WITHSTANDING MARKET TURBULENCE

Despite a significant steel market downturn in the second half of 2019, Metinvest delivered financial results that highlighted the strength of its vertically integrated business model. EBITDA shifted from the Metallurgical to the Mining segment, while the Group took steps to preserve profitability and ensure liquidity.

REVENUES

In 2019, consolidated revenues decreased by 9% year-on-year to US$10,757 million, primarily due to a drop in steel prices in line with global benchmarks, as well as lower resales volumes.

This was partly compensated by greater sales volumes of in-house steel products following the change in the product mix, mainly due to the launch of continuous casting machine (CCM) no. 4 at Ilyich Steel, which allowed the plant to use greater volumes of hot metal for steelmaking and downstream production instead of pig iron. In addition, the Group boosted its iron ore sales due to higher volumes and increased selling prices amid global supply disruptions.

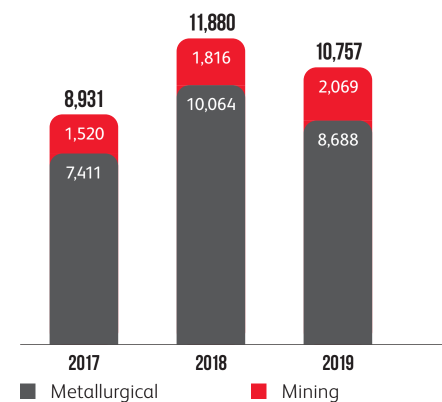
Alongside sales of own products, the Group resells pig iron, steel products and other goods produced by joint ventures and other third parties via its global sales network. Overall, revenues from resales totalled US$3,234 million in 2019, down 20% year-on-year.

During the reporting period, Metinvest sold 14,415 thousand tonnes of pig iron and steel products, of which 8,823 thousand tonnes were manufactured in-house and 5,592 thousand tonnes were purchased from third parties. This compares with a total of 15,008 thousand tonnes of pig iron and steel products in 2018, of which 8,807 thousand tonnes were made in-house and 6,201 thousand tonnes came from third parties.

During the reporting period, the structure of revenues reflected changing market conditions in the metals and raw materials markets.

Revenues by segment

US$10,757M
-9%



In 2019, the Metallurgical segment's revenues decreased by 14% year-on-year to US$8,688 million and accounted for 81% of external sales (compared to 85% in 2018).

Over the same period, the Mining segment's revenues increased by 14% year-on-year to US$2,069 million and accounted for 19% of external sales (15% in 2018).

REVENUES BY MARKET

Sales in Ukraine fell by 6% year-on-year to US$3,156 million in 2019, mainly due to lower steel prices and a 6% drop in coke sales volumes. Meanwhile, volumes of metal and iron ore product sales rose by 6% and 12% year-on-year, respectively. At the same time, the share of Ukraine in consolidated revenues rose by 1 percentage point year-on-year to 29%.

Sales to other markets declined by 11% year-on-year to US$7,601 million in 2019, accounting for 71% of total revenues.

During the year, sales to Europe decreased by 10% year-on-year, primarily amid lower selling prices of steel products, as well as lower sales volumes of pellets (down 32%) and flat products (down 5%). At the same time, the region's share in overall revenues remained unchanged year-on-year at 34%.

Revenues in the Middle East and North Africa (MENA) dropped by 25% year-on-year amid lower sales volumes of flat products (down 10%) and square billets (down 13%), as well as decreased selling prices for them. This caused the region's share in consolidated revenues to fall by 3 percentage points year-on-year to 15%.

In Southeast Asia, sales surged by 34% year-on-year, mainly due to greater sales volumes of iron ore products (up 2.6x), slabs (up 4.0x) and pig iron (up 3.4x), boosting that market's share in total revenues by 3 percentage points year-on-year to 9%.

Revenues in the CIS rose by 9% year-on-year, primarily following a 20% increase in flat product sales volumes. As a result, the region's share in consolidated revenues increased by 2 percentage points year-on-year to 8%.

Sales to North America dropped by 39% year-on-year, mainly due to lower pig iron sales, decreasing the region's share in overall revenues by 2 percentage points year-on-year to 4%.

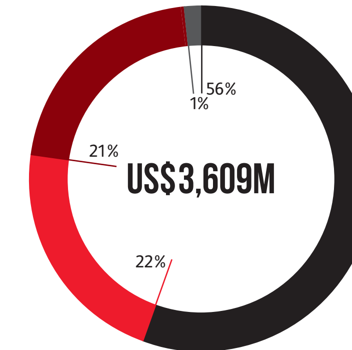
Revenues from other regions fell by 23% year-on-year, while their share in total revenues remained flat year-on-year at 1%.

>> CONTINUED ON PAGE 34

REVENUES BY MARKET

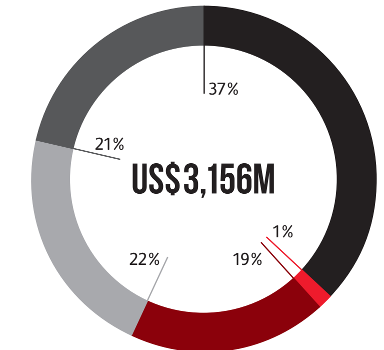
Europe

34%



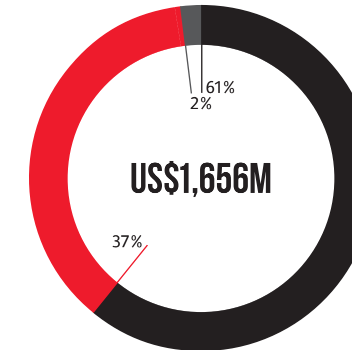
Ukraine

29%



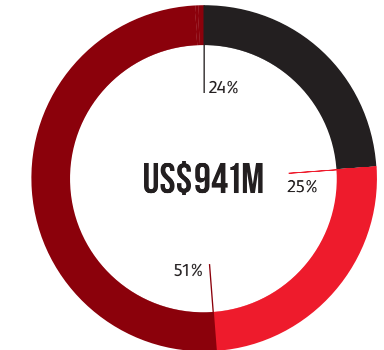
MENA

15%



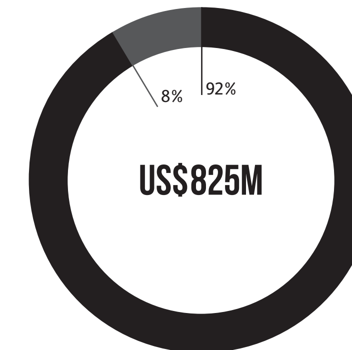
Southeast Asia

9%



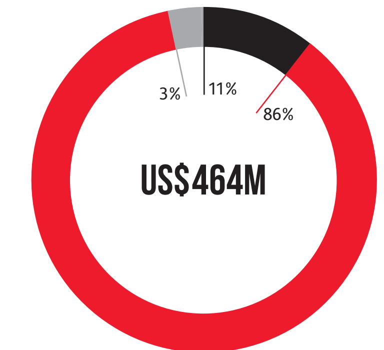
CIS

8%



North America

4%



- Finished products
- Semi-finished products
- Iron ore products
- Coke and coal products
- Other products and services

The share of each regional market in the Group's consolidated revenues in 2019 is expressed as a percentage. Sales to all other regions totalled US$106 million, or 1% of total revenues in 2019.

FINANCIAL RESULTS CONTINUED

REVENUES BY PRODUCT

METALLURGICAL SEGMENT

PIG IRON

In 2019, sales of pig iron decreased by 32% year-on-year to US$725 million, driven by a drop in both sales volumes and selling prices. Volumes fell by 24% year-on-year to 2,074 thousand tonnes due to lower in-house volumes (down 424 thousand tonnes) amid less production, as well as lower resales (down 219 thousand tonnes). The share of resales in total volumes reached 40% in 2019, up 2 percentage points year-on-year. Shipments to all key markets for this product decreased, the greatest decline being in North America (down 532 thousand tonnes). At the same time, the Group sold 154 thousand tonnes to Southeast Asia, mainly due to greater demand in the fourth quarter of 2019.

SLABS

In 2019, sales of slabs climbed by 20% year-on-year to US$869 million, as a result of greater sales volumes, which rose by 47% year-on-year to 1,941 thousand tonnes amid greater production and destocking. Incremental volumes were primarily sold to Europe, Southeast Asia and MENA, where they rose by 329, 211 and 51 thousand tonnes, respectively. At the same time, the average selling price followed the slab FOB Black Sea benchmark, which fell by 18% year-on-year.

SQUARE BILLETS

In 2019, sales of square billets decreased by 27% year-on-year to US$514 million, of which 16 percentage points was attributable to lower resales volumes and 11 percentage points to lower selling prices. Resales declined by 219 thousand tonnes year-on-year to 1,136 thousand tonnes. MENA accounted for 79% of shipments (76% in 2018). The average selling price followed the dynamics of the square billet FOB Black Sea benchmark, which fell by 16% year-on-year.

FLAT PRODUCTS

In 2019, sales of flat products fell by 14% year-on-year to US$4,436 million, primarily due to lower selling prices, which were in line with the 16% year-on-year drop in the hot-rolled coil FOB Black Sea benchmark. In addition, volumes went down by 4% year-on-year to 7,673 thousand tonnes, mainly due to lower resales, which dropped by 235 thousand tonnes and accounted for 39% of total volumes (40% in 2018). In addition, sales of in-house flat products decreased by 73 thousand tonnes following lower production, which was partly compensated by destocking. Consequently, shipments to all markets fell, except for the CIS, where they rose by 175 thousand tonnes, as a result of strong demand.

LONG PRODUCTS

In 2019, sales of long products decreased by 14% year-on-year to US$834 million, mainly as a result of lower selling prices, which were in line with the 16% year-on-year drop in the billet FOB Black Sea benchmark. In addition, sales volumes fell by 4% year-on-year to 1,427 thousand tonnes, amid lower in-house volumes (down 131 thousand tonnes) following lower output, which was partly compensated by greater resales (up 65 thousand tonnes). Shipments to all regions decreased except for Ukraine, where they rose by 49 thousand tonnes amid greater demand from the construction sector.

TUBULAR PRODUCTS

In 2019, sales of tubular products rose by 3% year-on-year to US$95 million, driven by a 15% increase in shipments to 163 thousand tonnes amid more sales in Ukraine and Eastern Europe. This was partly offset by a lower average selling price.

COKE

In 2019, sales of coke decreased by 10% year-on-year to US$569 million. This was primarily driven by a 6% decline in volumes to 1,882 thousand tonnes, mainly amid lower production. In addition, the average selling price fell by 4% year-on-year.

MINING SEGMENT

IRON ORE CONCENTRATE

In 2019, sales of iron ore concentrate increased by 52% year-on-year to US$919 million, of which 34 percentage points was attributable to greater volumes and 19 percentage points to a higher average selling price. Volumes rose by 2,709 thousand tonnes year-on-year to 10,697 thousand tonnes, driven by higher output. Incremental volumes were primarily sold to Ukrainian customers and shipped to Southeast Asia, where they rose by 605 and 2,243 thousand tonnes, respectively. At the same time, sales to Europe fell by 124 thousand tonnes amid lower demand. The average selling price followed the 62% Fe iron ore fines CFR China benchmark, which climbed by 35% year-on-year.

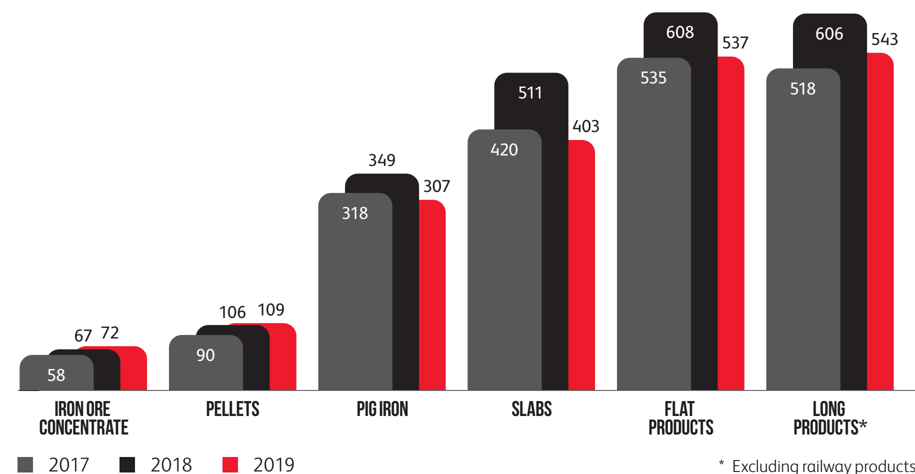
PELLETS

In 2019, sales of pellets rose by 1% year-on-year to US$911 million, driven by a 6% year-on-year increase in the average selling price. While average selling prices in Ukraine and Europe rose by 11% and 21%, respectively, following the 62% Fe iron ore fines CFR China benchmark, the average selling price in Southeast Asia fell by 14%, mainly due to a 51% reduction in the 65% Fe blast furnace pellet premium on a CFR China basis. At the same time, volumes fell by 5% year-on-year to 7,050 thousand tonnes amid lower output. Weak demand in Europe decreased shipments to the region by 1,251 thousand tonnes. Consequently, volumes were redirected to Southeast Asia, where they grew by 771 thousand tonnes. At the same time, sales to Ukraine climbed by 84 thousand tonnes.

COKING COAL CONCENTRATE

In 2019, sales of coking coal concentrate rose by 75% year-on-year to US$147 million, following a comparable increase in volumes to 752 thousand tonnes due to greater output. Additional volumes were sold to Ukraine, North America and a new customer in Brazil.

Price trends, FCA basis (US$/t)



* Excluding railway products

NET OPERATING COSTS

In 2019, Metinvest began presenting items previously presented under "cost of sales", "distribution costs", "general and administrative expenses" and "other operating income and expenses", under net operating costs, excluding impairment of property, plant and equipment and impairment of financial assets, which are shown separately. Net operating costs consist primarily of the cost of raw materials; goods and services for resale; energy materials; payroll and related expenses for employees; depreciation and amortisation; repair and maintenance expenses; transportation services; taxes; and other costs. In the factor analysis below, all costs are presented net of an impact of the effect of exchange rate fluctuations between the hryvnia and the presentation currency, which is presented as a separate factor.

In 2019, net operating costs remained almost unchanged year-on-year at US$10,270 million. The following factors had negative impacts on costs during the reporting period:

– greater spending on raw materials (US$313 million), including (i) purchased scrap, coke, refractory and iron ore materials, mainly due to a 3% year-on-year steel output growth; (ii) inventory destocking; and (iii) increased purchases of third-party coils for further processing at Unisteel, as well as Ilyich Steel's cold-rolling mill after its hot strip mill 1700, which produces hot-rolled coil, was stopped for a revamp in August-November 2019;
– higher labour costs (US$190 million), resulting from increased salaries for production personnel (25% in April 2018, 10% in October 2018 and 15% in April 2019) and corresponding social security expenses;
– the negative effect of the hryvnia's appreciation against the US dollar on costs of US$171 million;
– greater depreciation and amortisation (US$120 million) amid an intensified investment programme;
– higher spending on goods transportation expenses (US$101 million), due to (i) an increase in railway costs of US$62 million, which in turn was driven by higher railcar usage fees and a 14% rail tariff hike by the Ukrainian state railway operator starting from April 2019 amid increased shipments of iron ore products and slabs; and (ii) a rise of US$36 million in freight costs primarily following a 2.6x increase in iron ore sales volumes to Southeast Asia; and
– higher repair and maintenance expenses (US$36 million).

These factors were primarily compensated by:

– lower cost of goods and services for resale (US$728 million) amid lower prices and volumes;
– operating foreign exchange gains of US$57 million (compared with losses of US$70 million a year earlier), which arose mainly from the revaluation of outstanding accounts payable balances and intragroup dividend receivable; and
– lower expenses for energy materials (US$100 million), mainly due to reduced prices for natural gas (down 29% year-on-year) and PCI coal (down 10% year-on-year), as well as lower natural gas consumption (down 3% year-on-year).

As a percentage of consolidated revenues, net operating costs grew by 9 percentage points year-on-year to 95% in 2019.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2019, impairment of property, plant and equipment rose to US$84 million, compared with US$5 million in 2018, primarily due to an impairment of certain fixed assets of steelmakers and iron ore producers.

As a share of consolidated revenues, impairment of property, plant and equipment rose to 1% in 2019 from 0% a year earlier.

IMPAIRMENT OF FINANCIAL ASSETS

In 2019, impairment of financial assets, namely trade and other financial receivables, increased by 7% year-on-year to US$78 million, mainly due to changes in expected credit loss provision.

As a share of consolidated revenues, impairment of financial assets remained flat year-on-year at 1% in 2019.

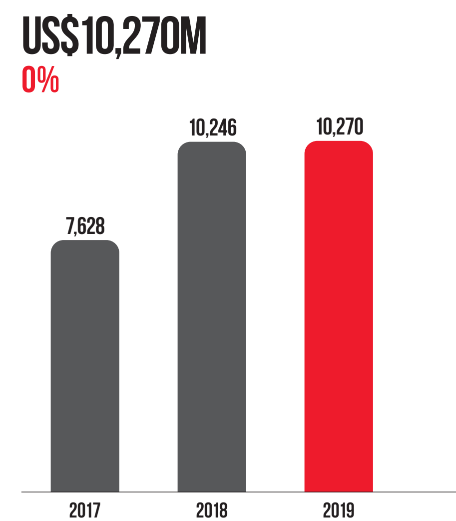
OPERATING PROFIT

In 2019, operating profit fell by 79% year-on-year to 3% in 2019...

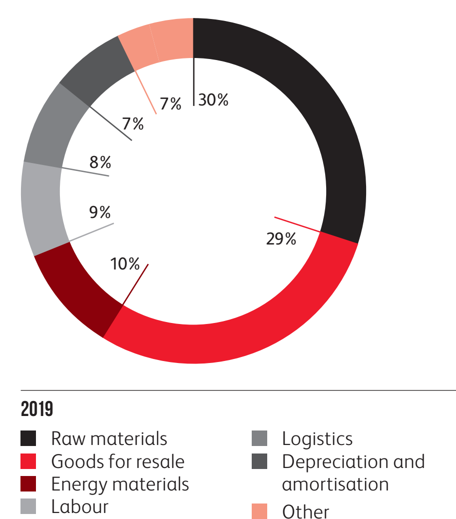
>> CONTINUED ON PAGE 37

Net operating costs

US$10,270M
0%



Net operating costs by nature



OPERATIONAL EFFICIENCY IN FOCUS

IMPROVING OPERATIONAL EFFICIENCY

In 2019, Metinvest made further progress in continuous operational improvements, sharpening its focus across the business and tripling the gains made in the previous year.

A CULTURAL SHIFT
In 2019, Metinvest made important progress on growing the effect of operational efficiency to make it more resilient and ensure its long-term competitiveness as a business. Accelerating the pace of this work has become an important element for the Group in achieving its strategic goals.

The process involves optimising operating costs, through both investments in technology, which can deliver long-term productivity gains, and changes to processes within the organisation. It also involves evolving existing work practices. This cannot be a simple top-down approach. Identifying opportunities to achieve operational gains requires a cultural shift in which employees at every level are focused on searching for potential improvements.

Workers on the shop floor often have vital insight into how to transform a production process. Therefore, Metinvest has begun changing the working culture to reward employees for innovation, as well as to encourage them to make suggestions and raise questions regarding health and safety, working life and other important matters. This also increases employee engagement.

Effect of operational improvements in 2019

US$63M

DELIVERING RESULTS
This continued organisation-wide focus on operational efficiency allowed Metinvest to achieve US$63 million of savings, compared with US$21 million in 2018. At the same time, the management believes the Group is only at the beginning of this process and that there are considerable further efficiencies to be extracted from the business.

In the Metallurgical segment, Metinvest enhanced the efficiency of Ilyich Steel's sintering machines by 13% year-on-year to 1.6 thousand tonnes of sinter per square metre per hour. The rearrangement of operating blast furnaces at Azovstal contributed to a 12% increase in the Group's average daily hot metal productivity to around 2.2 thousand tonnes per cubic metre by the end of 2019, compared with the 2018 average figure and helped to lower blast furnace fuel consumption by 5%.

In the Mining segment, a major project was to reduce the iron content of new tailings at all three iron ore producers, which helped to increase concentrate output. In addition, the continuing refurbishment of the Lurgi 278-A and OK-306 roasting machines led to a 5% betterment in productivity at Northern GOK.

A positive effect was achieved through the transformation of the sales function, including the launch of the SAP Customer Relationship Management system providing a global platform for Metinvest's global salesforce and enhanced customer experience.

Importantly, the Group improved efficiencies by continuing to centralise and rationalise administrative functions, as well as implementing related IT functions through SAP to unify business processes and specific initiatives within departments.

FUTURE PLANNING
The operational improvement programme will remain among the key priorities for management in the coming years. The Group's management recognises that a relentless focus on efficiency is required if it is to bring a prodigious asset base to levels of efficiency matching leading global standards of productivity and environmental impact.

Metinvest's management has also been pleased to receive a large number of proposals from employees to deliver further improvements. This is a dialogue, and the Group is motivating its workers to seek out high-quality ideas that can translate into a real financial effect on the business, a part of which will be awarded to the employee involved.

EBITDA
In 2019, the Group's EBITDA[1] fell by 52% year-on-year to US$1,213 million, primarily due to the Metallurgical segment's EBITDA dropping to negative US$107 million, compared with a positive US$1,291 million a year earlier. At the same time, the Mining segment's EBITDA increased by US$75 million to US$1,343 million, while corporate overheads and eliminations decreased by US$23 million to US$23 million. As a result, all EBITDA (before adjusting for corporate overheads and eliminations) was generated by the Mining segment, compared with the 50% to 50% split between the segments in 2018.

The decrease in the Group's EBITDA was primarily driven by two factors. First, lower average steel prices affected sales of in-house pig iron and steel products, as well as earnings from resales and the contribution from the Metallurgical JV. Second, there was cost pressure stemming mainly from the negative effect of the hryvnia's appreciation against the US dollar, as well as higher spending on raw materials, personnel and goods transportation services.

These factors were partly compensated by higher average iron ore selling prices, which also improved the contribution from the Mining JV; greater sales volumes of iron ore and steel products manufactured at Metinvest's facilities; and lower spending on energy materials.

In 2019, the consolidated EBITDA margin dropped by 10 percentage points year-on-year to 11%. The Metallurgical segment's EBITDA margin fell by 14 percentage points to negative 1%, while the Mining segment's EBITDA margin edged down by 1 percentage point to 40%[2].

FINANCE INCOME
In 2019, finance income increased to US$253 million, compared with US$68 million a year earlier, following a rise in net foreign exchange gain from financing activities of US$173 million, which mainly originated from intragroup dividend payable balances.

As a percentage of consolidated revenues, finance income reached 2% in 2019, up 1 percentage point year-on-year.

FINANCE COSTS
In 2019, finance costs fell by 17% year-on-year to US$276 million. This was mainly due to lower expenses relating to refinancing transactions, which decreased by US$34 million. In addition, interest expenses went down by US$23 million following a drop in the amount outstanding under the pre-export finance (PXF) facility and the repayment of shareholder loans.

As a percentage of consolidated revenues, finance costs remained flat year-on-year at 3% in 2019.

SHARE OF RESULT OF ASSOCIATES AND JOINT VENTURE
In 2019, the share of net income from associates and joint ventures fell by 50% year-on-year to US$86 million, mainly as a result of a negative contribution from the Metallurgical JV of US$63 million amid losses incurred during the reporting period, compared with a positive contribution of US$100 million a year earlier. This was partly compensated by higher contributions from the Mining JV (US$45 million) and other associates (US$31 million).

INCOME TAX EXPENSE
In 2019, the income tax expense decreased by 83% year-on-year to US$47 million. First, current tax expense dropped by US$118 million, mainly due to the deterioration of the Metallurgical segment's profitability. In addition, income from changes in deferred taxes rose by US$110 million due to the recognition of deferred tax asset arisen on tax losses carried forward resulting from loss-making activities of steelmakers. The effective tax rate, calculated as total income tax divided by profit before tax, was 12% in 2019, a reduction of 7 percentage points year-on-year.

NET PROFIT
In 2019, net profit amounted to US$341 million, down 70% year-on-year, primarily due to lower revenues. In addition, it was driven by a smaller contribution from associates and joint ventures, higher impairment of property, plant and equipment and greater net operating costs. These factors were partly compensated by a decrease in income tax expense, an increase in finance income and a reduction in finance costs. The net profit margin amounted to 3% in 2019, down 7 percentage points year-on-year.

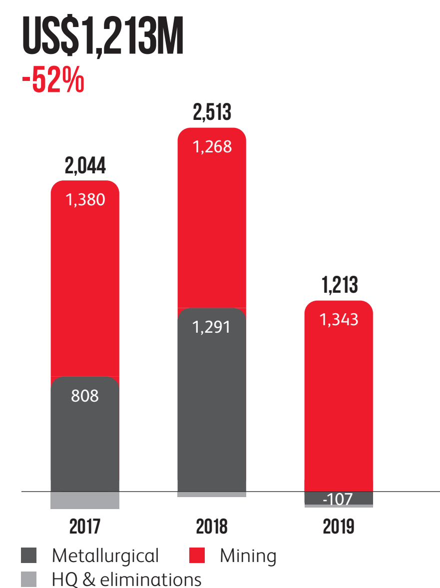
>> CONTINUED ON PAGE 38

1 EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign-exchange gains and losses, the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures.

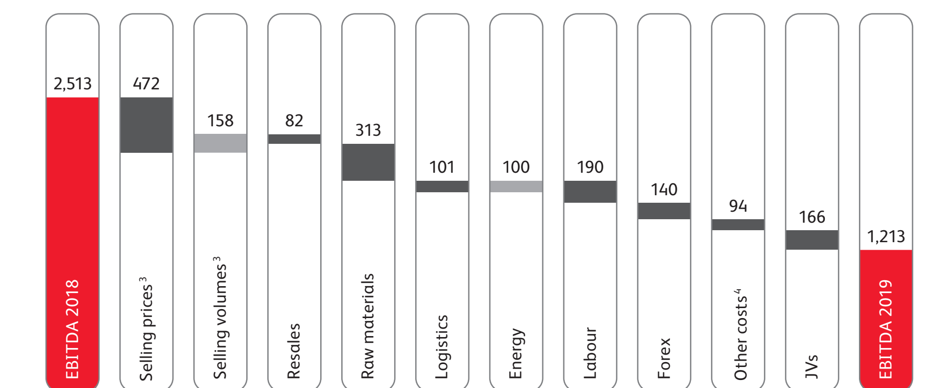
2 The management has changed the presentation of sales of coal produced by third parties, excluding them from intersegment mining sales to allow a better understanding of segment results and improve their comparability. This reduced the Mining segment's sales to other segments in 2018 by US$628 million to US$1,303 million.

EBITDA by segment

US$1,213M
-52%



EBITDA drivers (US$M)



3 Net of resales.
4 Other costs include fixed costs (excluding labour costs) and other expenses; net of resales.

FINANCIAL RESULTS CONTINUED

LIQUIDITY AND CAPITAL RESOURCES

NET CASH FROM OPERATING ACTIVITIES

In 2019, net cash flow from operating activities fell by 26% year-on-year to US$814 million, due to a 50% drop in operating cash flows before working capital changes. This was partly compensated by a working capital release of US$163 million during the reporting period (compared with working capital additions of US$500 million a year earlier) due to:

- a drop in inventory of US$340 million (mainly slabs, flat products and scrap, as well as lower cost of coal);
- a rise in trade and other accounts payable of US$151 million; and
- an increase in trade and other accounts receivable of US$328 million (primarily from iron ore customers).

At the same time, income tax paid fell by US$75 million year-on-year to US$240 million amid lower profitability, while interest paid decreased by US$78 million year-on-year to US$210 million following the repayment of non-bank borrowings in 2018.

NET CASH USED IN INVESTING ACTIVITIES

In 2019, net cash used in investing activities totalled US$943 million (US$430 million in 2018). Total cash used to purchase property, plant and equipment and intangible assets climbed by 16% year-on-year to US$895 million, as the Group continued to implement its Technological Strategy 2030.

In addition, US$146 million was spent on loans issued (US$46 million in 2018), US$45 million on other payments (US$20 million in 2018) and US$1 million on acquisitions of associates (US$30 million on the acquisition of the 23.71% stake in Southern Coke a year earlier). At the same time, the Group received US$124 million of dividends from the Mining JV (US$418 million in 2018), US$17 million of interest on loans issued and deposits (US$18 million in 2018) and US$3 million of proceeds from the sale of property, plant and equipment (nil in 2018).

NET CASH USED IN FINANCING ACTIVITIES

In 2019, net cash generated from financing activities totalled US$123 million. During the reporting period, the Group raised US$871 million of gross new proceeds from loans and borrowings (US$824 million from dual-currency eurobond offering completed in October 2019 and US$46 million from equipment financing) and US$37 million of net proceeds from trade finance facilities. At the same time, US$586 million was used to repay loans and borrowings (US$440 million to tender eurobonds due in 2023, US$123 million to repay the PXF facility and US$23 million to repay equipment financing), US$100 million to pay dividends, US$55 million to fully settle the remaining balance for the acquisition of 24.77% stake in Pokrovske coal business, US$33 million to pay loans commission (including a premium paid to bondholders for tendering bonds due in 2023) and US$11 million on other purposes.

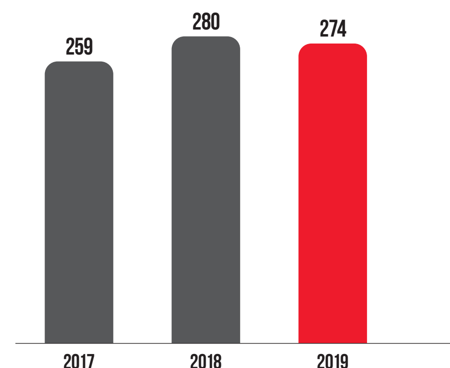
This compares with US$643 million used in financing activities a year earlier. While the Group raised US$1,460 million of gross new proceeds from loans and borrowings in 2018 (mainly from the refinancing, several minor bank term loans and finance leases) and US$79 million of net proceeds from trade finance facilities, it used US$1,975 million to reduce its liabilities, both voluntarily and as per the agreed schedules under several debt instruments (such as bonds, bank and non-bank loans and borrowings, seller notes, deferred consideration and finance leases). In addition, US$79 million was used to pay loan commissions (primarily due to a premium paid to bondholders for tendering bonds due in 2021 and other expenses related to refinancing), US$58 million to pay dividends, US$50 million to finance an acquisition of non-controlling interest in subsidiaries and US$20 million on other needs.

As a result of the above-mentioned factors, at the end of 2019, total debt[5] equalled US$3,032 million, up 11% year-on-year. As of 31 December 2019, the cash balance was US$274 million (down 2% year-on-year), while net debt[6] amounted to US$2,758 million (up 12% year-on-year).

5 Total debt is calculated as the sum of bank loans, bonds, trade finance, lease liabilities and deferred consideration.
6 Net debt is calculated as total debt less cash and cash equivalents.

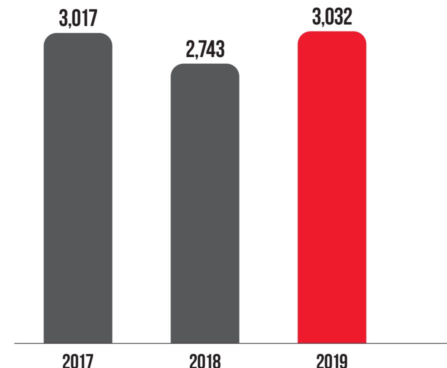
Year-end cash balance

US$274M
-2%



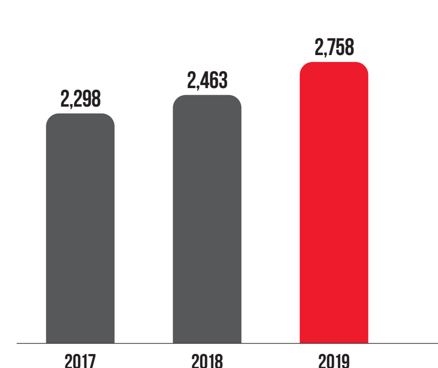
Year-end total debt

US$3,032M
+11%



Year-end net debt

US$2,758M
+12%



FINANCING IN FOCUS

EXTENDING DEBT MATURITY

In 2019, Metinvest successfully completed a bond issue that smoothed and extended its debt maturity, reducing refinancing risks and strengthening its overall stability.

PROACTIVE MANAGEMENT

Since its founding in 2006, the Group has built credibility in international financial markets and maintains strong relationships with bond investors, banks and other lenders. Metinvest has relied on market instruments to work with creditors during the most challenging times to find equitable solutions. Such an approach allowed the Group to proactively optimise its debt profile in 2019.

During the year, the Group successfully completed the debut dual-currency offering, consisting of tranches denominated in US dollars and euros, which helped to effectively extend the maturity of US$440 million of eurobonds due in 2023 by 6.5 years. At the same time, the net proceeds from the deal amounted to roughly US$350 million.

The Group conducted two simultaneous and interdependent transactions. It made a tender offer to holders of eurobonds due 2023, of which US$944,515,000 was outstanding, to make the cash purchase of up to US$440 million of the paper. At the same time, the Group carried out a new, dual-currency eurobond offering, including a US$500 million tranche with a coupon of 7.75% per annum due in October 2029 and a EUR300 million tranche with a coupon of 5.625% per annum due in June 2025.

Despite challenging market conditions, Metinvest was able to arrange 10-year, US dollar financing, previously only available to the Ukrainian sovereign borrower, with the lowest US dollar-denominated yield in the history of the Group.

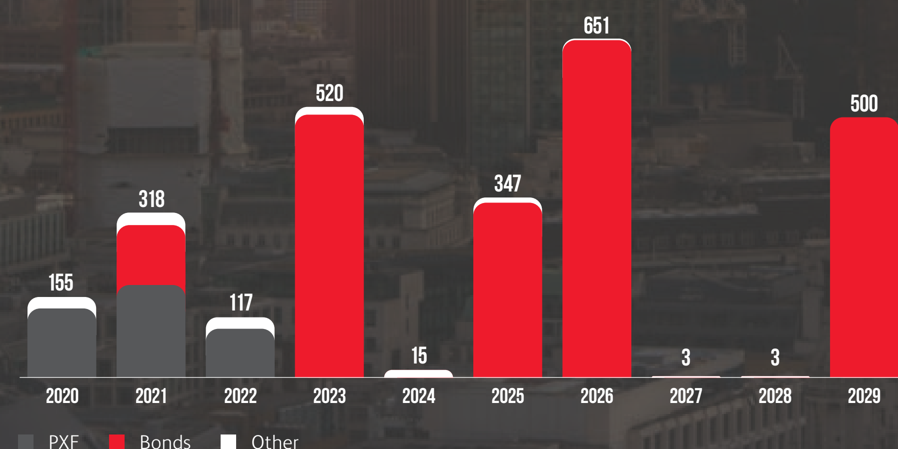
At the same time, the euro-denominated tranche helped Metinvest diversify the currency mix of its debt portfolio and expand the size and quality of the investor base. At the time of issuance, it was the lowest yield achieved by any Ukrainian issuer. In addition, the new euro-denominated funding has provided an important source of financing flexibility during the steel price downcycle. As a result, the Group has been able to pay, ahead of schedule, US$75 million of its PXF facility, leaving a remainder of US$406 million due under the facility as of the end of 2019.

As a consequence of these two major transactions, as well as other deals during the year, at the end of 2019, the Group's debt portfolio structure changed year-on-year. In terms of instruments, the share of bonds reached 69% while the one of PXF dropped to 14%, compared with 62% and 20%, respectively, a year earlier. In terms of currency, US dollar and euro-denominated debt accounted for 92% and 7% of total debt, respectively, and are naturally hedged by the Group's revenues in hard currencies, compared with the corresponding figures of 94% and 4% in 2018.

CREDIT RATINGS

2019 saw improvements in Metinvest's ratings. In September, Fitch and S&P both upgraded Metinvest's credit ratings to 'BB-' and 'B', respectively, with a 'stable' outlook. After the upgrade, Fitch's rating was two notches above Ukraine's sovereign level and S&P's was in line with it. In November, Moody's changed its outlook on Metinvest's corporate family rating to 'positive', affirming its 'B3' rating, which is capped by Ukraine's long-term foreign currency bond ceiling.

Corporate debt maturity as of 31 December 2019 (US$M)[1]



1 Excluding trade finance and lease liability under IFRS 16.

Credit ratings as of 31 December 2019

Fitch
BB- STABLE

S&P
B STABLE

Moody's
B3 POSITIVE

CAPEX IN FOCUS

MODERNISING FACILITIES AND PROTECTING THE ENVIRONMENT

Guided by the Technological Strategy 2030, Metinvest fulfilled its capital expenditure plans in 2019. Among other achievements, the Group expanded production capacity, increased the range of value-added products, reduced costs and improved its environmental footprint.

DELIVERING ON STRATEGY

Metinvest's capital expenditure follows the blueprint of the Group's Technological Strategy 2030, adopted in 2017, with three critical 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 increase iron ore product quality while keeping costs low.

The Group's capital investments have grown steadily since 2017. In 2019, Metinvest fulfilled its investment plan for the year with CAPEX of US$1,055 million, up 17% year-on-year. Investments were almost evenly split between the Mining and Metallurgical segments at 48% and 49%, respectively, compared with 41% and 57% a year earlier. Total investment was the highest since 2011.

Importantly, US$717 million or 68% of CAPEX was spent on maintenance work at steelmakers, re-rollers, iron ore producers, coke plants and coal mines. This represented a 17% year-on-year increase. Strategic projects accounted for 32% of investments, or US$338 million, up 18% year-on-year. Last year saw important progress on several projects, including the launch of new facilities with an immediate positive impact on the Group's output volumes, product portfolio, production costs and environmental footprint.

STRENGTHENED INVESTMENT PROCESS

Compared with the US$285 million invested in 2015, CAPEX in 2019 was nearly quadruple that amount. As a consequence, there are multiple external contractors involved in the implementation of different projects, and their number has grown from around 1,000 four years ago to around 3,000 last year. This means it is more critical than ever to effectively coordinate the work of each contractor to ensure projects stay on time and on budget. Such an approach became possible thanks to the improvements in the internal investment process and project management over the recent years with the aim of cutting costs and reducing timelines to ensure the maximum efficiency of investment spending.

First, Metinvest updated the project management methodology. It developed a policy governing capital investments, updated the investment department's procedures, formalised the decision-making matrix for managing strategic projects in the Group, established a science and technology council as the technical expertise centre to approve technological solutions and revised the approach to compensating project managers.

Second, it updated the project justification methodology. It introduced the practice of feasibility assessments for maintenance projects, KPIs for all projects and a continuity evaluation for the Technological Strategy 2030, as well as developing a methodology to rank and assess risks during the project approval phase.

Finally, the management-level Investment Committee was relaunched. Its focus has intensified on the impact of projects on the Group's value and strategy, while the review of technological solutions has been transferred to the science and technology council.

KEY PROJECT DETAILS

In the Metallurgical segment, the overhaul of blast furnace no. 3 at Azovstal, at a cost of around US$150 million, was completed simultaneously with the installation of the pulverised coal injection (PCI) unit in June. The combined project increases the blast furnace's annual hot metal output capacity to over 1.3 million tonnes, decreases production costs by eliminating the need for natural gas and utilising coke more efficiently, as well as reduces the environmental footprint. Now all of the Group's operating blast furnaces are equipped with PCI technology.

The new continuous casting machine (CCM) no.4 at Ilyich Steel, which was completed for around US$140 million at the end of 2018, effectively increased the Group's total annual steel production capacity by 14% to 9.6 million tonnes. Importantly, the CCM has allowed Ilyich Steel to produce higher-quality slabs designed to be primarily re-rolled at its upgraded hot strip mill (HSM) 1700. The mill was shut down for a scheduled major overhaul from 27 August to 5 November 2019. The project's cost was around US$110 million. The first coils were produced in November 2019. Equipment testing and the mastering of the new product mix are expected to be completed in the middle of 2020.

The reconstruction of the HSM 1700 is expected to increase its capacity to 2.5 million tonnes of hot-rolled coils per year and enhanced the Group's sales portfolio of higher value-added products thanks to improved coil quality with the reduction of the minimum thickness to 1.2 millimetres, increasing weight capacity to 27 tonnes, and permitting widths of 900 to 1,600 millimetres. The new product meets the highest global standards for durability. As a result of these two projects, Metinvest started continuous casting and eliminated the ingot stage at Ilyich Steel, completing the transition from open-hearth to modern production technology which began in 2014.

In the Mining segment, CAPEX has focused on improving pellet quality, including the reconstruction of beneficiation and pelletising facilities. At Central GOK, the upgrade of the beneficiation plant at a cost of around US$20 million is designed to enable the production of premium concentrate with 70.5% Fe content, which will permit making pellets with 67.5% Fe content, increased strength and a more homogeneous size that is used in DRI technology. This project has required the installation of new fine screening and a de-watering area, and the update of one of the sections of the plant, completed in April 2020. At Northern GOK, the first phase of the revamp of Lurgi 278-A roasting machine, at a cost of US$6 million, was completed. This modernisation will result in an increase in the output of pellets with diameter from 10 to 14 millimetres, up to 75% of the total volume.

Other continuing projects at iron ore assets include the construction of crusher and conveyor systems, which are designed to reduce the cost and enhance the efficiency and safety of transporting ore from mining to production facilities, as well as maintain output volumes. Such systems at the Eastern conveyor line of Ingulets GOK and the Pervomaisky quarry of Northern GOK cost approximately US$50 million and US$220 million, respectively.

In addition, environmental investments were among the key priorities in 2019, with total spending amounting to US$155 million, up 68% year-on-year. Along with the reconstruction of the sinter plant at Ilyich Steel at a cost of US$150 million, progress has been made on multiple other environmental projects. Also at Ilyich Steel, the Group has carried out the construction of a new dedusting system at blast furnace no. 3, the replacement of a gas cleaning system at basic oxygen furnace no. 3 and the refurbishment of the sewage system. At Azovstal, the Group has carried out the reconstruction of a gas treatment system at the hot metal desulphurisation unit and continued the major overhaul of coke oven battery no. 1. At Avdiivka Coke and Zaporizhia Coke, there has been an extensive maintenance of oven chambers. Northern GOK advanced the project to replace gas cleaning units of the Lurgi 552-A roasting machine. Central GOK proceeded with the maintenance of tailings storage facilities and carried out related work on recycled water supply and slurry pipelines.

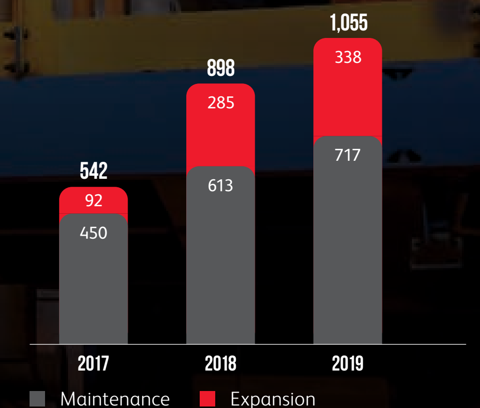
OUTLOOK FOR 2020

Against a backdrop of the heightened uncertainty facing global markets in 2020, Metinvest has set out its investment priorities in line with its long-term strategy. First, environmental CAPEX remains in place and the Group expects to complete the reconstruction of the sinter plant at Ilyich Steel. Second, it will continue to prioritise crucial maintenance, while showing flexibility as the situation requires. Third, it will focus on the completion of ongoing projects, including the modernisation of such auxiliary infrastructure at Ilyich Steel as the air separation unit to meet the steelmaker's increased requirements, as well as the upgrade of the OK-306 roasting machine at Northern GOK. Fourth, Metinvest is engaged in the detailed planning of new projects in the pipeline, such as the major overhaul of blast furnace no. 6 at Azovstal and the reconstruction of the cold-rolling mill at Ilyich Steel.

At the same time, Metinvest also plans a mid-term review of the Technological Strategy 2030 to ensure that recent changes in the market environment are taken into account.

CAPEX by purpose

US$1,055M
+17%



CAPEX by segment