

“The dynamics is positive”. Metinvests’ CEO, Yuriy Ryzhenkov - an Extensive Interview

In the first half of 2024, Metinvest, Ukraine’s largest company, almost quadrupled its profits, while revenues increased by more than 20%. “A low comparison base effect is also there,” said 48-year-old Yuriy Ryzhenkov, Metinvest’s CEO. However, the Group faces serious challenges ahead.



An acute electricity shortage is expected in winter, Ukrainian Railways plans to increase freight rates for steelmakers by 20%, and global iron ore prices are falling. In addition, the Group must pay over US\$600 million to its creditors in 2025-2026. How will Metinvest respond to these challenges?

Adapting to the war in 2024

In 2023, your iron ore plants operated at 35-40% capacity, and your steel plants at 65-75%. What is the situation in 2024?

For steel plants, almost nothing has changed. Zaporizhstal operates three blast furnaces, which means that it is operating at 75% capacity. Kamet Steel operates two of its three furnaces: at 65%. To increase production, we need to overhaul the furnaces that were closed for repairs before the invasion. The cost of repairing one furnace is up to US\$250 million.

Pokrovske Coal and the Southern Iron Ore joint venture are operating at 100% capacity. As of the end of the first half of the year, iron ore assets of the Group operated at 57% of their pre-war level.

In 2022-2023, we rebuilt the Group’s operations and logistics. In 2024, we adapted to the new environment. We have managed to increase the production of iron ore at our mining and processing plants thanks to the reopening of Odesa ports.

Which markets are your priorities, and which have declined in importance?

We have been forced to significantly reduce supplies to the Gulf region due to rising production costs.

Traditionally, the European Union has been our priority market. But now steelmakers in the EU are cutting production, so demand for our ore has fallen. We had to increase supplies to Asia, primarily to China.

Is the Group profitable in 2024?

Yes, in 1H 2024, the Group’s EBITDA increased by 33% year-on-year to US\$650 million. Although the dynamics are positive, to some extent this is a result of a low comparison base in 1H 2023, when there was no access to

exports via the Black Sea. Overall, the result was complicated by rising energy and logistics costs in Ukraine, as well as falling global prices for key products.

Against this backdrop, how big of a challenge is it for you to repay over US\$600 million of your debt portfolio in 2025-2026?

The global market is cyclical. In previous years, there were good prices for our products, but now the situation has changed. I hope this decline will not last long.

As for the loan portfolio, so far, we have had enough cash flow to meet all our obligations. We have calculated several scenarios for the future. In all these scenarios, we will be able to meet our obligations. But now is a time when anything can happen, so we will be in constant dialogue with our lenders. We will be looking at solutions.

We see that the lenders of other Ukrainian companies are willing to accommodate and agree to changes in financing terms even without a significant increase in interest rates. But again, we have not yet come to our lenders with such proposals and are able to cover all our needs.



The risk of losing Pokrovsk

In the first two years of the war, Metinvest invested over US\$250 million in Pokrovske Coal, more than in any other asset. Why did the proximity to the front line not stop the investment?

The coal industry requires constant investment. If you do not invest, production will fall sharply. It will take years to recover. After acquisition of the mine, we spent three years restoring its normal operation.

How do you assess the risk of losing this asset?

First, I am not a military person, so I cannot assess the risks. I can only say that the mine itself is located to the west of the town of Pokrovsk and the front line, close to the border with the Dnipropetrovsk region. We believe that Ukraine's defence forces will defend Pokrovsk and stop the Russian advance.

Our task is to support the defence forces and build fortifications that will help our military to stop the advance. Recently, the Ministry of Defence accepted the first steel underground hospital that we manufactured. Projects like these help our military to stay strong and hold back the enemy's advance.

Second, we must ensure the safety of our employees working at the mine. Metinvest is evacuating the families of our employees with children and providing accommodation at the recreation facilities. We are encouraging our employees to move from Pokrovsk, to the east of the Dnipropetrovsk region, to work on a shift basis. We have launched a project to build modular houses in a safe location away from the mine. Miners who are willing to work on a shift basis but do not have housing will be able to live there. The main thing is to ensure people's safety.

Pokrovske Coal supplies your operations with coking coal. Do you have a contingency plan in case of the occupation of Pokrovsk?

We believe in Ukraine's defence forces, although we do have a plan B. Even if we were to lose Pokrovsk, we would not stop. We can buy coal from DTEK, Poland and our mines in the US, as well as import coke. This would not be painless and would be a blow to the Ukrainian economy.

How serious would this blow be?

If we were to import coal, our production costs would increase. If the production costs were to increase, we would no longer be able to work in some markets, meaning we would have to cut production. This would affect both steelmaking and our mining and processing plants. This would result in a loss of taxes for the government. And not only ours, but also from everyone who works with us, our subcontractors and so on. That is why I think it would be a blow to the economy.

Some people say: "Look, we lost Mariupol and nothing happened." But this is not true. We have lost a serious part of our GDP. It's just that we are now being financed by our partners, so we haven't yet realised that we have much less money in the budget. And it would be the same story here.

I understand that when we are at war, no one cares that the government has lost UAH10-15 billion in taxes per year. But when the war is over and we have to live on our own, we will remember all this.

Do you also import ferroalloys?

Yes, we had to switch to imports after Ukrainian ferroalloy plants shut down in the winter. We also buy small volumes from small Ukrainian producers.

I don't understand how ferroalloy plants can operate with current electricity prices. This is a problem for us as well. For example, production at Inhulets Iron Ore has been suspended for a couple of months due to the high cost of electricity and logistics.



Electricity shortages and plans to build gas power plants

How critical is the electricity shortage for you?

There is a government decision requiring businesses to import 80% of the electricity they consume to avoid power cuts. It is very important for us not to have sudden power cuts, as this would be dangerous and could damage equipment. I don't know how they calculated 80%. Previously, the quota was 30%, so maybe now it would be enough too.

The issue is not that we need to import. Prices in Ukraine are no lower than in Europe.

The issue is that the auctions for access to cross-border capacity are frenzied, as large consumers need to buy 80% of their consumption. The more the competition for the cross-border capacity, the more you have to pay for it.

Therefore, it often happens that we pay more for the cross-border capacity than for the electricity itself. That is, we overpay at least twofold. Another issue is that these are daily auctions. This means that we cannot buy cross-border capacity for months, say six months or a year, and have predictability.

So, when we go to the auction, we buy the cross-border capacity at any price. We have no other choice. Either overpay or stop.

We have repeatedly raised this issue with the country's leadership. I hope the Ministry of Energy will hear us. We

need long-term contracts. In the EU, you have predictability for months. In Ukraine: for a day.

Ukrainian Railways, Nova Post, Epicentr and other companies are investing in their own generation to be autonomous. Do you have similar plans?

Yes, we have such projects. We have already contracted more than 30 MW of gas turbine power plants for US\$36 million, which are to be installed in November at our enterprises. We have also already installed 50 MW of emergency generation to safely shut down production in the event of a loss of power from the grid.

While 80 MW will not cover our needs, in our case, it is not very reasonable to cover 100% of our own generation. Large-scale, centralised generation is still more efficient and environmentally friendly. We hope that our power engineers will be able to restore and stabilise the power system.

Second, we are the largest electricity consumer in the country. Our enterprises consume more than 550 MW. Before the war, when our Mariupol assets were operating, our consumption was 1,000 MW, which is comparable to that of Kyiv.

We would need to invest over US\$500 million in new generation to cover our needs. At Metinvest, we think that we might need to build enough to cover more than 10-15% of our needs, or perhaps we should cover 50% of our needs with our own generation. We are thinking about it.

In our case, I think we need to invest in upgrading the steel industry. We cannot do everything: energy and steel. We have DTEK, let it deal with the energy, and we will build the steel industry.

A possible increase in Ukrainian Railways tariffs and the crisis on the global steel market

Ukrainian Railways wants to unify tariff coefficients for freight transportation. Have you already familiarised yourself with the project?

This is not the first such initiative. Rather than leading to real reform, they have all ended in a banal tariff increase. Their thesis is that the cost of transporting a conventional tonne of grain should be the same as a conventional tonne of ore. But this does not make any sense.

Ore transportation involves a direct route train from point A to point B, that is, from the plant to the port. In this case, the mining and processing plant forms the route train itself. Ukrainian Railways only needs to provide a large mainline locomotive and its own infrastructure: the track.

Grain transportation is a significantly more expensive operation for Ukrainian Railways. The train must be assembled by small locomotives, collecting a few wagons from various elevators at different railway stations before heading to the port. This means that Ukrainian Railways' costs to deliver a comparable volume of grain are significantly higher than for ore.

It is also worth noting that grain is a seasonal cargo, the handling of which during a few peak months requires maintaining infrastructure and staff year-round. So, why should the tariffs per tonne of cargo be the same?

Currently, Ukrainian Railways is proposing to increase the tariff for steelmakers by 20%. During the war, the tariff we pay has more than doubled. At the same time, Ukrainian Railways reported billions of dollars in profit in 2023 and H1 2024, while Metinvest ended 2023 with a loss.

The cost of logistics reduces our competitiveness. Therefore, we cannot accept this increase.

What do you suggest?

A comprehensive reform of Ukrainian Railways is needed. It should be split into several independent companies: infrastructure, traction and passenger. Each of these companies should set its own transparent tariffs for its services.

An integral part of this reform should be the introduction of an independent regulator, as in the energy market. This regulator should serve as an arbitrator between business and Ukrainian Railways in terms of tariffs for monopoly services. Because now there is a railway monopolist that can set whatever tariffs it wants and no one can check whether they are reasonable.

What percentage of your production costs is taken up by logistics?

Railway logistics in Ukraine account for 15%, while sea freight and ports make up another 25%. In total, logistics comprise 40% of our production costs.

We expect a long-term decline in global ore prices, and Ukraine is among those countries that will find it difficult to withstand competition due to high costs. How do you assess these forecasts and how are you preparing?

It is indeed much cheaper to mine iron ore in Brazil or Australia than in Ukraine because it does not need to be enriched. So, while there are risks, we understood them ten years ago. Everyone realised that China, the world's largest consumer of steel, would eventually start reducing its steel consumption.

What decisions did we make? First, we needed to improve the quality of our ore, increasing the iron content of our concentrate to the highest possible level. This enhances efficiency in the traditional sintering and blast furnace processes or allows us to use our concentrate to produce DRI pellets, which can then be used in DRI/HBI plants.

This makes it a raw material for green metallurgy, which is now in high demand in both Europe and the US. That is why we adopted this technological strategy, and it remains in place.

Next, we face a crossroads: we are exploring the possibility of producing DRI/HBI in other countries, potentially in partnership with others, or independently. In my opinion, after the war is over, the most economically attractive option would be to build DRI/HBI modules in Kryvyi Rih and produce high-quality raw materials there. They would not be used for traditional metallurgy but for new, green, decarbonised metallurgy.

Here, Ukraine has the raw materials needed for this purpose, and we possess the technologies to make it possible. There are very few raw material reserves globally that are suitable for green metallurgy.

If we consider building DRI/HBI production in other countries, the Mediterranean region would be the ideal location. The main consumers of raw materials would still be Italy, Germany and possibly Spain. In addition, shipments could be transported to Northern Europe by sea.

What is the cost of such modernisation of your mining and processing plants?

One DRI module costs around US\$1 billion. These are major projects that cannot be implemented during the war. However, we are already working on it, conducting a feasibility study, and will move forward with design work. But the main investments will only be made after the war is over.



Staff shortage

How critical is the issue of staff shortages for you?

The staff shortage is the main challenge. It is not electricity or Ukrainian Railways, but the lack of people. We are already facing a situation where we cannot increase production at Zaporizhstal due to the shortage of staff.

Since the beginning of the war, 9,000 of our employees, or 16% of our workforce, have been mobilised. Why is this happening? Because it is much easier to mobilise men from a large, transparent enterprise.

So, we need to think about how to address this issue specifically for transparent companies. As a strategic enterprise, we have a draft deferral for 50% of our employees, but this hasn't resolved the situation.

It takes two to three years to train a specialist. This means we don't have time to train staff because they are