

”Wartime specifics have been added”. A big interview with nv.ua and Oleksandr Myronenko, COO of Metinvest Group

In an interview with NV Business, Chief Operating Officer (COO) of Metinvest Oleksandr Myronenko talked about how the Group's operations have changed over the 18 months of war, what happened to the employees of Azovstal and Ilyich Steel, and logistics issues. Here is an adapted version of the interview.



- How has the destruction of the Kakhovka dam affected Metinvest's operations in Kryvyi Rih?

- We have everything under control at the moment. We have the technology in place, there are issues with everyday needs, but they are being resolved in working order.

All the enterprises are operating normally, we are monitoring the water dynamics, and we will make decisions depending on the situation.

- How did the role of the COO change after February 24, 2022, when several large enterprises of the group halted operations?

- The number of operating assets has decreased, but wartime specifics have been added. We now have the interaction and support of the army at the local level. We are working with military administrations. I deal with these issues. And, of course, no one has eliminated the task of maintaining the efficient organisation of production. Therefore, if we talk about immersion in production activities, it remains as full and profound as possible.

- Previously, the CEOs of individual enterprises were very authoritative at the city level, for example, Bulyanda or Boyko for Mariupol and Satskiy for Zaporizhzhia. Now it seems that managers from the holding are more recognisable, even at this level. Is this deceptive?

- Let's not compare the times of the so-called “red directors” with the era of the modern business modes.

Indeed, some questions require my involvement. And some issues are solved by the CEO of the company. However, we still work as a team.

- How did the holding's management structure change after the full-scale invasion?

- We took a critical look at our business processes before and after the start of the full-scale war. We eliminated those that were not necessary for survival and the stable operation of the company. Accordingly, some people were laid off. Others took the decision to leave the company on their own. We had and still have a reasonably good talent pool. We recently hired a new Director of Sustainable Development and Human Resources, Tetiana Petruk, from Ukrtelecom.

- Are you planning additions to the staff?

- They have already been made. Since the new year, I, as COO, have made several personnel changes at the European and Ukrainian assets. Even I can be cited as an example of a personnel reshuffle: a new CEO, Roman Slobodianiuk, took my place in Zaporizhzhia. He was in the talent pool. And his place was taken by someone from the talent pool of Metinvest's operational management.

-In an interview with NV last September, CEO Yuriy Ryzhenkov said that 50% of employees at the Mariupol sites have not made contact.

- This ratio has remained approximately the same. We have employed about 7,000 people, including those from Mariupol and Avdiivka, at the other assets. The rest either left the country or stayed in that area. There are even cases when people have returned to Mariupol. We do not keep in touch with those who are there.

- What is the current number of employees of the group?

- About 60,000 people. This is the active staff. And about 3,000 people are being kept on mandatory furlough, mostly in Kryvyi Rih, where the mining and processing plants are being underutilised due to the blockade of the ports.

Around 180 people are working in Avdiivka. They ensure the preservation of coke oven batteries and fix damage caused by shelling. Some people are refusing to leave Avdiivka under any pretext.

- Even so?

- I often go to Avdiivka and know the situation there very well. If, at the end of last year, there were around 1,000 people there, now there are more than 3,500 people. People left, and then they ran out of savings. They have nothing to live on and nowhere to live... those who have not found a job. And they return under shelling. Even though the company provides transportation and employment opportunities for people who want to work in Zaporizhzhia and Kamianske, and at other coke plants.

- Have the Mariupol employees who haven't gotten in touch yet been laid off?

- They are in a terminated labour relationship. With the introduction of martial law, employers were given the option not to fire people. When the war is over, we will decide what to do with them.

- How many such people?

- Minus those employed, this is actually the entire Mariupol site, 26,000 people.

- Are there any problematic issues at the enterprises that have ended up in the occupied territory, such as settlements with contractors, the environment, or personnel?

- We help the staff who contact us in the cities in [Ukrainian-] controlled territory where we have operations. We do not influence the environmental factors. There is an occupation administration there that is currently fully responsible for these. When the cities are de-occupied, and we can return, we can assess the scale of the disaster.

As for the contractors, the company's position is that since we have lost operational control over these assets, we cannot make any payments. They have been stopped.

Given the difficult financial situation, we have restructured the old debt for the operating companies. We are fulfilling our new financial obligations in accordance with our signed agreements.

- What additional security measures have you anticipated for the staff of your operating enterprises?

- We have put all the bomb shelters in order. They are provided with water, food supplies, heat, communications, and electricity.

We have also changed the way we organise our work. In metallurgy, there are continuous processes – the sinter plant, the blast furnace, and the steelmaking process. There are intermittent ones, such as rolling production. People in the constant cycle are provided with bulletproof vests and helmets. We are currently purchasing a batch of helmets for the rollers that have increased their workload. At enterprises far from the front line, when the air raid warning goes off, this part of the staff continues to work wearing bulletproof vests and helmets, while the rest go down to the bomb shelter and have to stay there until the alert is over.

- In this case, is Zaporizhzhia a city located far from the front line?

- It's about 50 kilometres away. We understand that cannon artillery and Grad missiles will not reach it. The main threat is the C300, possibly the Smerch. But there is no military infrastructure at our plants. There are no military targets or facilities that could create additional risks.

- The Group regularly announces the production of new defence-related steel products and cooperation with the military. Doesn't public communication add risks?

- All this is produced at Metinvest's facilities. I won't talk about a specific site. We have not two, but many more. These products are finally packaged and delivered to the military far away from our industrial sites.

The volume of assistance... we believe it is necessary and important to talk about what the Group is doing to help our army.

- At the beginning of the invasion, Metinvest reported that the Group's assets had gained some autonomy. By the fall, new production connections were being built. How exactly do your assets interact with each other today?

- We had intelligent autonomy. Each asset was allowed to take decisions in a stressful situation, so to speak, "on the ground," taking the circumstances into account. At the same time, they coordinated with the centre. Each director told us what the situation was, what exactly they were doing, and what results they expected. I know this because I was the CEO of Zaporizhstal at the time of the full-scale invasion. With my colleagues in Kryvyi Rih, Kamianske, Pokrovsk, and Avdiivka, we tried to develop cooperation with the military and strengthen the defence of the cities. Coordination on the ground is livelier and faster. This system has proven its effectiveness.

As for the distribution of raw materials and planning of production activities, let's be honest: at the beginning of the full-scale war, Zaporizhstal almost completely stopped working, and some enterprises were suspended.

After we established cooperation with the railways and the Ministry of Infrastructure at the central level and they started providing us with corridors for the export of raw materials, we managed to relaunch Zaporizhstal and resume full operations at Kamet Steel. Then there was a need for normal production chain planning and coordination of all areas of activity. And now we are working in this mode.

- Rinat Akhmetov and Yuriy Ryzhenkov have repeatedly announced plans to revive the steel industry in Mariupol after the de-occupation of the city. Is it reasonable? Does Mariupol have any advantages in creating a new steel plant there based on Azovstal and Ilyich Steel sites?

- First, we need to get to these sites and understand what happened to them, how much the hostilities damaged them, how mined the area is and what is required to de-mine it. We need to determine what the foreign policy configuration will be and whether the Mariupol port will work. Many aspects will need to be taken into account when developing a plan for the restoration of Mariupol's steel industry.

- But you, as an expert, can assess whether the future of the steel industry in Mariupol is possible based on economic factors rather than political statements?

- If the status quo is restored within the 1991 borders, all the logistics that made Mariupol efficient (including Donetsk, raw material sources, etc) will be restored... Mariupol will have advantages as a local producer for the eastern part of Ukraine.

- Do you now have the opportunity to raise financing and investments from Western partners?

- There is trade financing that we raise from banks for the export of our products. Ukrainian companies face difficulties getting long-term loans. Very few people are willing to invest in an enterprise located close to the front line.

- How do you manage to increase production volumes gradually?

- First, we have stabilised the electricity supply and railway logistics situation in Ukraine. Second, the outlook for our export markets for steel and iron ore in 2023 is still better than in the second half of 2022. Third, we have launched an additional blast furnace at Zaporizhstal.

- This is the question: what factors made it possible to launch it?

- Because we have learned how to deliver such volumes and got the required timing right. We have gotten better and faster at reaching the European market.

Secondly, we vary our production. If it's profitable to sell pig iron, we sell it; if it's profitable to sell steel coils, we sell them; if it's profitable to sell long or semi-finished products, we sell them. As a plus, the situation with the

energy supply has improved.

- How did you replace coke from Avdiivka Coke Plant?

- We use our coal, using K grade and G grade. Yes, without Avdiivka Coke Plant, the coke quality has dropped, but we produce all the volumes we need to operate four blast furnaces. We buy coke in Poland and Ukraine when we operate five blast furnaces. We are currently implementing technical measures to reduce coke consumption and move away from purchasing it from third parties as much as possible.

- What about limestone (most of the limestone for metallurgical processes was mined in Crimea and Donetsk Region until 2014 - NV Business)?

- We buy limestone in western Ukraine. When we need high-quality limestone, we import it from Turkey.

- After losing slabs from Azovstal and Ilyich Iron and Steel Works of Mariupol, how do you supply your rolling assets in Italy and the UK with semi-finished products?

- At Zaporizhstal, the process of setting up the production of commercial slabs is going according to plan. Since the beginning of the year, around 25,000 tonnes have already been supplied. We produced about 6,000 tonnes of slabs in May for our Italian assets. We plan to increase this volume to 60-80,000 tonnes.

- Are you satisfied with the quality of these slabs?

- We have already gone through the first certification stage – the welding examination. Now we are waiting for the Bureau Veritas certificate. The next step is Lloyd's Register. As soon as we receive their certification, we will be able to start the normal production of ship sheets. The volumes we cannot supply from Zaporizhstal will be purchased on the market.

- What percentage of the slabs demand will Zaporizhstal supply?

- The Italian plants buy about 130-140,000 tonnes per month at normal load. That is, about 50%.

- What about the Spartan plant in the UK?

- There are British slab producers nearby that are more efficient in the logistics chain.

- And how is Unisteel's galvanising plant in Kryvyi Rih doing?

- It is currently working steadily on Zaporizhstal's cold-rolled steel and has reached a volume of 6,000 tonnes of galvanised steel monthly. It is mainly for the domestic market.

- How did the simplification of the EU and other regions' customs policies towards Ukraine affect your steel plants? Did you manage to take advantage of this, or is it more of a declarative story?

- Yes, the EU is our primary strategic market. Although, for example, earlier, after the introduction of duties, we practically withdrew steel coils.

Now there are no administrative restrictions, but there are economic restrictions. The cost of logistics to our end consumers in the Mediterranean market and North Africa has increased. Previously, it was US\$30-40 per tonne, including loading and freight. Now shipments through Polish ports cost several times more.

In addition, a large portion of suppliers to EU countries have now disappeared. [EU countries] have abandoned Russian steel coils and there is no Severstal, or other Russian producers, on the market. We have filled this niche.

- And NLMK is there.

- They are functioning as a re-roller that buys Russian slabs because their slabs have not been sanctioned. This is also the selective approach of the EU countries.

- If we take the current logistics capabilities of Ukraine as a constant, are you already at the maximum production level, or do you have room to grow?

- It is a question of product flows. If we export less, grain producers will export more. Almost all the grain is exported now. Therefore, the question of the competition with farmers at the western crossings and at the Izmail port will return towards the end of summer when the new harvest comes in.

- How is the new steel plant building project in Europe progressing? For example, I heard that the

Bulgarian site is no longer being considered for investment.

- All options are being considered. The Italian site has its advantages. The Bulgarian site also has its benefits.

Conceptually, there is yet to be a final decision. And the decision will be made, in particular, based on the realities in Ukraine so that there will be synergies with Ukrainian assets.

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