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Metinvest announces financial results for the full year 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 announced its audited consolidated financial results for the 12 months ended 31 December 2013.

FINANCIAL HIGHLIGHTS

(US$ million)	2013	2012	Change
Revenues	**12,807**	**12,569**	**2%**
Adjusted EBITDA[1]	**2,291**	**1,996**	**15%**
margin	18%	16%	2 pp
Net profit	**392**	**445**	**-12%**
margin	3%	4%	-1 pp
Capital expenditure	**747**	**765**	**-2%**

(US$ million)	31 Dec 2013	31 Dec 2012	Change
Total debt	**4,308**	**4,278**	**1%**
incl. seller notes	165	240	-31%
Total debt-to-EBITDA	**1.9x**	**2.1x**	**-0.2x**
Cash	**783**	**531**	**47%**
Net debt	**3,525**	**3,747**	**-6%**

FINANCIAL MANAGEMENT HIGHLIGHTS

- Repaid a US$175 million three-year amortised stand-by credit line from Sberbank of Russia, a US$85 million revolving credit line from ING Bank N.V., a US$75 million two-year pre-export finance facility from Rabobank International and a US$40 million three-year loan facility from Amsterdam Trade Bank N.V.
- Received an additional US$260 million as an extension to a US$300 million three-year pre-export finance facility secured at origination in November 2012, and secured a new US$300 million five-year pre-export

finance facility

OPERATIONAL AND CSR HIGHLIGHTS

- Appointed a new Group CEO, Yuriy Ryzhenkov, and CFO, Aleksey Kutepov
- Opened a sales office and a metals service centre in Nizhny Novgorod, in the Volga Federal District of Russia, a sales office and a warehouse in Bryansk, in the Central Federal District of Russia, and a sales unit in Belarus with a warehouse in Minsk
- Signed new annual social partnership agreements with regional councils in nine cities where Metinvest operates. The agreements represent joint efforts between the Group and local communities and administrations to raise living standards in Ukraine's regions to European levels.

CORPORATE STRUCTURE HIGHLIGHTS

- SCM Group transferred 23.5% of Central GOK and 15.0% of Northern GOK to MetalUkr Holding Limited (MetalUkr), which is wholly owned by Metinvest B.V., and 26.0% of Zaporizhia Coke, 31.3% of Donetsk Coke and 40.0% of Yenakiieve Coke to Metinvest B.V. SMART Group transferred 3.1% of Ingulets GOK to Metinvest B.V.
- MetalUkr transferred 78.31% of Northern GOK, 99.48% of Central GOK, 0.25% of Azovstal and 1.21% of Khartsyzk Pipe to Metinvest B.V.

Commenting on the results, Yuriy Ryzhenkov, CEO of Metinvest, said: "Despite ongoing challenges in the global steel market, we delivered a robust financial and operational performance in 2013, including double-digit growth in EBITDA. We also maintained our level of investment, targeting projects that will increase our operational efficiency, enhance employee safety and reduce our environmental footprint. We kept CAPEX stable at US$747 million and continued to implement our Technological Strategy, which seeks to balance our ambitious modernisation plans and conservative financing strategy.

Regarding the overall economic situation, which is the main driver of the global steel market, cautious optimism is appearing. Against this background, our output was broadly stable in 2013. We produced 12,391 thousand tonnes of crude steel, 36,926 thousand tonnes of iron ore concentrate and 11,393 thousand tonnes of raw coking coal.

Our headline financial results reflect a stable top line and underlying growth in EBITDA as well as an improved EBITDA margin. For the full year, consolidated revenues rose by 2% to US$12,807 million. Operating profit increased by 4% to US$1,026 million, giving an operating margin of 8%, while adjusted EBITDA rose by 15% to US$2,291 million, driving the EBITDA margin to 18%.

The improved EBITDA was partly due to the Metallurgical division swinging to a positive contribution, as global steel prices outperformed those of raw materials and we further improved the operational efficiency of our mills, supply chain and downstream logistics. The EBITDA of the Mining division remained broadly stable.

In addition, we sustained our investments in technology and further streamlined our business processes. Major projects in our Metallurgical division included the launch of pulverised coal injection (PCI) at Ilyich Steel and the ongoing construction of a PCI system and a new air separation unit at Yenakiieve Steel. In the Mining division, we continued construction of a crusher and conveyor system at the Pervomaisky quarry at Northern GOK, finished construction of the Affinity mine at United Coal, adding another 1.2 million tonnes of high-grade coking coal capacity, and commissioned new advanced safety systems at Krasnodon Coal. As a committed corporate citizen, we continued to invest in the environment, preparing for building a new sinter plant at Yenakiieve Steel and fitting new filters on the existing sinter plant at Ilyich Steel.

Pursuing the corporate goal of further strengthening our position in strategic markets, in 2013, we added 30 new value-added steel products to our already well diversified product portfolio, expanding our downstream reach and creating new market opportunities. As a result, last year, we increased revenues by 37% year-on-year in the Middle East and North Africa (MENA), 18% in Southeast Asia and 11% in Europe. The shares of these regions in our overall sales rose by 4 pp[2], 2 pp and 2 pp, respectively, increasing the share of export sales to 71%, up 4 pp year-on-year. In Ukraine, while sales for both steel and iron ore products fell due to lower consumption, we have maintained our leading market position by working with key customers and developing our distribution network further. Strong demand for iron ore from China and improved sales of steel in MENA mitigated the effect of weak demand in other regions amid falling prices for steel and coal products.

In 2013, we continued to make our corporate structure more streamlined and transparent through the transfer of stakes in operational assets from our two major shareholders, SCM Group and SMART Group, to MetalUkr Holding, which is wholly owned by Metinvest B.V., the Group's parent company, and a further such transfer from MetalUkr to Metinvest B.V.

Given the current geopolitical situation, I would like to underline that we continue to monitor developments involving our country and communities closely. At the same time, we are committed to continuing our work and are always ready to address concerns and questions from all our stakeholders.

Our business continues to operate as normal and our exposure to the current political and economic volatility remains minimal at this stage. We underline our commitment to our Russian customers and are continuing to work with them as normal.

Looking further into 2014, we think that the global steel industry will remain challenging, with such factors as the potential end of monetary stimulus by the US Federal Reserve, continued slow growth in Europe, and uncertainty regarding the situation in Ukraine pressuring demand. We believe that our investments in technology, improvements in business processes and our strategic advantages will enable us to continue to deliver sustainable value to all our stakeholders."

Commenting on the results, Aleksey Kutepov, CFO of Metinvest, said: "While our key markets continued to experience turbulence last year, our vertically integrated business model and commitment to cost-cutting again showed that we can be flexible and resilient, and our financial results demonstrate this. Notably, amid lower prices of coking coal and scrap metal, we focused more on enhancing production processes and achieved profitability in the Metallurgical division, whose EBITDA swung into positive territory. The Mining division remained the key contributor to the Group's results, keeping the EBITDA margin stable at 43%. Overall, despite the flat output, we were able to increase underlying profitability.

We are prepared for prolonged turmoil in the global steel market, and our adherence to a conservative financing strategy continues to pay off. As we reduced net debt by 6% and increased EBITDA by 15%, our net debt–to-EBITDA ratio improved from 1.9x to 1.5x, a comfortable level. We were also able to keep CAPEX stable in order to invest in the future.

During the year, we completed the repayment of four loan facilities. The total principal amount of debt repaid in 2013 was US$632 million. In April, we raised an additional US$260 million by increasing a US$300 million three-year pre-export finance facility secured at origination in November 2012. We had originally planned to increase the facility by US$100 million, but it was oversubscribed through syndication. In November 2013, we secured another US$300 million five-year pre-export finance facility.

In addition, we focused on streamlining the business by reducing the cost of sales and general, administrative, distribution and financing expenses as part of strategic steps to cut expenditure. Meanwhile, a one-off reversal of previously written-off trade receivables from a key customer, as well as fines and penalties paid by customers for overdue trade receivables, and foreign exchange gains contributed to a 4% increase in operating profit. The fall in net income to US$392 million was primarily attributable to higher income tax expense, itself due to a recognised valuation provision of US$155 million against deferred tax assets. In terms of cash flows, we boosted net cash from operating activities by 28% to US$1,465 million and ended the year with a US$783 million cash balance.

Despite the uncertain conditions on our markets, we are convinced that our conservative financial management and our focus on improving efficiency will help us to continue delivering robust financial results in the foreseeable future."

Revenues

In 2013, Metinvest's consolidated revenues increased by US$238 million, up 2% year-on-year (y-o-y) to US$12,807 million, driven by sales of steel and iron ore products. The Metallurgical division accounted for 76% of external sales (74% in 2012) and the Mining division for 24% (26% in 2012).

Metallurgical division

Revenues in the Metallurgical division come from sales of steel and coke products and services, as well as re-sales of products from Zaporizhstal Iron and Steel Works (Zaporizhstal). In 2013, the division's top line rose by 5% y-o-y to US$9,727 million, of which steel sales accounted for 94%. Despite falling average steel prices and lower sales volumes of tubular products, higher sales volumes of pig iron, slabs, and flat and long products helped to compensate.

Market trends in terms of demand for steel goods and sales by region in 2013 differed compared with 2012. Sales of semi-finished products totalled US$1,479 million, up 4% y-o-y. The rise was due to an increase in sales of pig iron by 291 thousand tonnes – mainly to the US, Europe, and MENA – and slabs by 208 thousand tonnes to Europe and MENA. The market for slabs was stronger than that for plate due to a shortage of slabs and stronger exporter positions. The bulk of slab and plate sales went to the higher-margin markets of Europe (mostly Italy) and Turkey, while volumes to the Southeast Asia were lower. Sales volumes of billets decreased by 7% y-o-y, while those of finished long products increased by 5% y-o-y.

In 2013, revenues from sales of finished products declined by 12% y-o-y to US$5,803 million. This was mainly due to lower average prices of flat, long and tubular products, as well as a slump in sales volumes of tubular products.

In 2013, sales of flat products fell by 7% y-o-y to US$3,716 million; a decline of 11 pp in average prices throughout our markets was partly offset by 4% growth in sales volumes. Overall sales volumes of flat products increased y-o-y as a result of growing shipments to Southeast Asia (306 thousand tonnes) and the Middle East (288 thousand tonnes), including the Gulf, due to Metinvest's strong presence in those regions, while the weaker local markets of Ukraine and Russia resulted in lower volumes of 422 thousand tonnes overall. The latter was caused by a fall in consumption in some segments in Ukraine and growing competition in Russia, which together caused a decline in sales of hot-rolled plates in Ukraine and Russia. At the same time, sales to the high-margin European market increased by 114 thousand tonnes due to the further strengthening of the sales network (expansion in Western Europe, development of distribution and service in Southeast Europe).

Revenues from sales of long products fell by 4% y-o-y to US$1,654 million in 2013. The main cause was a 9% drop in average product prices, partly compensated by an increase in sales volumes in Ukraine, Europe and the Commonwealth of Independent States (CIS, excluding Ukraine) of 122 thousand tonnes overall.

In 2013, revenues from sales of tubular products fell by 79% y-o-y to US$111 million. This was caused by a 73% slump in sales volumes, as various large pipeline projects were completed in 2012 and some planned initiatives were rescheduled, particularly the second phase of the East-West pipeline (Turkmenistan) and the third stage of the Central Asia-China pipeline.

Revenues from sales of railway products decreased by 6% y-o-y to US$322 million in 2013, as volumes in Ukraine declined by 67 thousand tonnes. Despite this, most export sales of rails were unchanged in 2013, with stable volumes sold to Kazakhstan, Georgia, Belarus, Uzbekistan and Turkmenistan. In addition, 12 thousand tonnes were sold to Latin America and some volumes to Lithuania and Latvia.

Following the integration of Zaporizhstal with Metinvest, revenues from sales of flat products from the asset increased by US$812 million to US$1,462 million, driven by a boost in volumes of 1,481 thousand tonnes. Most of Zaporizhstal's flat products went to MENA (51%) and Europe and the CIS (37%), while the rest were sold in Ukraine.

Mining division

Revenues in the Mining division come from sales of iron ore, coal and other products and services. In 2013, the division's top line dropped by 6% y-o-y to US$3,080 million primarily due to a slump in average coking coal prices.

In 2013, sales of iron ore products grew by 9% y-o-y to US$2,691 million, or 87% of the division's revenues. This was driven mainly by a rise in sales volumes of iron ore concentrate of 661 thousand tonnes and pellets of 937 thousand tonnes, while iron ore prices remained broadly flat y-o-y.

Revenues from sales of iron ore concentrate increased by 7% y-o-y to US$1,517 million in 2013. This was driven by a boost in shipments to China of 956 thousand tonnes, supported by an average sales price of US$130 per tonne. Sales volumes to Europe and Ukraine dropped by 295 thousand tonnes y-o-y overall.

Revenues from sales of iron ore pellets increased by 13% y-o-y to US$1,104 million. The rise was attributable to increased sales volumes to China (825 thousand tonnes), Ukraine (284 thousand tonnes) and MENA (233 thousand tonnes), partly offset by a fall in sales to Europe (405 thousand tonnes).

In 2013, sales of coking coal concentrate dropped by 37% y-o-y to US$275 million, caused by a slump in average concentrate prices of 36% y-o-y to US$128 per tonne. Overall sales volumes remained broadly stable y-o-y, increasing by 173 thousand tonnes in the US and 24 thousand tonnes in other regions, but decreasing by 228 thousand tonnes in Ukraine due to the consolidation of Donetsk Coke and Zaporizhia Coke into Metinvest in December 2012.

Cost of sales

Overall cost of sales amounted to US$10,406 million in 2013, up 3% y-o-y. The main driver of the rise was an increase in re-sales of Zaporizhstal's products, which climbed by US$796 million. Other key factors included increased sinter ore purchases and some non-cash items, such as higher depreciation charges after a revaluation of property, plant and equipment (PPE) at Azovstal, Northern GOK, Ingulets GOK, Khartsyzk Pipe and Avdiivka Coke, as well as impairment and devaluation of PPE at Krasnodon Coal, Ilyich Steel and Yenakiieve Steel.

The overall rise was partly offset by a fall in natural gas consumption following the implementation of PCI technology at Ilyich Steel and a decline in consumption of scrap and ferroalloys, coupled with favourable price movements for these raw materials and coking coal. In addition, the implementation of several continuous improvement projects at our steelmaking and coke plants increased operational efficiency.

As a share of consolidated revenues, the cost of sales was 81% in 2013, marginally higher 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 2013, distribution expenses remained unchanged y-o-y at US$1,121 million, or 9% of consolidated revenues (also flat 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 marginally decreased to US$391 million in 2013, or 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/(losses) on disposals of PPE, and maintenance costs for social infrastructure.

Last year, Metinvest generated other operating income of US$137 million, up US$130 million y-o-y, mainly due to:

- a reversal of a US$56 million impairment of trade and other receivables that were previously written off
- an increase in other income of US$51 million due to fines and penalties received from clients and a decrease in third-party services
- an increase in foreign exchange gains of US$43 million

Other operating income represented 1% of consolidated revenues.

EBITDA

Metinvest's consolidated EBITDA amounted to US$2,291 million in 2013, up 15% y-o-y. The EBITDA margin rose from 16% to 18%, as the Metallurgical division's margin increased by 5 pp due to a fall in the cost of raw materials, the implementation of PCI technology at Ilyich Steel, and the success of the continuous improvement projects. As a result, the Metallurgical division generated EBITDA of US$204 million, giving a 2% margin. The Mining division remained the key contributor to the Group's results, keeping the EBITDA margin stable at 43%.

Finance income

Finance income comprises net foreign exchange gains, interest income on bank deposits and loans issued, imputed interest on other financial instruments, gains from early repayment of assets and other finance income.

In 2013, finance income increased by 27% y-o-y to US$66 million, or 1% of consolidated revenues. The rise was primarily caused by gains on early recovery of assets.

Finance costs

Finance costs include net foreign exchange losses, interest expenses on bank borrowings and debt securities, imputed interest on seller notes, and interest on retirement benefit obligations. These costs increased to US$341 million in 2013, up 6% y-o-y.

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

Income tax expense

In 2013, Metinvest's income tax expense increased by 40% y-o-y to US$373 million primarily due to a recognised valuation provision of US$155 million against deferred tax assets. As a result, the Group's effective tax rate (ETR) rose by 11 pp y-o-y to 49%.

Net profit

The bottom line amounted to US$392 million in 2013, down 12% y-o-y, giving a net margin of 3%. The fall was due to various one-off transactions that impacted the bottom line:

- a revaluation of PPE at Azovstal, Northern GOK, Ingulets GOK, Khartsyzk Pipe and Avdiivka Coke, which resulted in higher depreciation charges
- an impairment of PPE at Krasnodon Coal, Ilyich Steel and Yenakiieve Steel
- a higher income tax expense due to a recognised valuation provision of US$155 million against deferred tax assets.

Consolidated cash flow