

Metinvest announces financial results for the first six months of 2016

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 2016.

Summary - financial results	1H 2016	1H 2015	Change, y-o-y	
			US\$m	%
Income statement highlights				
Revenues	2,880	3,650	-770	-21%
Adjusted EBITDA ¹	580	623	-43	-7%
Margin	20%	17%		3 pp
Net profit	90	-166	256	N/A
Margin	3%	-5%		8 pp
Cash flow highlights				
Net cash from operations	163	354	-191	-54%
Net cash used in investing activities	-109	-94	-15	16%
incl. purchase of PPE and intangible assets	-130	-113	-17	15%
Net cash used in financing activities	-50	-212	162	-76%
Summary - financial results	30.06.2016	31.12.2015	Change, YTD	
			US\$m	%
Total debt	2,981	2,946	35	1%
Cash and cash equivalents ²	183	180	3	2%

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 (starting from 1 January 2015), 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.

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

3). 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 - production results	1H 2016	1H 2015	Change, y-o-y	
			000 t	%

Crude steel	4,187	3,875	312	8%
Azovstal	1,809	1,688	121	7%
Ilyich Steel	1,427	1,362	65	5%
Yenakiieve Steel	951	825	126	15%
Iron ore concentrate	15,811	15,806	5	0%
Northern GOK	6,269	6,317	-48	-1%
Ingulets GOK	6,901	6,366	535	8%
Central GOK	2,641	3,123	-482	-15%
Coking coal concentrate	1,580	1,638	-58	-4%
Krasnodon Coal	323	121	202	168%
United Coal	1,257	1,517	-260	-17%

OPERATIONAL HIGHLIGHTS

- In 1H 2016, disruptions to the Group’s operations continued due to the ongoing conflict in Eastern Ukraine. Logistical constraints remain one of the biggest challenges:
- In April, Metinvest resumed raw material shipments to Ilyich Steel and Azovstal via seaports, as the low throughput capacity on the Kamysh-Zarya – Volnovakha railway link, the only one connecting Mariupol to the rest of Ukraine, became insufficient to cope with increased production needs.
- Since the end of May, the Nikitovka – Mayorskaya railway line, which has handled around 25% of all volumes transported to and from the conflict zone, had been blocked due to intensified shelling. This caused a shortage of raw materials at Metinvest’s production facilities and caused output to decline.
- In June, railway operations were temporarily suspended in the uncontrolled territory, as Donetsk Railways banned freight transportation. As a result, Yenakiieve Steel had to scale back production and stop shipping goods.
- In January, the Group sold its stake in Black Iron (Cyprus) Limited for US\$6 million.
- In January, steel product prices hit multi-year lows, although as of October, they had partly recovered compared with levels in late 2015 and early 2016.
- Yenakiieve Steel started pulverised coal injection at blast furnace no. 5 in February and blast furnace no. 3 in April.
- Ilyich Steel completed the major overhaul of blast furnace no. 4 in May.
- The Group launched 10 new products, mainly hot-rolled and cold-rolled coils (for construction, agricultural machine-building and pipe production), hot-dip galvanised coils, rebar and weather-proof plates.

DEBT MANAGEMENT

- To ensure a stable platform for negotiating the restructuring of its debt, the Group obtained a moratorium on enforcement actions by noteholders and signed a standstill agreement with PXF lenders, both with effect to 27 May 2016.
- On 24 May 2016, Metinvest agreed with its creditors non-binding heads of terms for restructuring the notes and PXF facilities (the Heads of Terms). Among other terms, this includes an extension of Metinvest’s debt maturities until the end of 2021, including a grace period on the scheduled amortisation of principal until the end of 2018.
- To document and implement a consensual restructuring based on the Heads of Terms, Metinvest extended the moratorium under the notes and signed a second standstill extension agreement with its PXF lenders, both with effect to November 2016.

EVENTS AFTER THE REPORTING PERIOD

- In July, Northern GOK commissioned the first facility of the iron ore crushing and conveying system (CCS) at the Pervomaisky open pit mine.

- In July, the electricity supply at Avdiivka Coke was disrupted after heavy shelling.
- In September, Metinvest established an Operations directorate based on its Mining and Metallurgical divisions. The main objective of the move is to ensure close cooperation between the Group's mining and metallurgical production assets and centralise the management of all production processes.

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

“In first half of 2016, we continued to face challenges posed by the difficult geopolitical and economic situation in Ukraine and volatility in prices for our key products in the global market.

The picture in Ukraine was mixed during the first half of 2016. In the east of the country, our key challenge remains logistics, as the disruption of railway lines is hampering flows of both raw materials and finished products to and from the area. However, there were cautious indications of economic recovery in Ukraine for the first time since 2013. The real GDP growth rates of 0.1% in the first quarter and 1.4% in the second were modest, but promising.

In the first half of 2016, we managed to navigate a challenging environment and delivered stable volume output. Crude steel production increased by 8% year-on-year to 4,187 thousand tonnes and iron ore concentrate remained flat at 15,811 thousand tonnes.

Low global prices for steel and iron ore products remained a central issue. Steel prices reached multi-year lows in the first quarter. At that point, the outlook was especially gloomy, and no one in the market knew what would happen next: how long prices would remain low or whether they would fall even further. All eyes have been on China, the world's largest market for steel and iron ore. The introduction of economic stimulus measures and infrastructure investments, coupled with seasonal and other factors, led to a partial recovery in steel and iron ore prices in the second quarter. However, industry players believe that this rally may be short-lived and price uncertainty will be the main challenge in the second half of the year. We are prepared for continued global market volatility.

Lower selling prices on global markets were the key driver of a 21% year-on-year decline in Group revenues to US\$2,880 million. At the same time, EBITDA fell by 7% year-on-year to US\$580 million, while the EBITDA margin rose by 3 percentage points year-on-year to 20%. We were able to enhance margin by changing our sales geography, which enabled us to lower distribution costs. In addition, falling prices of coal and coke, as well as lower expenditures on natural gas also contributed to margin growth. As a result, we delivered net profit of US\$90 million and a net margin of 3%.

We have underinvested this year, amid the constraints of poor liquidity, market uncertainty and the ongoing debt restructuring. Several projects have been delayed, frozen or postponed. Overall capital expenditure totalled US\$116 million in the first half of 2016. Nevertheless, we delivered results in the period. Northern GOK commissioned the first facility of the iron ore crushing and conveying system at the Pervomaisky open pit mine. The Group launched PCI injection at both blast furnaces at Yenakiieve Steel and started construction of the PCI unit at blast furnace no. 4 at Azovstal. We also completed a major overhaul of blast furnace no. 4 at Ilyich Steel, and initiated several other projects designed to make our enterprises more environmentally friendly, increase productivity and further reduce costs. Meanwhile, we continued to conduct crucial maintenance to keep our assets operating.

We made major progress in restructuring discussions with our creditors. A moratorium on the notes and a standstill extension under the PXF facilities have been secured until the end of November. This in turn provided the stability needed to finalise the key terms of our debt restructuring, which were agreed with creditors on May 24. We are now negotiating the long-form restructuring documentation to effectively implement the restructuring.

We would like to thank all our creditors, investors, partners, clients and employees for their ongoing support and continued belief in the Metinvest story.”

RESULTS OF OPERATIONS

Results of operations	1H 2016		1H 2015		Change, y-o-y		
	US\$m	% of revenues	US\$m	% of revenues	US\$m	%	pp of revenues
Revenues	2,880	100%	3,650	100%	-770	-21%	0
Cost of sales	-2,240	-78%	-3,047	-83%	807	-26%	5
Gross profit	640	22%	603	17%	37	6%	5
Distribution costs	-347	-12%	-463	-13%	116	-25%	1

General and administrative costs	-82	-3%	-96	-3%	14	-15%	0
Other operating income	-5	0%	47	1%	-52	-111%	-1
Operating profit	206	7%	91	2%	115	126%	5
Finance income	13	0%	11	0%	2	18%	0
Finance costs	-178	-6%	-374	-10%	196	-52%	4
Share of results of associates and JV	70	2%	99	3%	-29	-29%	-1
Profit before income tax	111	4%	-173	-5%	284	N/A	9
Income tax	-21	-1%	7	0%	-28	-400%	-1
Net profit	90	3%	-166	-5%	256	N/A	8

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 2016		1H 2015		Change, y-o-y		
	US\$m	% of revenues	US\$m	% of revenues	US\$m	%	pp of revenues
Total revenues	2,880	100%	3,650	100%	-770	-21%	0
Ukraine	698	24%	741	20%	-43	-6%	4
Europe	1,036	36%	1,256	34%	-220	-18%	2
MENA	487	17%	725	20%	-238	-33%	-3
CIS (ex Ukraine)	226	8%	281	8%	-54	-19%	0
incl. Russia	195	7%	189	5%	7	3%	2
Southeast Asia	270	9%	527	14%	-257	-49%	-5
North America	133	5%	89	2%	44	50%	3
Other regions	29	1%	32	1%	-3	-9%	0

In 1H 2016, Metinvest's consolidated revenues decreased by 21% y-o-y to US\$2,880 million. External revenues dropped by US\$549 million in the Metallurgical division and by US\$221 million in the Mining division. This was mainly driven by lower selling prices of steel and iron ore products, which hit multi-year lows in 1Q 2016, although they partly recovered in 2Q 2016. In addition, sales volumes of square billets, pipes, coke and pellets dropped due to such factors as weak demand in key markets and unstable operations at Yenakieve Steel. The Metallurgical division accounted for 80% of external sales (78% in 1H 2015) and the Mining division for 20% (22% in 1H 2015).

In 1H 2016, revenues in Ukraine dropped by 6% y-o-y to US\$698 million, or 24% of consolidated revenues. The decline was mainly attributable to lower sales prices of key products, as well as lower volumes of coking coal concentrate. This was partly compensated by higher sales volumes of flat, long and iron ore products amid greater local demand, as the Ukrainian economy started to recover. Real GDP increased for the first time since the end of 2013: by 0.1% y-o-y in 1Q 2016 and 1.4% y-o-y in 2Q 2016 [1]. Apparent consumption of steel products (excluding pipes) in Ukraine rose by 37% y-o-y to 2.4 million tonnes [2] in 1H 2016, driven mainly by inventory replenishment. Real demand recovery in key steel-consuming industries was more modest: construction activity rose by 9.1% y-o-y¹, while the machine-building industry increased by 1.7% y-o-y¹. Regarding iron ore products, sales in Ukraine rose, as a couple of Metinvest's key customers in the country managed to restore operations and increased consumption, despite the ongoing conflict.

International sales decreased by 25% y-o-y to US\$2,182 million in 1H 2016, mainly due to lower sales prices. As a result, the share of international sales dropped by 4 percentage points (pp) y-o-y to 76% in 1H 2016. The share of sales to Southeast Asia decreased by 5 pp y-o-y to 9% due to lower selling prices and volumes of flat products and pellets, as well as lower prices of iron ore concentrate. The share of sales to MENA fell by 3 pp y-o-y to 17%, due to decreased selling prices of key products and lower sales volumes of pig iron, billets and pellets. While sales to Europe and the CIS (ex Ukraine) declined in absolute terms, their share did not: that of Europe rose by 2 pp y-o-y to 36% due to higher sales volumes of square billets, long products and pellets; while that of the CIS (ex Ukraine) remained unchanged y-o-y at 8%, driven mainly by higher sales of flat products to Russia. The share of North America increased by 3 pp y-o-y to 5%, mainly due to higher sales of pig iron.

Metallurgical division

The Metallurgical division generates revenues from sales of pig iron, steel and coke products and services. In 1H 2016, its revenues decreased by 19% y-o-y to US\$2,290 million. This was attributable to lower sales of flat, (US\$366 million), semi-finished (US\$144 million), tubular (US\$62 million) and coke (US\$58 million) products. Meanwhile, sales of long products and other products and services increased by US\$65 million and US\$15 million respectively.

Metallurgical division Sales by market	1H 2016			1H 2015			Change, y-o-y		Change, y-o-y %	
	US\$m	% of revenues	000 t	US\$m	% of revenues	000 t	US\$m	000 t	US\$m	000 t
Total sales	2,290	100%	6,176	2,839	100%	6,085	-549	91	-19%	1%
Ukraine	484	21%	1,153	512	18%	1,062	-28	91	-6%	9%
Europe	957	42%	2,475	1,168	41%	2,480	-211	-5	-18%	0%
MENA	487	21%	1,525	704	25%	1,632	-218	-107	-31%	-7%
CIS (ex Ukraine)	226	10%	508	281	10%	491	-54	17	-19%	3%
incl. Russia	195	9%	430	189	7%	362	7	68	3%	19%
Southeast Asia	28	1%	102	111	4%	251	-83	-149	-75%	-59%
North America	79	3%	330	31	1%	98	48	232	153%	238%
Other regions	29	1%	83	32	1%	72	-3	11	-9%	16%

Metallurgical division Sales by product	1H 2016		1H 2015		Change, y-o-y		Change, y-o-y %		
	US\$m	000 t	US\$m	000 t	US\$m	000 t	US\$m	due to price	due to volume
Semi-finished products	302	1,197	446	1,260	-144	-63	-32%	-27%	https://metinvestholding.com/pl/media/news/7315