

## Interview with Yuriy Ryzhenkov, CEO of Metinvest

Metinvest is an international steel and mining group with vast iron ore reserves, coal mines and steelmaking assets in Europe and North America. Although the company struggled to make it through the tumultuous days of 2014, when its assets in eastern Ukraine were affected by the war, Metinvest has emerged stronger than before and is now posting higher revenue than before the crisis. Metinvest CEO Yuriy Ryzhenkov explains how his new flexible business model works, how Trump's tariffs and Ukrainian legislation are affecting the sector, and what the company is doing to embrace automation and environmentally friendly technologies.



**You joined the company in 2013 during a tumultuous time. What was your strategy for success and for getting the company back on track?**

It was an interesting period for the company, the country and the industry as a whole. It did look like the perfect storm for Metinvest at the time because there was a downturn in the steel markets, and at the same time there was an economic and financial crisis, and in Ukraine you had a war going on in the territories where many of our assets are located. So the first thing that was required at the time was to get the team united behind a single vision of what we wanted to do and how to get through this. Metinvest has a great team of people, each of them is strong in their own way, but at times strong people are not aligned in the same direction, so the main thing was to adopt a common focus. The second issue is that we are a big company, and like any big company we can sometimes be bureaucratic, and that's something you don't want at a time of crisis. So we had to learn to be flexible and adaptable to circumstances that were literally changing every hour. The third issue was delegation. We have people located at production sites who know much better what's going on down there at any moment in time than headquarters. In times such as we experienced in 2014 and 2015, we needed people on the ground to take decisions on various matters without asking for advice from anyone else, and sometimes on issues outside their formal area of expertise. For instance, in early 2015 there were two bridges blown up in Mariupol, which blocked two of our largest steel mills, so the general manager of one of the mills planned the bridge restoration and he oversaw the work, which took place in record time. Those are the three things that were necessary to get through those turbulent times.

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**Your revenue has been steadily on the rise since then, to the point where revenue in 2018 was higher than before the crisis. To what do you owe this, and what is the outlook for years to come?**

The steel industry is very cyclical, and 2014 was one of the valleys, so from there we just went up. In 2014 and 2015 we had huge disruptions in our operations in terms of logistics and sourcing, and that hurt us quite a bit. Since then we've been steadily working on re-establishing new logistical connections and diversifying our sources, and we've also spent quite a bit of time focusing on specific markets and customers, in order to improve our service and our reach. As a result, not only were we able to restore production facilities to pre-crisis levels and

become fully operational at all the facilities that we control, but our sales network has also become so effective that we are acting as a sales agent for some of our competitors. So we have an improved sales structure besides an improved volume, and we are much more focused on the markets where we have an advantage, where we can offer something to the customer that our competitors cannot do.

**Which markets are those?**

In the steel industry there is only one competitive advantage that you cannot copy, and that is geography. Your location is very important, you have to be very close to the natural resources, or else you have to be very close to the customer. Or you have to link the two. Our company is a link between the resources, which are mainly located in eastern Ukraine, and our customers who are mainly located in southern and eastern Europe. Our key markets are the Mediterranean, Black Sea and Gulf regions – Italy, France, the Balkans, Bulgaria, Romania, northern Africa and Turkey.

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**Trump has prioritized greater production of domestic steel, which has affected Ukraine. How do you see this relationship evolving?**

In terms of the steel industry, my opinion is that restrictions are only beneficial in the very short term. So what President Trump meant to achieve by introducing 25% tariffs could work over a period of a year and a half to two years, but after that you have to be careful to make sure the whole economy is not being hurt too much. You need to see how the economy is reacting, and I don't think this is being done in an efficient manner. We were never a big supplier of steel to the United States, but we are a big supplier of pig iron, acting as one of the main suppliers to the US steel industry. However, we are now seeing a slowdown in demand for pig iron that is linked to the slowdown in the US steel industry, which in turn is due to a slowdown in demand, and that is what you get when your prices are artificially high and not competitive. In terms of coal, there's a lot of talk about Trump supporting coal in the US, and we are definitely a large coal operator in the US; we have a subsidiary there that produces more than three million tons of coal a year. But there wasn't any specific support for the industry. The demand for coal has to do with the rest of the world and mainly China.

**There is also a lower demand for steel in Europe. What would you tell investors who may be interested in steel but nervous about what's going on right now?**

We are a cyclical industry and I believe we are already at the bottom or close to the bottom of the current cycle. Every time this happens, some of the weaker players go out of business and there are consolidations, and that's what is happening right now. So investors should be careful. In a good market every player looks good, but the real test is a time like now, with a tough economic situation, as that is when you see who is an efficient producer who can make it through tough times.

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**What makes Metinvest a strong partner?**

Metinvest is a vertically integrated company that is self-sufficient in iron ore, as well as substantially sufficient in coke and coal supplies, which allows us to be more agile in changing markets. And the steel industry is always a changing market. We are also very well positioned geographically, with very good access to seaports and railway networks, which allows us to optimize the portfolio of sales almost on a daily basis and be very responsive to the markets. Our third advantage is that we're trying to get the best of all worlds, so you have access to our captive resources at competitive prices and locations, and we are able to quickly deliver the goods to wherever our customers are. Dividing this production chain into semi-finished goods in Ukraine and finished goods in target markets in Europe, we are able to provide speed in customer services and adjust to customer requirements, and for many customers that is a key property. Our key customers in those regions are shipbuilders and large construction companies. When we do a project for them, the main thing is a timely delivery, and the fact that we can quickly adjust to last-minute changes.

**One of the priorities for the new government of Ukraine is improving the rule of law. In your sector, how confident can investors be in the law?**

We have seen some lawmaking in the last few months, but it has been chaotic. Sometimes the laws were passed without proper debate or evaluation of their effect on the economy. In our sector there is one law that has been introduced into parliament that significantly affects the mining taxes for iron ore; strangely enough, this law has not passed through the minister of economy, and the advice is coming from fiscal authorities. I feel this is wrong, as the job of fiscal authorities is to collect taxes now, not in future. Thinking about the future is a job for the economy minister. This kind of situation should not exist. Businesses and investors should get enough time to adjust to the new situation you want to create, and you should assess the long-term effects of any action on the

economy. We are in talks with the prime minister and with lawmakers in parliament, and hopefully we will convince them to conduct a more comprehensive review of taxation in the mining industry and ensure it is aligned with world standards.

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**You've secured \$350 million in financing and an extension on your existing euro bond issue of six and a half years. What is the reasoning behind that and what is the funding going to help you do?**

The key thing was the extension because this being a cyclical industry, you have to manage your debt very carefully. We made a mistake with that in 2013-2014 and the company underwent a debt restructuring in 2015. We had a very high debt service plan for 2023 so we decided that it would be good to act ahead to bring down these levels to something more acceptable. Half a billion a year is manageable for the company. We are constantly working on increasing the maturity of our debt to make our debt curve more in line with our investment projects. In terms of the extra cash, part of it was used to repay some bank debt, and the remainder will be used for general company purposes, as we need to complete a few key strategic investment projects that we've already started. Some of these projects are environmentally driven.

**What are some of these environmental projects?**

The total investment will be around \$120 million this year, with a focus on Mariupol and Krivyy Rih, the cities where our assets are located, with the bigger chunk going to Mariupol. We have some very big projects there that are going to cut down emissions by 80 to 90% over the next three to four years. The largest project is a sinter plant at our Ilyich company, and once completed it will be the largest environmental project ever undertaken in Ukraine. It will cost around \$150 million, and it has nothing to do with anything else but the environment. This plant is responsible for 90% of our emissions in Mariupol, so we will be cutting our emissions radically in a short space of time. I've been going to Mariupol often in the last 30 years, and I admit the air is bad, so we are determined to complete this environmental program. There are hundreds of other small projects, and three or four very big ones going on that will also bring down the emissions of our steel mills in Mariupol.

**You have embraced automation and digitization, in line with the government's plans for the country. How can you serve as a model for others to follow?**

Everyone talks about these issues these days. In our industry, automation, and digitization have traditionally not been a big thing, though if you look at mining, there are already fully automated mines. We take a practical approach and focus on what we can do now, such as data gathering, and big data analysis to get better products and better quality. All the new projects involve the best possible automation solutions, and we have projects to see how our old equipment can be automated and benefit from digitization. We're trying to balance it all out.

**What is your final message to investors?**

Ukraine is hungry for change and improvement. The people are very responsive to open and honest investors, who can benefit from good cooperation with society, the community, and the government. The city of Mariupol is proof that quite a bit can be achieved. I think there is still huge potential in this country that is still untapped.

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