METINVEST

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Yuliya Dankova: “Metinvest has refused tax benefits since the beginning of the war, understanding that Ukraine needs these funds to achieve victory”

In an interview with dsnews.ua, Metinvest’s chief financial officer spoke about business restructuring, community support and tax payments.

In its article “

Tax Shield. How business and citizens work for defence

”, dsnews.ua wrote that the money supporting the army comes from Ukrainians, primarily our citizens and businesses that operate in the country.

Most of the country’s financing comes from taxes. The State Treasury Service reported that tax revenues accounted for 61.2% of consolidated budget funding (state and local) in 2022, compared with 53.2% in the first eight months of 2023. For the state budget alone, taxes accounted for 53.1% last year versus 44.9% this year.

The largest sources of tax contributions to the state budget were VAT (21.4%), personal income tax (6.6%), excise duty (6.5%) and corporate income tax (6.2%).

What do these numbers tell us about the business community’s contribution? The State Tax Service publishes a brief breakdown of revenues by industry. According to its figures, in January-September 2023, manufacturing and trade paid the most to the budgets of all levels.

How can physical resources and money be combined in the struggle for victory? One of the greatest and most revealing cases is Metinvest, a metals and mining group that lost perhaps more capacity last year than any other business in Ukraine, including plants in Mariupol. However, the Group has managed to rebuild the business and created new supply chains for exporting products. The main factors that have helped Metinvest to stay afloat are the independence of its foreign assets, delegation of authority to people on the ground in Ukraine, and support for employees, civilians and the Armed Forces of Ukraine. And it continues to work for victory and remains one of the largest taxpayers in Ukraine. In the first half of 2023, the Group paid over UAH6.3 billion in taxes. The phrase “working for victory” has not only a financial meaning but also a physical embodiment. The Group has provided heavy machinery for digging trenches and building fortifications, supplied anti-tank hedgehogs to the Defence Forces and armoured steel, bulletproof vests and other critical items to soldiers.

As part of the “Tax Shield” special project, DS discussed companies that, despite the many challenges of the times, are developing their business in Ukraine and making significant contributions to the state and, hence, the Ukrainian army, because all internal financial resources are used for security and defence. The publication spoke with Yuliya Dankova, CFO of Metinvest, a group of companies that has suffered perhaps the most significant losses from the hostilities but remains among the top taxpayers.

- The war has damaged some of the Group's facilities and has made it significantly more difficult to export steel products. Nevertheless, Metinvest remains one of the largest taxpayers in the country. How have you stabilised your operations? Are production and sales improving?

- Indeed, Metinvest has lost control of two large steel plants in Mariupol and suspended production in Avdiivka because of the war. These and other challenges that we continue to overcome have forced us to rebuild our business to survive.

First, we ensured that our foreign operations could function on a standalone basis, as our vertically integrated structure was disrupted. Before the war, Mariupol-based plants supplied semi-finished products to our rolling mills abroad and coal concentrate was shipped from the US to Ukraine. Today, Metinvest's assets in Italy, the UK and the US operate as independent businesses. The coal mines in the US have reoriented their sales to the domestic and export markets, while the rolling mills buy semi-finished products on the open market.

We have also sought to care for the employees who keep the production process running. All our enterprises have bomb shelters equipped for prolonged stays. The bomb shelters have water, food and medicine.

Ukraine's Black Sea ports, through which raw materials and steel products have traditionally been exported to Asia and Europe, are blocked by the Russians. That is why we have rebuilt our logistics chains. We now supply raw materials to European countries by rail and ship products by sea from eight European ports in Poland, Croatia and Romania. The Group has completely reoriented all its metal exports to the European market.

In terms of production, our steel plants are currently operating at 65-75% of capacity, and our mining and processing plants at 35-40%. In the first half of 2023, Metinvest produced over 1 million tonnes of steel, 4.75 million tonnes of iron ore concentrate and more than 3 million tonnes of coal concentrate.

- As for the tax burden, how has it changed compared with pre-war times? What have been the trends and key drivers of these changes?

- For Metinvest, 2021 was a rather successful year in terms of production and financial performance. This allowed us to create a certain safety margin that helped the Group to survive the first months of the war. In 2021, the Group paid UAH52.7 billion in taxes and duties to the budgets of all levels in Ukraine, including almost UAH33 billion in income tax.

Of course, the current tax volumes are far from pre-war levels. We have lost the Mariupol-based plants, which accounted for almost 50% of Ukraine's production and metal exports. Avdiivka Coke has also suspended operations. In addition, the port blockades make it extremely difficult to export iron ore. All of this is reflected in the income tax.

Meanwhile, there has been a certain positive dynamic in personal income tax. In the third quarter of 2023, the Group increased its payments by 12% quarter-on-quarter. This is because even amid the war, Metinvest has paid partial bonuses to employees for the previous year and implemented a 25% team bonus this summer for employees of production and repair facilities in Ukraine.

- We know that iron ore exports from Ukraine has decreased significantly. What are the trends of Metinvest's royalty payments?

- Compared with steel products, the situation with iron ore is much worse. As a result of the hostilities, in summer 2022, Ingulets GOK, Northern GOK and the Southern GOK joint venture suspended ore productiontemporarily.

Due to the inability to export iron ore by sea, we have been forced to significantly reduce the utilisation of our GOKs [mining and processing plants] in Kryvyi Rih. Currently, raw materials are being exported through western border crossings to consumers in Europe and further to European ports, although overall exports are significantly lower than before the war.

The distance to EU ports is three times longer than that to Ukraine's Black Sea ports. It means that logistics costs are four to six times higher than before the war. Royalty payments are declining against this backdrop.

While Metinvest's subsoil use payments totalled UAH3.2 billion in 2022, they were UAH1.5 billion in the first nine months of 2023. The royalty payment for iron ore production in January-September 2023 was UAH184 per tonne.

- Your business is linked to specific cities and communities. How much does the Group contribute to local budgets? Have you used any tax benefits? More generally, how do you help the cities where you operate?

- Metinvest’s businesses have always cared about the communities in which they operate, and we continue to do so. Since the war started, our priorities have changed somewhat. While before, we used to allocate funds for social infrastructure, education, sport and culture, we now support the army, provide humanitarian aid and, of course, take care of our employees and communities.

Despite the hostilities, we helped to evacuate around 20,000 people from the cities where we operate, Mariupol and Avdiivka. The Group prepared temporary shelters for the displaced people and provided food, essential products and medicines for them.

We currently focus on physical and psychological rehabilitation, reintegration of veterans returning from warinto society, as well as retraining and employment.

Since the beginning of the full-scale invasion, the company has refused tax benefits to which it is entitled by law and pays taxes in full. We understand that communities and the country as a whole need these funds to fight for victory. In the first nine months of this year, Metinvest’s tax payments contributed over UAH2 billion to the budgets of the six cities where it operates, including UAH750 million to Kryvyi Rih, UAH640 million to Zaporizhzhia, UAH524 million to Kamianske, UAH242 million to Pokrovsk and UAH9 million to Avdiivka.

Since the initial days of the war, we have been helping Ukraine’s defence forces to deter the Russians. Metinvest has been making steel products for the frontline and has become one of the largest donors to the Ukrainian army among private businesses in the country. Almost UAH4 billion has already been allocated to support the country and its citizens, including UAH2 billion for the needs of the army.

- There are encouraging updates that not only grain but also steel products have started to be shipped across the Black Sea. What can the Ukrainian steel and mining industry expect in the near future? What changes is Metinvest preparing for?

- After the first ships with grain and metal left Ukrainian ports, there was indeed cautious optimism that it might be possible to resume exports in full. Our military and the relevant ministry have worked hard to make this happen. However, this is not yet a stable route that we can rely on. It will require considerable effort from the state and the business community to turn this temporary corridor into a full-fledged route.

The resumption of maritime exports is particularly important for the mining industry. Before Russia’s full-scale invasion of Ukraine, the bulk of iron ore exports went by sea to China through the Chornomorsk, Odesa and Pivdennyi ports, while only 10% went to Europe. Therefore, there is no other option but to open these ports. When the Black Sea ports reopen, there should be a significant increase in transportation, although the availability and cost of the fleet and port facilities will be important factors.

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