

## 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.

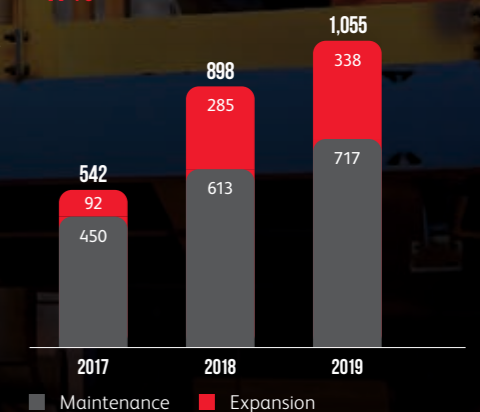
### OUTLOOK FOR 2020

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

