

Metinvest announces 2Q 2016 and 1H 2016 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 second quarter and the first six months ended 30 June 2016.

OPERATIONAL HIGHLIGHTS

('000 tonnes)	2Q 2016	1Q 2016	Δ '000 t	Δ %	1H 2016	1H 2015	Δ '000 t	Δ %
Crude steel	2,191	1,998	193	10%	4,187	3,875	312	8%
Iron ore concentrate (total)	7,902	7,911	-9	0%	15,811	15,806	5	0%
Coal concentrate (total)	781	799	-18	-2%	1,580	1,638	-58	-4%

METALLURGICAL DIVISION

Hot metal production

('000 tonnes)	2Q 2016	1Q 2016	Δ '000 t	Δ %	1H 2016	1H 2015	Δ '000 t	Δ %
Hot metal	2,223	2,059	164	8%	4,280	3,842	438	11%
Azovstal	874	678	196	29%	1,552	1,448	104	7%
Ilyich Steel	926	902	24	3%	1,827	1,684	143	8%
Yenakiieve Steel	423	479	-56	-12%	901	710	191	27%

Steel production

('000 tonnes)	2Q 2016	1Q 2016	Δ '000 t	Δ %	1H 2016	1H 2015	Δ '000 t	Δ %
Crude steel	2,191	1,998	193	10%	4,187	3,875	312	8%
Azovstal	1,027	783	244	31%	1,809	1,688	121	7%
Ilyich Steel	714	714	0	0%	1,427	1,362	65	5%
Yenakiieve Steel	450	501	-51	-10%	951	825	126	15%

In 2Q 2016, the Group’s hot metal output increased by 8% q-o-q to 2,223 thousand tonnes, as production rose at Azovstal and Ilyich Steel. Azovstal boosted output by 196 thousand tonnes, following the relaunch of blast furnace no. 4 in February after its major overhaul and a revival in the steel market. Ilyich Steel increased hot metal output by 24 thousand tonnes, following the launch of blast furnace no. 4 in May 2016. At the same time, Yenakiieve Steel reduced output by 56 thousand tonnes amid shortages of raw materials in June 2016, when the prohibition of freight transportation by Donetsk Railways was in force.

In 2Q 2016, Metinvest’s crude steel production rose by 10% q-o-q to 2,191 thousand tonnes, as Azovstal increased output by 244 thousand tonnes, driven by higher hot metal output. Crude steel production at Yenakiieve Steel declined by 51 thousand tonnes due to lower hot metal output. Ilyich Steel’s crude steel production remained unchanged q-o-q.

In 1H 2016, the Group's hot metal output rose by 11% y-o-y, driven by a rebound in production at the steel plants, following a decline during the first half of 2015, as the conflict in Eastern Ukraine continued from the second half of 2014. In particular, due to the conflict in 1Q 2015: Yenakii Steel was shut down completely from 7 February 2015 to 16 March 2015, and raw material supplies to Azovstal and Ilyich Steel were constrained. During the reporting period, hot metal production increased by 143 thousand tonnes at Ilyich Steel, 104 thousand tonnes at Azovstal and 191 thousand tonnes at Yenakii Steel.

The increase in hot metal output caused a similar movement in crude steel production. In 1H 2016, Metinvest's crude steel output totalled 4,187 thousand tonnes, up 8% y-o-y. Production rose y-o-y by 65 thousand tonnes at Ilyich Steel, 121 thousand tonnes at Azovstal and 126 thousand tonnes at Yenakii Steel.

Metal product output

[1]

('000 tonnes)	2Q 2016	1Q 2016	Δ '000 t	Δ %	1H 2016	1H 2015	Δ '000 t	Δ %
Semi-finished products	522	552	-30	-5%	1,074	1,162	-88	-8%
Pig iron	250	219	31	14%	469	443	26	6%
Slabs	217	200	17	9%	417	362	55	15%
Square billets	55	133	-78	-59%	188	357	-169	-47%
Finished products	1,709	1,504	205	14%	3,213	2,837	376	13%
Flat products	1,171	1,039	132	13%	2,210	2,147	63	3%
Long products	472	437	35	8%	909	594	315	53%
Railway products	40	7	33	471%	47	8	39	488%
Tubular products	26	21	5	24%	47	88	-41	-47%
Large-diameter pipes	1	2	-1	0%	3	66	-63	-95%
Other pipes	25	19	6	32%	44	22	22	100%
TOTAL	2,231	2,056	175	9%	4,287	3,999	288	7%

In 2Q 2016, the Group's output of merchant semi-finished products declined by 5% q-o-q to 522 thousand tonnes, as output of square billets fell by 78 thousand tonnes, driven by reduced crude steel production and increased output of long rolled steel products at Yenakii Steel. Pig iron output increased by 31 thousand tonnes, following the overhaul of blast furnace no. 4 at Ilyich Steel. Output of merchant slabs rose by 17 thousand tonnes to fulfil orders.

In 1H 2016, Metinvest's output of merchant semi-finished products fell by 8% y-o-y, as output of square billets decreased by 169 thousand tonnes amid an increase in production of merchant slabs and pig iron of 55 and 26 thousand tonnes, respectively. Square billet output dropped, as production capacity was adjusted in favour of higher value-added finished products. Output of slabs increased, as internal needs decreased following the shutdown of Khartsyzk Pipe in June 2015.

In 2Q 2016, the Group's output of finished products increased by 205 thousand tonnes q-o-q to 1,709 thousand tonnes.

In 2Q 2016, Metinvest's output of flat products rose by 132 thousand tonnes q-o-q to 1,171 thousand tonnes, driven by a revival in demand and price growth. The Ukrainian plants increased output of flat products by 96 thousand tonnes by ramping up that of plates by 149 thousand tonnes and reducing that of coils by 53 thousand tonnes. The European re-rolling mills boosted production by increasing the output of plates by 12 thousand tonnes and coils by 24 thousand tonnes.

In 2Q 2016, Metinvest's output of long products rose by 35 thousand tonnes y-o-y, as output increased by 19 thousand tonnes at Azovstal, 6 thousand tonnes at Yenakii Steel and 10 thousand tonnes at Promet Steel in Bulgaria.

In 2Q 2016, the Group's output of rails rose by 33 thousand tonnes, driven by the fulfilment of supply orders from Ukrzaliznytsia and a client in Uzbekistan.

Metinvest's output of tubular products rose by 5 thousand tonnes q-o-q to 26 thousand tonnes, as Ilyich Steel increased output of other pipes. Amid a lack of large-diameter pipe (LDP) orders since June 2015, Khartsyzk Pipe has been idle.

In 1H 2016, Metinvest's output of finished goods rose by 13% y-o-y, as the steel market revived and operations at Yenakiiye Steel stabilised:

- flat product output increased by 63 thousand tonnes, mainly due to a rise in plate production of 253 thousand tonnes at Ilyich Steel, which compensated a decrease in plate production of 33 thousand tonnes at Azovstal, as well as a reduction in coil production of 157 thousand tonnes at Ilyich Steel;
- long product output increased by 315 thousand tonnes, driven by higher production at Azovstal (51 thousand tonnes), the resumption of operations at Yenakiiye Steel and its Makiivka branch (168 thousand tonnes), and greater output at Promet Steel (96 thousand tonnes) as deliveries of billets for re-rolling stabilised;
- rail output increased by 39 thousand tonnes, driven by supplies to Ukrzaliznytsia and the fulfilment of orders from Uzbekistan;
- tubular output dropped by 41 thousand tonnes amid a decline in LDP production of 63 thousand tonnes at Khartsyzk Pipe, which was partly offset by a rise in output of other pipes of 22 thousand tonnes at Ilyich Steel. The conflict in the region constrained supplies of coating materials for LDP and shipments of finished goods. In addition, Khartsyzk Pipe has been idle amid a lack of orders since June 2015.

Coke production

[2]

('000 tonnes)	2Q 2016	1Q 2016	Δ '000 t	Δ %	1H 2016	1H 2015	Δ '000 t	Δ %
Coke production (total)	1,066	1,124	-58	-5%	2,190	1,834	356	19%
Coke (dry)	263	272	-9	-3%	535	426	109	26%

In 2Q 2016, coke output declined by 5% q-o-q to 1,066 thousand tonnes, as Avdiivka Coke and Azovstal cut production by 9 and 65 thousand tonnes, respectively, which was partly offset by a rise in output at Zaporizhia Coke of 16 thousand tonnes. Production cuts at Avdiivka Coke and Azovstal during April-June 2016 resulted from irregular supplies of coal concentrate from Krasnodon Coal and other mines located in uncontrolled territory via the Kamysh-Zarya station, as well as from the effect of the prohibition of freight transportation by Donetsk Railways. In June 2016, the Group decided to resume coal deliveries to Azovstal via Mariupol port.

Coke output in 1H 2016 rose by 19% y-o-y, as operations were restored at Avdiivka Coke and the needs of the Group's metallurgical plants increased.

On average, around 75% of the overall coke output in 1H 2016 was used within the Group.

MINING DIVISION

Iron ore concentrate and pellet output

[3]

('000 tonnes)	2Q 2016	1Q 2016	Δ '000 t	Δ %	1H 2016	1H 2015	Δ '000 t	Δ %
Iron ore concentrate (total)	7,902	7,911	-9	0%	15,811	15,806	5	0%
Iron ore products	4,582	4,858	-276	-6%	9,439	10,193	-754	-7%
Iron ore concentrate	2,947	3,432	-485	-14%	6,379	6,190	189	3%
Pellets	1,635	1,426	209	15%	3,060	4,003	-943	-24%

In 2Q 2016, Metinvest's overall production of iron ore concentrate decreased slightly by 9 thousand tonnes q-o-q to 7,902 thousand tonnes. Northern GOK reduced output by 121 thousand tonnes, which was offset by increases of 68 and 44 thousand tonnes at Central GOK and at Ingulets GOK, respectively.

In 2Q 2016, merchant iron ore product output fell by 6% q-o-q to 4,582 thousand tonnes due to the following factors:

- merchant concentrate output decreased by 485 thousand tonnes, as intragroup consumption increased;
- merchant pellet production rose by 209 thousand tonnes, as intragroup consumption declined.

In 1H 2016, overall iron ore concentrate output totalled 15,811 thousand tonnes, unchanged y-o-y.

In 1H 2016, the Group's output of merchant concentrate amounted to 6,379 thousand tonnes, up 3% y-o-y due to reduced output of merchant concentrate in 1Q 2015. This was caused by a build-up of inventory resulting from an inability to ship products.

In 1H 2016, Metinvest's output of merchant pellets slumped by 24% y-o-y to 3,060 thousand tonnes due to an increase in intragroup consumption of 462 thousand tonnes.

Coal concentrate production

[4]

('000 tonnes)	2Q 2016	1Q 2016	Δ '000 t	Δ %	1H 2016	1H 2015	Δ '000 t	Δ %
Coal concentrate (total)	781	799	-18	-2%	1,580	1,638	-58	-4%
Coal concentrate	326	422	-96	-23%	748	878	-130	-15%

In 2Q 2016, coal concentrate production equalled 781 thousand tonnes, unchanged q-o-q. Krasnodon Coal's mines decreased production by 80 thousand tonnes, as mining output dropped, driven by a stoppage of finished product shipments while the prohibition of freight transportation by Donetsk Railways was in force in June 2016, and reduced electricity supplies amid the shutdown of one power line for repair, which rendered full-scale mining impossible due to a lack of power. United Coal's mines increased coal concentrate production by 62 thousand tonnes due to improved geological conditions.

In 1H 2016, coal concentrate production dropped by 4% y-o-y to 1,580 thousand tonnes. Coal mining output at Krasnodon Coal increased by 202 thousand tonnes, as shipments of finished goods partly (or temporarily) resumed. Production at United Coal fell by 260 thousand tonnes y-o-y due to lower intragroup consumption amid growing output at Krasnodon Coal.

[1]

Excluding 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), rebars, merchant bars and wire rods

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]

The data on production of merchant coke exclude intragroup sales and consumption.

[3]

The data on production of iron ore materials exclude intragroup sales and consumption.

[4]

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