



*Financial Times*  
**Severstal in \$670m offer to snap up Esmark**

By Peter Marsh in London

Wednesday, May 21 2008 03:00

Severstal, Russia's biggest steelmaker, has entered the battle to buy Esmark, a medium-sized US steel producer, underlining the continued enthusiasm for acquisitions in the sector.

The Russian company yesterday said it was willing to buy Esmark for about \$668m, or \$17 a share.

Esmark had already accepted a bid of the same value from Essar, the expansion-minded Indian steel company.

Severstal hopes an agreement it has reached with the United Steelworkers union, representing workers at Esmark, will make its deal more acceptable to the company's board and shareholders than the rival offer from Essar.

The union had previously spoken out against the proposed Indian deal, arguing that it broke the terms of an agreement with Esmark over collective bargaining and working conditions.

Gregory Mason, chief operating officer of Severstal, said the company hoped to work with Esmark over the terms of an agreement.

He said he believed Esmark's shareholders would find the Russian company's proposals "much more compelling" than the competing bid from Essar.

Severstal's offer also involves taking over about \$400m of debt, pushing the proposed enterprise value of the deal to just over \$1bn.

The move indicates the Russian company's intense interest in expanding in the US. This effort started in 2004 after acquiring Michigan-based Rouge Industries for \$285m, the first big take-over of a US industrial group by a Russian company.

Since then, Severstal has added a plant in Mississippi and is finalising the \$810m acquisition of the Sparrows Point mill in Maryland from ArcelorMittal, a deal agreed in March. Last week, Severstal moved to buy Ohio-based WCI Steel for \$140m.

Last year, Severstal produced 17.6m tonnes of steel, two-thirds of which were in Russia, with the rest from the US, Italy and France.

The company is investing \$1bn in the US to expand production from about 2.5m tonnes last year, to 5m-6m tonnes by about 2011.

Esmark produces about 2.4m tonnes of steel a year, at its Wheeling-Pittsburgh plant in West Virginia. It also has several US-based distribution operations.

If Severstal succeeds in its latest intended US purchase, this is likely to bring its total steel production in the US by 2011 to at least 12m tonnes a year, taking into account its expansion plans.

However, this effort could be blown off course if Essar decided to increase its offer or changed it to mollify the steel union.

In the past few months, steel share prices have continued at recent high levels, underlining investors' belief that the steel industry globally will avoid the worst of any potential downturn.

Esmark said it was evaluating the two rival Indian and Russian offers.