

Metinvest announces financial results for the full year 2012

Metinvest B.V., the parent company of an international vertically integrated steel and mining group of companies (jointly referred to as “Metinvest”), today announces its audited consolidated financial results for the 12 months ended 31 December 2012.

2012 FINANCIAL HIGHLIGHTS

- Consolidated revenues down 11% y-o-y to US\$12,565 million
- Adjusted EBITDA¹ down 46% y-o-y to US\$1,985 million, with a margin of 16%
- Operating profit down 65% y-o-y to US\$979 million
- Net profit down 77% y-o-y to US\$435 million
- Capital expenditure down 34% y-o-y to US\$765 million
- Total loans and borrowings of US\$4,038 million² as at 31 December 2012, comprising US\$2,654 million of long-term and US\$1,384 million of short-term borrowings
- Seller’s notes of US\$240 million as at 31 December 2012
- Cash and equivalents of US\$530 million as at 31 December 2012

2012 OPERATIONAL HIGHLIGHTS

- Production of crude steel down 13% y-o-y to 12,459 thousand tonnes
- Mining of coking coal up 3% y-o-y to 11,623 thousand tonnes
- Production of iron ore concentrate up 1% y-o-y to 36,224 thousand tonnes
- Decommissioned three obsolete coke batteries and mothballed the sinter plant at Azovstal to reduce environmental emissions in Mariupol (Ukraine)

2012 INVESTMENT HIGHLIGHTS

- Acquired 49.9% in JSC Zaporizhstal Iron and Steel Works (Zaporizhstal) which also held significant stakes in other entities in the steel and mining business in Ukraine
- Acquired 85.21% in CJSC Belgorodmetalloznab, a large warehouse complex and steel product transshipment centre in Belgorod (Russia)
- Acquired four metals service centres in Western Ukraine

2012 FINANCIAL MANAGEMENT HIGHLIGHTS

- Fully repaid a US\$1.5 billion five-year global refinance facility arranged in July 2007
- Fully repaid ahead of schedule a €410 million seven-year senior facilities agreement arranged in January 2008 and used to buy Tramelat (Italy) and Spartan UK (UK)
- Secured two three-year pre-export finance (PXF) facilities in the amount of US\$325 million and US\$300 million
- Secured a debut €25 million 10-year export credit agency (ECA) facility

Igor Syry, General Director of Metinvest commented: “Conditions in the global steel and mining industry were testing last year, as certain regions continued to experience the effects of the global financial crisis, notably the EU. Despite the turbulence, we preserved sales volumes, made a major acquisition, demonstrated progress in our investment projects, and expanded our distribution network. We also implemented considered cost-cutting and environmental measures in an efficient manner, proving that our business model remains both flexible and resilient, and demonstrating that we take our corporate responsibility seriously.

Our headline financial results reflected the overall conditions in the industry. For 2012, consolidated revenues came to US\$12,565 million, while operating profit reached US\$979 million and net profit totalled US\$435 million. At the same time, our operational results were more favourable. Crude steel production amounted to 12,459 thousand tonnes, down 13% y-o-y, while we mined 11,623 thousand tonnes of coking coal, up 3%, and produced 36,224 thousand tonnes of iron ore concentrate, up 1%. Overall sales volumes for the Metallurgical division were down by just 1%, while for the Mining division they were up 3%.

One of the key events for Metinvest last year was the acquisition of 49.9% in Zaporizhstal, one of Ukraine's largest steelmakers. Zaporizhstal produced 3,777 thousand tonnes of crude steel in 2012, and it manufactures semi-finished steel products and a diversified mix of flat products, including hot and cold-rolled plates and coils. As such, the acquisition is fully in line with our overall strategy of boosting steel output, moving along the value chain by increasing the share of finished products, and expanding and diversifying our customer base.

Another milestone was the approval of our long-term Technological Strategy. Together with our long-term Financial Strategy, also initiated last year, it is a key roadmap for our investments in increasing operational efficiency and product quality, ensuring world-class standards of workplace safety, and dramatically reducing our environmental impact. We have made the strategy flexible, so that we can react promptly to any change in our needs and the availability of funding. We have prioritised projects that have the shortest payback period and are the most cost-efficient. In addition, before launching new projects, we will ensure that the necessary financing has been arranged and ring-fenced.

While the market conditions caused us adjust our capital expenditure to US\$765 million in 2012, we made substantial progress in numerous key technological projects. At Ilyich Steel, we completed a major overhaul of blast furnace no. 2 and launched a new turbine air blower at blast furnace no. 3. We also finished the construction of the pulverised coal injection (PCI) unit, which will significantly reduce the use of natural gas and coke in the blast furnace shops. At Azovstal, we installed and undertook cold and hot testing of an accelerated cooling unit at the plate mill, a process that delivers better products at lower cost. At Yenakieve Steel, we began building a PCI unit, as well as a new air separation unit with Air Liquide. Spending on the Metallurgical division alone exceeded US\$310 million last year.

In the Mining division, we made significant investments in new, state-of-the art safety systems at Krasnodon Coal, while expanding coal output from the Affinity mine at United Coal Company. Spending on the Mining division alone exceeded US\$420 million last year.

Our decisions regarding key technological projects also demonstrated our commitment to corporate social responsibility last year. In response to concern from local communities about the environmental situation in and around Mariupol, home to Ilyich Steel and Azovstal, we accelerated plans to close older facilities that contribute more to pollution. At Ilyich Steel, in addition to completing the PCI unit, we launched a project to upgrade the sinter plant. At Azovstal, alongside decommissioning the open-hearth furnaces, we closed three obsolete coke batteries and mothballed the sinter plant. In addition, at Yenakieve Steel, we are at the design stage in a project to build a new, environmentally friendly sinter plant, the first such initiative since Ukraine became an independent state more than 20 years ago.

The prosperity of local communities is another critical aspect of responsible business behaviour. Last year we focused our efforts on long-term planning and stakeholder engagement. In cities where Metinvest operates we set up local expert committees of partners from the government, NGO and multilateral sectors. The committees are liable for identifying and monitoring priority social programmes to be implemented for future city development. Metinvest social investments in 2012 totalled US\$12 million and were spent on infrastructure, healthcare, sport and education.

We continued to concentrate on expanding our sales and distribution networks in key markets last year. In Ukraine, we acquired four metals service centres in the west of the country, reinforcing our already dominant market position. In Russia, we acquired Belgorodmetalloznab, a large warehouse complex and steel product transshipment centre in Belgorod, and opened a warehouse in Penza, in line with our focus on the regions closest to our production assets.

As the overall environment remains difficult, 2013 looks set to be another challenging year. At the same time, we are confident that our flexible strategy, numerous initiatives to cut costs and improve profitability, and prudent approach to borrowing will enable us to maintain our strong financial position".

Sergiy Novikov, Finance Director of Metinvest, added: "Conditions in the markets for steel and bulk commodities remained challenging in 2012. The prices of steel and iron ore and coal products followed a broadly similar trend: after remaining stable, albeit historically low, in the first quarter, they then declined fairly rapidly from the end of the second quarter until the fourth, when a modest bounce took place. While this impacted our headline financial results, we were quick to introduce cost-cutting initiatives, flexible in our approach to capital expenditure, and successful in securing new borrowing facilities. As a result, our financial position remains solid.

The slump in prices for our key products brought our profitability under pressure. EBITDA came to US\$1,985

million for the year. This gave a margin of 16%, which was better than expected in a difficult year.

At the same time, we succeeded in the tight management of costs, proving our ability to respond prudently during periods of turbulence. Distribution costs rose by 7%, although this was mainly due to an increase in railway tariffs, while general and administrative expenses were unchanged y-o-y.

We also maintained our conservative approach to borrowing. Our net debt to EBITDA ratio was 1.9, and our ability to secure new sources of financing indicates that lenders remain confident in us. Last year, we repaid a US\$1.5 billion, five-year global refinance facility, our largest ever borrowing, as well as repaid ahead of schedule a €410 million, seven-year senior facilities agreement, as part of a drive to optimise our parent company's corporate debt. In addition, we arranged two new three-year pre-export finance facilities in the amount of US\$325 million and US\$300 million – both of which were oversubscribed – and a debut €25 million 10-year export credit agency facility.

In 2012, we generated net cash from operating activities of US\$1,146 million. As at the year-end, our cash balance stood at US\$530 million.

While the outlook for our key markets, particularly Europe, is still uncertain, we are well prepared to operate in such an environment. Our ongoing investments in more modern production technology are bringing noticeable cost and efficiency gains, while our flexible business model and conservative debt management help to maintain a steady financial footing”.

GROUP FINANCIAL REVIEW³

(US\$ million)	2012	2011	Change
Revenues (total)	12,565	14,189	-11%
Metallurgical	9,340	10,618	-12%
Mining	5,302	6,525	-19%
<i>Eliminations (intersegment sales)</i>	<i>-2,077</i>	<i>-2,954</i>	<i>-30%</i>
Revenues (external)	12,565	14,189	-11%
Metallurgical	9,265	10,538	-12%
Mining	3,300	3,651	-10%
Revenues (intersegment)	2,077	2,954	-30%
Metallurgical	75	80	-6%
Mining	2,002	2,874	-30%
EBITDA	1,985	3,655	-46%
Metallurgical	-270	50	n/a
Mining	2,269	3,727	-39%
<i>Eliminations and corporate overheads</i>	<i>-14</i>	<i>-122</i>	<i>-89%</i>
EBITDA margin	16%	26%	-10 pp
Metallurgical	-3%	0%	-3 pp
Mining	43%	57%	-14 pp

Revenues

In 2012, Metinvest's consolidated revenues totalled US\$12,565 million, down 11% compared with US\$14,189 million in 2011. The drop was due to a decline in external revenues of 12% for the Metallurgical division and 10% for the Mining division. The Metallurgical division accounted for 74% of external revenues (similar to the figure for 2011) and the Mining division for 26%.

Revenues from sales of semi-finished products fell by 33% y-o-y to US\$1,418 million, primarily as a result of slab sales volumes declining by 1,154 thousand tonnes.

Last year, slab revenues fell to US\$689 million, down 55% y-o-y, of which 49 percentage points (pp) was attributable to lower sales volumes and 6 pp to lower average prices. The decline in volumes was the result of unprofitable sales driven by the unfavourable market conditions and low buying activity in key slab consumption regions (Europe and Southeast Asia). As such, oversupply of slabs driven mainly by greater supplies from Russian producers (and higher competition as a result), along with a continuing decline in flat product prices, caused slab

prices to fall by an average of US\$100 per tonne from January to December.

At the same time, sales of square billets significantly increased by 57% y-o-y to US\$480 million, mainly due to a rise in sales volumes of 344 thousand tonnes. The square billet market was influenced by trends in the raw materials and long products markets. Overall, the situation in the square billet market was more favourable compared with that in the slab market. Despite the reduction in buying activity in the billet market from April 2012 due to weaker demand and falling scrap prices, short-term demand growth was seen in August and November thanks to the relatively favourable situation in the Middle East (the main billet consumption region) and a positive trend in the scrap market. As a result of these contrasting trends, billet prices were an average of US\$80⁴ per tonne higher than slab prices in 2012.

Sales of finished products fell by 16% y-o-y to US\$6,560 million in 2012, mainly due to decreases in sales volumes and average prices for flat and tubular products.

Last year, revenues from sales of flat products dropped by 19% (US\$935 million), of which 8 pp was attributable to lower sales volumes and 11 pp to a fall in average prices. Sales of flat products were affected by adverse market conditions and persistent low buying activity. The market was influenced by strong competition between Russian and Ukrainian suppliers due to a drop in demand from the European Union (EU imports of flat products fell by 31% in 2012, while exports from the region increased by 15%), tougher sanctions against Iran, a more difficult political situation in the Middle East and North Africa, and aggressive exports from Asian suppliers (China, Japan and Korea). These factors caused market prices to fall to a level at which sales in this segment were unprofitable throughout 2012.

Revenues from sales of tubular products decreased by 37% in 2012, of which 29 pp was attributable to lower sales volumes and 8 pp to a fall in average prices. The volume of tubular products sold dropped by 188 thousand tonnes due to the completion of the Beineu-Shymkent project (Kazakhstan), the rescheduling of the next phase of the East-West project (Turkmenistan), and low demand for large-diameter pipes (LDPs) on the Russian market. Stronger competition from Russian and other international LDP producers drove down sales prices in all markets, causing the Group's revenues from LDP sales to fall by US\$311 million y-o-y.

Revenues from long product sales declined by 7% (US\$132 million) in 2012, primarily due to a 6% fall in the average price for long products, a result of deteriorating global market conditions amid stagnation in the construction sector. Notably, long product sales decreased at a slower pace compared with those of flat products due to stable demand in key strategic markets: Ukraine, Russia, Middle East and North Africa.

Revenues from railway product sales grew by 50% (US\$115 million) in 2012 amid an increase in sales prices and volumes (by 64 thousand tonnes). The main contributor to this growth was a rise in rail orders from CIS consumers.

In 2012, sales volumes of iron ore products increased by 5% (1,345 thousand tonnes) to 25,895 thousand tonnes. The growth was driven mainly by the reallocation of 1,591 thousand tonnes of iron ore products to third parties (including 881 thousand tonnes of pellets and 710 thousand tonnes of concentrate) due to a reduction in internal consumption. Despite the rise in sales volumes, the price for iron ore concentrate remained unstable and relatively low, especially late in the third quarter and throughout the fourth. The sharp decline in concentrate prices to US\$89 per tonne⁵ in early September, together with a drop in the average price in the second half compared with the first, was the main reason for the Group's iron ore sales decrease by US\$319 million (-11%).

In 2012, sales of coking coal concentrate decreased by 8% (US\$36 million) to US\$436 million. Revenues in this segment were affected by a fall in concentrate sales volumes of 302 thousand tonnes (-12%) due to weak demand in the US market.

Sales of steam coal concentrate declined by 974 thousand tonnes (-70%) in 2012. This was due to weak demand for steam coal in the US market, which prompted a reduction in production at United Coal Company's mines.

Cost of sales

Last year, the cost of sales amounted to US\$10,078 million, 3% higher than US\$9,783 million in 2011. The main driver of the rise was higher resale volumes of Zaporizhstal's products, which accounted for US\$607 million of the absolute increase. At the same time, the gain was substantially limited by a US\$614 million cutback in raw and energy materials amid declining crude steel production. The cost of sales as a share of consolidated revenues increased from 69% in 2011 to 80% in 2012.

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. Distribution expenses totalled US\$1,122 million last year, up 7% compared with US\$1,049 million in 2011, mainly due to a y-o-y increase in railway tariffs in Ukraine.

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 remained unchanged y-o-y at US\$394 million in 2012, representing 3% of consolidated revenues.

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.

Last year, Metinvest had other operating income of US\$8 million, primarily attributable to gains on foreign exchange and disposals of PPE.

EBITDA

Metinvest's consolidated EBITDA amounted to US\$1,985 million in 2012, down 46% compared with US\$3,655 million in 2011. The EBITDA margin contracted from 26% to 16% due to the deterioration on the global steel markets throughout the year and relatively low iron ore prices in the second half. The Mining division generated a margin of 43% and the Metallurgical division - negative 3%.

Finance income

Metinvest's finance income represents interest and other income. Finance income amounted to US\$52 million in 2012, or 0.4% of consolidated revenues.

Finance costs

Metinvest's finance costs include interest expenses on bank borrowings and debt securities, imputed interest on seller's notes, and interest on retirement benefit obligations. These costs fell to US\$321 million in 2012, down 10% from US\$355 million in the previous year.

The share of finance costs in consolidated revenues remained unchanged y-o-y at 3%.

Income tax expense

In 2012, Metinvest's income tax expense dropped by 59% y-o-y to US\$266 million due to the 72% fall in profit before tax in 2012. The effective tax rate increased from 26% in 2011 to 38% in 2012 due to increased losses of metallurgical companies carried forward at 16%, causing the consolidated effective tax rate to rise.

Net profit

The bottom line amounted to US\$435 million in 2012, down 77% y-o-y, giving a net margin of 3%.

Consolidated cash flow

Cash generated from operations dropped to US\$1,994 million in 2012, 35% lower than US\$3,079 million in 2011. Net cash from operating activities amounted to US\$1,146 million, down 41% compared with the US\$1,944 million in 2011.

Net cash used in investing activities fell to US\$1,094 million, down 25% from US\$1,454 million in 2011. This result was primarily attributable to a decrease in purchased property, plant and equipment of US\$379 million in 2012.

Liquidity and capital resources

The Company seeks to maintain an optimal capital structure to reduce the cost of financing, thereby ensuring its long-term stability and ability to deliver returns to shareholders and benefits to other stakeholders.

Metinvest's cash balance stood at US\$530 million as at 31 December 2012, compared with US\$792 million a year earlier. Proceeds from bank loans and bonds issued decreased to US\$721 million last year, down 66% compared with the US\$2,140 million in 2011. The Company arranged a US\$85 million revolving loan with ING Bank in April, secured two three-year pre-export facilities (PXF) – of US\$325 million in June and US\$300 million in December – and secured a debut €25 million 10-year export credit agency (ECA) facility. Repayments of bank loans, bonds and seller's notes totalled US\$500 million, compared with US\$1,508 million in 2011. Metinvest completed the repayment of a US\$1.5 billion five-year global refinance facility arranged in July 2007 and a €410 million seven-year senior facilities agreement arranged in January 2008 and used to buy Tramet (Italy) and Spartan UK (UK).