

ZAPORIZHSTAL JSC ANNOUNCES 2Q AND 1H 2015 OPERATIONAL AND FINANCIAL RESULTS

Zaporozhye, Ukraine – 21th of August 2015 – “Zaporizhstal” JSC today announces its operational and financial results for the first half 2015 ended 30th of June 2015.

Financial data in the present press release is based on preliminary financial results. The present press release does not contain sufficient information in order to be considered complete financial statement. The below stated financial results may vary from financial statement prepared according to International Financial Reporting Standards (IFRS). Figures, used in the given press release were not subject to audit or verification.

Q2 2015 HIGHLIGHTS

- Net revenue of US\$ 357 million (-17% to Q1 2015)
- Adjusted EBITDA¹ of US\$ 73 million (-44% to Q1 2015), with EBITDA margin of 20,5%
- Total loans and borrowings of US\$ 146 million (Q1 2015: US\$ 136 million), including:
 - US\$ 38 million of long-term borrowings (Q1 2015 US\$ 29 million)
 - US\$108 million of short-term borrowings (Q1 2015: US\$108 million)
- Cash and cash equivalents of US\$ 14 million (Q1 2015: US\$ 11 million)
- Production of pig iron of 929 thousand tons (+7.1% to Q1 2015)
- Production of crude steel 1 007 thousand tons (+7.1% to Q1 2015)
- Production of rolled products 846 thousand tons (+1.8% to Q1 2015)
- Capital expenditures of US\$4.2 million (+223% to Q1 2015)

H1 2015 HIGHLIGHTS

- Net revenue of US\$ 785 million (-15% to H1 2014)
- Adjusted EBITDA of US\$ 226 million (+29% to H1 2014), with EBITDA margin of 28,8%
- Total loans and borrowings of US\$ 146 million (H1 2014: US\$ 157 million), including:
 - US\$ 38 million of long-term borrowings (H1 2014: US\$ 47 million)
 - US\$108 million of short-term borrowings (H1 2014: US\$110 million)
- Cash and cash equivalents of US\$ 14 million (H1 2014: US\$ 2 million)
- Production of pig iron of 1 797 thousand tons (+9.6% to H1 2014)
- Production of crude steel 1 947 thousand tons (+0.4% to H1 2014)
- Production of rolled products 1 677 thousand tons (-0.2% to H1 2014)
- Capital expenditures of US\$5.5 million (-85% to H1 2014)

CORE PRODUCTS PRODUCTION

(thous.tons.)	Q2 2015	Q1 2015	Change	H1 2015	H1 2014	Change
Pig iron	929,0	868	7,06%	1797	1640	9,56%
Crude Steel	1007,0	940	7,13%	1947	1939	0,42%
Rolled products	846,0	831	1,81%	1677	1681	-0,22%

Change of production volumes of the main type of products in the Q2 2015 in comparison with the Q1 of 2015 is caused mainly by the technical reasons (schedule capital repair of main production equipment in Q1 2015). Substantial growth of pig iron production in H1 2014 in comparison with the H1 2013 is caused by realization of the planned capital repair of Blast furnace #4 ended in H2 2014.

PRODUCTS SALES

For the Q2 2015 the net revenue from main production sales was USD 348 mln that on 17.6 % lower than the figures of the Q1 2015. At the same time in commodity terms the sales amount was 880 thousand tons that on 7.4 % less, than in Q1 2015. These figures testify that the prices for the goods decreased rapidly.

For the H1 2015 the net earnings volume was US \$771 million that on 14.1% lower than the figures of the H1 2014. For the same period in commodity terms the sales amount was 1 831 thousand tons that on 4,2 % higher than for H1 2014.

¹ - Adjusted EBITDA (hereinafter referred to as EBITDA) is calculated as profits before income tax, financial income and costs, depreciation and amortization, impairment and devaluation of property, plant and equipment, sponsorship and other charity payments, share of results of associates and other non-core expenses

Sales by products (USD mln)

	Q2 2015	Q1 2015	Change	H1 2015	H1 2014	Change
H/r product	229	272	-16,11%	501	598	-16,22%
C/r product	100	121	-17,44%	221	270	-18,24%
Pig iron	13	13	0,00%	26	3,53	633,48%
Other	7	16	-57,64%	23	26	-10,27%
TOTAL	348	423	-17,60%	771	897	-14,10%

Sales by products (thous.t)

	Q2 2015	Q1 2015	Change	H1 2015	H1 2014	Change
H/r product	593	611	-2,98%	1 204	1 207	-0,24%
C/r product	226	246	-8,36%	472	497	-4,97%
Pig iron	47	81	-41,09%	128	10	1179,82%
Other	14	13	9,83%	27	43	-37,39%
TOTAL	880	951	-7,43%	1 831	1757	4,23%

In the Q2 2014, the market price for the hot rolled coil of the Ukrainian production in comparison with the 2nd quarter of 2013 has decreased on 1 %. The world prices for raw materials, which make significant influence on the price, had changed multidirectional. The price for scrap on Turkey market has increased on 2 %, but cost of IORM (iron ore raw materials) for China market has decreased on 18 %.

In April the price level of deals on the regional markets of flat product, basically, has demonstrated rising dynamics. We can notice activation of rolled product demand in the beginning of the month and its weakening in the last decade. Seasonal increase in demand and prompt reduction of finished product reserves in traders' warehouses have promoted turning of price trend on China market. Due to good situation in local market, local exporters have increased price quotation on 5-10\$. Nevertheless, negative correction of prices on iron ore during the last decade of the month has forced local producers to reduce the prices.

In May, the price level of deals in the regional markets of ready flat product has demonstrated multidirectional dynamics. Prompt lowering of spot prices on iron ore raw materials (on 13\$/t during the month) was the strongest factor influenced on price quotations for the hot rolled and cold rolled coils in China.

In June, the price level on flat product regional markets had basically negative dynamics due to weak demand and low prices for the raw materials. Low spot prices on iron ore raw materials were the strongest factor of influence on price quotations for the hot rolled and cold rolled coils in China.²

Hot rolled product which share makes around 70 % of sales, traditionally dominates in a commodity sales structure. Cold rolled product takes around 30 %. Such distribution is caused due to existing capacities which allow to diversify production portfolio.

FINANCIAL HIGHLIGHTS

P&L Statement

	Q2 2015	Q1 2015	Change	H1 2015	H1 2014	Change
Net revenue	357	428	-16,55%	785	924	-15,04%
Gross profit	81	145	-43,87%	226	175	28,76%
<i>Margin, %</i>	22,75%	33,82%	-32,73%	28,78%	18,99%	51,56%
EBITDA	73	129	-43,44%	202	206	-1,90%
<i>Margin, %</i>	20,49%	30,24%	-32,23%	25,80%	22,35%	15,46%
Operational profit	33	134	-75,30%	168	57	196,45%
<i>Margin, %</i>	9,30%	31,42%	-70,41%	21,36%	6,12%	248,93%
Net profit	38	61	-37,70%	98	-13	879,80%
<i>Margin, %</i>	10,57%	14,15%	-25,34%	12,52%	-1,36%	1017,86%

JSC "Zaporizhstal" in the Q2 2015 has worsened compared to Q1 2015. The main reason is continuing metal prices fall. Despite of this JSC "Zaporizhstal" has positive Net profit figure and its margins are rather high.

At the same time figures of H1 2015 compared to H1 2014 substantially increased due to effectiveness rising.

² - Sources - World steel association (WSA), "Ukrainian Industrial External Expertize" ("Укрпромнешекспертиза" - УПБЭ), "Metal-Courier" («Металл-Курьер»)

Balance sheet

	Q2 2015	Q1 2015	Change	H1 2015	H1 2014	Change
Assets	1305	1195	9,22%	1305	1221	6,94%
Liabilities	697	684	1,81%	697	699	-0,27%
Owner's equity	609	511	19,16%	609	522	16,60%
Short-term debt	108	108	0,83%	108	110	-1,52%
Long-term debt	38	29	31,69%	38	47	-19,24%
Total debt	146	136	7,31%	146	157	-6,79%
Cash & Equivalents	14	11	28,50%	14	2	453,66%
Net debt	132	126	5,52%	132	154	-14,14%

Analysing the Balance sheet, it should be noted that almost all-important indicators in a dollar equivalent have sharply increased due to Ukrainian currency depreciation on 33 % during the H1 2015. New USD 11 mln loan was obtained in April 2015. This action increased Total debt up to 7.3%. At the same time, Company's cash flow based on EBITDA of more than USD 400 million per year is enough to service the loans in full and in accordance with the schedule.

CAPITAL EXPENDITURES

Despite difficult economic status, JSC "Zaporizhstal" continues to invest in capital construction projects. However volume of investments was considerably reduced in comparison with earlier periods. The actual financing of investment program in Q2 2015 amounted USD 4,2 mln, in H1 2015 - USD 5,5 mln.

The most important projects that are planning to be realized in 2015:

- Reconstruction of gas cleaning on Sinter Machines #3-6. Gas cleaning introduction on Sinter Machines #3-6 will enable considerably decrease air pollution and at to increase quality of air.
- Blast Furnace #3 Reconstruction to ensure the required volumes of iron, for the next process stages of the Works as well as construction of a new aspiration system for the Blast Furnace (BF) in order to provide environmental standards.

According to the project "Construction of the hot rolled coils production complex as a part of Converter Shop, CSPs and auxiliary production facilities" basic engineering development is being performed according to concluded contracts with Primetals Technology and SMS-Siemag companies, area planning (leveling) is being performed on the site.

In 2015, the Capital Investment Program was approved, it foresees investments in the amount of UAH 788 million.