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# “Steel sales grew moderately due to low investment appeal and insufficient state funding for projects” – general director of Metinvest-SMC

In an interview with Interfax-Ukraine, Dmitry Lyppa, the general director of Metinvest-SMC, talks about last year’s results on the steel market, current trends and upcoming plans.

**- How were Metinvest-SMC’s metal product sales in 2018?**

- We provisionally estimate that Ukraine’s domestic market rose by around 4%. Our sales increased by about the same percentage; we are moving in line with market trends.

Regarding our results in the first 11 months, the numbers for which have already been checked, the Group sold more than 2 million tonnes of metal products in Ukraine.

**- Which metal product is in the most demand and who are the main consumers of your products?**

- We have a wide range of consumers and serve almost all sectors of the country’s economy, from major industrial holdings to small end consumers.

Regarding sectors that expanded the most rapidly, consumption increased in transport machine building, primarily railcar building. Ship-builders and repairers also showed decent growth; in particular, Smart Maritime Group [the shipbuilding sub-holding SMG of Smart Holding, which combines the Kherson and Mykolaiv shipyards – Interfax] manufactured two tanker hulls for an export order and consumed a lot of steel. Machine-building companies also increased their orders: Kryukovsky Railway Car Building Works, Dneprovagonmash and smaller players performed well due to strong domestic demand for railcars from both state-owned and private companies.

In addition, general machine building is developing rather well and production volumes are recovering; the performance there is also decent.

Metal product consumption is also growing in agriculture: infrastructure continues to develop rapidly, there are inflows due to active exports, and the construction of many storage and shipment facilities is ongoing. Nibulon continues to expand all business lines, including building infrastructure facilities and a barge from our metal to transport (tranship) grain from its own port facilities.

**- Are you pleased with the results?**

- Overall, we believe that the year was decent. We are moving in line with the market trend, continue to develop new products and are gradually bringing them to the market. We are also further improving our customer service and continue to plan some joint initiatives with clients.

On the whole, we are pleased with the results and hope for a strong performance in 2019.

**- What affected your operations? What were the main problems in 2018, compared with previous years?**

- I would characterise 2018 as a year of uncertainty and volatility, primarily on overseas markets, which influenced the situation on the domestic steel market. The introduction of protectionist restrictions, which has impacted numerous relations among countries, has undoubtedly had an influence and made it very difficult to make forecasts during the year.

Metal product price trends were almost constantly negative until early 2019. Prices fell, customers did not understand the trends and could not forecast: whether there would be a turnaround or a downward trajectory. This contributed to the uncertainty, and investors and customers might move projects that they would like to launch but are afraid of a dramatic change in the situation. We feel this here, as metal is a commodity, and price is an important factor in decision making.

Regarding country-specific factors, at the beginning of the year, we expected slightly more project financing from state-funded organisations.

**- While there was a slight increase in steel consumption on Ukraine's domestic market, the market is growing slowly. Why?**

- We expected that budget and state funding for projects would be higher. Yes, we note the strong activity in road construction. We feel and see this, as our partners that manufacture traffic dividers and crash barriers are receiving huge orders in this segment. However, we also believed that other areas would develop; we had forecast that there would be more active funding of machine building last year. We expected a significant increase in bridge repair and construction projects in Kyiv and other regions. We also expected a decision about the construction of railcars using EBRD funding, which did not happen.

While most investors decided to allocate funds early in 2018, from the middle of the year, several customers began to postpone decisions until a time when there will be more certainty.

In addition, several infrastructure projects are being implemented with foreign investment. Today, we do not see a large inflow of such funding. While several small projects are under way, no radical change can be seen compared with past years.

Naturally, we would very much like foreign investors to believe in Ukraine's economy, but, unfortunately, we can see that this is not currently the case.

**- Steel imports are rising. What are the main countries and companies that are supplying the Ukrainian market? Who are your competitors?**

- In 2018, as mentioned, the market rose, and that was typical for segments where we are not represented as well. Consequently, steel imports in these niches also grew.

In turn, we moved to expand our product offering to consumers. We are currently working to improve tolerances, which will make it possible to enter the white goods segment (boilers, washing machines, etc). While several manufacturers of such equipment currently prefer imported steel, there are numerous projects that will allow us to achieve the required quality for several products this year.

**- How should the domestic market be protected? What are you doing to this end? What should the government do? What are other countries doing to protect their markets, and how have shipments to the US and EU been affected by their protectionist measures? Has this led to increased competition on the domestic market?**

- This is more a matter of making it more understandable and comfortable for customers to work with domestic manufacturers than with importers and manufacturers from outside the country.

Ukraine's market is not the largest compared with other ones, particularly countries in Central and Eastern Europe or other similar ones. We do not use that much steel. But we can say that the trend whereby several countries are taking decisions to limit imports introduces uncertainty and changes the market structure.

Accordingly, the government's key task is likely to be analysing the situation for signs of fair and unfair competition. We believe that for some time already, several suppliers from Russia and China have been dumping, driving down prices for galvanised steel. In this regard, Ilyich Steel has asked the Ministry of Economic Development and Trade to initiate an investigation into the issue, which began in early October 2018. The ministry is now looking into the matter. We expect preliminary conclusions soon and the potential introduction of

preliminary duties on these products.

**- How much domestic demand is there for Metinvest's steel? Are consumers satisfied with its product range? What new types of products do you plan to develop?**

- In 2018, we developed 40 new types of products, although they are in different stages of development; some have had test batches made and others have reached substantial shipment volumes. Our primary focus is flat-rolled steel: hot-rolled coil and sheets, as well as cold-rolled and galvanised steel. To a lesser extent, we are working to develop long products: billets and sections.

Overall, we are highly focused on meeting customers' needs.

Everything we make is a high-quality product that completely fulfils their requirements. One trend now is that our customers – metalworks – are fulfilling not only domestic orders, but also exports. And we are responding to this: first, at our warehouses, we provide a range of metal products certified to European EN standards. Second, since mid-2018, we have introduced a programme where factories working on exports receive additional incentives from us, which encourages them to work in this area.

We support such manufacturing customers. Last year, we had several project deals, where our consumer partners won tenders partly due to our incentives.

**- A separate question about structural steel: does it meet customers' needs in terms of product range and quality? How do you view the USCC's work; is it promoting new standards?**

- Ukrainian Steel Construction Centre (USCC) is a platform for dialogue among a wide range of industry members, from steel producers, distributors and manufacturers of steel products and metalwares, to contractors directly involved in installing these products, designers, architects, etc. The USCC's primary focus is on promoting the interests of producers and consumers of metal products.

I am a member of the USCC board of directors and active work is under way in several areas, including to update the standards regulating the work of the industry. Work is ongoing with educational institutions to improve the qualifications of future and current architects and designers, and annual contests are held for young specialists in this regard. The USCC is also working to improve customer service.

[Note: On 6 February, at the Mercure Kyiv Congress on Vadyma Hetmana Street, the VII National Steel Construction Market Conference will be held. Conference attendees will review research and forecasts for construction steel market segments in 2019 and key market players will share case studies of successful business practices in the industry. Metinvest is the conference's general partner and Interfax-Ukraine is the general media partner.]

**- Your company sells products that have been produced at the holding's facilities, as well as at other companies. From whom else do you source products for sale and which ones?**

- Yes, we have indeed begun this work to provide the best customer service. We began to acquire types of products that we do not manufacture independently from other suppliers to offer package services to our customers. So that our customers do not have to look for several suppliers but have one outlet for steel purchases.

We work with ArcelorMittal Kryvyi Rih; we acquire various long products from them that are not in our range, so that we can form a certain package for the construction industry.

In addition, we work with Dneprovsky Integrated Iron and Steel Works. Last year, we also worked with Modul-Ukraine to distribute their coated steel. We are now reviewing the format of our work together; there are certain difficulties when such products are not sold directly from the manufacturer. In 2019, we are considering introducing a more traditional format of direct customer interaction with the manufacturer to resolve issues more quickly and meet customers' needs.

**- Which products do you ship to the CIS, and where exactly?**

- The key products that we ship to CIS countries, except for Russia and Belarus, are flat-rolled products: hot-rolled coil, sheets, thick sheets and some cold-rolled coil. While we periodically try to ship welded pipes, we face active competition on several markets. As for geography, this is primarily Moldova and Georgia, and to a lesser extent Armenia and Azerbaijan.

The main problem with shipments to distant countries is the cost of logistics, for example, shipments to Central Asia are not competitive compared with other suppliers.

**- What are your sales forecast for 2019 and beyond?**

- In 2019, we forecast moderate sales growth in Ukraine, in line with the market, of 4-5% year-on-year.

We do not expect private investors to have a strong influence on the economy, apart from in the agricultural sector.

Regarding prices, we forecast that the levels seen in 2018 will hold in 2019.

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