
Race for Kryvorizhstal – Winner is Mittal Steel

Tuesday, 25 Oct, 2005

The world's largest steel producer, Mittal Steel, bought Ukraine's biggest steel plant Kryvorizhstal from the state in a televised auction October 24 for more than \$4.8 billion well above what analysts had predicted and more than five times what former President Leonid Kuchma's son-in-law and another Ukrainian tycoon paid for the mill in 2004 a sale that Mr Yushchenko called a theft and that was annulled after he became president this year.

Competing against Netherlands-based Mittal was the Industrial Group Consortium, which brings together the Industrial Union of Donbass and the world's second largest steel producer, Luxembourg based Arcelor SA, as well as the Ukraine registered LLC Smart Group.

The televised auction began with all three companies sticking sealed envelopes in a glass bin. State officials pried open the case and using scissors and sliced apart the envelopes to read the starting bids. The consortium linked to Arcelor had offered the highest starting price, 12.6 billion hryvnya about \$2.5 billion. The sale then went to an open auction. Bidding was feverish. Representatives of the three competing companies sat at separate desks and raised white placards to hike the price up in 100 million hryvna about \$20 million increments. The main bidding soon was between Mittal Steel and the Arcelor consortium. As the bidders raised the price, people in their teams frantically worked the phones. The mood was tense, with the auctioneer repeatedly going down to "one ... two ..." before a bidder stepped in and raised the price again. The total bidding process lasted 40 minutes and Mittal Steel gave the final bid of \$4.8 billion to win the race

Mittal gains a major low cost steel mill in Ukraine having own iron ore and coal, after losing out earlier this month in the auction for 49 percent of Turkish Erdemir by paying a hefty premium. "They are going to have a tough job explaining to the market why this premium is justified," said Mr Andrew Snowdowne, an analyst at UBS in London.

The decision to sell such an industrial gem, however, was not universally popular. Some 150 protesters gathered outside the State Property Fund, which conducted the sale, chanting and holding placards reading: "The People Own Kryvorizhstal." A metal fence was erected around the building, with police and community volunteers, wearing orange, standing guard. Parliamentary critics twice last week mustered enough votes to press the government to halt the sale of the 93.02 percent stake in the mill, but Mr Yushchenko shrugged off their nonbinding appeal, just as he has the legal challenges waged by the mill's former owners. The head of the State Property Fund, Ms Valentyna Semenyuk, a Socialist Party member, has also made her displeasure over the sale known. She was hospitalized over the weekend, her office said, and did not participate.

Legal appeals by the Pinchuk-Akhmetov consortium were rejected, but one appeal is pending before Ukraine's Supreme Court. The two tycoons have also launched a challenge before the European Court of Human Rights. Last week, a U.S.-based investment group, acting on behalf of the former owners, sued in U.S. District Court in Manhattan in a bid to stop the resale. "The investors must stop and think," Pinchuk was quoted as telling the news Web site Ukraynska Pravda. "Say you want to buy an apartment but you are told this apartment is the subject of a court case. Will you risk buying this apartment? I don't think so."

"This is a huge amount of money and it shows how unjust the first sale was," said Mr Timothy Ash, MD Stearns International. The winning bid represents 6.8 percent of Ukraine's probable 2005 gross domestic product, he said. The sale of Kryvorizhstal, which produces 20 percent of Ukraine's entire metal output, becomes the single largest foreign investment ever in this former Soviet republic. It also brought in 20 percent more cash than all of Ukraine's other privatizations combined, Mr Yushchenko said.

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