

IN FOCUS CONTINUED
CAPEX

Having updated the Technological Strategy 2030, the roadmap for the next 12 years, Metinvest moved full steam ahead with its asset modernisation plans in 2018, allocating around US\$900 million in CAPEX. After largely conducting essential maintenance during the challenges of recent years, the Group switched back into upgrade mode, refocusing its efforts on projects to introduce cutting-edge technology, reduce environmental footprint and increase operational efficiency.

CAPEX: FULL STEAM AHEAD

In 2017, Metinvest completed a comprehensive review of the Technological Strategy 2030 to ensure that it will be the most appropriate blueprint for the long term. The Group then embarked on the course charted, guided by the strategy's three key objectives: to enhance operational and environmental standards; to boost steel production capacity to 11 million tonnes a year, improving cost efficiency while focusing on the downstream; and to penetrate premium segments in the iron ore market by pursuing a quality-over-quantity strategy while keeping expenses low.

Following the period of force majeure underinvestment in 2015-16, Metinvest signalled a decisive return to its long-term asset transformation programme in 2018. CAPEX totalled US\$898 million, up 66% year-on-year, of which 57% went to the Metallurgical segment (51% in 2017), 41% to the Mining segment (48% in 2017) and 2% on corporate overheads (unchanged).

Notably, US\$613 million was spent on maintenance at the steelmakers, re-rollers and coke, coal and iron ore producers, up 36% year-on-year. In the Mining segment, maintenance includes the replacement and repair of open-pit mine machinery, such as drilling rigs, excavators, dump trucks and bulldozers, as well as upkeep work on open pits, mines, tailing stocks and pelletising machines. In the Metallurgical segment, maintenance includes the reconstruction of overhead cranes, as well as repairs and upgrades of other equipment.

Importantly, US\$285 million was spent on expansion, which represents a three-fold increase year-on-year and 32% of overall CAPEX. This underscores that the Group is back on track with its plans to make its production facilities among the most efficient in the industry. In 2018, as part of the Technological Strategy, Metinvest launched 12 strategic investment projects and made further progress on numerous ongoing ones, meeting several milestones.

By far the landmark achievement was the completion of continuous casting machine no. 4 at Ilyich Steel, which represents the largest industrial construction project of its kind in Ukraine since independence, involving investments of around US\$150 million. The new two-strand facility: features state-of-the-art dust removal, water recycling and gas cleaning technology; has the design capacity to cast 2.5 million tonnes of slabs a year for re-rolling; and effectively increases the enterprise's annual crude steel production capacity to 4.3 million tonnes, up 40%. As such, it will contribute to environmental improvements in Mariupol and increase Ilyich Steel's output of value-added slabs and hot-rolled coils, while cutting costs by reducing metal losses and energy consumption.

The next stage of Ilyich Steel's development is the upgrade of its downstream facilities. The reconstruction of the 1700 hot strip mill, which is expected in the second half of 2019, will increase the mill's capacity, significantly improve steel surface quality, considerably reduce process waste during slab rolling and expand the plant's portfolio to include heavier coils. This project is to be followed by the reconstruction of the plant's cold rolling mill to increase its capacity and improve product quality.

Meanwhile, Azovstal moved closer to concluding the major overhaul of blast furnace no. 3, which is expected to be launched in mid-2019. It is designed to increase the blast furnace's annual hot metal capacity by 0.5-0.8 million tonnes to 1.3-1.6 million tonnes and reduce production costs by decreasing consumption of coke and coke nuts. The project budget increased to more than US\$145 million as the scope and costs were reviewed. Construction

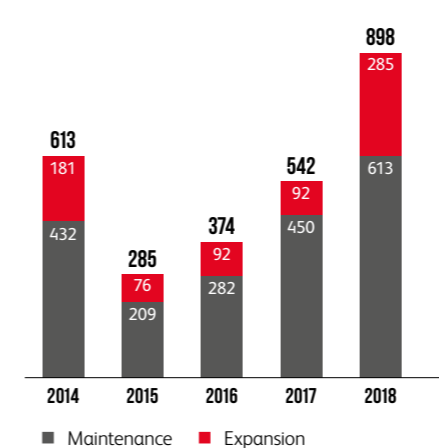
of a pulverised coal injection (PCI) unit at the blast furnace is advancing in parallel with its major overhaul. The Group also started preparations for the major overhaul of blast furnace no. 6, which will involve the installation of a PCI unit as well. Once completed, all of the plant's blast furnaces will be equipped with this technology, which minimises the need for natural gas in the production process and uses coke more efficiently.

Another crucial capital investment related to logistics. For some time now, the lack of rolling stock in Ukraine has caused intermittent bottlenecks in the national rail system. To mitigate the impact of this, the Group allocated US\$70 million to buy 1,800 rail wagons, which were delivered in the first half of 2018.

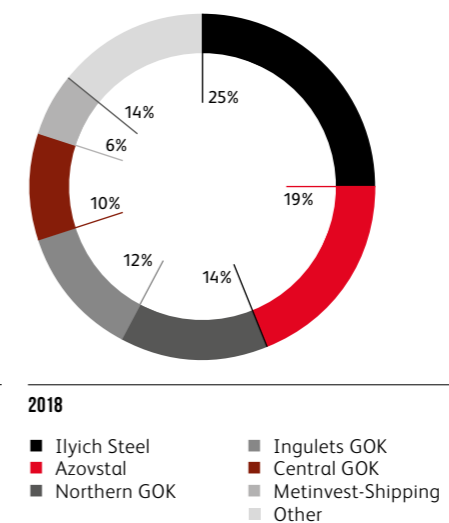
In addition, Metinvest continued to implement several expansion projects at its iron ore producers. These include the construction of crusher and conveyor systems at Northern GOK and Ingulets GOK, which are designed to move bulk materials to the surface for further processing and enable capacity and production volumes to be maintained at current levels while reducing costs. The Group also worked on upgrading the pelletising machines at Northern GOK, namely the OK-306 and Lurgi 278-A, to improve the mechanical properties of their pellets and capture additional margin. At Central GOK, the main focus was the re-equipment of beneficiation facilities to produce concentrate with Fe content above 70.5% and DRI-quality pellets with Fe content of 67.5%.

Several environmental projects are under way as well. In the reporting period, Ilyich Steel made progress on reconstructing its sinter plant, commissioning the first-phase facility of new gas cleaning equipment in April. The remaining work – which will involve installing cyclones and desulphurisation equipment in cooling and sintering zones – is expected to be completed by 2020, taking overall spending to around US\$150 million. Other projects included the major overhaul of gas-cleaning equipment at Azovstal's secondary steel treatment facilities, extensive maintenance of the oven chambers at Avdiivka Coke and Zaporizhia Coke, and the replacement of the pelletising machine gas-cleaning units at Northern GOK and Central GOK.

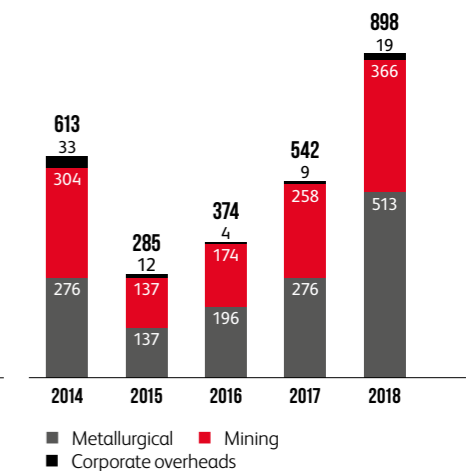
CAPEX by purpose (US\$M)



CAPEX by asset (US\$M)



CAPEX by segment (US\$M)



TOTAL CAPEX IN 2018

US\$898M

CAPEX GROWTH YEAR-ON-YEAR

66%

SHARE OF EXPANSION CAPEX IN 2018

32%