

Earth-shaking steel deal leaves Dofasco up in the air

In Mittal's \$22.8-billion (U.S.) bid for Arcelor, Hamilton firm goes to Thyssen

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With files from reporter Gordon Pitts and Associated Press.

The ink was barely dry on **Arcelor SA's** purchase of **Dofasco Inc.** when the Canadian steel company found its future up in the air again as its would-be buyer became a target of the world's largest steel maker in a hostile bid that could transform the industry.

Arcelor, the predator in the Dofasco bidding, became the prey yesterday as **Mittal Steel Co.**, the world's largest steel maker, made a hostile \$22.8-billion (U.S.) takeover bid for its Luxembourg-based rival and agreed to flip Dofasco to **ThyssenKrupp AG**, which appeared to have given up its own bid for Dofasco just five days ago.

The Mittal play shocked steel industry executives around the world.

"The size and boldness of these moves is just stunning," said Denis Turcotte, chief executive officer of Algoma Steel Inc. in Sault Ste. Marie, Ont.

The deal would combine the two largest global players to create a giant capable of shipping more than 100 million tons of steel annually. It would be more than three times the size of the third-largest steel company, Nippon Steel Corp. of Japan.

"This is not about creating a giant," Mittal chief executive officer and chairman Lakshmi Mittal told a news conference in London. "It's about creating the sustainability of the steel industry."

Arcelor's \$71-a-share purchase of Dofasco will go ahead, but if Mittal is successful, it will sell Canada's largest steel maker to ThyssenKrupp for \$68 a share. The German steel maker bowed out at the \$68 level on Monday and Dofasco signed a support agreement with Arcelor.

Dofasco chief executive officer Don Pether first heard about the deal in the elevator heading up to his office at the company's headquarters in Hamilton yesterday morning.

ThyssenKrupp made a courtesy telephone call to Mr. Pether later in the morning.

Sources close to Arcelor said it was first approached about six months ago by Mittal about a possible merger. It is understood Arcelor rebuffed the overture.

Sources close to ThyssenKrupp said the German steel maker was approached about 10 days ago by Mittal with a plan to sell Dofasco as part of a pending bid for Arcelor. It is understood that Mittal was seeking an immediate buyer for Dofasco to minimize antitrust concerns stemming from the marriage of the world's largest and second-largest steel makers.

Mittal was willing, sources said, to sell Dofasco for \$3 a share less than Arcelor is paying so that it could immediately show regulators that it had a buyer lined up for the Canadian steel maker.

The move by Mittal comes as steel makers find themselves caught in a classic squeeze between suppliers and customers.

Three mining giants control about 70 per cent of the world's water-borne iron ore supplies and raised prices by 72 per cent last year to their steel company customers. Another handful of companies controls about 40 per cent of the world's supply of coal, also a key ingredient for so-called integrated producers that make steel mainly the old-fashioned way, using a blast furnace.

On the other side are auto makers, voracious consumers of steel, but locked in a vicious price war and relentlessly beating up their suppliers to cut costs.

Charles Bradford, an independent steel analyst based in New York, described the deal as "absolutely brilliant."

Arcelor paid \$1,200 a ton for Dofasco, Mr. Bradford said, while Mittal is paying \$450 a ton for Arcelor.

By selling Dofasco to ThyssenKrupp, Mittal picks up an ally in the price battles with iron ore producers on one side and the car companies on the other. Mittal also picks up some money to finance the share-and-cash transaction with Arcelor.

Mittal could also gain a new source of iron ore through Quebec-Cartier Mining Corp., which Dofasco purchased last year.

The deal would be the largest yet in the steel industry. The two giants were themselves created by massive mergers.

Arcelor is a combination of steel makers from France, Spain and Belgium. Mittal grew up as a merger of two of Mr. Mittal's companies with International Steel Group Inc., which rose from the ashes of the bankrupt LTV Steel Corp. and Bethlehem Steel Inc.

"I think the industrial logic of it from both sides, from Mittal and Arcelor, is impeccable," said Wilbur Ross, the brains behind the creation of ISG and a member of Mittal's board of directors.

"This creates a better-rounded company than either one would have been previously. . . . Really, with the exception of the fact we are in China to a limited degree and Arcelor to a very limited degree, it really is a very well-positioned combined company from a geographical point of view, from an upstream versus

downstream finishing point of view, and from a raw materials supply point of view."

Analysts predict more industry consolidation as the deal unfolds.

"It's a mammoth event," said industry consultant Michael Locker, who heads Locker Associates Inc. in New York. "It's unbelievable in terms of the implications."

The early morning announcement out of Europe sparked a feeding frenzy in the shares of steel makers in Europe and North America.

Shares of ThyssenKrupp and fellow Germany company Salzgitter AG rose, as did shares of Corus Group PLC of Britain.

Buyers snapped up shares of United States Steel Corp., AK Steel Corp., Nucor Corp., as well as Algoma and Regina-based Ipsco Inc.

Even shares in **Stelco Inc.**, Dofasco's neighbour in Hamilton, rose 3 cents yesterday to 17 cents, even though Mr. Justice James Farley of the Ontario Superior Court essentially ruled a week ago that they are worthless.

How they fared

MITTAL STEEL ADR

SHARE PRICE, DAILY CLOSE, (MT - NYSE)

YESTERDAY'S CLOSE

\$34.26 (U.S.), UP \$1.96

ARCELOR ADR

SHARE PRICE, DAILY CLOSE, (ARLOY - NASDAQ)

YESTERDAY'S CLOSE

\$36 (U.S.), UP \$8.80

THYSSENKRUPP

SHARE PRICE, DAILY CLOSE, (TKA - GERMANY)

YESTERDAY'S CLOSE

21.94, UP 1.52,

\$31.51 (CDN.)

DOFASCO

SHARE PRICE,

DAILY CLOSE, (DSF - TSX)

YESTERDAY'S CLOSE

\$70.26, DOWN 24¢

SOURCE: THOMSON DATASTREAM

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