YURIY RYZHENKOV

In 2020, Metinvest stood in solidarity with its stakeholders to help to overcome the unprecedented challenges caused by the global pandemic. Supporting them played a crucial role in the Group achieving strong operational and financial results.

A YEAR TO REMEMBER

In hindsight, 2020 was a year of highs and lows as the world transitioned from a near-total standstill to tentative recovery. In the prevailing circumstances, the Group made impressive achievements. Operationally, we achieved record efficiency gains, implemented important investment projects and enhanced our vertical integration. Financially, we achieved greater margins on our products, a sizeable increase in profit and strong cash flow generation. In addition, we made significant progress in terms of supporting our employees and communities, as well as advancing our environmental, social and governance (ESG) agenda.

CHANCE FAVOURS THE PREPARED

As COVID-19 transformed from a localised outbreak into a global pandemic of historic proportions, our top priority was to protect our employees and local communities. We moved decisively from the outset by enhancing the health protocols at our assets. We also transferred administrative staff to remote work to minimise their exposure. To coordinate efforts, we centralised decision-making in our anti-crisis headquarters, established in 2017 to respond to such situations, and created anti-crisis centres at each production asset to implement action. These and other measures helped us to limit COVID-19 infections among our staff to less than 4% of the workforce.

Amid the pandemic, we did not compromise on our ultimate goal of zero occupational incidents. We have yet to achieve this ideal, as there were five workplace fatalities. Notwithstanding these tragic accidents, our steady year-on-year progress in this area brought our key safety metrics down further. The most notable achievement in this regard was our lost-time injury frequency rate, which reached 0.520, the lowest in the Group's history.

Standing_together

After ensuring the safety of our people, the next task was to maintain uninterrupted production across our assets. While we had to implement short shutdowns at our two Italian re-rolling facilities in March and April, we had no major interruptions at other units.

The flexibility provided by our vertically integrated business model allowed us to quickly adapt our product mix and sales strategy amid the rapidly changing external conditions. We were able to shift the operational focus to match market developments. For instance, when China's economy began to improve in the second quarter of 2020, as the country was the first to start recovering from the pandemic, we allocated additional volumes of iron ore and steel there.

We ultimately delivered robust operational results. Compared with 2019, output of iron ore concentrate increased by 5%, hot metal by 7% and crude steel by 9%. The share of steel products in the Group's output of merchant pig iron and steel products reached 88%, up two percentage points year-on-year.

This also reflects the positive effect of investments in our assets in recent years, such as the new down coiler at Ilyich Steel's modernised hot strip mill and the upgrade of beneficiation facilities at Central GOK. Overall, despite the difficult external environment, we maintained capital expenditure at a decent level in 2020.

DOING MORE WITH LESS

In addition, Metinvest focused on new ways to secure further operational efficiency gains throughout the business. We improved raw material and energy consumption, optimised equipment productivity, streamlined logistics and more. These efforts yielded a total economic gain of US$376 million in 2020, a six-fold increase year-on-year.

Such initiatives helped to reduce the cost base, which in turn contributed to boosting the profitability of both the Mining and Metallurgical segments. The Group's EBITDA climbed by 82% year-on-year to US$2,204 million and the EBITDA margin by ten percentage points to 21%. This drove net profit to US$526 million, up 54% year-on-year.

Meanwhile, we maintained our prudent approach to liquidity management. We released working capital of US$242 million, supported by further-reduced inventories, while lowering capital expenditures as planned. Our free cash flow generation totalled US$916 million, which made it possible to triple our year-end cash balance to US$826 million.

MANAGING LIABILITIES CAREFULLY

We undertook several major liability management transactions during the reporting period to further improve the quality of our debt portfolio.

We extended the maturity of Metinvest's existing bonds by issuing US$333 million in a seven-year paper. This provided funding to redeem the bonds due in 2021 and 38% of the bonds due in 2023. We embarked on our first partnership with an international financial institution, the Black Sea Trade and Development Bank, which extended a EUR62 million, seven-year facility. The proceeds will be used to fund capital investment plans at our iron ore producers. We also launched a new EUR75 million accounts-receivable securitisation programme for our re-rolling assets in Italy. This will help to expand our customer base and provide additional flexible solutions for financing sales in Europe.

Our prudent debt management and enhanced profitability helped to reduce the net debt to EBITDA ratio to 1.0x as of 31 December 2020.

ADVANCING OUR ESG AGENDA

In the past decade, Metinvest has significantly reduced its carbon footprint. While our transformational journey to becoming a low-emission steel producer is well underway, the global drive for carbon neutrality is creating new business opportunities.

At present, electric arc steelmaking has lower carbon footprint. Such a route requires higher-grade iron ore products as feedstock. The Group's magnetite ores are better suited to this than hematite fines produced in Australia and Brazil. In response to this opportunity, we completed the upgrade of Central GOK's beneficiation facilities in 2020, enabling us to launch production of 2.3 million tonnes of pellets with 67.5% Fe content used in DRI technology. Northern GOK is due to follow suit.

As the pandemic has shown, companies that prioritise ESG matters appear more resilient. To ensure that we remain on track, we initiated an independent third-party assessment of Metinvest's ESG performance in 2020. The Group's debut ESG Risk Rating from Sustainalytics ranked it in the top 10 of 140 rated steel companies. In April 2021, after the reporting period, the update to our ESG Risk Rating showed definitive progress in this critical area. As CEO, it is an honour to see the Metinvest team receive this recognition of its performance, particularly compared with peers.

OUTLOOK FOR 2021

Overall, the outlook for 2021 is cautiously optimistic. Significant stimulus measures in many economies and an increase in COVID-19 vaccinations worldwide is promoting a broader recovery. This illustrates how caring for the health and wellbeing of people and communities became a precondition for economic growth. At the same time, the pandemic is not yet over, and we will continue to take every precaution to protect those around us.

In 2021, Metinvest is sharpening its focus on the long-term sustainability of the business even more, especially regarding health and safety, the environment and local communities. In parallel, we are strengthening our vertical integration further, including through the consolidation of Pokrovske Coal, which we completed after the reporting period; sustaining and building on our hard-won operational efficiencies; and seeking ever-greater digitalisation. We will also continue to implement our investment programme, while looking for initiatives that will contribute to decarbonisation, and maintain astute financial management.

As 2020 has proven, we are stronger when we stand together with our stakeholders. In 2021, I am confident that we can overcome any additional challenges by working in unison with our employees, customers, suppliers and contractors, local communities, equity and debt providers, and government authorities.

Yuriy Ryzhenkov
Chief Executive Officer