

Metinvest CEO Yuriy Ryzhenkov on Mariupol, EU and guarantees for investments in Ukraine - a big interview with NV

NV Business has talked to the leader of the key business of Ukraine's richest citizen Rinat Akhmetov. The CEO of Metinvest, Yuriy Ryzhenkov, spoke about the situation in Mariupol, sanctions against Russia and guarantees for resuming investment in the Ukrainian economy.



- The key question is about Mariupol. Azovstal is in the spotlight and there are many photos of the enterprise. What about Ilyich Steel? Is there anything left there that can be restarted in the future without significant investment?

- We do not know the current and exact condition of Ilyich Steel, Azovstal or Mariupol Machining and Repair Plant. There is a theoretical assumption that as Ilyich Steel was not exposed to as much fighting as Azovstal, it is less damaged.

However, some damage was inflicted. We will be able to discuss the extent of it after de-occupation, when experts can visit the site to fact-find.

- Photos of Azovstal's BOF shop have gone viral on social media. It has been devastated, and the process supervisory control shop does not exist anymore.

- The damage there is quite severe. We will rebuild everything, though. It is a matter of feasibility and time. After all, we had a plan to gradually decommission Azovstal's facilities and replace them with new units to produce so-called "green" steel. The idea was to build new facilities on the outskirts of the city, near Ilyich Steel's sinter plant.

So, after de-occupation, when we come back, we will of course look at the feasibility of restoring the old facilities. Or maybe it would make more sense to build the new ones that we originally wanted to build.

- After which events did you realise that the situation with Azovstal was critical?

- To be fair, I still believe there are things there that can be rebuilt. The blast furnace shop, for one. Judging from the photos, it did not sustain any particularly critical damage. As for the BOF shop, windows were knocked out and the roof was damaged, so, yes, there is a problem. We need experts to go to the site and assess the condition of the structures before we can draw conclusions.

- I heard from residents of Mariupol that Ukrainian military equipment had already entered the grounds of the steel mills in the first days of the Russian invasion. Did the military agree with the Group's management that the enterprise would become a stronghold of Ukrainian military resistance?

- The power is in the hands of the military during wartime, so of course there could be no coordination. We have

also been actively involved in organising the defence of the city since 2014, though. Our enterprises prepared bomb shelters and stocked up on food, water, communications, generators and so on. That preparation was rather meant for our employees and their family members. But when the invasion began on 24 February, the military took over. My understanding is that they assessed the level of preparation and realised that it was one of the most prepared places.

- Could you tell us where the management of the Mariupol enterprises were and what they were doing in the early days of the war? I read on social media that the general director of Azovstal, Enver Tskitishvili, was in Italy. Is this true? Where was the general director of Ilyich Steel, Taras Shevchenko?

- Both of our directors were in Ukraine, in Kyiv, on 24 February. We had a top management meeting scheduled for that day.

- What are they doing now?

- Both are working at the Group and in Ukraine. Taras Hryhorovych [Shevchenko] is in Zaporizhzhia. He will be moving on to a new position soon. Enver Omarevich [Tskitishvili] is now working as a consultant to our operations directorate. Aside from this, he is also helping to put in place staff training methods, something he has always enjoyed. They are not of conscription age, unfortunately... or fortunately. That is why they travel abroad from time to time.

- Where are the employees of your Mariupol enterprises now?

Metinvest's entities in Mariupol employed 35,000 people. Of these, about half have made contact with the Group. Most of them have left for Ukrainian-controlled territory. More than 1,000 people have already been employed by our enterprises. Two thousand more are being retrained. I think they will also join our teams in Zaporizhzhia, Kamianske and Kryvyi Rih. Unfortunately, currently, we have no contact with the other half.

Based on circumstantial information, we understand that most of them either stayed in Mariupol or left for the non-controlled territories or Russia.

- Why didn't the other half of the people leave for Ukrainian-controlled territory? Is it because of political convictions or a lack of opportunity?

- There is no one particular reason. On one hand, we understand that there has always been certain pro-Russian sentiment in Mariupol. According to our estimates, between 15% and 20% of Mariupol residents actively sympathised with Russia. That's really not much for an entirely Russian-speaking city that was full of newcomers from the Krasnodar region, the Rostov region, Taganrog and so on after World War II. These are the people who actually stayed because of convictions.

Also, many people were simply afraid to move to a new place: they didn't want to start life from scratch. They decided that they would stay in the city, where they had housing, relatives and parents who refused to leave.

- Even given that conditions in Mariupol are not perfect.

- I suspect that more is yet to come...

- It's not winter yet...

- In Mariupol, the worst month is November, when the winds and temperature fluctuations are strong. I cannot imagine how people will live without heating, normal water and sewage.

- Mariupol TV president Mykola Osychenko recently announced a tragic estimate that more than 80,000 Mariupol residents have been killed. Do you have any estimates of the number of Group employees killed in Mariupol?

- Sadly, more than 420 employees of the Group and their family members have been killed and nearly 500 have been injured.

- Are they Mariupol residents specifically?

- Not only. About 300 of them were Mariupol residents, and, overall, more than 420 employees of the Group and joint ventures and their family members have been killed. These are the people about whom we have confirmed information. Among them were 80 Metinvest employees who served in the Armed Forces of Ukraine.

- I am going to ask a few questions about Metinvest's relationship with the aggressor country. What about your assets in Russia and Belarus?

- On February 24, a decision was taken to liquidate them. We had only sales assets there: Metinvest Eurasia and Metinvest Distribution. The operational teams there have been given instructions regarding liquidation.

- Russian and Belarusian top managers have been working at the Group. What about them now?

- Not just top managers. We had quite a few professional managers who were citizens of Belarus or Russia. Many of them had been with the Group for more than 10 years. After 24 February, most of them were either laid off or chose to leave.

- Is it dozens or hundreds of people?

- It was definitely more than a hundred, and now there are only a few. Basically, these are the people who condemn what is happening. Many have acquired another citizenship.

- What are your relations like with the second group of Zaporizhstal shareholders [there are foreign investors in the ownership structure]?

There have been no relations, and for a long time already. We interact only during our regular meetings of shareholders.

- But the ownership is almost 50:50. Decisions need to be made.

- Not really. It is possible to make decisions without a significant group of shareholders if there is support from minority shareholders.

- Now that the Economic Security Bureau has become more active, don't you see risks that the share of the second group of shareholders may be frozen if they are found to be related to Russian business, and transferred to the Asset Recovery and Management Agency? Or on the contrary, is it not a risk, but an opportunity?

- Such decisions and comments regarding them are exclusively the prerogative of the state. We do not see any risks or opportunities in this yet. While Zaporizhstal is an enterprise that requires a serious investment programme, some of its shareholders were not ready to invest. Therefore, certain state decisions may create an opportunity to develop the mill.

- What are the prospects for increasing production at the GOKs and metal assets of the Group? Can only unblocking ports help?

- There are several areas where we work. Of course, unblocking ports is a crucial story. If a way to unblock ports for metals and mining products is found, this will lead to a positive result in terms of enterprise utilisation. But this is rather a geopolitical and state issue, in which both the president and Ministry of Infrastructure are actively involved.

Another area is the construction of a new plant in the EU that could process our iron ore, creating an opportunity to sell Ukrainian products for export.

- But in any case it should be exported.

- There is a location option where the ore can be exported using existing logistics capabilities. Or we can expand our logistics capabilities to deliver this ore there.

At the same time, we are looking at projects that could be implemented at Zaporizhstal and Kamet Steel. This can also support de-bottlenecking, especially in the production of high-quality rolled products. It will enable enterprise utilisation to be increased. In August, we tested the production of high-quality blast-furnace pellets at Northern GOK. It is even possible to master it to the level of DRI pellets [a raw material that has a high Fe content and can be used in the DRI process - NV Business], which was previously produced only at Central GOK.

However, serious investments in enterprises in Ukraine now, especially with a long payback period, are almost unrealistic.

In my personal opinion, until the war ends with a convincing victory for Ukraine...

- In which form?

- It does not have to be [Russia's] capitulation, but some kind of convincing point at the end of the war, not the Minsk agreements. It should be something much more serious with security guarantees – not the Budapest Memorandum – but real security guarantees for Ukraine. Until such a point is set, there will be no serious

investments in the country from external investors, this is simply impossible.

Therefore, in our country, the active investment phase will begin only after the end of the war.

- You mentioned a construction project in the EU. Earlier it was announced that it could be Italy or Bulgaria. Now you have clarified that this is not just a rolling facility, but with ore processing. That is, there will be blast-furnace and steelmaking capacities?

- Initially, we had the idea of a rolling facility. It was based on Azovstal slabs, however, and they will not be available in the near future. Therefore, we began to look at another area based on DRI raw materials and electric arc furnace production.

- Is it realistic to find financing for such a project, given the excess capacity in the world?

- There is no excess capacity in the EU: it is a net importer.

Steel is a strategic product; everyone is trying to be self-sufficient in steel. At the moment, Azovstal and Ilyich Steel have left the European market, and Europe has huge problems with flat products. They cannot replace them quickly. At the same time, a new package of sanctions is currently being discussed. The way for Russian semi-finished products to Europe will be more likely closed. This will lead to even more shortages. So, these are incentives showing the necessity to create new steelmaking capacity in Europe. At the same time, today, there are all the technologies to make so-called "green" steel, with minimal emissions.

- It's probably easier for me to name a Russian company that still supplies slabs to Europe: Novolipetsk Steel. How likely is it that the Europeans will close this gap for the supply of Russian rolled steel?

- How likely is hard to say. We thought that this would be included in one of the first packages of sanctions, because this is direct financing of the aggressor's economy, that is the first point. Second, these are somehow anti-competitive actions in relation to those who are not ready to sponsor the economy of the aggressor country. For example, Metinvest's Italian plants will not use Russian slabs under any circumstances. And this means that we will be in a worse competitive position compared with those who are ready to sponsor the aggressor country and buy these slabs. Therefore, I hope that the European Commission will listen to these arguments. Here, the Ukrainian government should step in with the arguments: the Ministry of Economy and Ministry of Foreign Affairs. And I know that they do this all the time. I hope they are heard.

- You said that you cannot use Russian slab. Nevertheless, you have been able to almost completely utilise the rolling facilities in Italy and the UK. What was used to replace the slab from Azovstal and Ilyich Steel?

- We have a few sources. We purchased slabs in Southeast Asia and looked at Brazilian ones. We purchase European slab. For example, from Acciaierie d'Italia Holding in Taranto (former Ilva). We are negotiating with US Steel in Kosice and with Liberty Steel. We are looking for small batches of slabs.

In addition, we are mastering slab production at Zaporizhstal. This is rolled slab, but we already have the first successes. Moreover, we have intra-group synergies. We produce an ingot from BOF steel at Kamet Steel, and then we roll the slab at Zaporizhstal. At the European assets, the slab is rolled into sheets.

- So, when producing a sheet from Zaporizhstal rolled slabs, more issues arise about the quality and characteristics of open-hearth steel than about the casting method? Do you address these issues by using BOF steel from Kamet Steel?

- We do.

- How safe is it to mine coal in Pokrovsk now?

- From a safety point of view, Pokrovsk is similar to Zaporizhzhia or Kryvyi Rih. Basically, they are all the same distance away from the front line, 40-45 kilometres. Therefore, it's somewhat funny to ask about operational safety in Pokrovsk, while not raising the same question for Kryvyi Rih and Zaporizhzhia. Unfortunately, none of the cities is safe today.

The situation in Pokrovsk is more complicated because of humanitarian issues.

- No gas and electricity?

- I don't think Pokrovsk will have problems with electricity, whereas heating will be an issue. Together with the local authorities, we are working hard on it by focusing on preparing places where our employees can stay and be warm. Moreover, heating can be made available using coal that we have purchased.

- Could the mandatory evacuation from the Donetsk region affect the operations of the asset?

- It is affecting them. However, we've been helping our employees to evacuate their families to safer areas (from a humanitarian point of view). For the employees and their family members who decide to remain and continue working, we arrange similar places in Pokrovsk.

- How do you get coke once Avdiivka Coke has been shut down?

- We have three coke plants that we can use. Two of those are located in Kamianske and one in Zaporizhzhia, the latter being technologically connected to Zaporizhstal. There are two other coke plants where we supply our coal for processing, let's put it this way, and get coke from there. These are Arcelor Mittal in Kryvyi Rih and the former Petrovsky DMZ in Dnipro. Given the current utilisation of the steelmaking facilities, their capacity is sufficient for us. Should we increase production, we will have to look for extra coke.

- In spring, the Group announced that each asset is becoming an independent business unit. Has this worked out well?

- As always, in times of crisis, it is better that the enterprises can have the possibility of making decisions quickly and more efficiently. So, it's been working out well. In the current situation, we are shifting the focus to finding synergies among our enterprises.

- The Group has been active in communicating about the piracy by Russians in the ports of Mariupol. Were there any other finished goods that were seized and taken out?

- The Mariupol sea trade port became the main target, as there was over 234,000 tonnes of steel products. There were also warehouses at Ilyich Steel and Azovstal. The value of the products that remained in the occupied city is over US\$150 million.

- Is this estimate based on March prices?

- It is. We also worked and continue to work in cooperation with the port of Mykolayiv; however, most of the goods had already been shipped from there, and the remainder will soon be shipped to be sold.

- I heard about the products that were manufactured in the occupied territories (at Yenakiieve Steel, Makiivka Steel and Alchevsk Steel), then taken to Russia, re-marked and exported somewhere. There are also rumours that Russian steel goods are "turned into" Turkish goods and go to Europe. Since Metinvest operates in different markets, do you have any documented proof of such cases?

- If we are talking about steel products manufactured by Metinvest at its plants in Mariupol, they all have the necessary markings and can be tracked. Therefore, I doubt that they would do anything like that to those steel products. They would rather find a way to use them in the Russian market.

If we are talking about the steel products that were manufactured using our equipment after control had been lost, in theory, with some sort of Russian certificates attached, those products could be re-marked and shipped. We are trying to track everything. We report the cases that become known to us, and we write letters to our customers so that they don't buy this metal. While I will not give any specific examples, we know that some of those steel products are manufactured in Yenakiieve and Alchevsk. Those steel products are most likely supplied somewhere. Pig iron, for instance, is hard to link to a particular steel plant.

- And, therefore, hard to prove.

- Exactly, it is hard to prove. Political history and partnership history are more at work here.

As for the Russian steel that, like you said, is "turned into" Turkish steel... I don't have any proof of that, but I assume that the process there is even more complicated. For instance, Russian slabs are supplied to Turkey. Turkey uses them to produce Turkish coil or plate and supplies those to some other place.

- Legally speaking, it is a different product, isn't it?

- It is a different product. It is rather a loophole that I hope the European Commission and other countries will gradually close in Turkey.

- What is the situation with the Group's payables? You declared force majeure in spring.

- Actually, we did not declare force majeure with respect to our payables. Unlike many Ukrainian issuers, we continue to service our entire debt portfolio, including scheduled payments on Eurobonds. I think we will be able to do that. Moreover, we significantly reduced our credit portfolio last year.