

METALLOINVEST ANNOUNCES H1 2018 IFRS FINANCIAL RESULTS

Moscow, Russia – 22 August 2018 – Metalloinvest (“the Company”), a leading global iron ore and HBI producer, and one of the regional producers of high-quality steel, today publishes its IFRS financial results for the half year ended 30 June 2018.

FINANCIAL HIGHLIGHTS

- Revenue USD 3,779 mn (+24.6% y-o-y¹)
- EBITDA² USD 1,491 mn (+40.5%)
- EBITDA Margin 39.5% vs. 35.0% in H1 2017
- Net Income USD 870 mn (+48.7%)
- Net Debt USD 3,810 mn (-6.1% compared to 31 December 2017)
- Net Debt / EBITDA LTM³ 1.5x vs. 1.9x as of 31 December 2017
- Capital Expenditure USD 234 mn (+24.5%)

PRODUCTION HIGHLIGHTS

- Iron ore⁴ 20.0 mn tonnes (-0.8%)
- Pellets 13.6 mn tonnes (+11.4%)
- HBI/DRI 4.0 mn tonnes (+21.8%)
- Hot metal 1.5 mn tonnes (+8.6%)
- Crude steel 2.5 mn tonnes (+5.2%)

KEY CORPORATE HIGHLIGHTS

Operational developments and capital expenditure

- Completion of modernisation of vacuum degasser at the EAF⁵ shop at Ural Steel
- Launch of commercial operations at concentrate intake facility at MGOK
- Signing of a contract with a Danieli group company for the construction of the heat treatment facility for hot rolled steel at OEMK with annual capacity of 70,000 tonnes of high-quality rolled steel (SBQ)
- Signing of a contract with Tenova for the supply of two furnaces for the EAF shop upgrade at Ural Steel
- Coordination meetings with KAMAZ and TMK

Financing

- Refinancing of USD 240 mn pre-export credit facilities (PXF) with a new PXF raised in January 2018
- Keeping the Company’s series 02 and 03 bonds for a total amount of RUB 10 bn in the market for 5 years with a coupon rate set at 7.65%, following the successful execution of a put option
- Revision of the Company's corporate credit rating outlook by Moody’s Investors Service to Positive from Stable, confirmation of its 'Ba2' rating
- Signing of a EUR 72 mn credit facility agreement with Crédit Agricole CIB guaranteed by export credit agency (ECA) for financing the purchase of equipment

Social responsibility and corporate governance

- Signing of social partnership programmes with the administrations of the Kursk, Belgorod and Orenburg regions and the towns of Zheleznogorsk, Stary Oskol, Gubkin and Novotroitsk
- Election of the new composition of the Company’s Board of Directors

¹ Hereinafter comparison with H1 2017 unless indicated otherwise

² Hereinafter EBITDA stands for EBITDA adjusted according to IFRS requirements. For more details, please refer to the IFRS Statements

³ The indicator is for information only and does not contain adjustments as per the loan documentation; EBITDA LTM stands for EBITDA for the last 12 months

⁴ Iron ore refers to iron ore concentrate and sintering ore

⁵ Electric Arc Furnace Shop

INCOME STATEMENT

USD mn	H1 2018	H1 2017	Change, y-o-y
Revenue	3,779	3,032	+24.6%
EBITDA	1,491	1,061	+40.5%
EBITDA Margin	39.5%	35.0%	+4.5 p.p.
Net Income	870	585	+48.7%

Revenue

In H1 2018, the Company's consolidated revenue grew by 24.6% y-o-y to USD 3,779 mn. The increase of revenue from the Mining Segment is largely attributed to the increase of sales of high value-added products (pellets and HBI). Share of pellets and HBI shipments amounted to 71% vs. 59% in H1 2017. Positive revenue dynamics was also due to the rise in HBI prices following an increase in export scrap prices. Growth of revenue from the Steel Segment is mainly due to the increase in average prices of steel products and pig iron as a result of growth in global prices, as well as thanks to the growth of sales volumes.

In H1 2018, domestic sales made up 38.0% of the Company's consolidated revenue, compared to 40.7% in H1 2017, mainly due to higher sales volumes of steel products for export, as well as the contraction of the rouble revenue in the dollar terms due to rouble depreciation. The proportion of sales in the Middle East grew to 13.7%, whereas Asia (including China) rose to 4.9%. Sales in Europe decreased to 21.8% of the consolidated revenue, while revenue from other countries remained largely unchanged from H1 2017 and stood at 21.6%.

Cost of sales, distribution, general and administrative expenses

In H1 2018, the Company's cost of sales increased by 22.1% y-o-y to USD 1,802 mn, which is largely attributed to the increase in production volumes, a change in product mix, and price growth on purchased raw materials.

Distribution expenses in the reporting period totalled USD 438 mn, in line with H1 2017, general and administrative expenses declined by 4.2% y-o-y to USD 160 mn. Distribution, general and administrative expenses decreased to 15.8% of revenue compared to 19.8% in H1 2017.

Profitability

In H1 2018, the Company's EBITDA rose by 40.5% y-o-y, amounting to USD 1,491 mn. This growth was mainly due to increased sales of high value-added products, as well as the steel products and HBI price growth. The EBITDA margin amounted to 39.5% vs 35.0% in H1 2017, an increase of 4.5 p.p.

The Mining Segment EBITDA amounted to USD 1,046 mn, up 11.8% y-o-y. The Mining Segment accounted for 70.2% of consolidated EBITDA.

The Steel Segment EBITDA amounted to USD 398 mn, 2.6 times higher y-o-y, as a result of the stronger growth in finished steel products pricing compared with raw materials costs.

Net income in H1 2018 amounted to USD 870 mn, a 48.7% increase y-o-y, mainly due to higher operating income.

FINANCIAL POSITION

As of 30 June 2017, the Company's Total debt decreased by 3.6% compared with the level at 31 December 2017 and totalled USD 4,287 mn. The Company's long-term debt constituted 86.5% of the total debt, a slight decrease compared with the level at 31 December 2017.

As of 30 June 2018, Metalloinvest's cash and cash equivalents stood at USD 477 mn vs. USD 390 mn as of 31 December 2017.

At the end of the reporting period, the Company's Net debt decreased by 6.1% compared to the end of 2017, amounting to USD 3,810 mn. The Net debt/EBITDA LTM ratio as of 30 June 2018 decreased to 1.5x vs. 1.9x as of 31 December 2017 mainly due to a significant y-o-y increase in EBITDA in H1 2018.

In January 2018, Moody's Investors Service revised its credit rating outlook for the Company to Positive from Stable, affirming its 'Ba2' rating.

LIQUIDITY AND CAPITAL RESOURCES

In June 2018, based on 2017 results and the net debt/ EBITDA ratio of 1.9x, the shareholders of Metalloinvest made a decision to pay out dividends in the total amount of RUB 18.999 bn.

Over the course of H1 2018, Metalloinvest has continued improving the repayment schedule and optimising its debt portfolio:

- In January 2018, the Company signed an agreement for a USD 240 mn pre-export finance facility (the "PXF-2018"). The new PXF has a 5-year tenor, with a 4-year grace period and amortisation in the last 12 months; the interest rate is linked to LIBOR. The new PXF enabled the Company to refinance all of its existing USD-denominated debt due in 2018-2019 and improve the maturity profile and costs of borrowings.
- In February 2018, the Company successfully executed a put option on its bonds series 02 and 03 for a total amount of RUB 10 bn and kept the issuance's full amount in the market. The Company set the coupon rate of the bonds at 7.65% per annum for the following five years until their maturity.
- In June 2018, Metalloinvest signed a long-term credit facility agreement with Crédit Agricole CIB guaranteed by export credit agency Euler Hermes Aktiengesellschaft (Germany). The 12-year funds in the amount of EUR 72 mn will be used to purchase equipment from TAKRAF GmbH (Germany) for the construction of a cyclical and continuous transportation system at LGOK's open-pit mine.

OPERATIONAL RESULTS

tonnes' 000	H1 2018	H1 2017	Change, y-o-y
<u>Production</u>			
Iron ore	20,017	20,182	-0.8%
Pellets	13,647	12,250	11.4%
HBI/DRI	4,018	3,299	21.8%
Hot metal	1,453	1,338	8.6%
Crude steel	2,497	2,373	5.2%
<u>Shipments</u>			
Iron ore	3,687	5,407	-31.8%
Pellets	6,645	6,271	6.0%
HBI/DRI	2,270	1,566	45.0%
Pig iron	1,073	1,027	4.5%
Steel products	2,308	2,175	6.1%

In the reporting period, iron ore production volumes remained almost at H1 2017 levels and totalled 20.0 mn tonnes. H1 2018 pellet production increased by 11.4% y-o-y to 13.6 mn tonnes mainly as a result of the reduction of scheduled maintenance works and commissioning of intake facility, which processes concentrate from LGOK to produce additional volumes of high-iron content pellets at MGOK, in line with market demand. In H1 2018, the Company produced 4.0 mn tonnes of HBI/DRI, which is 21.8% higher compared to the corresponding period last year. The HBI production volumes growth is a result of the launch of the HBI-3 Plant at LGOK in July 2017; whereas the increase in DRI production volumes is related to the improved productivity at DRI unit #2 following the completion of the technical re-equipping.

In H1 2018, hot metal production increased by 8.6% to 1.5 mn tonnes due to maintenance works of technological equipment at Ural Steel in H1 2017. During the reporting period, the Company increased its crude steel production by 5.2% to 2.5 mn tonnes, largely supported by the delivery of long-term supply contracts for wheel and rail billets produced at Ural Steel.

In March 2018, Metalloinvest and KAMAZ organised a second coordination meeting. The parties agreed on the implementation of measures to increase the efficiency of interaction between the companies related to SBQ supplies, including creating stock reserves of the products needed by KAMAZ and transitioning to an electronic document management. Decisions were also taken on KAMAZ using new steel grades produced by OEMK, including carrying out joint experiments and supplies of trial batches.

In June 2018, Metalloinvest and TMK held their latest coordination meeting at which the companies discussed their partnership over the past two years and the prospects for future collaboration. During the meeting, the parties also discussed possibilities for expanding Ural Steel's supply of pipe billets and flat steel products to TMK.

CAPEX PROGRAMME

In H1 2018, the Company's capital expenditure amounted to 234 million dollars, an increase of 24.5% compared to H1 2017.

In April 2018, the final acceptance certificate of the HBI-3 Plant at LGOK was signed. Approximately 15% of capital expenditure in H1 2018 was allocated to this project.

The Company has started a project to develop external power supply system at LGOK to reduce the cost of services for the transmission of electrical energy and raising energy security at the plant. As of the end of the reporting period, construction and installation works of the main assets were completed, and pre-commissioning works are continuing.

As part of the complex development project at MGOK, aimed at increasing the quality of iron ore products, the Company carried out performance tests on the fine screening technology, working on its production implementation and carrying out technical elaboration. The Company invested approximately 2% of its H1 2018 capital expenditure in this development project.

As part of the development of the open-pit mine at MGOK, work continues on the construction of a crushing and conveyor facility. For the conveyor at the south-eastern border of the mine, engineering documentation has been prepared and works are being carried out to lay out the foundations. For the conveyor at the north-eastern border of the mine, TAKRAF has been chosen as the supplier of equipment and the contract is being finalised with the company. Approximately 3% of the H1 2018 capital expenditure was allocated to this development project.

The Company continued the upgrade of its mining transport systems at LGOK and MGOK. The Company allocated approximately 11% of its capital expenditure in H1 2018 to the purchase of new equipment.

At OEMK, the complex programme of strengthening the client focus and improving the quality of its SBQ continues. As part of this programme, the Company is building two heat treatment furnaces with an annual capacity of 70,000 tonnes of SBQ that will be established within the enterprise's finishing plant. The facility will add to the existing capacity for heat treatment of steel at OEMK. Metalloinvest has agreed an equipment supply contract for the facility with Danieli group.

As part of the integrated investment programme for the reorganisation of production at Ural Steel, which aims at increasing operational and managerial efficiency, the Company launched the Roller Treatment Furnace #1 and Heat Treatment Machine #1 Complex in July 2018. The installation of new equipment at Sheet Rolling Facility #1 enables Ural Steel to increase the production capacity of the heat treatment furnace from 28.6 to 30.7 tonnes per hour and strengthens the Company's position in the market for heat-treated rolled products.

Furthermore, the Company has launched the modernisation project of the electric arc furnace shop at Ural Steel. Metalloinvest signed a contract for the supply of two electric arc furnaces with the Italian company Tenova. The furnaces will be transitioned to using Flexible Modular Furnace (FMF) technology, which will provide flexibility in the use of various charge components and will ensure a reduction in the cost of steel production and increase the efficiency of the activities at Ural Steel.

The Company kick started the implementation of the Industry 4.0 business transformation programme at LGOK and MGOK to create an integrated financial and business management system. In addition, in February 2018, the Company completed the construction of a data centre in Sary Oskol which ensures reliable engineering infrastructure for the Company's IT systems and guarantees the Company's cyber security. The Company invested approximately 12% of its capital expenditure in H1 2018 in the Industry 4.0 programme.

SOCIAL RESPONSIBILITY

In February 2018, Metalloinvest won the Russia-wide competition “Leaders of Russian Business: performance and responsibility – 2017” in the categories of “high level reporting in sustainable development”, and “investment in the social development of the region”.

In March-April 2018, Metalloinvest signed the 2018 social partnership agreements with the administrations of the Kursk, Belgorod and Orenburg regions and the towns of Zheleznogorsk, Stary Oskol, Gubkin and Novotroitsk.

CORPORATE GOVERNANCE

In May 2018, the Company held an election to its Board of Directors. The Board of Directors now comprises the following members: Ivan Streshinsky (Chairman), Galina Aglyamova, Andrey Varichev, Valery Kazikaev, Irina Lupicheva, Pavel Mitrofanov, Gleb Kostikov and Dmitry Tarasov. There were no changes to the composition of the Board of Directors Committees.

SUBSEQUENT EVENTS

In July 2018, Metalloinvest announced a successful start to the operations of their integrated financial and business management system, using the SAP S/4HANA business suite at LGOK and MGOK, as part of the Company’s programme of digital transformation. Furthermore, the Company opened an Innovation Centre in Stary Oskol, which will house all the Company’s digital technology initiatives and projects to develop solutions for managing production and business processes. The Company also signed memorandums of cooperation with SAP and Accenture.

In July 2018, the Russian rating agency RAEX changed the outlook of its long-term credit rating for Metalloinvest from “Stable” to “Positive”, confirming the ‘ruAA-’ rating.

At OEMK, a warehouse for the storage and shipment of finished products was opened. It enables to gain the flexibility to plan shipments of rolled steel products and to improve service level for key customers.

In July 2018, Metalloinvest and ChelPipe group held a coordination meeting at Ural Steel, in which they agreed to create a collaborative scientific and engineering centre for the development of new steel grades for large diameter pipes.

In August 2018, Metalloinvest signed amendment to PXF-2017 credit agreement with a club of international and Russian banks. According to the amendment, USD 800 mn tranche A will envisage a reduction in the interest rate margin linked to LIBOR, as well as an extension of the debt maturity from 2020–2022 to 2021–2023. The terms of tranche B under the PXF-2017 agreement have remained unchanged: the USD 250 mn tranche with a maturity period in 2022–2024.



Metalloinvest

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Metalloinvest is a leading global iron ore and merchant HBI producer and supplier, and one of the regional producers of high-quality steel. The Company has the world's second-largest measured iron ore reserve base and is one of the lowest-cost iron ore producers.

Metalloinvest is wholly owned by Holding Company USM LLC, where Alisher Usmanov is the major beneficiary (49%), with other major beneficiaries being the companies of Vladimir Skoch (30%) and Farhad Moshiri (8%).