

FINANCIAL RESULTS CONTINUED

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.