

Update on operations of Kamet Steel and Metinvest's iron ore assets

In mid-June 2022, Metinvest began preparatory work to place the production operations of its iron ore assets on hold. Starting from 1 July 2022, the Group will suspend production at Ingulets GOK and Southern GOK (classified as a joint venture). In addition, Kamet Steel (Kamianske, Ukraine) will switch to operation using one blast furnace. From mid-July 2022, production at Northern GOK will also be suspended. Meanwhile, Central GOK will continue to operate at reduced capacity utilisation levels. Several factors have led the Group to take these decisions, including logistical issues, higher production costs and lower steel prices.



Background

The suspension of some iron ore production and operation of Kamet Steel at reduced capacity is a necessary decision that has been delayed since 24 February 2022 amid the Russian invasion of Ukraine. The economic situation in Ukraine remains challenging and could deteriorate further. The operations of Metinvest's Ukrainian assets have been affected by a number of factors, making even monthly budgeting a complicated exercise. They include the following:

- There have been changes in logistical routes and supply chains in the country, as well as elevated transportation costs to deliver goods to end users. The Group used to deliver its goods by sea. As the ports are currently being blocked, it has been forced to deliver them by railway. As a result, logistics costs have increased significantly. Stocks of iron ore and steel products have accumulated throughout the Group's supply chain, while there have been more than one-month delays in Metinvest's goods crossing the border with the EU.
- The production cost of steel goods has increased due to high prices for energy (in particular, natural gas) and raw materials. This has been aggravated by weak local steel demand, which has fallen by two-thirds since February 2022.
- Among other external factors are steel prices, which have decreased globally amid falling demand for steel and iron ore due to the reduction of steel production in Europe.

Social impact

Social responsibility remains a cornerstone of the Group's operations. Thousands of employees of the assets mentioned above will be engaged in repair and maintenance, as well as certain other work, while their base salaries will be retained. Metinvest will continue to provide assistance to internally displaced people and civilians in the cities where it operates and will not stop its projects to support the Armed Forces of Ukraine.

Solution

Today, government and business must unite and do everything possible to make the economy of Ukraine work.

Given the difficult situation and its possible further deterioration, the government's support can guarantee the industry's survival, allow operations to resume and empower the business community to support the economy. This is mainly a matter of logistics optimisation and other regulatory solutions that will help the industry to stay afloat. It will also make it possible to pay salaries to thousands of employees and contractors, and to continue delivery of regular support of the defence forces of Ukraine.

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