

ArcelorMittal eyes buys in Ukraine

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By Sabina Zawadzki

KRYVY RIH, Ukraine (Reuters) - ArcelorMittal stands by its \$800 million bid for an iron ore plant in Ukraine and plans to invest \$2 billion at its Kryvorizhstal steel complex by 2012, a senior company official told Reuters.

The world's largest steel company bid for the unfinished, Soviet-era KGOKOR plant in 2006, but the tender is blighted by a face-off between the government and President Viktor Yushchenko, who ordered a halt to any dealings relating to the sale.

"We offered about \$800 million to complete the project," ArcelorMittal Ukraine General Director Narendra Chaudhary said in an interview at the complex on Tuesday. "And then for some reason we don't know what happened. We have tried to find out what was wrong with our offer. Apparently our offer was the best."

Privatisation is sensitive in ex-Soviet Ukraine. Before its merger with Arcelor, Mittal Steel entered Ukraine in 2005, buying the Kryvorizhstal complex for \$4.8 billion after a prior \$800 million deal done by Ukrainian firms was ruled illegal.

Yushchenko stopped any dealings on KGOKOR two weeks ago after a report that security services were probing whether it had already been illegally sold. Making no reference to his orders, the government later said it would continue the process.

"They (the government) came up with the idea that it would not be privatized ... they tried to bypass privatisation," Chaudhary said. He said he hopes the presidential order would restore a "transparent process".

Another representative for ArcelorMittal in Ukraine said the company had notified the government that it was willing to modify its bid, which was for a joint venture with the state who would keep 50 percent plus one share of the plant.

He said ArcelorMittal has preliminary agreements with Romania and Slovakia -- who invested in the plant during the Soviet era. Romania now has 28 percent of the plant, Slovakia 15.6 percent and Ukraine 56.4 percent.

Construction of KGOKOR began in 1983, after new technology was found that could process a specific type of iron ore found in Ukraine and neighboring countries that is difficult to process into saleable products.

Chaudhary said about half of the iron ore dug up at Kryvorizhstal is dumped, and there are now about 1 billion tonnes of this unused material around the complex and neighboring mines which KGOKOR would be able to process.

Russian miner and steel maker Metalloinvest, controlled by billionaire Alisher Usmanov, and Ukraine's Ferrexpo Poltava Mining (FXPO.L: [Quote](#), [Profile](#), [Research](#)) have also expressed interest in KGOKOR. Three Ukrainian metal firms indicated they may bid in a joint venture.

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Chaudhary said investment would continue at Kryvorizhstal, Ukraine's largest steel plant. The complex dates back to the 1930s and still boasts statues of Lenin and Communist-era murals urging higher steel production for the motherland.

"By 2012 we want to expand the capacity of the plant to over 12 million tonnes of saleable products," he said, seated in a company building in Kryvy Rih where Ukrainian food and vodka was served to visiting journalists and foreign officials.

"We expect the investment to be over \$2 billion."

In 2005 the complex produced 6.1 million tonnes of saleable products. It wants to increase iron ore production to 30 million tonnes by 2010 from 16 million tonnes in 2005, and of coke to 5.2 million tonnes by 2010 from 2.7 million two years ago.

Kryvorizhstal, in central Ukraine, is ideally located to export steel to other ex-Communist countries, the Middle East and Africa due to its proximity to the Black Sea. Ukraine also borders the large European Union and Russian markets.

The complex uses coal in its energy-intensive operations, not gas, which it deems too expensive. The company said in a presentation the complex aims to become self-sufficient in coal.

"The group's strategy is to acquire or participate in coal mines in Ukraine and Russia," the presentation read.

Street protests in Kryvy Rih, a sprawling dusty city claiming to stretch for 125 km, accompanied Mittal's arrival as workers worried about job cuts and reduced benefits.

Jobs have been reduced - over 45,000 people are now employed at the complex, compared to 57,000 people in 2006. Productivity has risen and the average monthly salary jumped to almost 2,500 hryvnias (\$500) from about 1,500 hryvnias in 2005.

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