

Trading update for the first nine months of 2017

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 nine months ended 30 September 2017.

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)	9M 2017	9M 2016	Change
Revenues	6,222	4,568	36%
Adjusted EBITDA¹	1,373	989	39%
margin	22%	22%	0 pp
CAPEX²	308	199	55%
(US\$ mn)	30 Sep 2017	31 Dec 2016	Change
Total debt³	2,909	2,969	-2%
Cash and cash equivalents⁴	293	226	30%

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, 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. On 15 March 2017, Metinvest lost control over all tangible assets owned by enterprises located in the temporarily non-controlled territory of Ukraine, including Yenakieve Steel, Krasnodon Coal and Khartsyzk Pipe. Subsequently, the Group decided to make a provision for impairment of all assets of these enterprises, of which US\$92 mn for inventories is accounted for in the 9M 2017 EBITDA.

2. CAPEX is calculated on an accrual basis (recognition).

3. Total debt is calculated as the sum of bank loans, bonds, trade finance, seller notes and subordinated shareholder loans.

4. Cash and cash equivalents do not include blocked cash for cash collateral under issued letters of credit and irrevocable bank guarantees and include cash blocked for foreign-currency purchases.

Revenues

In 9M 2017, Metinvest’s consolidated revenues increased by 36% y-o-y to US\$6,222 mn, driven primarily by higher steel and iron ore selling prices, which followed global benchmarks. In addition, stronger demand spurred greater sales of flat products (+433 kt), slabs (+121 kt), pig iron (+71 kt) and coke (+72 kt).

Revenues in Ukraine amounted to US\$1,610 mn in 9M 2017, up 40% y-o-y, primarily due to increased selling prices, as well as greater sales volumes of flat products amid greater local demand as the economic upturn continued. As a result, the share of Ukraine in consolidated revenues rose by 1 pp y-o-y to 26%.

International sales accounted for 74% of consolidated revenues in 9M 2017. Market shares changed y-o-y for Europe and Southeast Asia. The share of Europe reached 37%, up 2 pp y-o-y, following a 42% increase in sales to the region amid higher sales volumes of pig iron, slabs and iron ore products, as well as a hike in selling prices of all products. Although sales to Southeast Asia rose by 13% y-o-y amid greater sales volumes of flat products, square billets and pellets, as well as higher selling prices, the proportion of that region in consolidated revenues decreased by 1 pp y-o-y to 7% due to comparatively higher growth in sales to other markets. As a percentage of total sales, the Middle East and North Africa (MENA), the CIS (ex Ukraine), North America and other regions were unchanged y-o-y at a respective 16%, 9%, 5% and 1%.

Revenues by market	9M17		9M16		Change, y-o-y		
	US\$ mn	% of revenues	US\$ mn	% of revenues	US\$ mn	%	pp of revenues
Total revenues	6,222	100%	4,568	100%	1,654	36%	-
Ukraine	1,610	26%	1,148	25%	462	40%	1
Europe	2,296	37%	1,619	35%	677	42%	2
MENA	971	16%	736	16%	235	32%	-
CIS (ex Ukraine)	572	9%	409	9%	163	40%	-
Southeast Asia	406	7%	359	8%	47	13%	-1
North America	331	5%	244	5%	87	36%	-
Other regions	36	1%	53	1%	-17	-32%	-

Metallurgical segment

The Metallurgical segment generates revenues from sales of pig iron, steel, coke and other products and services. In 9M 2017, its top line rose by 38% y-o-y to US\$5,082 mn, driven mainly by higher selling prices of steel products, as well as greater demand for flat products, slabs, pig iron and coke. In 9M 2017, the segment accounted for 82% of external sales, up 1 pp y-o-y.

Metallurgical segment Sales by market	9M17			9M16			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	5,082	100%	9,409	3,681	100%	9,348	1,401	61	38%	1%
Ukraine	1,214	24%	2,019	806	22%	1,858	408	161	51%	9%
Europe	1,843	36%	3,363	1,447	39%	3,541	396	-179	27%	-5%
MENA	971	19%	1,993	735	20%	2,147	236	-154	32%	-7%
CIS (ex Ukraine)	572	11%	866	409	11%	838	163	28	40%	3%
Southeast Asia	136	3%	298	67	2%	203	69	95	>100%	47%
North America	312	6%	799	164	4%	610	148	189	90%	31%
Other regions	33	1%	71	53	1%	151	-19	-80	-37%	-53%

Metallurgical segment Sales by product	9M17		9M16		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	830	2,096	528	1,946	302	150	57%	49%	8%
Pig iron	410	1,144	260	1,073	150	71	58%	51%	7%
incl. resales	52	141	27	120	25	21	94%	76%	17%
Slabs	309	715	186	594	123	121	66%	46%	20%

Square billets	111	237	83	279	29	-42	35%	50%	-15%
incl. resales	84	170	-	-	84	170	-	-	-
Finished products	3,583	6,399	2,741	6,560	842	-161	31%	33%	-2%
Flat products	3,112	5,557	2,139	5,125	973	433	46%	37%	8%
incl. resales	1,083	2,114	702	1,955	380	159	54%	46%	8%
Long products	471	842	603	1,435	-132	-593	-22%	19%	-41%
incl. resales	28	52	-	-	28	52	-	-	-
Coke	270	914	118	842	151	72	>100%	120%	9%
Other products and services	399	-	293	-	106	-	36%	-	-
Total sales	5,082	9,409	3,681	9,348	1,401	61	38%	37%	1%

Pig iron

In 9M 2017, sales of pig iron increased by 58% y-o-y to US\$410 mn, of which 51 pp was attributable to higher selling prices and 7 pp to greater sales volumes. Volumes rose by 71kt y-o-y to 1,144 kt, due to strong demand and higher resales of Zaporizhstal's pig iron. Sales in North America and Europe grew by 151 kt and 71 kt, respectively, given favourable margins. To fulfil these orders, volumes were redirected from MENA (138 kt).

Slabs

In 9M 2017, sales of slabs rose by 66% y-o-y to US\$309 mn, driven by a surge in the average selling price (+46 pp) and a 20% rise in sales volumes. Overall volumes increased by 121kt y-o-y to 715 kt, spurred by demand and supported by greater production. Volumes to Europe were up 172 kt, due to greater orders from customers in Italy and sales to a new client in Hungary. Meanwhile, volumes to MENA decreased by 37 kt due to lower sales to Turkey.

Square billets

In 9M 2017, sales of square billets increased by 35% y-o-y to US\$111 mn due to higher selling prices. Meanwhile, sales volumes dropped by 15% y-o-y (or 42 kt) due to the loss of control over operations of Yenakieve Steel (-212 kt), which was partly compensated by higher resales (+170 kt). All available volumes were sold in MENA and Southeast Asia.

Flat products

In 9M 2017, sales of flat products increased by 46% y-o-y to US\$3,112 mn, of which 37 pp was attributable to higher selling prices and 8 pp to greater sales volumes. Total volumes were up by 433 kt y-o-y to 5,557 kt, while resales of Zaporizhstal's goods rose by 159 kt y-o-y to 2,114 kt, keeping their share into total sales volumes flat y-o-y at 38% in 9M 2017. Sales to Ukraine rose by 276 kt as a local competitor left the market in 1Q 2017. Metinvest continued to develop partnership relations with several large consumers and traders in the CIS, which led to a 60 kt increase in sales to that region. Greater sales in MENA (+56 kt) were driven by the United Arab Emirates, which started preparations for Expo 2020. Other sales volumes were redistributed between regions following market conditions. The average selling price followed the dynamics of HRC FOB Black Sea quotations, which rose by 36% y-o-y.

Long products

In 9M 2017, sales of long products dropped by 22% y-o-y to US\$471 mn, caused by a 41% decline in sales volumes due to lower production levels and the loss of control over Yenakieve Steel, which was partly compensated by higher resales (+52 kt). At the same time, the positive y-o-y price trend on all markets for long products was due to stronger billet quotations.

Coke

In 9M 2017, sales of coke more than doubled y-o-y to US\$270 mn, reflecting a similar move in the average selling price. In addition, sales volumes increased by 9% (or 72 kt) y-o-y to 914 kt, driven by higher sales in Ukraine.

Mining segment

The Mining segment generates revenues from sales of iron ore, coal and other products and services. In 9M 2017, its top line increased by 29% y-o-y to US\$1,140 mn, driven by higher iron ore and coal selling prices, which followed global benchmarks. This was partly offset by a fall in sales volumes, caused by lower over all production of iron ore and coal products, as well as greater intragroup consumption. In 9M 2017, the segment accounted for 18% of external sales, down 1 pp y-o-y.

Mining segment Sales by market	9M17			9M16			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	1,140	100%	11,992	887	100%	15,544	253	-3,551	29%	-23%
Ukraine	397	35%	3,329	342	39%	6,324	55	-2,994	16%	-47%
Europe	452	40%	4,906	172	19%	2,935	281	1,970	>100%	67%
MENA	-	-	-	1	0%	14	-1	-14	-	-
CIS (ex Ukraine)	0	0%	-	-	-	-	0	-	-	-
Southeast Asia	270	24%	3,440	293	33%	5,222	-23	-1,782	-8%	-34%
North America	19	2%	318	80	9%	1,049	-61	-731	-76%	-70%
Other regions	2	0%	-	-	-	-	2	-	-	-

Mining segment Sales by product	9M17		9M16		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	949	11,421	718	14,196	231	-2,775	32%	52%	-20%
Merchant iron ore concentrate	493	7,021	436	9,838	57	-2,817	13%	42%	-29%
Pellets	456	4,400	282	4,358	174	42	62%	61%	1%
Coking coal concentrate	80	571	107	1,347	-27	-776	-25%	32%	-58%
Other products and services	112	-	63	-	49	-	77%	-	-
Total sales	1,140	11,992	887	15,544	253	-3,551	29%	51%	-23%

Iron ore concentrate

In 9M 2017, sales of merchant iron ore concentrate increased by 13% y-o-y to US\$493 mn, due to a surge in the average selling price. The latter followed the benchmark, [1] which rose by 35% y-o-y to an average of US\$73/t in 9M 2017, up from US\$54/t a year earlier. Meanwhile, total sales volumes dropped by 29% y-o-y (or 2,817 kt) to 7,021 kt following lower production and destocking in 2016. Given the premiums in Europe, one of Metinvest's key markets for iron ore, sales to both existing and new customers in that region were up by 899 kt y-o-y. Meanwhile, weaker demand in Ukraine caused lower sales (-1,504 kt). The remaining available volumes were sold to Southeast Asia, although volumes to that region were down 2,212 kt y-o-y.

Pellets

In 9M 2017, sales of pellets rose by 62% y-o-y to US\$456 mn, following a hike in the average selling price. In addition, sales volumes marginally increased – by 1% y-o-y (or 42 kt) – to 4,400 kt. Sales to Europe rose by 1,092 kt, driven by stronger demand. Meanwhile, sales in Ukraine decreased by 1,466 kt due to lower sales to local customers. This led to higher sales to Southeast Asia (+430 kt), which is an opportunistic market for this product.

Coking coal concentrate

In 9M 2017, sales of coking coal were down by 25% y-o-y to US\$80 mn a mid 58% y-o-y drop in volumes. Sales declined by 776 kt y-o-y to 571 kt, driven by lower production and higher internal consumption, which resulted in reduced sales in North America.

EBITDA

In 9M 2017, Metinvest's consolidated EBITDA soared by 39% y-o-y to US\$1,373 mn, driven by an increase in the Mining segment's contribution of US\$653 mn. The Metallurgical segment's EBITDA decreased by US\$273 mn, while corporate overheads and eliminations remained almost flat y-o-y.

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