10 oct. 2017

Metinvest announces financial results for the first six 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 announced its unaudited IFRS interim condensed consolidated financial statements for the six months ended 30 June 2017 in compliance with Clause 8.4 and Condition 4(w) of the trust deed dated 22 March 2017 ("the Trust Deed") executed between Madison Pacific Trust Limited as trustee and Metinvest B.V. as issuer.

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 - financial results	1H 2017	1H 2016	Change, y-o-y	
			US$ mn	%
Income statement highlights				
Revenues	3,913	2,880	1,033	36%
Adjusted EBITDA[1]	839	580	259	45%
Margin	21%	20%		1 pp
Net profit	72	90	-18	-20%
Margin	2%	3%		-1 pp
Cash flow highlights				
Net cash from operations	305	163	142	87%
Net cash used in investing activities	-169	-109	-60	55%
incl. purchase of PPE and intangible assets[2]	-179	-130	-49	38%
Net cash used in financing activities	-106	-50	-56	>100%

Summary - financial results	30.06.2017	31.12.2016	Change, YTD	
			US$ mn	%
Total debt[3]	2,949	2,969	-20	-1%
Cash and cash equivalents[4]	258	226	32	14%
Key ratios				
Net debt[5]/EBITDA[6]	1.9x	2.4x		-0.5x
Consolidated Net Leverage Ratio[7]	1.7x	2.1x		-0.4x

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, 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-government controlled territory of Ukraine, including Yenakiieve Steel, KrasnodonCoal 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 1H 2017

EBITDA.

2. Comprises Capital Expenditures defined in the Trust Deed.

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.

5. Net debt is calculated as the sum of bank loans, bonds, trade finance, seller notes and subordinated shareholder loans less cash and cash equivalents.

6. EBITDA for the last 12 months.

7. Calculated in line with the Trust Deed.

Summary - production results	1H 2017	1H 2016	Change, y-o-y	
			kt	%
Crude steel	**3,923**	**4,187**	**-264**	**-6%**
Azovstal	2,166	1,809	357	20%
Ilyich Steel	1,488	1,427	61	4%
Yenakiieve Steel	269	951	-682	-72%
Iron ore concentrate	**13,649**	**15,811**	**-2,162**	**-14%**
Northern GOK	5,544	6,269	-725	-12%
Ingulets GOK	5,788	6,901	-1,113	-16%
Central GOK	2,317	2,641	-324	-12%
Coking coal concentrate	**1,447**	**1,580**	**-133**	**-8%**
Krasnodon Coal	129	323	-193	-60%
United Coal	1,317	1,257	60	5%

OPERATIONAL HIGHLIGHTS

- On March 15, assets owned by PJSC Yenakiieve I&SW (including its Makiivka branch), Ukrainian-Swiss JV Metalen, PJSC Khartsyzk Pipe, PJSC Krasnodon Coal, PJSC Komsomolske Flux, PJSC Donetsk Coke and PJSC Yenakiieve Coke, which are located in the territory not controlled by the Ukrainian government, were seized following an ultimatum issued by the unrecognised local authorities to re-register these assets.

- Avdiivka Coke sustained power supply cuts in early 2017 as a result of heavy shelling that damaged the power transmission lines. In May, the plant resumed operations at 100% of capacity after a three-month forced shutdown once a new high-voltage line to the plant was installed on territory controlled by the Ukrainian government.

- The Group launched 32 new steel products, mainly heavy plates, hot-rolled and cold-rolled coils, as well as galvanized products used in construction, machine-building, shipbuilding and pipe production.

DEBT MANAGEMENT

- In January, seller notes were restructured. Their maturity was extended to 31 December 2021.

- In March, Metinvest successfully concluded the restructuring of its bonds and pre-export financing (PXF) facilities, issued new bonds totalling US$1.2 bn and amended, restated and combined four PXF facilities into one facility totalling US$1.1 bn, both due in 2021.

- In May, Metinvest secured a new five-year financing facility from Caterpillar Financial Ukraine to lease mining equipment for Ingulets GOK for the total value of around US$17 mn.

- Following the implementation of the debt restructuring, international rating agencies Moody's and Fitch both upgraded Metinvest's credit ratings to 'Caa1' ('positive' outlook) and 'B' ('stable' outlook).

Commenting on the results, Yuriy Ryzhenkov, Chief Executive Officer of Metinvest, said:

"In the first half of 2017, Metinvest proved able to successfully adapt to abrupt changes in the operating environment thanks to its robust business model and dedicated team. Amid favourable steel and iron ore prices and the ongoing economic recovery in Ukraine, the Group delivered a respectable financial performance.

During the reporting period, rising global demand pushed steel and iron ore prices to recover further from their recent multi-year lows. The dominant driver on both the demand and supply sides of the steel market was China, which increased domestic infrastructure investments while working to improve its steel industry's efficiency by cutting excess steel production capacity. Global iron ore demand was driven by growing steel production and delayed new production capacity launches. While global price volatility remains a key concern, we are cautiously optimistic.

In Ukraine, the economic revival continues. The first and second quarters of the year were sustained by respective 2.5% and 2.3% year-on-year GDP growth and a relatively calm local currency. Buoyed by the resurgent economy, steel-consuming industries have driven demand for our products.

In the last few years, Metinvest has demonstrated the extraordinary resilience of its business and the skill of its people in dealing with adversity. Despite losing control over several facilities in the non-government controlled regions of Eastern Ukraine in March, we have maximised our available production capacity and adjusted the raw material supply chain to be able to work without disruption:

- We have increased steel production at our Mariupol steelmakers (up 20% at Azovstal and 4% at Ilyich Steel), although total crude steel output declined 6% year-on-year to 3,923 thousand tonnes. As part of our Technological strategy review, we intend to invest to increase their annual capacity, focusing on boosting the share of higher value-added products.

- The Group has found new third-party sources of steel billets for its Bulgarian re-roller to replace square billets produced at Yenakiieve Steel.

- Metinvest has increased capacity at its US mines and sourced third-party supplies from Australia, Canada and the US to replace coal produced at Krasnodon Coal.

In addition, Avdiivka Coke has resumed operations at full capacity after the power supply vulnerability was eliminated following the installation of a new electricity transmission line on government-controlled territory.

Over the reporting period, the Group's iron ore concentrate production fell by 14% to 13,649 thousand tonnes, mainly due to insufficient maintenance CAPEX during the previous challenging years. We have reversed this prolonged downward production trend by beginning to expand our heavy truck fleet. This resulted in a 4% quarter-on-quarter increase in concentrate production in the second quarter of 2017, marking the first improvement in this metric since the end of 2015. We devote particular attention to the quality of our iron ore products. In 2017, Northern GOK launched production of pellets from concentrate with a high Fe content from Ingulets GOK with a view to accessing the premium market segment. Our long-term strategy regarding iron ore is to pursue quality over quantity while maintaining low costs.

In the reporting period, we delivered a strong set of financial results, reflecting our operational performance and the year-on-year improvement in market conditions. Revenues grew by 36% y-o-y to US$3,913 million. Ukraine and the European Union remained our priority markets, accounting for 24% and 38% of sales, respectively, during the period. We also continued to develop the Middle East and North Africa market, taking advantage of Ukraine's unique geographic position and the resulting logistical advantages.

EBITDA jumped by 45% to US$839 million, although profitability shifted again to the Mining segment (78% EBITDA contribution), which benefited from high iron ore prices. The Metallurgical segment's performance was under pressure amid high raw material prices and impairment of seized inventories.

Operating cash flow for the period was US$305 million. It was affected by an outflow of working capital, which was heavily impacted by the required changes in our operating model and the loss of some local iron ore customers with operations in the non-government controlled parts of Ukraine. We finally stabilized our working capital in June, when we released US$50 million, and we will continue to work to resolve the issue completely.

As we continued to implement strategic CAPEX projects catching up on underinvestment in maintenance, free cash flow for the period amounted to US$126 million, which we spent on debt service. With a degree of stabilization in the operating environment, we began to pay contingent interest to senior creditors via a cash sweep set up by the restructuring agreements. We are also exploring all potential sources of financing within our limitations to match our long-term capex plans, including ECA financing and leasing. In May, after the restructuring was completed – and for the first time since 2013 – we secured a new long-term facility to lease mining equipment. Our goal remains to return to international debt capital markets at the earliest opportunity.

In the second half of 2017, the focus will be on maintaining operations without disruption by securing raw material suppliers, as well as on implementing the CAPEX programme.

We would like to thank our clients, investors, creditors, employees and other stakeholders for their support during a challenging and eventful first half of 2017. We are confident that the second half of the year will prove encouraging."

RESULTS OF OPERATIONS

Results of operations	1H 2017		1H 2016		Change, y-o-y		
	US$ mn	% of revenues	US$ mn	% of revenues	US$ mn	%	pp of revenues
Revenues	**3,913**	**100%**	**2,880**	**100%**	**1,033**	**36%**	**-**
Cost of sales	-3,006	-77%	-2,240	-78%	-766	34%	1
Gross profit	**907**	**23%**	**640**	**22%**	**267**	**42%**	**1**
Distribution costs	-361	-9%	-347	-12%	-14	4%	3
General and administrative expenses	-93	-2%	-82	-3%	-11	13%	1
Other operating income	13	0%	-5	0%	18	-	-
Operating profit	**466**	**12%**	**206**	**7%**	**260**	**>100%**	**5**
Results of the loss of control over the assets located on temporarily non-controlled territory	**-329**	**-8%**	**-**	**0%**	**-329**	**-**	**-8**
Finance income	74	2%	13	0%	61	>100%	2
Finance costs	-143	-4%	-178	-6%	35	-20%	2
Share of result of associates and JV	118	3%	70	2%	48	69%	1
Profit before income tax	**186**	**5%**	**111**	**4%**	**75**	**68%**	**1**
Income tax	-114	-3%	-21	-1%	-93	>100%	-2
Net profit	**72**	**2%**	**90**	**3%**	**-18**	**-20%**	**-1**

Revenues

Metinvest's revenues are generated from sales of its steel, iron ore, coal and coke products and resales 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	1H 2017		1H 2016		Change, y-o-y		
	US$ mn	% of revenues	US$ mn	% of revenues	US$ mn	%	pp of revenues
Total revenues	**3,913**	**100%**	**2,880**	**100%**	**1,033**	**36%**	**-**
Ukraine	931	24%	698	24%	233	33%	-
Europe	1,473	38%	1,035	36%	439	42%	2
MENA	628	16%	488	17%	140	29%	-1
CIS (ex Ukraine)	348	9%	226	8%	122	54%	1
Southeast Asia	282	7%	270	9%	12	5%	-2
North America	222	6%	133	5%	89	67%	1
Other regions	29	1%	29	1%	-1	-3%	-

In 1H 2017, Metinvest's consolidated revenues increased by 36% y-o-y to US$3,913 mn. This was primarily due to a recovery in global prices for steel, iron ore and coal products, after they hit the lowest levels seen in the past several years in 1Q 2016. In addition, stronger demand spurred higher sales of slabs (+164 kt) and flat products (+96 kt), which partly compensated for lower sales of square billets (-148 kt) and long products (-317 kt) following the loss of control over Yenakiieve Steel since March 2017.

In 1H 2017, revenues in Ukraine amounted to US$931 mn, up 33% y-o-y, primarily due to better selling prices, as well as higher sales volumes of flat products amid greater local demand as the economic upturn continued. Real GDP was up 2.5% y-o-y in 1Q 2017 and 2.3% y-o-y in 2Q 2017

[1]

. Apparent consumption of steel products (excluding pipes) in Ukraine rose by 3.8% y-o-y to 2.6 mt

[2]

in 1H 2017, supported by renewed real demand in key steel-consuming industries. Economic activity was up 24.6% y-o-y in the construction sector[1] and by 7.4% y-o-y in the machine-building industry[1]. Regarding iron ore products, sales in Ukraine decreased by 2,040 kt amid weaker demand as shipments to some customers in Eastern Ukraine stopped and some other customers temporarily shut down their operations. Meanwhile, Ukraine's share of consolidated revenues remained flat y-o-y at 24%.

International sales accounted for 76% of consolidated revenues in 1H 2017. The biggest changes in market shares were for Europe and Southeast Asia. Europe's share reached 38%, up 2 percentage points (pp) y-o-y, following 42% growth in sales to the region amid higher sales volumes of slabs (+131 kt) and iron ore products (+1,370 kt), as well as a hike in selling prices for all products. The share of sales to Southeast Asia decreased by 2 pp y-o-y to 7% as sales to this market increased by a marginal 4% y-o-y: higher selling prices and greater sales volumes of slabs, flat products and pellets were almost offset by lower volumes of iron ore concentrate (-1,952 kt).

Metallurgical segment

The Metallurgical segment generates revenues from sales of pig iron, steel and coke products and services. In 1H 2017, its revenues increased by 38% y-o-y to US$3,165 mn. In particular, sales of flat products rose by US$643 mn, slabs by US$124 mn, pig iron by US$76 mn, coke by US$62 mn and other products and services by US$61 mn. This was partly offset by lower sales of long products (US$56 mn) and square billets (US$35 mn). In 1H 2017, the Metallurgical segment accounted for 81% of external sales (80% in 1H 2016).

Metallurgical segment. Sales by market	1H 2017			1H 2016			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	**3,165**	**100%**	**5,828**	**2,290**	**100%**	**6,175**	**875**	**-347**	**38%**	**-6%**
Ukraine	669	21%	1,066	484	21%	1,153	185	-87	38%	-8%
Europe	1,213	38%	2,218	956	42%	2,475	257	-257	27%	-10%
MENA	628	20%	1,279	488	21%	1,525	140	-246	29%	-16%
CIS (ex Ukraine)	348	11%	527	226	10%	508	122	19	54%	4%
Southeast Asia	74	2%	161	28	1%	102	46	58	>100%	57%
North America	205	6%	517	https://metinvestholding.com/es/media/news/7473						