

## Metinvest announces financial results for 2015

25 May 2015 – Metinvest B.V., the parent company of a vertically integrated group of steel and mining companies (jointly referred to as “Metinvest” or “the Group”), today announced its audited IFRS consolidated financial statements for the 12 months ended 31 December 2015.

Summary - financial results	FY2015	FY2014	Change, y-o-y	
			US\$m	%
Income statement highlights				
Revenues	6,832	10,565	-3,732	-35%
Adjusted EBITDA <sup>1</sup>	513	2,702	-2,189	-81%
Margin	8%	26%		-18 pp
Adjusted EBITDA <sup>1</sup> excl. impairment of trade and other receivables <sup>2</sup>	804	2,762	-1,957	-71%
Net profit	-1,003	159	-1,161	-732%
Margin	-15%	2%		-16 pp
Cash flow highlights				
Net cash from operations	625	1,489	-864	-58%
Net cash used in investing activities	-237	-559	322	-58%
incl. purchase of PPE and intangible assets	-275	-549	274	-50%
Net cash used in financing activities	-309	-1,542	1,233	-80%
incl. dividends	0	-388	388	-100%

Summary - financial results	31.12.2015	31.12.2014	Change, YTD	
			US\$m	%
Total debt	2,946	3,232	-286	-9%
Cash	180	114	66	58%

Notes:

1) Adjusted EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign exchange gains and losses (starting from 1 January 2015), sponsorship and other charity payments, the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures. We will refer to adjusted EBITDA as EBITDA throughout this release

2) Following further delays in payments from some key customers beyond the originally expected dates and certain operational and financial issues for them, the Group recognised a related impairment of US\$255 million in 2015. The overall impairment of trade and other receivables was US\$292 million in 2015 and US\$60 million in 2014.

3) Due to rounding, numbers presented throughout this release may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures

Summary - production results	FY2015	FY2014	Change, y-o-y	
			000 t	%

<b>Crude steel</b>	7,669	9,205	-1,536	-17%
Azovstal	3,206	3,599	-393	-11%
Ilyich Steel	2,645	3,544	-899	-25%
Yenakiieve Steel	1,818	2,062	-244	-12%
<b>Iron ore concentrate</b>	32,208	34,888	-2,680	-8%
Northern GOK	13,152	13,420	-268	-2%
Ingulets GOK	12,903	15,056	-2,153	-14%
Central GOK	6,154	6,412	-258	-4%
<b>Coking coal concentrate</b>	3,285	4,098	-813	-20%
Krasnodon Coal	346	1,522	-1,176	-77%
United Coal	2,940	2,577	363	14%

## OPERATIONAL HIGHLIGHTS

- In 2015, disruptions to the Group's operations continued due to the ongoing conflict in Eastern Ukraine. Metinvest suspended production at Yenakiieve Steel and its Makiivka branch from 7 February to 16 March amid interruptions to raw material and electricity supplies due to the conflict. Other plants in the Donbas region have experienced periodic delays due to damage to railway, pipeline and power infrastructure and blockages of raw material supplies.
- Azovstal completed the major overhaul of blast furnace no. 4 in September 2015
- Yenakiieve Steel resumed construction of pulverised coal injection (PCI) facilities and launched the technology at blast furnace no. 5 in February 2016
- Ilyich Steel replaced the filters of sintering machines nos. 1-3 as part of its sinter plant reconstruction
- Metinvest opened a new retail warehouse for steel products in Dnipropetrovsk and representative sales offices in Spain and Poland
- The Group launched 21 new products, mainly rebar, plates and coils for the construction, machine-building and oil transportation industries
- Metinvest established Metinvest-PromService, which will specialise in maintaining and repairing equipment at metallurgical assets of Metinvest and third parties

## DEBT MANAGEMENT

- In January, the Group extended the maturity of the outstanding seller notes from 2015 to 2016
- In February, Metinvest obtained a waiver from pre-export finance (PXF) lenders, deferring payment of 75% of the February principal instalment by one month
- After not obtaining another waiver to partly defer the March and April principal instalments from 100% of its PXF lenders and due to very tight liquidity, Metinvest had to stop repayments under its PXF facilities and decided to launch global debt restructuring discussions with both its PXF lenders and noteholders
- In August, Metinvest completed the final drawdown under the ECA facility for the construction of PCI facilities at Yenakiieve Steel
- In December, Metinvest signed a standstill agreement with certain PXF lenders, providing a forbearance on the signatories taking enforcement action or initiating insolvency proceedings until 29 January 2016
- In June, as part of consent solicitation transactions, Metinvest extended the maturity of its 2015 guaranteed notes from 20 May 2015 to 31 January 2016. In addition, holders of 2015, 2017 and 2018 notes agreed to waive certain events of default until 31 January 2016, allowing time for restructuring negotiations.

## CORPORATE STRUCTURE

- 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 the receipt of respective governmental approvals, if such will be necessary), and in such a manner that the ultimate interest of SCM in Metinvest B.V. shall be 75% minus 1 share, and the ultimate interest of Smart in Metinvest B.V. shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

#### EVENTS AFTER THE REPORTING PERIOD

- In January 2016, the Group sold its investment in Black Iron (Cyprus) Limited for US\$6 million
- To ensure a stable platform for the continued debt restructuring negotiations, on 29 January 2016 the High Court of Justice of England and Wales sanctioned a scheme of arrangement involving a moratorium over enforcement action by noteholders in respect of certain defaults under the notes until 27 May 2016 (unless terminated earlier) and on 1 April 2016 the standstill with certain PXF Lenders was extended until 27 May 2016 (unless terminated earlier)
- Non-binding heads of terms for the restructuring of the notes and PXF facilities has been agreed.
- As of April 2016, global market prices for steel and iron ore products had partly recovered compared with levels in late 2015 and early 2016.
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**Commenting on the results, Yuriy Ryzhenkov, Chief Executive Officer of Metinvest, said:** “As expected, 2015 was another deeply challenging year for our business. We continued to face a difficult geopolitical and economic situation in Ukraine. At the same time, conditions on the global steel and raw material markets, where prices were their lowest in more than a decade, remain a major source of pressure.

In 2015, we were able to overcome the vast majority of the considerable operational issues in Eastern Ukraine and enter 2016 with production restored at the majority of our key facilities, a tribute to the hard work and bravery of our employees on the ground. In 2016, the affected regions have remained unstable, although we are prepared for any eventuality.

Our operational and financial results reflected the conditions at home and abroad. The Group’s crude steel production fell by 17% y-o-y to 7,669 million tonnes in 2015, iron ore concentrate output by 8% y-o-y to 32,208 million tonnes, and coking coal concentrate production by 20% y-o-y to 3,285 million tonnes. Compared with 2014, the Group’s revenues declined by 35% to US\$6,832 million and EBITDA by 81% to US\$513 million.

Despite the considerable headwinds, Metinvest continued to move forward proactively in 2015. How we approached and overcame the challenges underscores the strength of our management team, business model and strategy. There were several managerial changes in our team. Following a reorganisation of the Strategy department, Ruslan Rudnitsky, Chief Strategy Officer, left the Group in November 2015. In March 2016, Aleksey Kutepov stepped down as Chief Financial Officer and Yuliya Dankova replaces him in the interim. Also in March, Mykola Ishchenko stepped down as Director of the Mining division and Aleksandr Pogozhev, Director of the Metallurgical division, takes his place in the interim, while Sergiy Detyuk was appointed as Chief Information Officer. On behalf of the Group, I would like to thank Ruslan, Aleksey and Mykola for their contributions and commitment over the years and welcome Yuliya and Sergiy to the team. Both have extensive industry expertise and established track records of success in their fields, making them an excellent fit with the management team.

In view of the short to medium-term situation in the Ukrainian market, we adjusted our sales geography in 2015, while maintaining our position in key strategic markets. The proportion of overall sales to Europe rose by 5 pp y-o-y, while that of Southeast Asia fell by the same amount.

In addition, we focused on reducing costs through operational efficiency measures and improved our management of working capital. The cost of sales amounted to US\$6,087 million, down 26% y-o-y, while distribution costs equalled US\$920 million, down 13%, and general and administrative costs US\$211 million, down 26%. The main drivers were depreciation of the hryvnia, lower raw material prices and consumption, and less spending on energy, essentially natural gas, due to lower consumption and prices. The latter was offset by a rise in average electricity tariffs, while railway transportation tariffs also increased. Metinvest remains committed to scrutinising expenses throughout the business and streamlining operations where possible.

Despite the liquidity constraints, we continued to pursue our Technological Strategy in 2015. Given the current situation, this involved reducing CAPEX by more than half compared with 2014 and setting clear priorities. We focused on projects offering rapid, tangible returns on investment and those delivering clear environmental benefits.

In 2015, as debt markets effectively remained closed to the majority of Ukrainian companies, we embarked on a necessary debt restructuring process with our creditors. We serviced interest and coupon payments on our bank loans and notes in full in 2015 and have been doing so partly in 2016 in accordance with terms of the Scheme of Arrangement and the PXF facilities Standstill Extension Agreement. At present, we are in restructuring talks that aim to reach a satisfactory settlement for all stakeholders based on the non-binding heads of terms agreed with the

ad hoc committee of noteholders and the coordinating committee of the PXF lenders. To document and implement the consensual global restructuring, the Group is seeking to extend a moratorium on enforcement action by noteholders and a standstill with PXF lenders. On this basis, we expect to improve our overall liquidity and plan for the long-term future of our business.

As of April 2016, global prices for steel and iron ore products had partly recovered compared with levels in late 2015 and early 2016. At the same time, market fundamentals remain bearish, as oversupply persists and demand is still weak.

I believe that the true test of an individual or company is not when times are good, but when the challenges are the greatest. We continue to invest in our communities and our employees continue to come forward as volunteers, providing vital humanitarian assistance. Also crucial has been the contribution of both shareholders to the restructuring process. We would like to thank them and all employees, investors, partners and clients for the ongoing support and continued belief in the Metinvest story.”

## RESULTS OF OPERATIONS

Results of operations	FY2015		FY2014		Change, y-o-y		
	US\$m	% of revenues	US\$m	% of revenues	US\$m	%	pp of revenues
<b>Revenues</b>	<b>6,832</b>	<b>100%</b>	<b>10,565</b>	<b>100%</b>	<b>-3,732</b>	<b>-35%</b>	<b>0</b>
Cost of sales	-6,087	-89%	-8,240	-78%	2,153	-26%	-11
<b>Gross profit</b>	<b>745</b>	<b>11%</b>	<b>2,325</b>	<b>22%</b>	<b>-1,579</b>	<b>-68%</b>	<b>-11</b>
Distribution costs	-920	-13%	-1,063	-10%	143	-13%	-3
General and administrative costs	-211	-3%	-287	-3%	76	-26%	0
Other operating income	-300	-4%	130	1%	-430	-331%	-6
<b>Operating profit</b>	<b>-686</b>	<b>-10%</b>	<b>1,105</b>	<b>10%</b>	<b>-1,790</b>	<b>-162%</b>	<b>-20</b>
Finance income	26	0%	25	0%	1	4%	0
Finance costs	-635	-9%	-902	-9%	267	-30%	-1
Share of results of associates and JV	131	2%	142	1%	-11	-8%	1
<b>Profit before income tax</b>	<b>-1,164</b>	<b>-17%</b>	<b>370</b>	<b>3%</b>	<b>-1,533</b>	<b>-415%</b>	<b>-21</b>
Income tax	161	2%	-211	-2%	372	-176%	4
<b>Net profit</b>	<b>-1,003</b>	<b>-15%</b>	<b>159</b>	<b>2%</b>	<b>-1,161</b>	<b>-732%</b>	<b>-16</b>

## Revenues

Metinvest’s revenues are generated from sales of its steel, iron ore, coal and coke products and re-sales of products from third parties. Unless otherwise stated, revenues are reported net of value-added tax and discounts and after eliminating sales within the Group.

Revenues by market	FY2015		FY2014		Change, y-o-y		
	US\$m	% of revenues	US\$m	% of revenues	US\$m	%	pp of revenues
<b>Total revenues</b>	<b>6,832</b>	<b>100%</b>	<b>10,565</b>	<b>100%</b>	<b>-3,732</b>	<b>-35%</b>	<b>0</b>
Ukraine	1,619	24%	2,496	24%	-876	-35%	0
Europe	2,255	33%	2,950	28%	-695	-24%	5
MENA	1,305	19%	1,872	18%	-567	-30%	1
CIS (ex Ukraine)	602	9%	1,074	10%	-472	-44%	-1
incl. Russia	470	7%	721	7%	-251	-35%	0
Southeast Asia	751	11%	1,666	16%	-915	-55%	-5
North America	229	3%	405	4%	-177	-44%	0
Other regions	71	1%	102	1%	-31	-30%	0

In 2015, Metinvest's consolidated revenues fell by US\$3,732 million y-o-y to US\$6,832 million. Revenues from the Metallurgical division declined by US\$2,758 million, while those from the Mining division dropped by US\$974 million. This was mainly driven by overall lower production of crude steel amid the conflict in Eastern Ukraine, lower output of iron ore concentrate, weak demand in key markets and multi-year low prices of steel and iron ore products. The share of the Metallurgical division in external sales increased by 2 percentage points (pp) y-o-y to 79%, while the share of the Mining division decreased by 2 pp y-o-y to 21%.

In 2015, Metinvest's revenues in Ukraine dropped by 35% y-o-y to US\$1,619 million. This was mainly due to lower sales of finished steel and iron ore products amid weak demand in major steel consuming sectors and lower selling prices, which followed benchmark dynamics. Demand slumped due to the conflict in the eastern regions of the country and significant economic contraction. Consumption of steel products (excluding pipes) in Ukraine decreased by 28% y-o-y to 4.0 million tonnes

[1]

. In particular, construction activity fell by 12% y-o-y

[2]

, the hardware sector contracted by 19% y-o-y<sup>1</sup> and the machine-building industry declined by 14% y-o-y<sup>2</sup>. Regarding iron ore products, sales in Ukraine slumped, as a couple of Metinvest's key customers in the country scaled back production dramatically following the escalation of the conflict in 2H 2014. Meanwhile, the share of Ukraine in the Group's consolidated revenues remained unchanged y-o-y at 24%.

International sales decreased by 35% y-o-y to US\$5,213 million in 2015. While sales to all regions fell, the breakdown of sales by region changed compared with 2014. The proportion of sales to Europe rose by 5 pp y-o-y to 33% of consolidated revenues in 2015, due to higher sales volumes of pig iron, square billets, flat products and pellets. The share of sales to Southeast Asia fell by 5 pp y-o-y to 11% due to decreased selling prices of key products and lower sales volumes of flat products, slabs and pellets.

### ***Metallurgical division***

The Metallurgical division generates revenues from sales of pig iron, steel and coke products and services. In 2015, its revenues decreased by 34% y-o-y to US\$5,407 million. This was attributable to lower sales of all steel products: flat (down US\$1,467 million), long (down US\$506 million), semi-finished (down US\$443 million), and tubular (down US\$174 million) products. In addition, sales of coke and chemical products decreased by US\$59 million.

<https://metinvestholding.com/en/media/news/7244>

Metallurgical division Sales by market	FY2015			FY2014			Change, y-o-y		Change, y-o-y %	
	US\$m	% of revenues	000 t	US\$m	% of revenues	000 t	US\$m	000 t	US\$m	000 t