

Metinvest announces 2Q and 1H 2017 operational results

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 operational results for the second quarter and the first six months ended 30 June 2017.

OPERATIONAL HIGHLIGHTS

(kt)	2Q 2017	1Q 2017	Δ kt	Δ %	1H 2017	1H 2016	Δ kt	Δ %
Crude steel	1,853	2,070	-217	-10%	3,923	4,187	-264	-6%
Iron ore concentrate (total)	6,969	6,680	289	4%	13,649	15,811	-2,162	-14%
Coal concentrate (total)	654	792	-138	-17%	1,447	1,580	-133	-8%

METALLURGICAL SEGMENT

Hot metal production

(kt)	2Q 2017	1Q 2017	Δ kt	Δ %	1H 2017	1H 2016	Δ kt	Δ %
Hot metal	2,025	1,984	41	2%	4,008	4,280	-272	-6%
Azovstal	945	953	-8	-1%	1,898	1,552	346	22%
Ilyich Steel	1,080	784	296	38%	1,863	1,827	36	2%
Yenakieve Steel	0	247	-247	-100%	247	901	-654	-73%

Crude steel production

(kt)	2Q 2017	1Q 2017	Δ '000 t	Δ %	1H 2017	1H 2016	Δ '000 t	Δ %
Crude steel	1,853	2,070	-217	-10%	3,923	4,187	-264	-6%
Azovstal	1,081	1,085	-4	0%	2,166	1,809	357	20%
Ilyich Steel	772	716	56	8%	1,488	1,427	61	4%
Yenakieve Steel	0	269	-269	-100%	269	951	-682	-72%

In 2Q 2017, hot metal output increased by 2% q-o-q to 2,025 kt amid a surge in production at Ilyich Steel, which offset a decrease at Yenakieve Steel and Azovstal. Ilyich Steel boosted its hot metal output by 296 kt in 2Q 2017, compared with low production in 1Q 2017 due to a scheduled major overhaul of blast furnace no. 3 for seven days and irregular coke deliveries caused by unstable operations at Avdiivka Coke. Yenakieve Steel's hot metal output declined by 247 kt due to the shutdown of blast furnaces in February amid a rail blockade in the zone between the territory controlled by Ukraine and the non-controlled area, and the subsequent loss of control over the enterprise from 15 March 2017. In 2Q 2017, Azovstal's hot metal output decreased by 8 kt as a result of a scheduled major overhaul of blast furnaces nos. 4 and 5.

In 2Q 2017, Metinvest's steel production declined by 10% q-o-q to 1,853 kt, mainly driven by a decrease of 269 kt at Yenakieve Steel, which was partly offset by an increase of 56 kt at Ilyich Steel. The rise at Ilyich Steel was due to greater hot metal output. The drop at Yenakieve Steel was caused by the reasons mentioned above.

In 1H 2017, the Group's hot metal output dropped by 6% y-o-y to 4,008 kt, driven by a fall of 654 kt at Yenakieve Steel, which was partly compensated by increases of 346 kt and 36 kt at Azovstal and Ilyich Steel, respectively. The decline at Yenakieve Steel was due to the reasons mentioned above. The rise at Azovstal was

caused by the re-launch of blast furnace no. 4 in February 2016 following a lengthy major overhaul.

In 1H 2017, the Group's steel output declined by 6% y-o-y to 3,923 kt amid a decrease of 682 kt at Yenakieve Steel, which was partly offset by an increase of 357 kt at Azovstal and 61 kt at Ilyich Steel. The rise at Azovstal was due to greater hot metal output, while that at Ilyich Steel was the result of higher hot metal output and its redistribution from merchant pig iron production to steelmaking in 1Q 2017. The decline at Yenakieve Steel was caused by the reasons mentioned above.

Metal product output [1]

(kt)	2Q 2017	1Q 2017	Δ kt	Δ %	1H 2017	1H 2016	Δ kt	Δ %
Semi-finished products	705	454	251	55%	1,159	1,031	128	12%
Pig iron	402	138	264	191%	540	491	49	10%
Slabs	303	301	2	1%	604	352	252	72%
Square billets	0	15	-15	-100%	15	188	-173	-92%
Finished products	1,400	1,586	-186	-12%	2,986	3,213	-227	-7%
Flat products	1,192	1,182	10	1%	2,374	2,210	164	7%
Long products	161	355	-194	-55%	516	909	-393	-43%
Railway products	7	16	-9	-56%	23	47	-24	-51%
Tubular products	40	33	7	21%	73	47	26	55%
Large-diameter pipes	0	1	-1	0%	1	3	-2	-67%
Other pipes	40	32	8	25%	72	44	28	64%
TOTAL	2,105	2,040	65	3%	4,145	4,244	-99	-2%

In 2Q 2017, the Group's output of merchant semi-finished products rose by 55% q-o-q to 705 kt. This was due to an increase in merchant pig iron output of 264 kt amid greater production of hot metal at Ilyich Steel and Azovstal. Output of merchant slabs remained unchanged q-o-q and amounted to 303 kt. Merchant billet production dropped by 15 kt due to the shutdown of Yenakieve Steel for the abovementioned reasons.

In 1H 2017, output of merchant semi-finished products increased by 12% y-o-y to 1,159 kt due to rises in output of slabs and merchant pig iron of 252 kt and 49 kt, respectively. The decrease of 173 kt in square billet production was caused by the abovementioned shutdown of Yenakieve Steel. The rise in output of merchant pig iron at Ilyich Steel and Azovstal was in response to a favourable market trend. Merchant slab production climbed by 252 kt, as Azovstal boosted its output given the market rally.

In 2Q 2017, the Group's output of finished products dropped by 12% q-o-q to 1,400 kt.

In 2Q 2017, output of flat products rose by 10 kt q-o-q to 1,192 kt due to increases of 45 kt at Ilyich Steel and 10 kt at the European re-rollers amid a revival in demand. This offset a decrease of 45 kt at Azovstal, caused by a redistribution of orders for production at Ilyich Steel.

In 2Q 2017, output of long products dropped by 194 kt q-o-q to 161 kt, driven by a slump of 198 kt at Yenakieve Steel due to the abovementioned reasons. In addition, Promet Steel reduced its output by 13 kt due to a lack of square billets from Yenakieve Steel. This was slightly offset by an increase of 17 kt in Azovstal's production.

In 2Q 2017, rail output decreased by 9 kt q-o-q as a result of a drop in orders from Ukrainian State Railways.

Output of tubular products rose by 7 kt q-o-q due to an increase in production of other pipes at Ilyich Steel. At the same time, output of large-diameter pipes at Khartsyzk Pipe stopped following the loss of control over the enterprise from 15 March 2017.

In 1H 2017, output of finished products decreased by 7% y-o-y to 2,986 kt.

Output of flat products rose by 164 kt y-o-y to 2,374 kt amid a revival on the market. This was mainly due to increases in plate production at Azovstal (206 kt), Ilyich Steel (14 kt) and the European re-rollers (10 kt). That

growth partly offset lower coil output at Ilyich Steel (61 kt) and the European re-rollers (5 kt).

Long product output dropped by 393 kt y-o-y to 516 kt following the shutdown of Yenakiieve Steel (331 kt) due to the aforementioned reasons. This caused a slump in output at Promet Steel (105 kt) amid a lack of billet deliveries from Yenakiieve Steel for re-rolling, which was partly compensated by higher output of long products at Azovstal (43 kt).

In 1H 2017, rail output decreased by 24 kt y-o-y, driven by fewer orders.

Output of tubular products rose by 26 kt y-o-y, as Ilyich Steel boosted production of other pipes due to an increase in capacity.

Coke production [2]

(kt)	2Q 2017	1Q 2017	Δ kt	Δ %	1H 2017	1H 2016	Δ kt	Δ %
Coke production (total)	1,154	977	177	18%	2,131	2,190	-59	-3%
Coke (dry)	229	210	19	9%	439	535	-96	-18%

In 2Q 2017, Metinvest's coke output rose by 18% q-o-q to 1,154 kt, driven by greater production at Avdiivka Coke (153 kt), Azovstal (16 kt) and Zaporizhia Coke (8 kt). In 1Q 2017, Avdiivka Coke operated coke shops nos. 1 and 2 only, while nos. 3 and 4 were hot-mothballed due to electricity supply disruptions.

In 1H 2017, coke output fell by 3% y-o-y to 2,131 kt. This was driven by a production decline of 157 kt at Avdiivka Coke, which was partly compensated by increases of 70 kt at Azovstal and 28 kt at Zaporizhia Coke. The rise at Azovstal stemmed from more stable coal deliveries, while Zaporizhia Coke was able to increase its production due to the commissioning of coking chambers of coke oven battery no. 2.

MINING SEGMENT

Iron ore concentrate and pellet output [3]

(kt)	2Q 2017	1Q 2017	Δ kt	Δ %	1H 2017	1H 2016	Δ kt	Δ %
Iron ore concentrate (total)	6,969	6,680	289	4%	13,649	15,811	-2,162	-14%
Iron ore products	4,134	3,617	517	14%	7,751	9,439	-1,688	-18%
Iron ore concentrate	2,707	2,456	251	10%	5,163	6,379	-1,216	-19%
Pellets	1,427	1,161	266	23%	2,588	3,060	-472	-15%

In 2Q 2017, overall production of iron ore concentrate rose by 4% q-o-q to 6,969 kt, due to increases at Northern GOK (195 kt), Ingulets GOK (79 kt) and Central GOK (15 kt). The higher production at Northern GOK and Ingulets GOK was due to the expansion of the heavy truck fleet and greater number of workdays.

In 2Q 2017, the Group's merchant iron ore output increased by 14% q-o-q to 4,134 kt. The production growth of 517 kt was due to:

- a rise in merchant concentrate production of 251 kt as a result of higher overall concentrate output;
- an increase in merchant pellet production of 266 kt, driven by a decrease in internal consumption of 313 kt and a rise in output of 72 kt at Northern GOK, which compensated a decline at Central GOK of 119 kt, caused by the scheduled six-month refurbishment of roasting machine OK-324.

In 1H 2017, the Group's output of iron ore concentrate dropped by 14% y-o-y to 13,649 kt, amid a drive to catch up with overburden removal work. Merchant concentrate production totalled 5,163 kt, down 19% y-o-y, due to lower overall output of concentrate. Merchant pellet output dropped by 15% y-o-y to 2,588 kt, due to the cessation of shipments to certain customers in the non-controlled territory of Ukraine and a shift in pricing in favour of concentrate, which offered higher margins in February-April 2017.

Coal concentrate production [4]

(kt)	2Q 2017	1Q 2017	Δ kt	Δ %	1H 2017	1H 2016	Δ kt	Δ %
Coal concentrate (total)	654	792	-138	-17%	1,447	1,580	-133	-8%
Coal concentrate	191	178	13	7%	369	748	-379	-51%

In 2Q 2017, the Group's coal concentrate production totalled 654 kt, down 17% q-o-q. Output at Krasnodon Coal's mines fell by 129 kt due to the rail blockade between Ukrainian territory and the non-controlled area, as well as the loss of control over the enterprise from March 2017. Coal concentrate output at United Coal's mines decreased by 9 kt.

In 1H 2017, Metinvest's coal concentrate production dropped by 8% y-o-y to 1,447 kt. Coal mining at Krasnodon Coal decreased by 193 kt due to the abovementioned reasons. This was partly compensated by an increase in production of 60 kt at United Coal to cover intragroup needs, resulting from a rise of 131 kt at the Wellmore mines, 11 kt at Carter Roag and 18 kt at Pocahontas. Output at the Affinity mine dropped by 100 kt as a result of changes in geological conditions.

[1] Excludes intragroup sales and intragroup utilisation; figures for 1H 2016 were updated

Pig iron – merchant pig iron

Flat products include rolled plates, hot-rolled, cold-rolled and hot-dip galvanised sheets and coils

Long products include hot-rolled sections (light, medium, heavy), rebar, merchant bars and wire rod

Rail products include light and heavy rails and rail fasteners

Large diameter pipes are LSAW (longitudinally submerged arc-welded) large-diameter pipes

Other pipes include other ERW (electric resistance-welded) pipes and seamless pipes

[2] Merchant coke production figures exclude intragroup sales and consumption

[3] Figures for production of iron ore materials exclude intragroup sales and consumption

[4] Coal concentrate (total) production figures present coal production in equivalent of coal concentrate. Merchant coal concentrate production excludes intragroup sales and intragroup utilisation.