

CHIEF EXECUTIVE OFFICER'S REVIEW

YURIY RYZHENKOV



ON THE RIGHT TRACK

In 2018, Metinvest excelled on numerous fronts, providing strong validation that it has created the right roadmap for a sustainable future. Focusing on quality in everything it does, the Group forged ahead with large-scale asset upgrades, while the improved debt portfolio allowed it to ramp up its most capital-intensive plans. Metinvest also seized several acquisition opportunities that are an ideal fit with the business model.

STRATEGY IN ACTION

From an executive perspective, it is a pleasure to see that our strategy is being implemented effectively. In 2017, Metinvest underwent tremendous efforts to conduct a 360-degree review of its Strategic Priorities 2030, which are based on the long-established corporate strategy, to make the business even more agile, successful and sustainable over the long term.

Our strategic priorities that we believe will help us to achieve our goals include: increasing our production capacity through organic growth; enhancing our low-cost position; expanding the product portfolio to strengthen our position in key strategic markets; focusing on the needs of our customers; increasing efficiency; and pursuing selective acquisition opportunities. While the principles underpinning these remain the same, we sharpened our focus on them even further and made strong progress with each in 2018.

Given the symbiotic relationships among our people, planet and business, the Group's overriding long-term priorities are health, safety and the environment. In 2018, we implemented even more measures to improve operational safety and reduce the environmental impact of our operations.

The results of 2018 confirm that we have not only the right plans in place, but also the right people to fully realise these priorities. It fills me with great pride to say that the accomplishments of our executives, managers and employees are extremely encouraging in this regard.

COMMITTED TO SUSTAINABILITY

Currently, Metinvest has various policies and measures in place that govern the environmental, social and governance (ESG) practices of its assets. We are in the process of overhauling these policies and practices to address possible gaps and integrate them into a single, comprehensive ESG framework that conforms with international standards and meets the expectations of our employees, customers and investors, as well as of the communities in which we operate.

We recognise that the mining and steel industry has a particular responsibility in ensuring the sustainability of its activities and that Metinvest needs to be part of the global response to climate change.

Metinvest is therefore formulating a comprehensive Group-wide approach and setting integrated targets to lower the overall carbon intensity of its operations as measured in emissions relative to output. This involves defining specific and measurable ESG targets for each operating asset and establishing a corporate governance structure to oversee and ensure their implementation.

With this initiative, Metinvest hopes to play a role in proactively addressing climate change concerns and contributing to the accommodation of Ukraine's carbon budget within the framework of Nationally Determined Contributions under the Paris Agreement (COP 21).

A SHOW OF STRENGTH

In 2018, the Group delivered a sound operational performance and its strongest financial results in four years. This tremendous achievement is a clear indication that the crucible of 2014-17 has forged a truly resilient business and that Metinvest is following a prudent course.

Among the operational highlights of the reporting period, compared with 2017: hot metal output increased by 3%; total merchant metal production by 5%; coke output by 11%; and coking coal concentrate production by 9%; while iron ore concentrate output remained steady.

Amid major dynamic developments in the steel market, the Group once more demonstrated the fundamental strength of its business model. Steel prices expanded again on a year-on-year basis, despite significant intra-year fluctuations. In addition, when several major countries and regions increased their protectionist measures, which have long been impacting the markets, Metinvest took advantage of its geographically diverse sales network, redistributing volumes depending on the pricing environment to capture the best margin.

As for iron ore, our long-term focus on quality over quantity in this segment bore fruit in 2018, when premiums for high-grade ores and pellets increased further. The differential between the prices for 65% Fe content iron ore and 62% Fe content shipped 'cost and freight' to China surged by 30% year-on-year. The Atlantic Basin premium for pellets in Europe, a high value-added product, rose consistently, jumping by 31% year-on-year overall. Through our efforts to improve the Fe content of our iron ore products, mechanical characteristics of pellets along with the greater share of pellets in the iron ore sales mix, which reached 48%, up from 39% in 2017, we significantly enhanced our presence on the premium market of Europe, whose share increased to 51%.

Metinvest also fared well in Ukraine, where real GDP growth accelerated to 3.3% year-on-year in 2018, the strongest in the last three years. The continued economic upswing is driving a recovery in demand for steel: apparent steel consumption rose by 4.0% in 2018, fuelled by expanding construction and machine building activity. At the same time, such growth was lower than expected. Ukraine still has much infrastructure that needs updating, as the majority of it was built 30-40 years ago, and this could drive an increase in per capita steel consumption to a level closer to those of immediate neighbours. Ukraine remains our priority market and we believe in its potential.

As proven by the 2018 results, the Group has what it takes to deliver in the fastest-paced of environments. The headline financial numbers were solid: in the reporting period, revenues

surged by 33% year-on-year and EBITDA rose by 23% despite cost pressure. Net profit jumped by 93%, pushing the net profit margin up by three percentage points to 10%. Net debt to EBITDA improved further to 1.0x by the end of the year. This is a remarkable show of strength, as we prepare to take advantage of future market opportunities.

FULL STEAM AHEAD

In 2018, guided by the Technological Strategy 2030, Metinvest moved full steam ahead to invest in the business at levels not seen for years, disbursing some US\$900 million in CAPEX overall. Following the liquidity crunch of 2014-16, we restored the maintenance allocation and ramped up modernisation spending, as we switched back into upgrade mode.

This renewed vigour enabled the Group to reach some major milestones in its long-term strategic plans in 2018. At Ilyich Steel, we commissioned a new continuous casting machine, one of our showcase projects, which debottlenecked the plant's casting capacity and effectively increased its crude steel production capacity by 40%. We also progressed with the large-scale upgrade of the enterprise's sinter plant, commissioning the first-phase facility of new, more environmentally friendly gas cleaning equipment. In addition, Metinvest has several projects to upgrade its iron ore and pellet production facilities, targeting production of concentrate with Fe content above 70.5% and DRI-quality pellets with Fe content of 67.5% to meet both internal and customer-demand for top-quality ore and penetrate premium markets.

These and our many other expansion CAPEX initiatives represent investments in not only our business, but also our communities, as they are aimed at improving health, safety and the environment, as well as upgrading infrastructure that contributes to economic growth. With the recent past behind, I am confident that, from here, the Group will continue working towards the key objectives that it has committed to achieving in 2030.

ON FIRMER FINANCIAL FOOTING

Metinvest's crowning achievement in 2018 was the market-driven refinancing of more than US\$2 billion dollars in debt, which marked the successful conclusion of almost four years of work with its creditors.

The overall transaction represented a number of superlatives, as the largest bond with the lowest coupon and the longest maturity in Metinvest's history, not to mention the most sizeable corporate bond placement in Ukraine. It also received strong support from top European financial institutions and the broader international investment community, as well as recognition in the form of prestigious international awards.

In addition, the deal resulted in several encouraging accomplishments. With a sustainable debt capital structure, reduced overall funding costs and a smoother debt maturity profile with no major repayments in the next four years, the Group is perfectly placed to implement the most capital-intensive part of its strategic development programme aimed at securing its long-term future.

PROGRESS ON TWO KEY FRONTS

Metinvest seeks M&A opportunities that will reinforce the vertically integrated business model along the production chain, particularly in terms of inputs and market access, and it is making progress on these two key fronts. First, we are building up self-sufficiency in key raw materials to secure long-term supplies for our production facilities. Second, we are enhancing our positions in areas offering growth opportunities.

In 2018, the Group acquired interest in the largest coking coal businesses in Ukraine. In early 2019, after the reporting date, Metinvest bought a stake in a local coke producer. Both of these acquisitions help to ensure raw material supplies for steelmaking. We also acquired a Ukrainian galvanised steel producer, which we believe will bolster our position in a promising market segment.

OUTLOOK

As we move into 2019, the global environment for Metinvest's key products, steel and iron ore goods, remains supportive yet clouded with uncertainty. As the events of recent years show, we are built to withstand every type of situation, and I am confident that we will overcome future challenges by adapting our operations promptly, prudently and professionally whatever the shift in trends.

For the immediate term, we have identified three critical areas of strategic focus – HSE, operational efficiency and investment – all of which are considerable tasks. They will require us to invest in obtaining, training and retaining the best workforce possible, as well as further improving the quality of life in our communities.

As the tremendous accomplishments of 2018 indicate, Metinvest is very much on the right track. I look forward to continuing to progress with confidence towards our long-term strategic goals and delivering value to all stakeholders, all of whom I would like to thank for their ongoing belief in our story.

Yuriy Ryzhenkov
Chief Executive Officer