

Dmytro Nikolaenko: "The strategic goal is to develop client service"

The current year is still not over, but there have already been several significant events at Metinvest Holding. Among these are the completion of deals for the acquisition of new production assets and the growth of sales of metallurgical products by 38% overall and by 14% on the domestic market. In addition, as recounted by Dmytro Nikolaenko, director of sales at the holding, thanks to the development of cooperation with Ukrainian producers, the company succeeded in improving its positions in the long products segment and stabilised the supply of rebar to customers on the "home market".



The Group's future plans are linked to further strengthening of its positions on the Ukrainian and global markets, both through the improvement of production processes and through an integrated programme for the transformation of sales with the goal of developing client service.

Dmytro Volodymyrovych, how do you evaluate Metinvest's interim results since the beginning of the year?

The first half of the year was successful for all market players: Global steel prices rose against a backdrop of stable demand in all regions. Metinvest's sales in the metallurgical sector grew by 38%, primarily from pig iron, slabs and square billets.

Sales of iron ore grew insignificantly and this is linked to the re-orientation of volumes from Asian markets to higher-margin ones in Europe and Ukraine.

Turning to the domestic market, we succeeded in increasing product sales in Ukraine by 14% thanks to increased demand for flat and long products in key, steel-consuming industries, such as machine building and construction.

How have the Group's positions changed on the market for long products and rolled plates in Ukraine, taking into account the increase in sales?

In comparison with last year, our positions are unchanged across all product groups, with the exception of rebar. We have a stable presence on the market with products from Azovstal. We supply

[rolled products](#)

and wire from our partner, Dnepr Steel Plant. These volumes allowed us to compensate for the lost capacity of Yenakieve Steel. The sale of steel sections made at the Promet Steel plant in Bulgaria is covering the requirements of our key clients and partners in the regions.

This year we also succeeded in establishing stable supplies of square billets produced at ArcelorMittal Kryvyi Rih. We also plan to further develop the relationship with this producer and plan to increase the supply of square billets

through our sales network.

Does the Group require importation of rebar to Ukraine for the development of market positions in this segment?

At present we are not considering the importation of rebar as a means to increase sales. We are satisfied with our cooperation with ArcelorMittal Kryvyi Rih and planned to expand it. Today the domestic production fully maintains the needs of our network and partners in the regions.

In what other product segments are the Group developing its business? What are you undertaking for this?

Capital expenditures have increased nearly two-fold compared with the same period in 2017, demonstrating that we are actively implementing projects within the framework of the company's Technological Strategy. The goal of the strategy is to increase the quality of our high-quality products.

Another key project in the first half of 2018 was the completion of the first stage of the reconstruction of the hot-rolled coil mill at Ilyich Steel. A new heat-treatment furnace was launched and a new heavy-duty coiling machine was installed. The implementation of project allowed for an increase in the weight of hot-rolled coils from 9.5 to 16.5 tonnes. In 2019, we plan to begin the output of 27 tonne coils.

In 2017, we were limited by the casting capacity of Ilyich Steel. At the end of 2018, we anticipate the launch of continuous casting machine no. 4 with a capacity of 2.5 million tonnes of premium-segment cast slabs. With the launch of the unit, the plant will be able to increase productivity to 4 million tonnes per year.

One of the promising segments for the company remains coated steel, which projects were implemented in this area?

In September of this year, we completed a deal for the acquisition of Unisteel (Kryvyi Rih), a producer of galvanised steel. The deal strengthened our profile of high-margin products and permits us to work on the development of sales with Ukrainian and European products. The Metinvest product line was supplemented with galvanised steel with a thickness of 0.4-2.0mm with zinc covering from 60 to 350g/m². The capacity of the plant is up to 100,000 tonnes of galvanised steel per year. Among the additional advantages of this product is the environmental technology of production and compliance with requirements of the European market. This expands our ability to supply products to European partners.

Has the strengthening of global protectionism impacted sales volumes and the Group's positions on the international market?

The introduction of tariffs on hot-rolled steel on the European market had a negative impact on our sales. In 2017, the volume of deliveries of hot-rolled steel to the EU from our Ukrainian enterprises contracted by nearly half, to 0.6 million tonnes, and in the first half of 2018, supplies fell to a minimum level of less than 40,000 tonnes. But we re-directed volumes to the markets of North Africa, the Middle East, Turkey and other countries.

At the same time, we have stable sales volumes to Europe of plates and cold-rolled steel.

A direct indication of the differentiated approach to duties in the EU was disproportionate strengthening of a range of other importers to the EU, in particular Turkish suppliers (the growth of imports to the EU since the beginning of 2018 was more than 35% compared with the same period last year) and selected Russian companies (import growth doubled over the same period).

Under these conditions, has the sales strategy of the Group on the European market changed?

If we are talking about sales strategy, we are actively developing the European distribution network and working on the opening of new metals service centres in key regions for us in the EU. Plans include the integration of a line for cutting coils in our supply chain on the markets of Eastern Europe and Italy, as well as cutting and the further treatment of the surface of the sheet.

The preferred development model of the metal service centres for us is strategic partnership with existing operators on the market. Today, we are conducting talks with a series of potential partners who are interested in long-term cooperation with Metinvest.

What key goals has the Group set for 2019?

As I already said, we are continuing to strengthen positions in Europe and grow the share of high value-added products, to modernise production and launch new products.

As regards the company as a whole, we have a strategic goal of developing client service, which will become our additional competitive advantage. This year, we started the MiClient customer support programme. This is an integrated programme for the transformation of sales where the client is the working centre of any service in the company.

We are concentrated on the project for improving customer experience. We are committed to making the buying experience at Metinvest the most comfortable for the client. In order to achieve this, we are increasing the efficiency of the sales process and developing the service structure within the organisation and making the whole process transparent through the use of modern IT tools.

This year we introduced several initiatives valued by customers. For example, we introduced the option of in-time delivery for key markets. This flexibility allows the client to reduce the time required for project implementation and provides the ability to efficiently manage working capital.

Another example is a new technical service for customers. It is designed to solve systemic problems for the customer in processing metal products. Our team of technical experts helps to adapt the product to the client's needs and make products meeting the most complex requirements for chemical content, mechanical properties and set up the client's equipment to work with our product.

What new services can the Group's clients expect in the future?

Near-term plans include the introduction of several IT projects, such as electronic document management and a personal online account for the customer. The goal of the projects are to increase the transparency of joint work and optimise, to the maximum extent, operational processes for completing deals and provide prompt support in real time. For example, after the introduction of the "personal account" project, any client will be able to look at their warehouse stock, independently configure their order and generate an invoice. There will also be options for tracking orders in process, logistical routes and delivery dates for goods. The electronic account will have saved in a convenient format all information about the client's previous cooperation with Metinvest, including every order and a historical database of prices. We plan that clients will be able to use a portion of these services already by 2019.

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