extraction of 1,161 thousand tonnes at Krasnodon Coal amid the conflict in Eastern Ukraine, and partly compensated by an increase in output of 327 thousand tonnes at United Coal.

The rise in output at United Coal was driven by:

- an increase in production of 34 thousand tonnes at the Affinity mine, which was idle in 1Q 2014;
- a rise in output of 148 thousand tonnes at the Wellmore mines due to the launch of new coal mining capacity at the end of 2014;
- an increase in output of 231 thousand tonnes at the Carter Roag mines amid improved geological conditions;
- a drop in output of 86 thousand tonnes at the Pocahontas mines due to downtime in 2015.

[1]

Excludes intragroup sales and intragroup utilisation

Pig iron – merchant pig iron.

Flat products include rolled plates, hot-rolled, cold-rolled and hot-dip galvanised sheets and coils.

Long products include hot-rolled sections (light, medium, heavy), rebar, merchant bars and wire rod.

Rail products include light and heavy rails and rail fasteners.

Large-diameter pipes are LSAW (longitudinally submerged arc welded) large-diameter pipes.

Other pipes include other ERW (electric resistance welded) pipes and seamless pipes.

[2]

Coke (dry) production excludes intragroup sales and intragroup utilisation

[3]

Iron ore products output excludes intragroup sales and intragroup utilisation

[4]

Coal concentrate (total) production figures present coal production in equivalent of coal concentrate. Coal concentrate production excludes intragroup sales and intragroup utilisation.

<https://metinvestholding.com/en/media/news/7145>