

Metinvest announces financial results for 6 months of 2013

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 unaudited condensed interim consolidated financial information for the first six months ended 30 June 2013.

FINANCIAL HIGHLIGHTS

(US\$ million)	1H 2013	1H 2012	Change
Revenues	6,515	6,743	-3%
Adjusted EBITDA[1]	1,243	1,090	14%
margin	19%	16%	3 pp
Net profit	443	339	31%
margin	7%	5%	2 pp
Capital expenditure	250	388	-36%

(US\$ million)	1H 2013	FY 2012	Change
Total debt	3,776	4,278	-12%
incl. seller's notes	202	240	-16%
Total debt to EBITDA[2]	1.8x	2.2x	-0.4x
Cash	376	530	-29%
Net debt	3,400	3,748	-9%

FINANCIAL MANAGEMENT HIGHLIGHTS

- Fully repaid a US\$75 million two-year pre-export facility and a US\$40 million three-year loan facility
- Received an additional US\$260 million as an extension to a US\$300 million three-year pre-export facility secured at origination in November 2012
- Fully repaid a US\$85 million revolving credit line and a US\$175 million three-year amortised stand-by credit line

OPERATIONAL AND CSR HIGHLIGHTS

- Opened a sales office and a metals service centre in Nizhny Novgorod in the Volga Federal District of Russia
- Metinvest's plants signed new social partnership agreements with local regional councils in Luhansk, Mariupol and Yenakiieve

EVENTS AFTER THE END OF THE REPORTING PERIOD

- Acquired minority stakes in existing subsidiaries and associates from SCM Group: 23.5% in Central GOK, 15.0% in Northern GOK, 26.0% in Zaporizhia Coke, 31.3% in Donetsk Coke and 40.0% in Yenakiieve Coke
- Acquired 3.1% in Ingulets GOK from SMART Group
- Opened a sales office and a warehouse in Bryansk in the Central Federal District of Russia
- Appointed a new Group CFO, Aleksey Kutepov

Commenting on the results, Igor Syry, General Director of Metinvest, said: "We are pleased to announce a strong set of financial results and progress in implementing our long-term strategy despite ongoing market turbulence. In the first six months of 2013, conditions in the global steel and mining industry remained challenging and uncertain. Steel consumption in the EU continued to decline and demand was also weak in other regions, although growth in China and Japan was robust thanks to government stimulus measures.

We again demonstrated the effectiveness of our resilient and flexible business model, keeping the top line stable and increasing the bottom line, despite a modest year-on-year decline in output of crude steel. We achieved this by acting on the key points of our strategy: we made prudent capital investments, implemented continuous improvement and lean production initiatives, launched a programme to release working capital, and strengthened our presence in strategic markets.

Our output was broadly stable year-on-year in the reporting period. We produced 6,239 thousand tonnes of crude steel and 18,664 thousand tonnes of iron ore concentrate, and mined 5,924 thousand tonnes of coking coal.

In the first six months of 2013, consolidated revenues totalled US\$6,515 million. EBITDA reached US\$1,243 million, up 14% year-on-year, while the EBITDA margin increased by 3 percentage points (pp) to 19%. The stronger EBITDA performance was attributable to a swing into net positive EBITDA in the Metallurgical division, partly due to raw material prices falling more rapidly than steel prices.

The successful technology investments at our metallurgical plants also made an important contribution. One key project was the continuing implementation of pulverised coal injection (PCI) technology at Ilyich Steel, which reached the planned levels in summer 2013, bringing the first cost savings. Another important factor was the ongoing continuous improvement programme, designed to reduce costs and increase operational efficiency at our metallurgical and coke plants.

As regards capital expenditure (CAPEX), we continued to implement our long-term Technological Strategy, a roadmap for our investments. It aims to increase operational efficiency and product quality, ensure world-class standards for workplace safety, and dramatically reduce our environmental footprint. One of the strategy's key aspects is its flexibility, which allows us to adjust CAPEX depending on market conditions and focus on investments that aim to deliver rapid results and provide returns that can be channelled into new projects. CAPEX totalled US\$250 million for the first six months of 2013, as we made significant progress in several key projects.

Despite the unfavourable economic situation, we are pressing ahead with projects that are important to our local communities and us, particularly environmental upgrades of sinter plants, blast furnaces and converters.

In our Metallurgical division, notable developments included the ongoing construction of a PCI system at Yenakiieve Steel. Once the PCI system is installed at Yenakiieve Steel, scheduled for 2014, we plan to carry out the same work at Azovstal, which would mean that all of our three primary steelmaking plants would use the technology and benefit from its higher efficiency. The build out of the infrastructure for a new air separation unit at Yenakiieve Steel, which will deliver 1,400 tonnes of oxygen, nitrogen and argon a day for steel production from next year, is also progressing well. In the Mining division, key projects included the development of ore crusher and conveyer facilities at Northern GOK and Ingulets GOK. At United Coal, in the US, we are completing the fourth and final section of the Affinity mine complex, which is due to be launched at the end of this year.

Speaking about geography of our sales, in the first half of 2013, we boosted sales volumes by 28% year-on-year in Europe and 44% in the Middle East and North Africa (MENA). The share of these regions in our overall sales of steel products rose by 4 pp and 5 pp, respectively. In Ukraine, while sales volumes for both steel and iron ore fell due to reduced consumption, we have maintained our leading market position by working with the key customers and developing our distribution network further. Strong demand for iron ore from developing markets, primarily China, mitigated the effect of weak demand in other regions and enabled us to increase volumes and

revenues in our iron ore business amid falling prices for iron ore products.

As a committed corporate citizen, we continued to invest in our local communities during the first half of 2013, building on our social partnership agreements with the nine cities in three Ukrainian regions where we have production assets. Notably, our commitment to innovative environmental technology was recognised in May, when the Ukrainian government awarded three of our managers a state prize for research work aimed at developing coal-based solutions for improving energy efficiency.

After the end of the reporting period, our two shareholders, SCM Group and SMART Group, transferred stakes in five metals and mining companies to Metinvest, thus consolidating their sector assets and establishing a more transparent organisational structure. In July, we opened a sales office and a warehouse in Bryansk, Russia. In addition, in August, we were pleased to announce the appointment of Sergiy Novikov as Managing Director of our new Geneva-based finance department and Aleksey Kutepov as CFO of the Group. Sergiy Novikov's main responsibility will be ensuring the Group's efficient ongoing financing.

We expect conditions in the global steel and mining industry to remain challenging into 2014. In its latest short-term outlook for this year and the next, the World Steel Association mentions the possibility of additional turbulence in some key markets against a background of overall growth. However, our flexible investment strategy remains in place. We will continue to improve our product mix and quality, cut costs, expand our sales network, and enhance customer service. These measures will enable us to benefit from the longer-term consolidation in the steel market and shift in margins from raw materials to steel products."

Commenting on the results, Aleksey Kutepov, Chief Financial Officer of Metinvest, said: "Global trends in the prices of steel and raw materials impacted our top line in the first six months of 2013. Following modest rises to the end of the first quarter, benchmark steel prices fell in the second quarter and on average remained substantially lower year-on-year. After collapsing in the second half of 2012, iron ore prices recovered strongly in the first six months of this year, although we now expect them to come under pressure again. Coking coal prices remained weak in the first half, probing the lows last seen in 2009.

We had planned for volatility though. Our conservative approach to debt has made us resilient in the face of short-term uncertainty, while our vertically integrated structure insulates us from adverse fluctuations in raw material prices. At the end of the reporting period, our total debt to EBITDA ratio remained at a comfortable level of 1.8x.

We continue to optimise our debt portfolio. During the first half of the year, we completed the repayment of two existing credit lines, a pre-export facility and a loan facility. Moreover, in April, we raised an additional US\$260 million by increasing a US\$300 million three-year pre-export facility secured at origination in November 2012.

We achieved strong bottom-line growth by reducing the cost of sales, general, and administrative, distribution and financing expenses as part of our cost-cutting programme. In addition, a one-off reversal of previously written-off trade receivables from a key customer, fines and penalties paid by customers for overdue trade receivables, and foreign exchange gains added US\$149 million to our operating profit. As a result, net profit jumped to US\$443 million, up 31% year-on-year, increasing the margin to 7%. We also saw tangible results from our initiative to optimise working capital as we released US\$81 million from working capital in the reporting period, increasing our net operating cash flow year-on-year."

Revenues

In 1H 2013, Metinvest's consolidated revenues totalled US\$6,515 million, down 3% year-on-year (y-o-y). The drop was mainly due to a 13% decline in average prices for steel products and a slump in sales volumes of tubular products. The Metallurgical division accounted for 73% of external sales (the same as in 1H 2012) and the Mining division for 27%.

Metallurgical division

Revenues in the Metallurgical division come from sales of steel and coke products as well as re-sales of steel products. In 1H 2013, the division's top line amounted to US\$4,731 million, down 4% y-o-y, and sales of steel products accounted for 98% of the figure. The drop was due to both falling average steel prices and lower sales volumes, primarily of tubular products, which was largely compensated by higher re-sale volumes of other steel products.

Total sales volumes of other steel products increased by 1,044 thousand tonnes y-o-y, of which 93% was attributable to re-sales of Zaporizhstal's output, following its integration with Metinvest. Steel re-sales from Zaporizhstal increased by US\$544 million and contributed US\$746 million to the division's revenue in 1H 2013. Around 50% of steel re-sales went to the Middle East and North Africa (MENA) and another 40% to Europe and the CIS.

The main reasons for the ongoing fall in prices y-o-y for slabs, square billets, flat and long products in 1H 2013 were:

- falling steel consumption in Europe due to a lack of available credit, which impacted sales of slabs and flat products
- political instability and escalating conflicts in MENA, which impacted exports of square billets and long products
- greater finished steel exports from China, which negatively affect slab re-rollers in Asia, forcing them to reduce slab prices to maintain margins
- decreasing prices for high-quality flat products from Japanese and Korean steel producers in the largest import markets, such as Southeast Asia and the Persian Gulf
- falling demand in Ukraine, which dropped by 15% following the consumption boom ahead of the Euro-2012 football championship

In 1H 2013, sales of semi-finished products totalled US\$702 million, down 4% y-o-y, due to a fall in the average prices of square billets and slabs. At the same time, sales of pig iron increased by 17% y-o-y, driven by higher sales volumes, mainly to Europe (51 thousand tonnes) and the US (48 thousand tonnes), which was partly offset by a drop in sales volumes to MENA of 37 thousand tonnes.

The fall in the average prices for square billets and slabs by 12% and 11% y-o-y, respectively, resulted in revenues from their sales decreasing by 13% and 5%. The fall in revenues from slabs was partly compensated by an increase of 137 thousand tonnes in their sales volumes to Europe and MENA.

Revenues from sales of finished products declined by 19% y-o-y to US\$2,953 million in 1H 2013. This was mainly due to a fall in average prices for flat and long products, as well as a slump in sales volumes of tubular products.

In 1H 2013, sales of flat products fell by 12% y-o-y (US\$273 million) to US\$1,938 million, of which 10 pp was attributable to a decline in average prices throughout our markets. Sales volumes in Ukraine and the CIS declined by 217 thousand tonnes overall; this was partly compensated by an increase in shipments to Southeast Asia of 155 thousand tonnes. Sales volumes to Europe and MENA were broadly stable y-o-y.

Revenues from sales of long products fell by 9% y-o-y (US\$87 million) to US\$831 million in 1H 2013. The main cause was a 9% drop in the average product prices. In terms of volumes, sales to MENA decreased by 84 thousand tonnes y-o-y, while sales to the CIS and Europe rose by 65 thousand tonnes and 44 thousand tonnes respectively. Overall, sales to the CIS and Europe were up US\$47 million y-o-y.

Revenues from sales of tubular products fell by 91% y-o-y (US\$341 million) to US\$32 million in 1H 2013. This was caused by a slump in sales volumes of 88% (284 thousand tonnes), as various large pipeline projects were completed in 2012 and some planned projects were rescheduled, in particular, the second phase of the East-West pipeline (Turkmenistan) and the third section of the Central Asia-China pipeline.

Revenues from sales of railway products dropped by 8% y-o-y (US\$13 million) to US\$152 million in 1H 2013, due to a decline in sales volumes of 23 thousand tonnes, offset by an increase in average prices of 8%. The volumes sold were lower as Ukrainian Railways and other regional rail companies reduced their purchases due to reductions in state funding.

Mining division

Revenues in the Mining division come from sales of iron ore, coal and other products. Sales of iron ore products accounted for 83% of the division's top line in 1H 2013. The division's revenues remained largely unchanged y-o-y due to a substantial increase in sales volumes of iron ore concentrate, pellets and coking coal concentrate.

In 1H 2013, sales of iron ore products grew by 12% y-o-y (US\$154 million) to US\$1,485 million. This was driven mainly by a rise in the sales volumes of iron ore concentrate and pellets of 1,403 thousand tonnes and 569 thousand tonnes respectively. The volume of iron ore products available for sale was higher due to an increase in production of iron ore concentrate of 580 thousand tonnes and lower internal consumption of raw materials caused by the 3% y-o-y drop in hot metal production.

Despite a dip in average sales prices y-o-y, revenue from iron ore concentrate increased by 19% (US\$139 million) to US\$874 million, driven by a boost in shipments to China of 1,633 thousand tonnes. Sales volumes to Europe remained unchanged y-o-y, but there was a drop of 214 thousand tonnes in Ukraine.

Sales of pellets increased by 5% y-o-y (US\$25 million) to US\$575 million, despite a 9% fall in the average pellet prices. This was attributable to higher sales volumes, which rose by 15% y-o-y (569 thousand tonnes), driven by sales to China and Ukraine, but partly offset by lower sales to Europe.

Sales of coking coal concentrate dropped by 24% y-o-y (US\$60 million) to US\$193 million in 1H 2013. The decline was driven by a slump in the average concentrate prices y-o-y, which was partly offset by an increase in

sales volumes in the US (129 thousand tonnes) and Ukraine (51 thousand tonnes).

In 1H 2013, sales of steam coal concentrate were insignificant, as United Coal did not mine any steam coal in the period due to low demand on the US market.

Cost of sales

The consolidated cost of sales amounted to US\$5,139 million in 1H 2013, down 2% y-o-y. While the cost of sales linked to re-sale products from Zaporizhstal increased by US\$551 million y-o-y, the overall costs were reduced by a number of factors, primarily lower production levels of hot metal, falling purchase prices for raw materials and increased operational efficiency. The decline in hot metal production of 198 thousand tonnes y-o-y significantly reduced internal consumption of raw materials and, to some extent, natural gas.

Another material factor contributing to the lower cost of sales was the fall in purchase prices across all of the main categories of raw materials used in steel production, including coal, coke, iron ore and scrap. This reversed the trend seen in 2011 and 2012, when prices of raw materials rose more rapidly than those of steel. Another contributor was the achievement of target capacity levels for the PCI technology at Ilyich Steel in summer 2013. In addition, the implementation of several continuous improvement projects at metallurgical and coke plants increased operational efficiency.

As a share of consolidated revenues, the cost of sales was 79% in 1H 2013, up marginally y-o-y.

Distribution, general and administrative expenses

Distribution expenses consist largely of transportation costs, salaries paid to sales and distribution employees, commissions, and the cost of materials. In 1H 2013, distribution expenses remained broadly unchanged y-o-y at US\$582 million, or 9% of consolidated revenues (also no change y-o-y).

General and administrative expenses consist largely of salaries paid to administrative employees; consultancy fees; audit, legal and banking services expenses; insurance costs; and lease payments. General and administrative expenses were down 3% y-o-y to US\$189 million in 1H 2013, primarily due to a reduction in usage of third-party services. The figure equalled 3% of consolidated revenues (unchanged y-o-y).

Other operating income / expenses

Other operating expenses consist primarily of bad debt costs, foreign exchange gains less losses, sponsorship and other charity payments, gains on disposals of property, plant and equipment (PPE), and maintenance costs for social infrastructure.

In 1H 2013, Metinvest generated other operating income of US\$99 million, an increase of US\$170 million y-o-y, due to the following:

- a reversal of a US\$57 million impairment of trade and other receivables that were previously written off
- an increase in other income of US\$55 million due to fines and penalties received from clients and a decrease in third-party services
- an increase in foreign exchange gains of US\$37 million

Other operating income represented 2% of consolidated revenues.

EBITDA

Consolidated EBITDA amounted to US\$1,243 million in 1H 2013, up 14% y-o-y. The EBITDA margin rose from 16% to 19%, as the Metallurgical division's margin increased by 7 pp due to a reduction in the cost of raw materials, the implementation of the PCI technology at Ilyich Steel, and the success of the continuous improvement projects. The Metallurgical division generated EBITDA of US\$165 million, with a 3% margin, and the Mining division generated US\$1,188 million, a 44% margin.

Finance income

Finance income represents net foreign exchange gains, interest income on bank deposits and loans issued, and other finance income.

In 1H 2013, finance income decreased by US\$9 million y-o-y to US\$28 million, or 0.4% of consolidated revenues. The decline was primarily due to a decrease in the amount of loans issued.

Finance costs