METALLOINVEST ANNOUNCES INTERIM FINANCIAL RESULTS FOR Q3 AND 9M 2019

Moscow, Russia – 28 November 2019 – Metalloinvest ('the Company'), a leading global iron ore and HBI producer, and one of the regional producers of high-quality steel, publishes its IFRS interim financial statement (unaudited) for the third quarter and nine months ended 30 September 2019.

Management comments

Alexey Voronov, Finance Director of Management Company Metalloinvest, commented:

"In the third quarter of 2019 steel prices continued to demonstrate weak dynamics, which was partially offset by the outperformance of average iron ore prices. As a result, the Company's consolidated EBITDA for nine months of 2019 amounted to USD 2.1 bn, largely due to a 25% increase in the mining segment EBITDA. Due to the deep processing of iron ore products and competitive cash costs, business profitability remains strong. The Company's leverage remains at a comfortable level, with a Net Debt / EBITDA LTM of 1.29x at the end of the reporting period."

FINANCIAL HIGHLIGHTS

- Revenue USD 5,328 mn (-0.3% y-o-y[1])
- EBITDA[2] USD 2,115 mn (-3.1%)
- EBITDA margin 39.7% vs. 40.9% in 9M 2018
- Net Income USD 1,484 mn (+19.2%)
- Net Debt USD 3,687 mn (+9.8% compared to 31 December 2018)
- Net Debt / EBITDA LTM[3] 1.29x vs. 1.14x as of 31 December 2018
- Capital Expenditure USD 352 mn (+10.0%)

PRODUCTION HIGHLIGHTS

- Iron ore[4] 30.1 mn tonnes (+0.2%)
- Pellets 21.2 mn tonnes (+2.2%)
- HBI/DRI[5] 5.9 mn tonnes (+1.3%)
- Hot metal 2.1 mn tonnes (-7.0%)
- Crude steel 3.6 mn tonnes (-2.7%)

KEY CORPORATE HIGHLIGHTS IN Q3 2019

Operational developments and capital expenditure

- Coordination meeting with ChelPipe Group
- Trialling an experimental batch of briquettes from YUGPK for smelting pig iron at Ural Steel

[1] Hereinafter comparison with 9M 2018 unless indicated otherwise
[2] Hereinafter EBITDA stands for EBITDA adjusted according to IFRS requirements
[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] Hereinafter iron ore refers to iron ore concentrate and sintering ore
[5] DRI – direct reduced iron

- Purchase of new equipment for Lebedinsky GOK (LGOK) and Mikhailovsky GOK (MGOK)
- Start of construction of grinding ball mill at OEMK
- Modernisation of thermal power plant at Ural Steel
- Launch of the first technological phase of Derrick Fine Screening Technology at MGOK

Financing

- Signing of a framework agreement with 12 banks for executing deals under ECA backed financing
- Opening of a new EUR 300 mn credit line for pre-export financing (the "PXF-2019")
- Announcement of an early repayment of Eurobonds-2020 in the principal amount of USD 270.6 mn

Social responsibility and corporate governance

- Winning in the XVI 'Metals and Mining Enterprises with Highly Effective CSR' competition for 2018
- Approval of Metalloinvest's Human Rights Policy and Code of Corporate Ethics
- Joining the United Nations Global Compact international sustainability initiative

INCOME STATEMENT FOR 9M 2019

USD mn	**9M 2019**	9M 2018	Change, %	**Q3 2019**	Q3 2018	Change, %
Revenue	**5,328**	5,342	-0.3%	**1,744**	1,564	11.5%
EBITDA	**2,115**	2,183	-3.1%	**705**	693	1.7%
EBITDA margin	**39.7%**	40.9%	-1.2 ppt.	**40.4%**	44.3%	-3.9 ppt.
Net income	**1,484**	1,245	19.2%	**464**	375	23.7%

Revenue

In 9M 2019, the Company's revenue remained at the level of 9M 2018 (-0.3%) and amounted to USD 5,328 mn. This is mainly related to the different price trends for the Mining and Steel Segment products in 9M 2019. Sales prices of steel products and pig iron declined in line with a decrease in global prices. Meanwhile, prices for iron ore and pellets demonstrated growth trends. At the same time, the Steel Segment product shipments reduced in the reporting period (-5.2% y-o-y), mainly due to a decrease in pig iron shipments (-13.9% y-o-y). Conversely, the Mining Segment product shipments grew by 1.5%. Furthermore, in the Mining Segment there was an increase in the share of high value-added products (pellets and HBI) in the sales structure, recorded at 73% compared to 72% in 9M 2018, alongside a +2.7% growth in total shipments.

In 9M 2019, domestic sales made up 42% of the Company's total revenue compared to 40% in 9M 2018. The proportion of sales in Asia (including China) grew to 9%. The share of sales in Europe and CIS remained at 23% and 5% respectively. Meanwhile, sales in the Middle East and other countries decreased to 12% and 9% of the total revenue respectively.

Expenses

In 9M 2019, the Company's cost of sales amounted to USD 2,499 mn, a growth of 2.5% y-o-y, partly owing to the increase in raw materials prices, maintenance costs and planned wage indexation.

Distribution expenses in the reporting period totalled USD 605 mn (-4.4% y-o-y). General and administrative expenses declined by 4.6% y-o-y to USD 226 mn. Thus, the share of distribution, general and administrative expenses in the Company's total revenue decreased to 15.6% (vs. 16.3% in 9M 2018).

Other operating expenses rose to USD 162 mn mainly due to negative foreign exchange changes.

Profitability

In 9M 2019, the Company's EBITDA decreased by 3.1% y-o-y, amounting to USD 2,115 mn. The decline was mainly due to the fall in finished steel product pricing compared with the increase in raw materials prices. The EBITDA margin amounted to 39.7% vs 40.9% in 9M 2018, a decrease of 1.2 p.p.

The Mining Segment EBITDA amounted to USD 2,026 mn, up 25.2% y-o-y. The Mining Segment accounted for 96% of consolidated EBITDA.

The Steel Segment EBITDA declined to USD 93 mn from USD 531 mn in 9M 2018. The decrease was due to different dynamics of global prices for the Steel Segment products and raw materials. Thus, the average market price for steel[6] reduced in 9M 2019 to USD 419 per tonne compared to USD 507 per tonne in 9M 2018, while the average market price for 62% Fe iron ore[7] rose to USD 95 per tonne from USD 69 per tonne in 9M 2018.

Net income in 9M 2019 amounted to USD 1,484 mn, a 19.2% increase y-o-y, mainly due to net foreign exchange gain from financing activities.

FINANCIAL POSITION

As of 30 September 2019, the Company's Total Debt increased by 7.7% compared with the level at 31 December 2018 and totalled USD 4,363 mn, which is primarily due to the new loan PXF-2019 drawing in the amount of EUR 300 mn. USD 62 mn of the received loan was allocated to the repayment of PXF-2017 (tranche A) in September 2019. The outstanding funds were allocated for the early redemption of Eurobonds-2020 with a nominal value of USD 270.6 mn in October 2019 (after the reporting date). The Total Debt growth is also explained by the implementation of the new IFRS 16 standard and rouble appreciation (RUB/USD = 64.4[8] as of 30 September 2019 vs. 69.5 as of 31 December 2018).

Long-term debt continue to comprise the majority of the loan portfolio structure (85% of Total Debt as of 30 September 2019). Short-term debt as of the reporting date amounted to USD 659 mn, where USD 270.6 mn were prepaid on 31 October 2019 as a result of the Eurobonds-2020 redemption.

As of 30 September 2019, Metalloinvest's cash and cash equivalents stood at USD 676 mn vs. USD 693 mn as of 31 December 2018.

[6] Steel billet index (FOB Black Sea), RHS. Source: Fastmarkets
[7] Iron ore index (62% Fe, CFR China). Source: Fastmarkets
[8] According to the official website of the Central Bank of Russia

At the end of the reporting period, the Company's Net Debt amounted to USD 3,687 mn (compared to USD 3,358 mn at the end of 2018). The Net Debt / EBITDA LTM ratio as of 30 September 2019 was 1.29x vs. 1.14x as of 31 December 2018.

Between February 2019 and May 2019, the international rating agencies S&P, Moody's and Fitch, and the Russian rating agency Expert RA, all upgraded the Company's corporate credit rating by one notch with the stable outlook.

LIQUIDITY AND CAPITAL RESOURCES IN Q3 2019

In Q3 2019, Metalloinvest has continued improving the repayment schedule and optimising its debt portfolio:

- In August 2019, the Company signed a framework agreement with 12 banks for executing deals under ECA backed financing[9]. The signed framework agreement has been designed to optimise the financing process (reduce the duration of documentation preparation, optimise financial expenses and conditions) related to the Company's annual investment programmes, which include an acquisition of imported equipment. The structure of the framework agreement provides the opportunity to introduce additional banking partners
- In September 2019, Metalloinvest opened a new credit line for pre-export financing (the "PXF-2019") with a club of international and Russian banks in the amount of EUR 300 mn. The loan has a 4.25 year tenor with a quarterly amortisation after the grace period set at 3.75 years. The interest rate is fixed for the entire loan period
- In September 2019, the Company announced the early repayment of its Eurobonds-2020 in the principal amount of USD 270.6 mn. The bonds maturity date was scheduled for April 2020. The early redemption in October 2019 was financed by the new PXF-2019 loan

In August 2019, in accordance with a voluntary offer to the public, LGOK acquired around 10.01% of MGOK's shares in the amount of approximately RUB 12.0 bn.

In September 2019, the Company declared dividends for 6 months of 2019 in the total amount of RUB 10.5 bn.

OPERATIONAL RESULTS FOR 9M 2019

Production by product

tonnes '000	9M 2019	9M 2018	Change	Q3 2019	Q2 2019	Change
Iron ore	30,069	30,012	0.2%	10,404	10,063	3.4%
Pellets	21,228	20,772	2.2%	7,157	7,230	-1.0%
HBI/DRI	5,905	5,828	1.3%	1,857	2,029	-8.5%
Hot metal	2,081	2,238	-7.0%	719	684	5.1%
Crude steel	3,628	3,729	-2.7%	1,197	1,246	-3.9%

[9] ECA backed financing is a credit obtained under a guarantee of export credit agencies as part of a signed contract for the supply of an equipment as part of an investment project. The guarantee facilitates the obtaining of monetary funds over the long-term under more competitive percentage rates

Shipments by product

tonnes '000	9M 2019	9M 2018	Change	Q3 2019	Q2 2019	Change
Iron ore	5,167	5,268	-1.9%	1,996	1,547	29.0%
Pellets	10,784	10,534	2.4%	3,894	3,554	9.6%
HBI/DRI	3,328	3,214	3.5%	1,006	1,098	-8.4%
Pig iron	1,391	1,616	-13.9%	465	394	18.0%
Steel products	3,407	3,444	-1.1%	1,113	1,168	-4.7%

In the reporting period, the Company produced 30.1 mn tonnes of iron ore, an increase of 0.2% y-o-y. The growth was driven by the completion of maintenance works on water-slurry circuit systems at MGOK in Q2 2019 and the processing of higher quality ore. In 9M 2019, pellet production increased by 2.2% y-o-y to 21.2 mn tonnes as a result of the increase in productivity after the completion of the first reconstruction stage of Pellet Plant #3 at MGOK (once all reconstruction stages are completed, a 5% increase in productivity at Pellet Plant #3 is expected), the completion of major maintenance works at Pellet Plant #2 at LGOK, and a change in the pellet product mix. In 9M 2019, the Company produced 5.9 mn tonnes of HBI/DRI, which is 1.3% higher compared to the corresponding period last year. The HBI production volume growth is related to the increase in production volumes at the more productive HBI-3 Plant, which underwent major maintenance works in Q3 2018.

In 9M 2019, hot metal production decreased by 7.0% y-o-y to 2.1 mn tonnes due to major maintenance works at Blast Furnace #3 at Ural Steel. Crude steel production declined by 2.7% y-o-y to 3.6 mn tonnes in 9M 2019 due to the development of FMF[10] steel production technology and major maintenance works at CCM #1 and CCM #2[11] at Ural Steel in Q3 2019.

In July 2019, Metalloinvest and ChelPipe Group held a Coordination Committee meeting to discuss commercial issues around ongoing supplies of rolled steel to produce large diameter pipes at Chelyabinsk Pipe Rolling Plant (part of ChelPipe Group). At the meeting, the positive impact of equipment modernisation at the Sheet Rolling Facility and Electric Arc Furnace Shop at Ural Steel was highlighted and participants discussed further steps to improve product quality.

In July 2019, Ural Steel started trialling an experimental batch of briquettes produced by YUGPK[12] for smelting pig iron in the blast furnace. As a part of a long-term agreement, Ural Steel receives limestone from YUGPK, and in exchange supplies smelter slag, which YUGPK uses in the production of cement. After the launch of the briquetting line in July 2019, YUGPK began to use smelter slag also in the production of high-strength briquettes. The briquettes are an innovation in the slag re-processing strategy.

CAPEX PROGRAMME

In 9M 2019, the Company's capital expenditure amounted to USD 352 mn, an increase of 10.0% y-o-y.

Among the most significant capital expenditure there was a technical re-equipping of the open-pit mines through the purchase of special equipment – mining dump trucks with a lifting capacity of 180-220 tonnes, heavy-duty excavators, locomotives, dump cars and other equipment totalling USD 72 mn.

Key development projects in the reporting period included:

- construction of the heat treatment facility for hot-rolled steel (SBQ) at OEMK (USD 28 mn)

[10] FMF – Flexible Modular Furnace
[11] CCM #1,2 – Continuous Casting Machine #1,2
[12] South Ural Mining and Processing Company

- construction of a crushing and conveyor facility at MGOK and LGOK (USD 24 mn)
- construction of medium pressure boilers in the thermal power plant at Ural Steel (USD 12 mn)
- reconstruction of EAFs at Ural Steel (USD 11 mn)
- development of wet magnetic separation with the launch of fine screening technology at MGOK (USD 9 mn)
- construction of HBI-3 Plant infrastructure at LGOK (USD 8 mn)
- modernisation of blast furnaces #2 and #3 at Ural Steel (USD 6 mn)

In August 2019, the Company began construction of the grinding ball mill at OEMK with an annual capacity of 43,000 tonnes of grinding balls with a diameter of 100-120 mm. Investments in the project are expected to total approximately RUB 1 bn (USD 16 mn). 85 additional jobs will be created for grinding ball production. Commissioning of the grinding ball mill is scheduled for Q4 2020.

In September 2019, the Company implemented a project to modernise the thermal power plant at Ural Steel. Part of the plant project involves the construction of a new complex with 2 medium pressure boilers, each with a capacity of 220 tonnes of steam per hour. Commissioning of the boilers is scheduled for the second half of 2020. Furthermore, reconstruction of the water purification facility #3 and installation of the unique automated chemical treatment unit of water from salts is ongoing. Commissioning of the equipment has been scheduled for December 2020.

In September 2019, the first technological phase of Derrick Fine Screening Technology was launched at the MGOK beneficiation plant. During the first stage of the project, Derrick Fine Screening Technology was introduced at 4 technological sections of the beneficiation plant. The capital expenditure for the first stage exceeded RUB 1.2 bn (USD 19 mn). As a result of the first stage of implementation, over 3.7 mn tonnes of iron concentrate with an increased iron content of 67% from 65.1% will be produced in 2020 at the fine screening technology section. The second stage of the project, launched in August 2019, will see construction of a new building for the beneficiation of concentrate using high-quality Derrick equipment. As a result of the second stage, production of high-quality concentrate with an iron content of 68.7% will amount to 16.9 mn tonnes in 2022. The construction of the new beneficiation facility and modernisation of production will enable the processing of complex ores with a higher iron content and will reduce overburden and production costs. Investments in the second stage are projected at more than RUB 12 bn (USD 186 mn).

In the reporting period, the Company completed the first stage of its digital transformation, involving the introduction of a unified integrated financial and business management system at four Metalloinvest production sites based on the latest SAP S / 4HANA solution (USD 12 mn).

SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

In August 2019, three Metalloinvest enterprises were among the winners of the XVI ‘Metals and Mining Enterprises with Highly Effective CSR’ competition of 2018; LGOK and OEMK were awarded in the ‘Employee Development’ category, while Ural Steel was awarded in the ‘Environmental Protection and Resource Management’ category.

In August 2019, Metalloinvest confirmed its Human Rights Policy. The Company guarantees compliance with labour and human rights legislation which has been ratified by the constitution of the Russian Federation, the Labour Code of the Russian Federation, UN conventions and the International Labour Organisation.

In August 2019, Metalloinvest joined the United Nations Global Compact (UNGC), an international initiative centered on corporate sustainability and social responsibility. Sustainable development is the foundation of Metalloinvest's business strategy. Metalloinvest's Sustainable Development Report is prepared based on the international standards of the Global Reporting Initiative (GRI) and ISO:26000, and with consideration of international best practice.

In September 2019, the Company approved the Code of Corporate Ethics – a set of principles and ethical standards for business conduct of employees, and ethical, social and environmental principles of doing business.

SUBSEQUENT EVENTS

October 2019

Metalloinvest launched shipments of premium quality pellets from MGOK. Pellets with a basicity of 1.0 (Fe content of >63%, compressive strength of >240 kg/pellet) were supplied to ArcelorMittal (Belgium) and Nippon Steel (Japan).

Metalloinvest announced the first ECA backed financing deal under the existing framework agreement. The deal was set up with MUFG bank in the amount of EUR 9.9 mn. The loan will be used for the technical re-equipping of CCM-3 at OEMK, with the equipment supplied by INTECO melting and casting technologies GmbH. Insurance cover will be provided by Oesterreichische Kontrollbank AG, the Austrian export credit agency. The loan provided under the agreement with MUFG will be repaid in equal semi-annual payments over the course of 10 years.

Metalloinvest placed its RUB-denominated BO-03 series bonds for a total amount of RUB 10 bn through a public offering. The coupon rate was set at 7.15%. The BO-03 series bonds have a maturity period of 10 years (3,640 days) and a put option in 5.5 years (2,002 days). The proceeds were used to refinance the BO-01 series bonds in the same amount within a call-option, which allows the Company to optimise the parameters of its debt portfolio.

November 2019

Metalloinvest and Severstal shared their experiences in improving efficiency of business processes.

Metalloinvest and TMK signed agreements for the supply of HBI produced by LGOK and rolled steel (strips) produced by Ural Steel. The signing ceremony took place as part of Metal-Expo'2019, the 25th International Industrial Exhibition in Moscow.

Metalloinvest supplied its millionth tonne of wheel billets to United Metallurgical Company (OMK). The shipment took place as part of a ten-year contract signed in early 2017 between Metalloinvest and OMK.

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