ALL HANDS ON DECK

In 2019, faced with numerous global events, Metinvest mustered every available resource, including the skills and experience of its team, the dedication of its partners, as well as the continued backing of international creditors and the broader stakeholder community. With their support, the Group was able to continue investing and managing its debt while also achieving steep reductions in the number of safety incidents and remaining on-track in terms of its environmental and other sustainability commitments.

FACING MARKET HEADWINDS

The year 2019 was a restless one for the global steel industry, as margins were under significant pressure. On one hand, supply disruptions kept the cost of the raw material basket high. On the other hand, weak economic growth in multiple regions, including Europe, and intensified trade tensions hit steel prices particularly hard in the fourth quarter of the year.

Still, Metinvest managed to deliver a resilient performance and gird itself for the uncertainties ahead thanks to its vertically integrated business model, vast iron ore resources, top-notch team and unwavering support from stakeholders.

BECOMING STRONGER TOGETHER

Metinvest strives to build a better, more sustainable future for both its business and its stakeholders, taking a long-term approach to creating stronger ties. This requires the dedication of all parties, which from our side can be seen in many of projects and programmes that we undertook in 2019.

We continued to invest in training and education to build a brighter future for our employees and their families. We also contributed additional resources to our local communities, including social infrastructure, health and sporting facilities and other public amenities. Once again, we have cooperated with authorities around the world to address their competition concerns and facilitate free trade.

Consistent with our core commitment to customer focus, we launched a new customer relationship management system to improve our value proposition. To foster long-term partnerships with our contractors and suppliers who provide equipment and services, we negotiated lengthier contract terms so that they can better plan operations and labour resources in advance. We also worked with our debt providers to ensure that we retain the financial flexibility that the current environment demands.

We understand that we have only reached where we are today thanks to the support of our stakeholders and that we must continue to work together toward the greater good if we want to thrive in difficult times.

DELIVERING ON SUSTAINABILITY

Throughout the year, we had a primary and overarching goal of honouring our sustainability commitments despite the external pressures on the business.

Due to the unsatisfactory safety performance in previous years, and with the ultimate aim of reaching our uncompromising target of zero injuries, we revised our health and safety management system in 2019 to better protect our employees and contractors. Several of our latest initiatives have shown promising initial results, not least of which is a reduction in lost-time injuries throughout the business to the lowest rate in Metinvest's history.

We also invested the largest amount in environmental CAPEX in nearly a decade. Through our actions, we are making it clear that we will not sacrifice our sustainability agenda to the business cycle.

MANOEUVRING WITH UTMOST CARE

We were able to achieve respectable operational results for the year in relation to steel, iron ore and coking coal. Overall, crude steel production rose by 3% and the share of steel products in the metal mix reached 86%, up 5 percentage points year-on-year, while iron ore concentrate production rose by 6% and coking coal output climbed by 10%. At the same time, there is no question that the global steel downturn in the fourth quarter hit our steel output, product mix, as well as overall financial performance.

Several factors in Ukraine also had a significant impact on the Group. The country witnessed smooth presidential and parliamentary elections in 2019, signalling the strength of its democratic institutions. However, real GDP growth of 3.2% year-on-year did not flow through to apparent steel demand, which dropped by 4.0% year-on-year as the double elections constrained investment activity until both races were over. Besides, the Ukrainian currency experienced an unprecedented appreciation against the US dollar, strengthening by 18% year-on-year in December 2019, which elevated our hryvnia-denominated costs and affected our global cost competitiveness.

Despite certain restrictions imposed on metallurgical coal shipments to Ukraine in June 2019, we managed to ensure uninterrupted hot metal output. The Group proved well prepared for such a scenario, as we had put in place sufficient coal stocks, diversified seaborne supplies of this key raw material and acquired a stake in Ukraine's largest coking coal business, securing an additional local source.

Overall, revenues declined by 9% year-on-year to US$10,757 million and EBITDA went down by 52% year-on-year to US$1,213 million. The Mining segment accounted for all of our EBITDA in 2019, reflecting higher iron ore prices, and balancing the negative results of the steelmakers. At the same time, the consolidated EBITDA margin fell to 11%, while net profit decreased to US$341 million.

SHARPENING OUR FOCUS

Importantly, we were ready to take steps in response to adverse developments to make our business more efficient and flexible while continuing to invest in our future. We had the necessary tools at our disposal to reduce costs without undermining our long-term investment projects, imperilling our Technological Strategy 2030 or abandoning our principles.

Late last year, we launched a cost-optimisation programme across the Group to build on our already strong focus on efficiency. We were able to triple our savings from operational improvements to US$63 million in 2019 and believe that our continuous drive to further improve these results in the coming years will help us to remain cost-competitive with leading global peers going forward.

Even as market conditions worsened in 2019, we held firm in our decision to accomplish the annual investment action plan mapped out by our Technological Strategy 2030. Doing so, we delivered on several multi-year projects, which immediately translated into higher-quality products that offer greater margins, while reducing operating costs and our environmental impact. At Ilyich Steel, we performed the large-scale revamp of the hot strip mill 1700. At Azovstal, we launched the overhauled blast furnace no. 3 together with pulverised coal injection facilities. At Northern GOK, we began testing the upgraded Lurgi 278-A roasting machine. We also made sure not to neglect maintenance to improve our asset base and increase the flexibility of our business amid market turbulence. Consequently, total capital expenditure reached US$1,055 million, which is the highest level since 2011.

With the support of the international investment community, we seized the opportunity to ensure our sustainable, longer-term capital structure, in line with our cautious approach to debt. In a landmark deal, we were able to secure US$350 million in new proceeds from our dual-currency bond offering, achieving a 10-year maturity for US dollar financing for the first time in the Group's history. Together with a working capital release exceeding US$160 million, this provided us with additional security during the market downturn.

OUTLOOK FOR 2020

We are currently living in unprecedented times, as the global crisis caused by the "black swan" event of the COVID-19 pandemic continues to develop in unforeseen ways. Whatever the impact on global economic growth in general and steel and iron ore prices in particular, I know that we have worked hard to prepare ourselves for what lies ahead and I believe that we will emerge stronger no matter what happens. The decisions taken in recent years have made us more resilient and have better equipped us for the industry's cyclicality.

The prompt and proactive measures that we have undertaken to prevent the mass spread of the virus among our employees and in our local communities have helped us to weather the emergency so far. Going forward, the safety of our people at all of our assets in Ukraine and internationally will continue to be our number one priority.

We remain committed to sustainability and will continue our relentless focus on health and safety measures and are confident that we have the right human capital strategy in place to attract and retain the best specialists. Recognising that the future outlook is deeply uncertain, we will continue to review all options to enhance efficiency, relieve pressure on cash flows and extend debt maturities yet further.

Most of all, I believe the year 2020 will be about expanding our stakeholder engagement and pursuing our environmental, social and governance (ESG) agenda with all our partners. After all, everything we do is made possible with the support of our stakeholders: our employees, customers, suppliers and contractors, local communities, equity and debt providers, and authorities. Working together, I believe we can overcome the common challenges facing us all and build a more vibrant world.

Yuriy Ryzhenkov
Chief Executive Officer