

## Trading update for the first nine 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 published a trading update for the nine months ended 30 September 2017.

*The information in this press release has been prepared based on preliminary financial results. Intragroup transactions have been eliminated in consolidation. This announcement does not contain sufficient information to constitute a full set of financial statements. The following preliminary results may differ from financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The numbers in this press release have not been audited or reviewed. Metinvest B.V. publishes consolidated financial statements prepared in accordance with IFRS for the six months ending 30 June and for the year ending 31 December. 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.*

### FINANCIAL HIGHLIGHTS

| (US\$ mn)                                    | 9M 2017      | 9M 2016      | Change     |
|--|--------------|--------------|------------|
| <b>Revenues</b>                              | <b>6,222</b> | <b>4,568</b> | <b>36%</b> |
| <b>Adjusted EBITDA<sup>1</sup></b>           | <b>1,373</b> | <b>989</b>   | <b>39%</b> |
| margin                                       | 22%          | 22%          | 0 pp       |
| <b>CAPEX<sup>2</sup></b>                     | <b>308</b>   | <b>199</b>   | <b>55%</b> |
| (US\$ mn)                                    | 30 Sep 2017  | 31 Dec 2016  | Change     |
| <b>Total debt<sup>3</sup></b>                | <b>2,909</b> | <b>2,969</b> | <b>-2%</b> |
| <b>Cash and cash equivalents<sup>4</sup></b> | <b>293</b>   | <b>226</b>   | <b>30%</b> |

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-controlled territory of Ukraine, including Yenakieve Steel, Krasnodon Coal 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 9M 2017 EBITDA.

2. CAPEX is calculated on an accrual basis (recognition).

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.

### Revenues

In 9M 2017, Metinvest’s consolidated revenues increased by 36% y-o-y to US\$6,222 mn, driven primarily by higher steel and iron ore selling prices, which followed global benchmarks. In addition, stronger demand spurred greater sales of flat products (+433 kt), slabs (+121 kt), pig iron (+71 kt) and coke (+72 kt).

Revenues in Ukraine amounted to US\$1,610 mn in 9M 2017, up 40% y-o-y, primarily due to increased selling prices, as well as greater sales volumes of flat products amid greater local demand as the economic upturn continued. As a result, the share of Ukraine in consolidated revenues rose by 1 pp y-o-y to 26%.

International sales accounted for 74% of consolidated revenues in 9M 2017. Marketshares changed y-o-y for Europe and Southeast Asia. The share of Europe reached 37%, up 2 pp y-o-y, following a 42% increase in sales to the region amid higher sales volumes of pig iron, slabs and iron ore products, as well as a hike in selling prices of all products. Although sales to Southeast Asia rose by 13% y-o-y amid greater sales volumes of flat products, square billets and pellets, as well as higher selling prices, the proportion of that region in consolidated revenues decreased by 1 pp y-o-y to 7% due to comparatively higher growth in sales to other markets. As a percentage of total sales, the Middle East and North Africa (MENA), the CIS (ex Ukraine), North America and other regions were unchanged y-o-y at a respective 16%, 9%, 5% and 1%.

| Revenues by market    | 9M17         |               | 9M16         |               | Change, y-o-y |            |                |
|-----------------------|--------------|---------------|--------------|---------------|---------------|------------|----------------|
|                       | US\$ mn      | % of revenues | US\$ mn      | % of revenues | US\$ mn       | %          | pp of revenues |
| <b>Total revenues</b> | <b>6,222</b> | <b>100%</b>   | <b>4,568</b> | <b>100%</b>   | <b>1,654</b>  | <b>36%</b> | <b>-</b>       |
| Ukraine               | 1,610        | 26%           | 1,148        | 25%           | 462           | 40%        | 1              |
| Europe                | 2,296        | 37%           | 1,619        | 35%           | 677           | 42%        | 2              |
| MENA                  | 971          | 16%           | 736          | 16%           | 235           | 32%        | -              |
| CIS (ex Ukraine)      | 572          | 9%            | 409          | 9%            | 163           | 40%        | -              |
| Southeast Asia        | 406          | 7%            | 359          | 8%            | 47            | 13%        | -1             |
| North America         | 331          | 5%            | 244          | 5%            | 87            | 36%        | -              |
| Other regions         | 36           | 1%            | 53           | 1%            | -17           | -32%       | -              |

## Metallurgical segment

The Metallurgical segment generates revenues from sales of pig iron, steel, coke and other products and services. In 9M 2017, its top line rose by 38% y-o-y to US\$5,082 mn, driven mainly by higher selling prices of steel products, as well as greater demand for flat products, slabs, pig iron and coke. In 9M 2017, the segment accounted for 82% of external sales, up 1 pp y-o-y.

| Metallurgical segment<br>Sales by market | 9M17    |               |       | 9M16    |               |       | 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                              | 5,082   | 100%          | 9,409 | 3,681   | 100%          | 9,348 | 1,401         | 61   | 38%             | 1%   |
| Ukraine                                  | 1,214   | 24%           | 2,019 | 806     | 22%           | 1,858 | 408           | 161  | 51%             | 9%   |
| Europe                                   | 1,843   | 36%           | 3,363 | 1,447   | 39%           | 3,541 | 396           | -179 | 27%             | -5%  |
| MENA                                     | 971     | 19%           | 1,993 | 735     | 20%           | 2,147 | 236           | -154 | 32%             | -7%  |
| CIS (ex Ukraine)                         | 572     | 11%           | 866   | 409     | 11%           | 838   | 163           | 28   | 40%             | 3%   |
| Southeast Asia                           | 136     | 3%            | 298   | 67      | 2%            | 203   | 69            | 95   | >100%           | 47%  |
| North America                            | 312     | 6%            | 799   | 164     | 4%            | 610   | 148           | 189  | 90%             | 31%  |
| Other regions                            | 33      | 1%            | 71    | 53      | 1%            | 151   | -19           | -80  | -37%            | -53% |

| Metallurgical segment<br>Sales by product | 9M17       |              | 9M16       |              | Change, y-o-y |            | Change, y-o-y % |              |               |
|---|------------|--------------|------------|--------------|---------------|------------|-----------------|--------------|---------------|
|   | US\$ mn    | kt           | US\$ mn    | kt           | US\$ mn       | kt         | US\$ mn         | due to price | due to volume |
| <b>Semi-finished products</b>             | <b>830</b> | <b>2,096</b> | <b>528</b> | <b>1,946</b> | <b>302</b>    | <b>150</b> | <b>57%</b>      | <b>49%</b>   | <b>8%</b>     |
| Pig iron                                  | 410        | 1,144        | 260        | 1,073        | 150           | 71         | 58%             | 51%          | 7%            |
| incl. resales                             | 52         | 141          | 27         | 120          | 25            | 21         | 94%             | 76%          | 17%           |
| Slabs                                     | 309        | 715          | 186        | 594          | 123           | 121        | 66%             | 46%          | 20%           |

|                                    |              |              |              |              |              |             |                 |             |            |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|-----------------|-------------|------------|
| Square billets                     | 111          | 237          | 83           | 279          | 29           | -42         | 35%             | 50%         | -15%       |
| incl. resales                      | 84           | 170          | -            | -            | 84           | 170         | -               | -           | -          |
| <b>Finished products</b>           | <b>3,583</b> | <b>6,399</b> | <b>2,741</b> | <b>6,560</b> | <b>842</b>   | <b>-161</b> | <b>31%</b>      | <b>33%</b>  | <b>-2%</b> |
| Flat products                      | 3,112        | 5,557        | 2,139        | 5,125        | 973          | 433         | 46%             | 37%         | 8%         |
| incl. resales                      | 1,083        | 2,114        | 702          | 1,955        | 380          | 159         | 54%             | 46%         | 8%         |
| Long products                      | 471          | 842          | 603          | 1,435        | -132         | -593        | -22%            | 19%         | -41%       |
| incl. resales                      | 28           | 52           | -            | -            | 28           | 52          | -               | -           | -          |
| <b>Coke</b>                        | <b>270</b>   | <b>914</b>   | <b>118</b>   | <b>842</b>   | <b>151</b>   | <b>72</b>   | <b>&gt;100%</b> | <b>120%</b> | <b>9%</b>  |
| <b>Other products and services</b> | <b>399</b>   | <b>-</b>     | <b>293</b>   | <b>-</b>     | <b>106</b>   | <b>-</b>    | <b>36%</b>      | <b>-</b>    | <b>-</b>   |
| <b>Total sales</b>                 | <b>5,082</b> | <b>9,409</b> | <b>3,681</b> | <b>9,348</b> | <b>1,401</b> | <b>61</b>   | <b>38%</b>      | <b>37%</b>  | <b>1%</b>  |

### *Pig iron*

In 9M 2017, sales of pig iron increased by 58% y-o-y to US\$410 mn, of which 51 pp was attributable to higher selling prices and 7 pp to greater sales volumes. Volumes rose by 71kt y-o-y to 1,144 kt, due to strong demand and higher resales of Zaporizhstal's pig iron. Sales in North America and Europe grew by 151 kt and 71 kt, respectively, given favourable margins. To fulfil these orders, volumes were redirected from MENA (138 kt).

### *Slabs*

In 9M 2017, sales of slabs rose by 66% y-o-y to US\$309 mn, driven by a surge in the average selling price (+46 pp) and a 20% rise in sales volumes. Overall volumes increased by 121kt y-o-y to 715 kt, spurred by demand and supported by greater production. Volumes to Europe were up 172 kt, due to greater orders from customers in Italy and sales to a new client in Hungary. Meanwhile, volumes to MENA decreased by 37 kt due lower sales to Turkey.

### *Square billets*

In 9M 2017, sales of square billets increased by 35% y-o-y to US\$111 mn due to higher selling prices. Meanwhile, sales volumes dropped by 15% y-o-y (or 42 kt) due to the loss of control over operations of Yenakieve Steel (-212 kt), which was partly compensated by higher resales (+170 kt). All available volumes were sold in MENA and Southeast Asia.

### *Flat products*

In 9M 2017, sales of flat products increased by 46% y-o-y to US\$3,112 mn, of which 37 pp was attributable to higher selling prices and 8 pp to greater sales volumes. Total volumes were up by 433 kt y-o-y to 5,557 kt, while resales of Zaporizhstal's goods rose by 159 kt y-o-y to 2,114 kt, keeping their share into tal sales volumes flat y-o-y at 38% in 9M 2017. Sales to Ukraine rose by 276 kt as a local competitor left the market in 1Q 2017. Metinvest continued to develop partnership relations with several large consumers and traders in the CIS, which lead to a 60 kt increase in sales to that region. Greater sales in MENA (+56 kt) were driven by the United Arab Emirates, which started preparations for Expo 2020. Other sales volumes were redistributed between regions following market conditions. The average selling price followed the dynamics of HRC FOB Black Sea quotations, which rose by 36% y-o-y.

### *Long products*

In 9M 2017, sales of long products dropped by 22% y-o-y to US\$471 mn, caused by a 41% decline in sales volumes due to lower production levels and the loss of control over Yenakieve Steel, which was partly compensated by higher resales (+52 kt). At the same time, the positive y-o-y price trend on all markets for long products was due to stronger billet quotations.

## Coke

In 9M 2017, sales of coke more than doubled y-o-y to US\$270 mn, reflecting a similar move in the average selling price. In addition, sales volumes increased by 9% (or 72 kt) y-o-y to 914 kt, driven by higher sales in Ukraine.

## Mining segment

The Mining segment generates revenues from sales of iron ore, coal and other products and services. In 9M 2017, its top line increased by 29% y-o-y to US\$1,140 mn, driven by higher iron ore and coal selling prices, which followed global benchmarks. This was partly offset by a fall in sales volumes, caused by lower over all production of iron ore and coal products, as well as greater intragroup consumption. In 9M 2017, the segment accounted for 18% of external sales, down 1 pp y-o-y.

| Mining segment<br>Sales by market | 9M17         |               |               | 9M16       |               |               | Change, y-o-y |               | Change, y-o-y % |             |
|-----------------------------------|--------------|---------------|---------------|------------|---------------|---------------|---------------|---------------|-----------------|-------------|
|                                   | US\$ mn      | % of revenues | kt            | US\$ mn    | % of revenues | kt            | US\$ mn       | kt            | US\$ mn         | kt          |
| <b>Total sales</b>                | <b>1,140</b> | <b>100%</b>   | <b>11,992</b> | <b>887</b> | <b>100%</b>   | <b>15,544</b> | <b>253</b>    | <b>-3,551</b> | <b>29%</b>      | <b>-23%</b> |
| Ukraine                           | 397          | 35%           | 3,329         | 342        | 39%           | 6,324         | 55            | -2,994        | 16%             | -47%        |
| Europe                            | 452          | 40%           | 4,906         | 172        | 19%           | 2,935         | 281           | 1,970         | >100%           | 67%         |
| MENA                              | -            | -             | -             | 1          | 0%            | 14            | -1            | -14           | -               | -           |
| CIS (ex Ukraine)                  | 0            | 0%            | -             | -          | -             | -             | 0             | -             | -               | -           |
| Southeast Asia                    | 270          | 24%           | 3,440         | 293        | 33%           | 5,222         | -23           | -1,782        | -8%             | -34%        |
| North America                     | 19           | 2%            | 318           | 80         | 9%            | 1,049         | -61           | -731          | -76%            | -70%        |
| Other regions                     | 2            | 0%            | -             | -          | -             | -             | 2             | -             | -               | -           |

| Mining segment<br>Sales by product | 9M17         |               | 9M16       |               | Change, y-o-y |               | Change, y-o-y % |              |               |
|------------------------------------|--------------|---------------|------------|---------------|---------------|---------------|-----------------|--------------|---------------|
|                                    | US\$ mn      | kt            | US\$ mn    | kt            | US\$ mn       | kt            | US\$ mn         | due to price | due to volume |
| <b>Iron ore products</b>           | <b>949</b>   | <b>11,421</b> | <b>718</b> | <b>14,196</b> | <b>231</b>    | <b>-2,775</b> | <b>32%</b>      | <b>52%</b>   | <b>-20%</b>   |
| Merchant iron ore concentrate      | 493          | 7,021         | 436        | 9,838         | 57            | -2,817        | 13%             | 42%          | -29%          |
| Pellets                            | 456          | 4,400         | 282        | 4,358         | 174           | 42            | 62%             | 61%          | 1%            |
| <b>Coking coal concentrate</b>     | <b>80</b>    | <b>571</b>    | <b>107</b> | <b>1,347</b>  | <b>-27</b>    | <b>-776</b>   | <b>-25%</b>     | <b>32%</b>   | <b>-58%</b>   |
| <b>Other products and services</b> | <b>112</b>   | <b>-</b>      | <b>63</b>  | <b>-</b>      | <b>49</b>     | <b>-</b>      | <b>77%</b>      | <b>-</b>     | <b>-</b>      |
| <b>Total sales</b>                 | <b>1,140</b> | <b>11,992</b> | <b>887</b> | <b>15,544</b> | <b>253</b>    | <b>-3,551</b> | <b>29%</b>      | <b>51%</b>   | <b>-23%</b>   |

## Iron ore concentrate

In 9M 2017, sales of merchant iron ore concentrate increased by 13% y-o-y to US\$493 mn, due to a surge in the average selling price. The latter followed the benchmark, [1] which rose by 35% y-o-y to an average of US\$73/t in 9M 2017, up from US\$54/t a year earlier. Meanwhile, total sales volumes dropped by 29% y-o-y (or 2,817 kt) to 7,021 kt following lower production and destocking in 2016. Given the premiums in Europe, one of Metinvest's key markets for iron ore, sales to both existing and new customers in that region were up by 899 kt y-o-y. Meanwhile, weaker demand in Ukraine caused lower sales (-1,504 kt). The remaining available volumes were sold to Southeast Asia, although volumes to that region were down 2,212 kt y-o-y.

#### *Pellets*

In 9M 2017, sales of pellets rose by 62% y-o-y to US\$456 mn, following a hike in the average selling price. In addition, sales volumes marginally increased – by 1% y-o-y (or 42 kt) – to 4,400 kt. Sales to Europe rose by 1,092 kt, driven by stronger demand. Meanwhile, sales in Ukraine decreased by 1,466 kt due to lower sales to local customers. This led to higher sales to Southeast Asia (+430 kt), which is an opportunistic market for this product.

#### *Coking coal concentrate*

In 9M 2017, sales of coking coal were down by 25% y-o-y to US\$80 mn and a 58% y-o-y drop in volumes. Sales declined by 776 kt y-o-y to 571 kt, driven by lower production and higher internal consumption, which resulted in reduced sales in North America.

#### **EBITDA**

In 9M 2017, Metinvest's consolidated EBITDA soared by 39% y-o-y to US\$1,373 mn, driven by an increase in the Mining segment's contribution of US\$653 mn. The Metallurgical segment's EBITDA decreased by US\$273 mn, while corporate overheads and eliminations remained almost flat y-o-y.

<https://metinvestholding.com/ro/media/news/7496>