



**CREATING LONG TERM VALUE IN UKRAINIAN COMPANIES**

**IFC Conference**

**KYIV**

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**By**

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# Agenda

- Creation of value
- Creation of long term value
- Creation of long term value in Ukrainian companies
- The Arcelor Mittal experience
- Future of corporate development in Ukraine

From the corporate finance perspective



$MVA = \text{Market value of capital (owner' equity + Debt)} - \text{Capital employed}$

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## Value Creators & Destroyers (US\$ Bn; 1999)

	Market value of capital	Capital employed	Market value added	Market value/capital employed
1 Microsoft	649	20	+629	32
2 General electric	543	76	+467	7
3 Cisco systems	372	24	+348	16
4 Wall-mart stores	337	54	+283	6
5 Intel	284	30	+254	9
Sears roebuck	31	34	-3	.9
Kmart	15	20	-5	.8
Bank one	37	48	-9	.8
Loews corp.	6	20	-14	.3

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## Creation of long term value

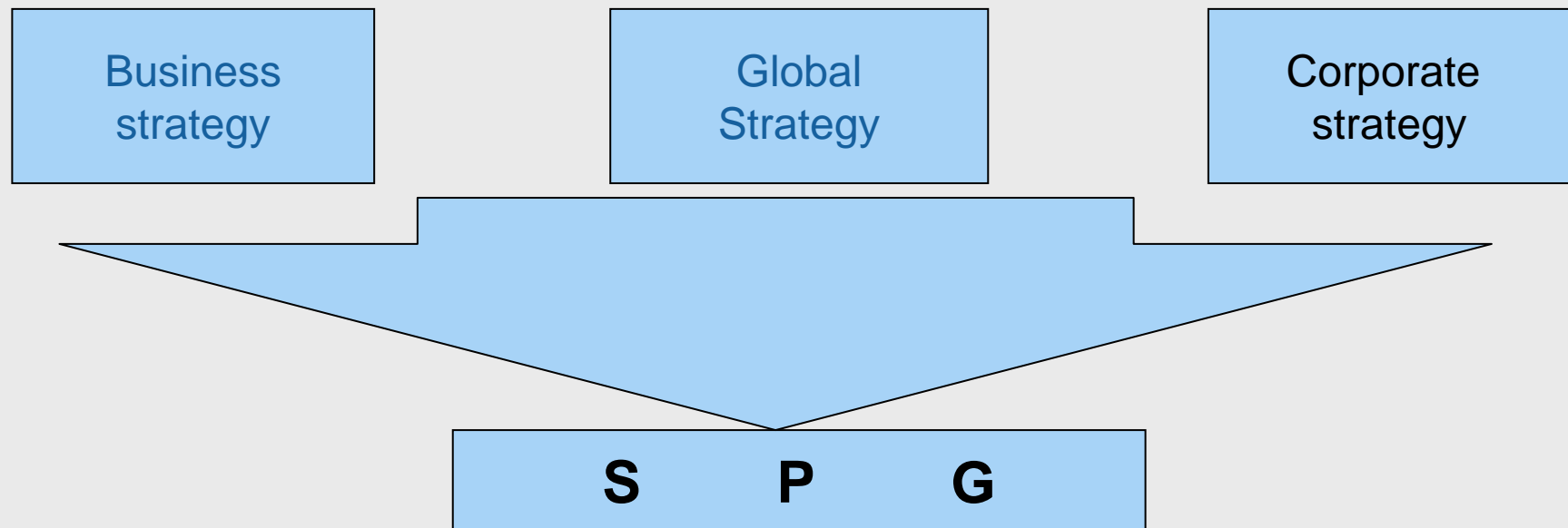
This can come about by

SUSTAINABLE

PROFITABLE

GROWTH

And “SPG” can come from the way companies craft their strategies



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And what brings Sustainable Profitable growth  
...is it only money  
or  
is it overall admiration of the company.

## WHAT MAKES A COMPANY MOST ADMIRABLE

Innovation

Quality of management

Employee talent

Financial soundness

Use of corporate assets

L-T investment value

Social responsibility

Quality of products/services

Globalness

## Fortunes “TOP 10” Most Admired Globally 2002

Rank	Previous Rank	Company	Industry	Country	Market Value (\$b)
			<u>Electronics, electrical</u>		
•		<u>1 General Electric (GE)</u>	<u>equipment</u>	U.S.	322.4
•		<u>5 Wal-Mart Stores (WMT)</u>	<u>General Merchandisers</u>	U.S.	218.8
			<u>Computers, Office</u>	U.S.	
3		<u>3 Microsoft (MSFT)</u>	<u>Equipment</u>	U.S.	260.6
		<u>Berkshire Hathaway</u>			
4		<u>14 (BRKa)</u>	<u>Insurance: P&amp;C (stock)</u>	U.S.	108.6
5		<u>9 Home Depot (HD)</u>	<u>Specialty Retailers</u>	U.S.	66.6
6		<u>17 Johnson &amp; Johnson (JNJ)</u>	<u>Pharmaceuticals Mail,</u>	U.S.	164.1
			<u>Package, Freight</u>		
7		<u>74 FedEx (FDX)</u>	<u>Delivery</u>	U.S.	14.5
8		<u>18 Citigroup ©</u>	<u>Bank: commercial and Savings</u>	U.S.	173.6
9		<u>4 Intel (INTC)</u>	<u>Semiconductors</u>	U.S.	119
10		<u>2 Cisco Systems (CSCO)</u>	<u>Network Communications</u>	U.S.	96

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Sustainability possible only if all stake holders are reasonably satisfied  
or

Appreciative of companies performance

Shareholders / Debt holders

Employees

Suppliers

Customers

Government

Society

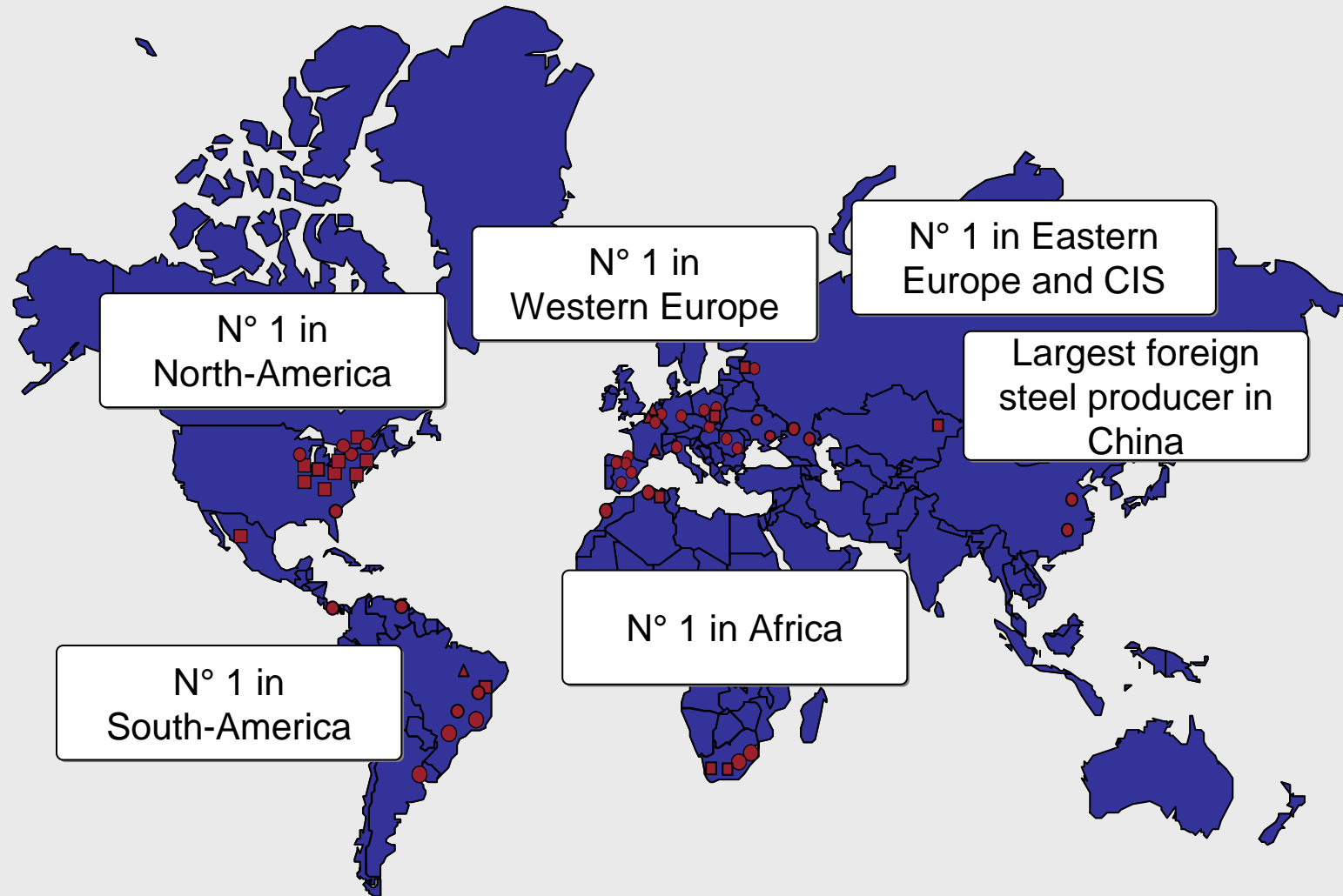
And they support company to perform

## **There are certain factors outside company's control in order to achieve sustainable profitable growth**

**Future of corporate development in Ukraine will, therefore, depend upon such factors:**

- Freedom to operate as per international standards**
- Legal frame work**
- Unbaised, transparent & value based treatment to all companies**
- A stable vision of the government for long term growth of economy**
- Robust overall economic growth**

# ARCELOR MITTAL--Undisputed Global Leader



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# Unique in Size and Potential

## Arcelor Mittal

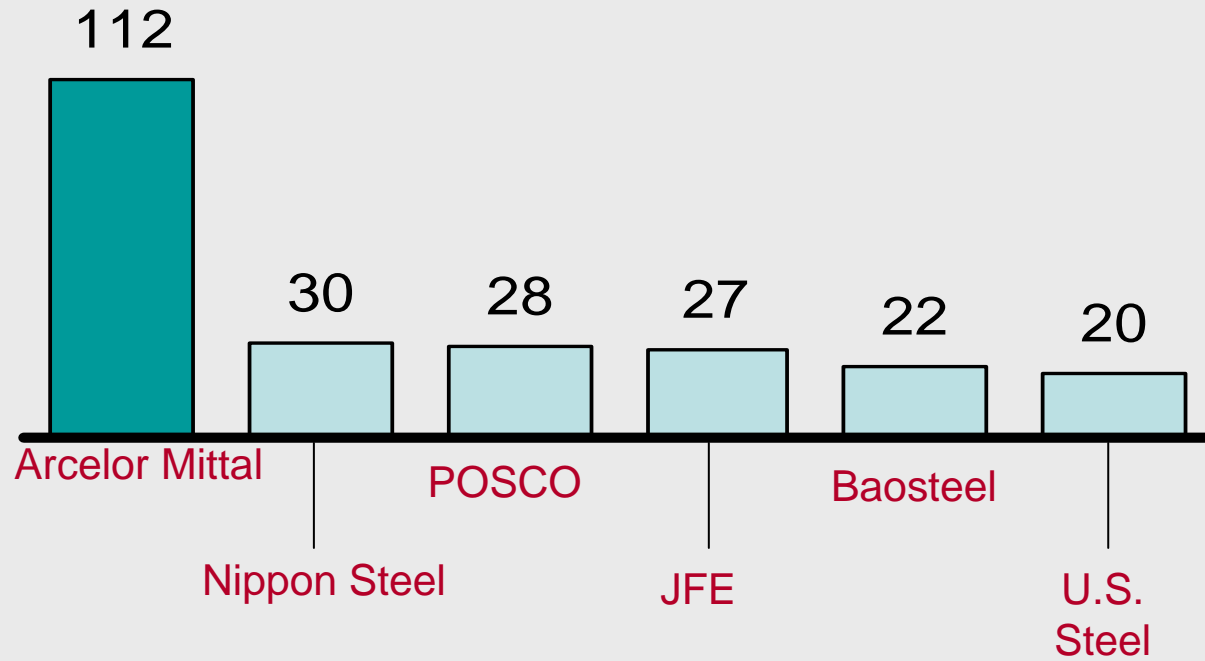
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- 61 plants
- 27 countries
- 320'000 employees
- Numerous international partnerships and JV's

# Number 1 in crude steel volume

Metric tonnes (pf 2005)

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# Mittal Steel Kryviy Rih

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- Largest Steel Producer in Ukraine
- Largest Producer of Long products including rebar and wire rods in the CIS



**Huge Potential**

Highest production historically was achieved in 1988, liquid steel volume of 13.128 million mt

Current production level of 8.0 million mt of liquid steel

### An extremely important part of the Ukrainian Economy

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- Directly employs ca 57.000 employees
- Indirect employment much larger
- Expected turnover in 2006 is close to US\$ 3.0 billion
- One of the largest purchasers of domestic products
- One of the largest sellers of steel in the domestic market

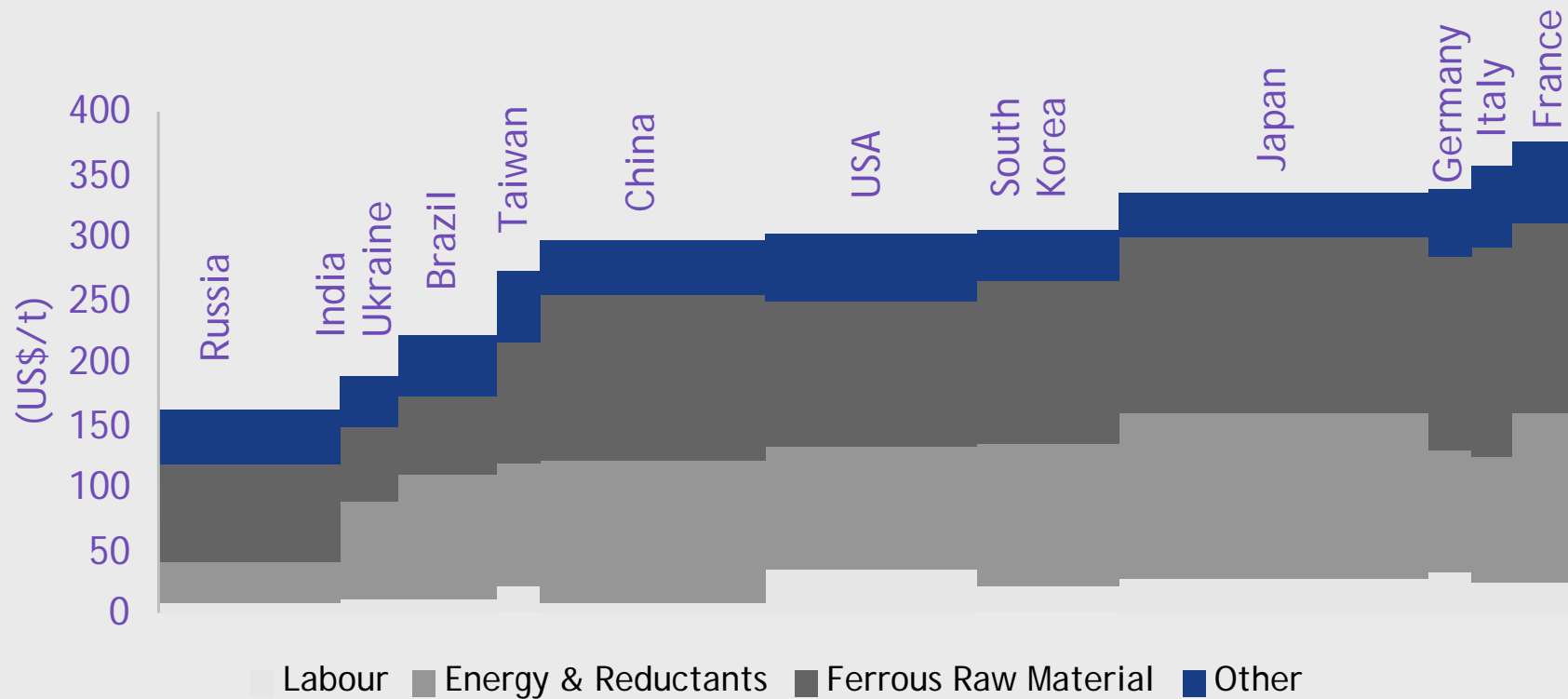
## Strength of Mittal Steel Kryviy Rih

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- Relatively low cost of production
- High quality construction products
- Proximity to ports
- Highly skilled workforce
- Located in a market with high growth potential and increasing demand for steel products
- Captive iron ore

# Ukraine is a low cost steel producing country

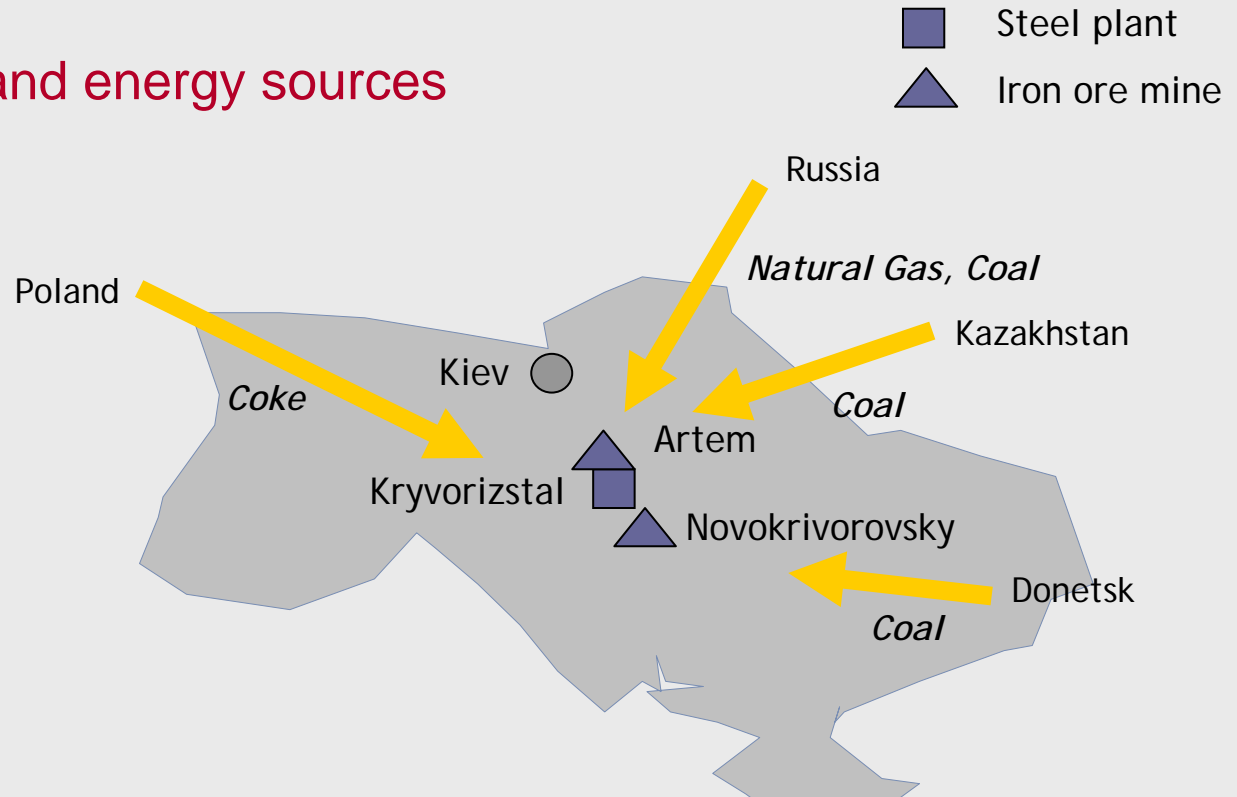
2005 cash cost curve by country for crude steel  
USD/t



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# Iron ore integration and energy proximity

Mining location, steel plant and energy sources

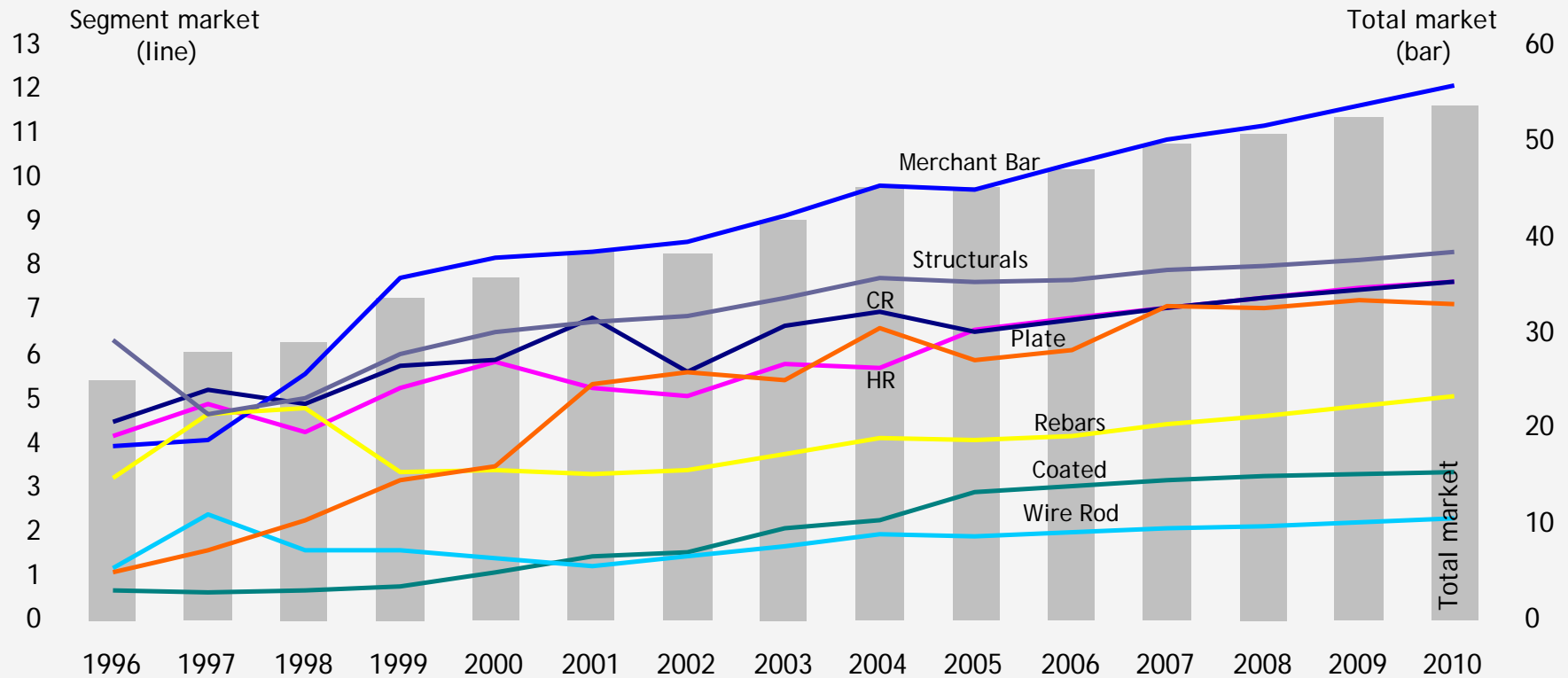


Scale economy and raw material advantage are additional advantage for Kryviy Rih

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# Positioned in a high growth market

## CIS market size and segment growth Mn mt



CIS market has recorded CAGR 7% since 1996 and is expected to grow 3% p.a

## Near-term Objectives

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- Improve Pollution Control
- Reduce Energy Consumption
- Improve quality of products
- Broaden product portfolio
- Improve the standard of safety
- Modernise the assets and improve capacity utilisation

## Performance since takeover in Nov' 2006

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Steel Production	+ 8.7 %
Iron Ore Concentrate	+ 9.6 %
Rolled Products	+ 14.2 %
Turnover	+ 23 %
local budget and statutory fund payments	+ 19 %
Average Salary in the company	+ 22 %

# UKRAINE -- Economic Highlights

Ukraine shows an impressive combination of economic achievements:

High average rate of economic growth of about 9% pa

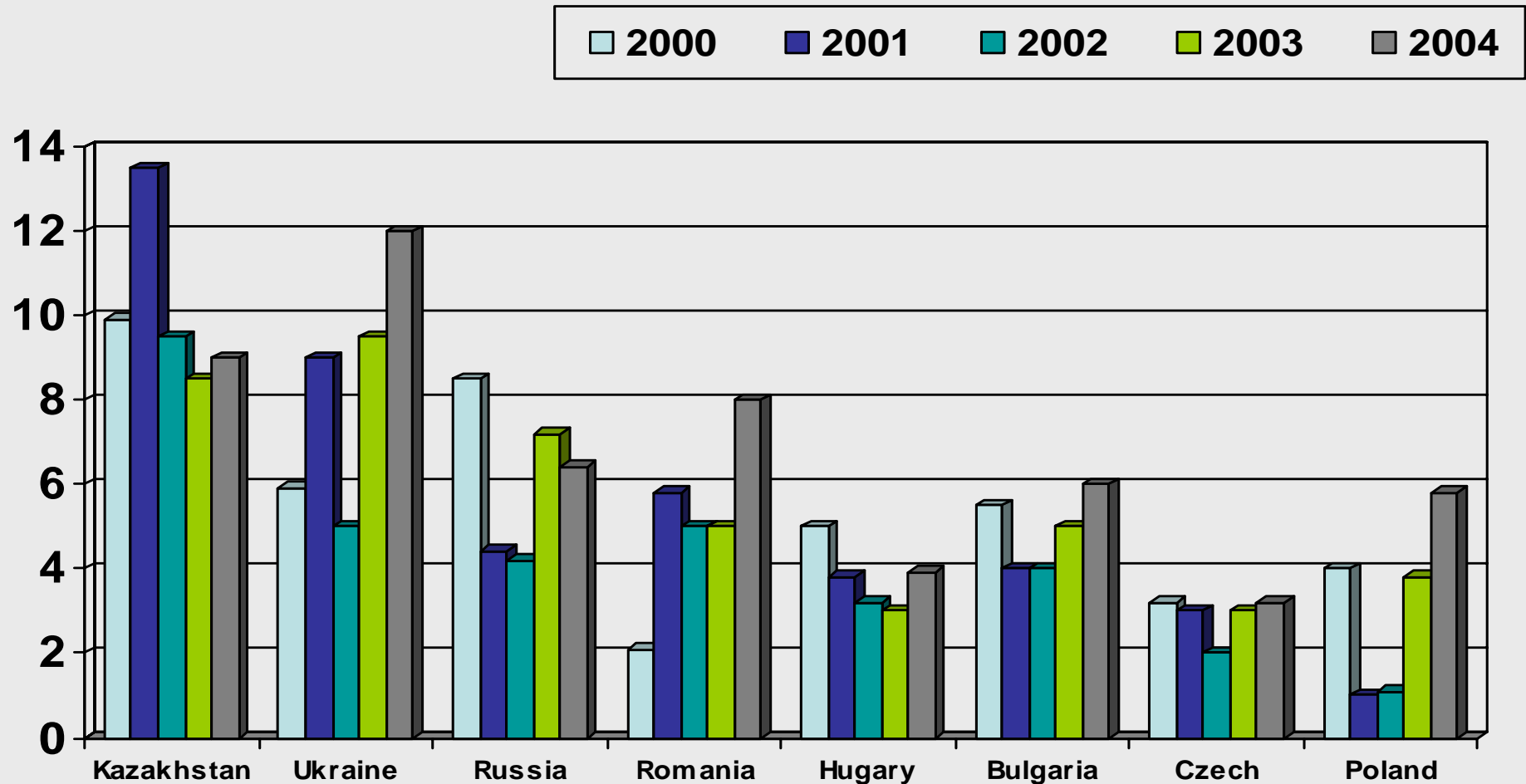
- Low average annual inflation rate of less than 7% pa
- Low average fiscal deficit of about 1% of GDP
- High current account **surplus** of more than 8% of GDP
- Fairly stable foreign exchange rate
- High international reserves (currently \$9.5 billion) in excess of three months of imports
- Very low ratio of external debt to GDP of 20%

# Economic Performance

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Real GDP Growth	6.0%	9.2%	4.8%	9.4%	12.1%	2.4%
Fiscal Balance (% GDP)	0.6%	-0.3%	0.7%	-0.5%	-3.3%	0.2%
Consumer Inflation	25.8%	6.1%	-0.6%	8.2%	12.3%	10.3%
Exchange Rate (Hr/\$)	5.4	5.4	5.3	5.3	5.3	5.05
Current Account (\$bn)	1.2	1.4	3.2	2.9	7.0	1.04
(as % of GDP)	3.7%	3.7%	7.7%	6.3%	11.1%	N/A
International Reserves (\$bn)	1.6	1.7	4.4	6.9	9.5	NA
Foreign Debt/GDP	32%	27%	24%	22%	23%	NA

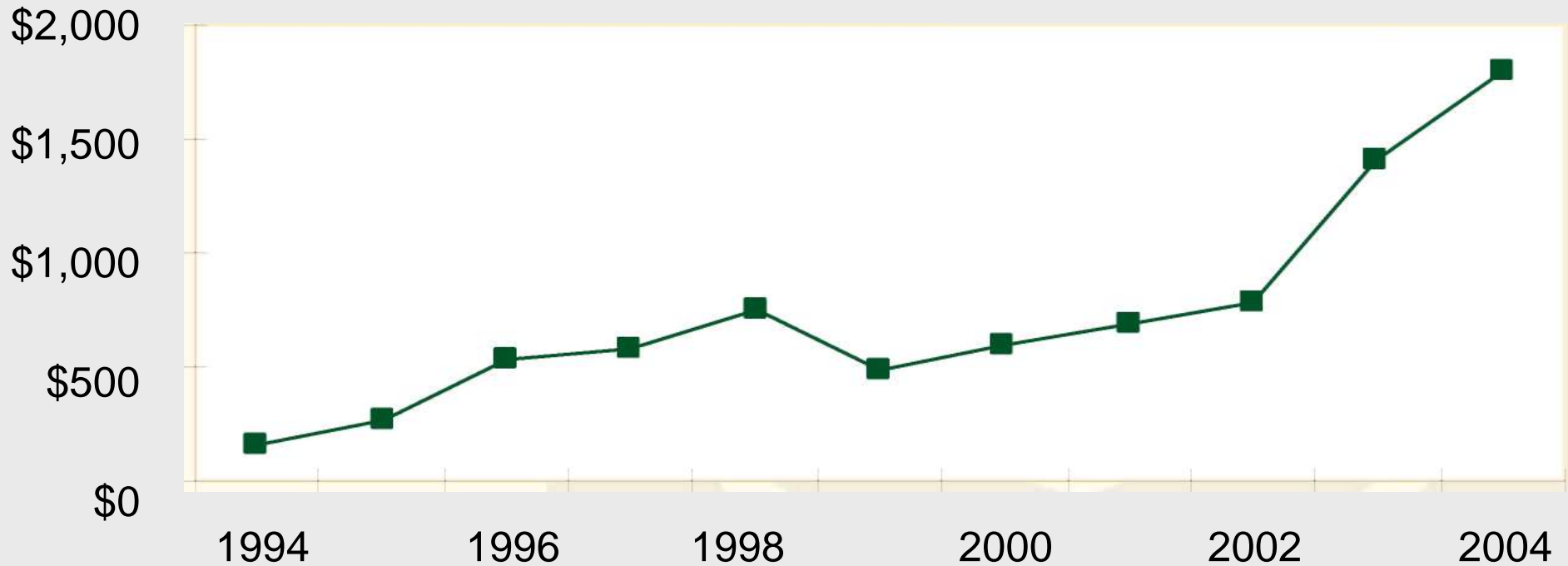
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# Real GDP Growth (%) in Ukraine compares favourably with other Transition Economies:



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# Ukraine- Net FDI inflows, US\$ million are increasing...



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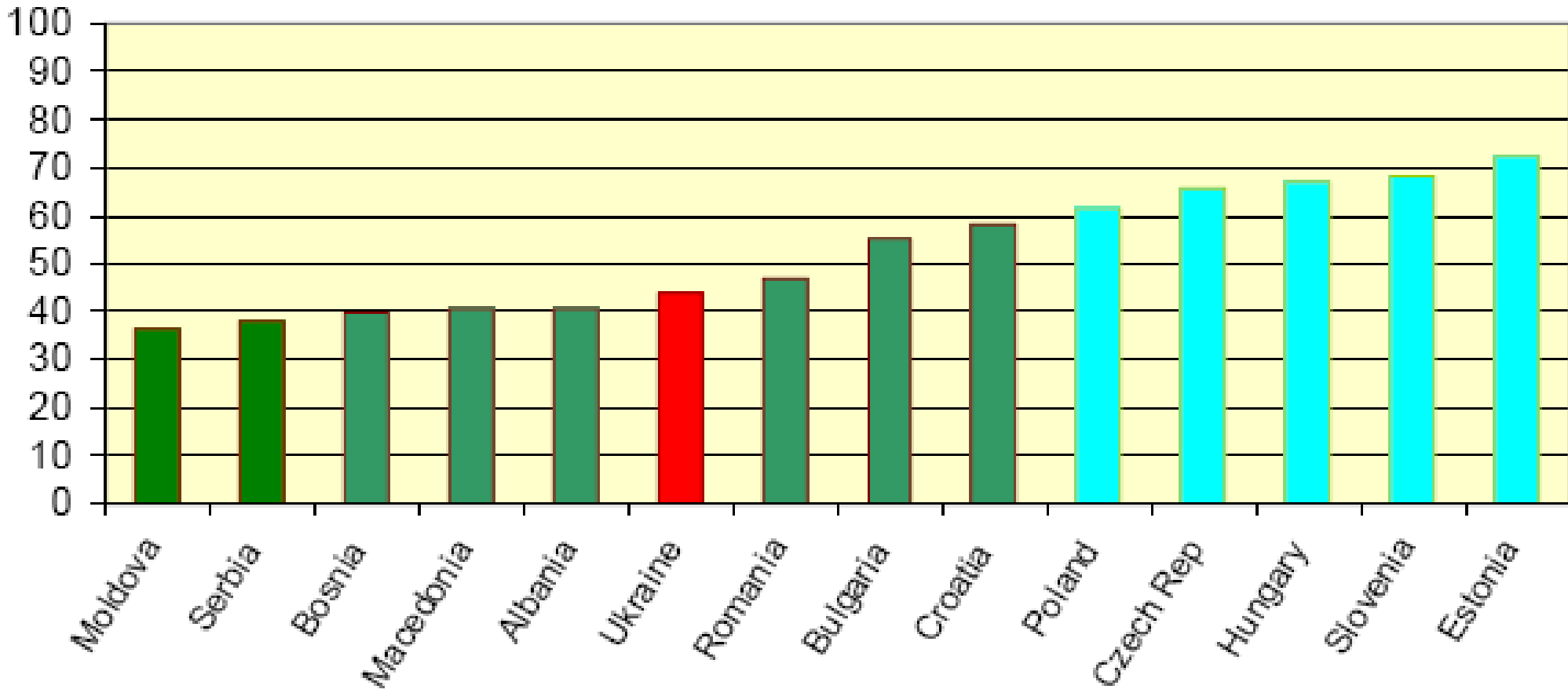
# Policy Actions for Ukraine

## Investment drivers

- (1) Macroeconomic stability
- (2) Business liberalization and de-regulation policies
- (3) Stable and predictable legal environment
- (4) Corporate and public governance
- (5) Foreign trade liberalization and international capital movements
- (6) Healthy financial sector
- (7) Country promotion and image

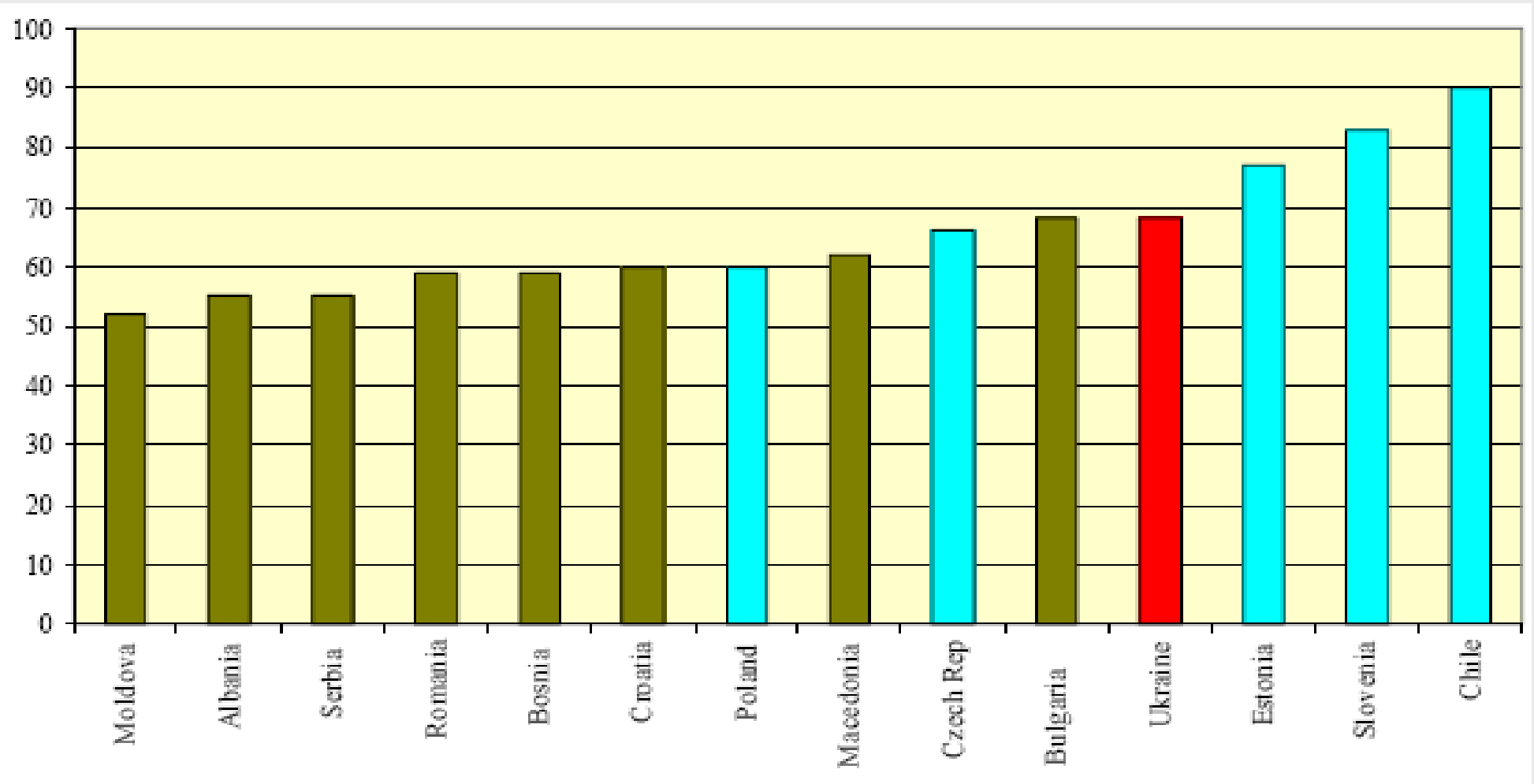
How does Ukraine compare with other regional countries on these investment drivers?

# Aggregate Investment Attractiveness Ratings



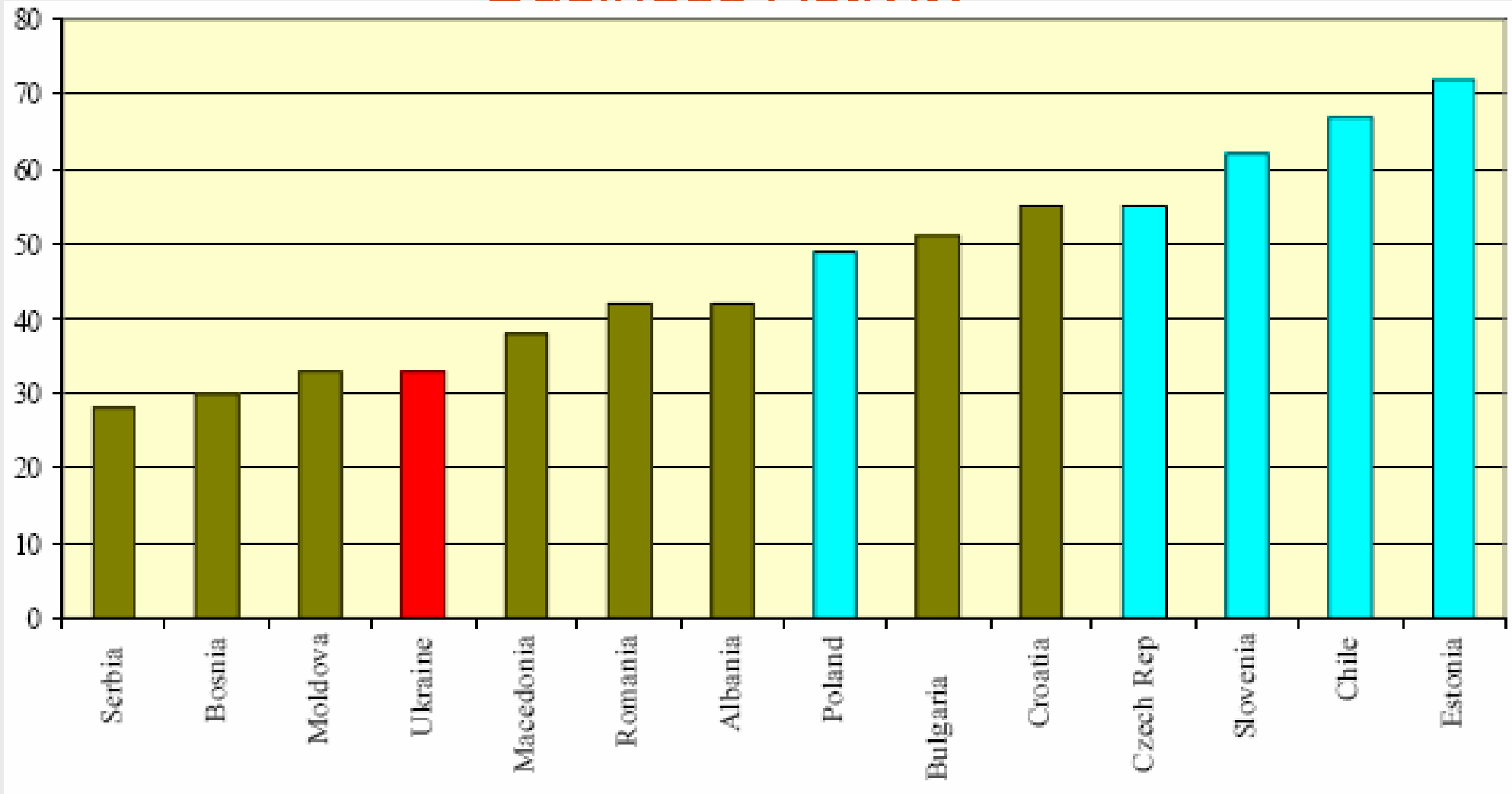
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# Driver #1: Macroeconomic Stability



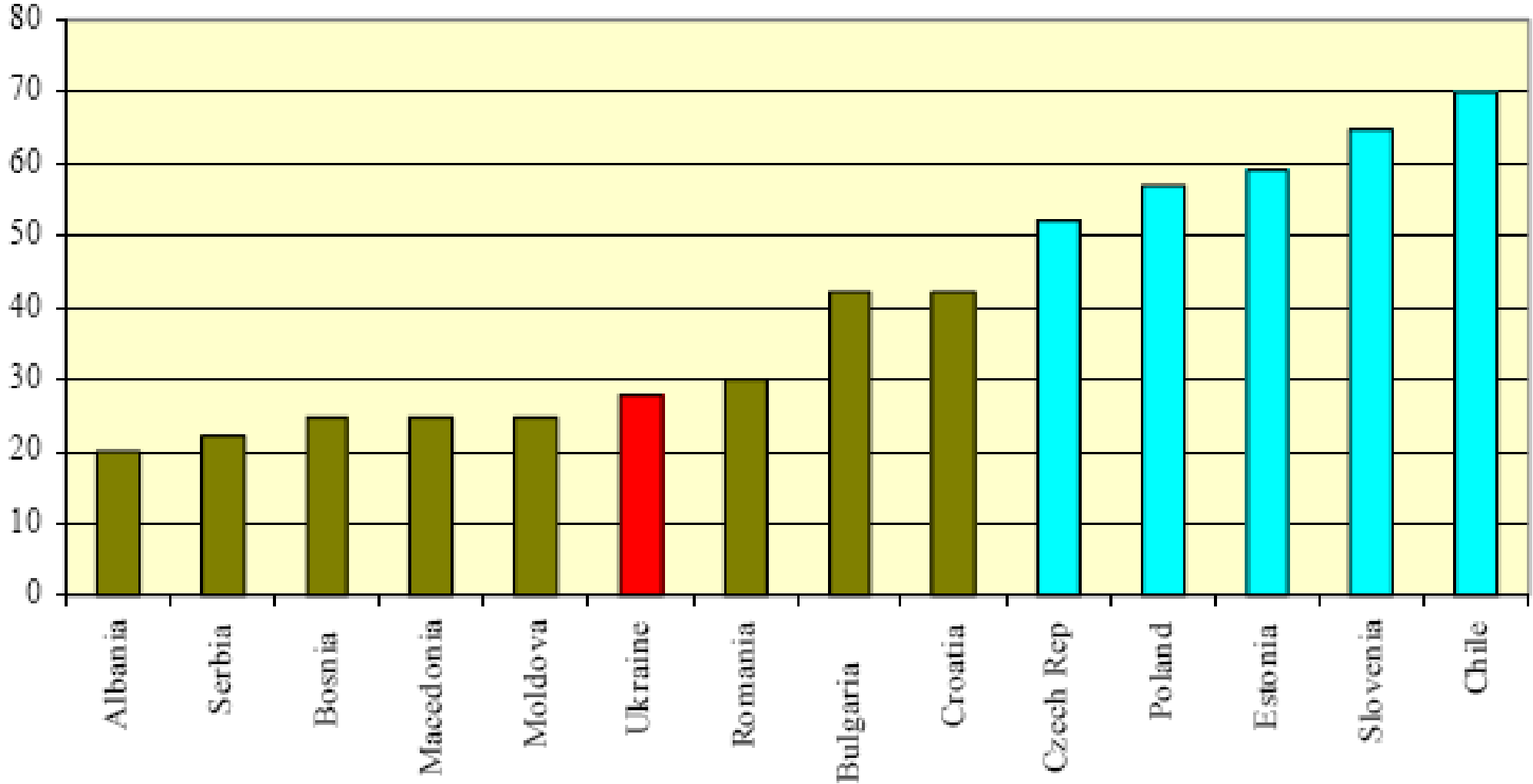
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# Driver #2: Liberalization and Deregulation of Business Activity



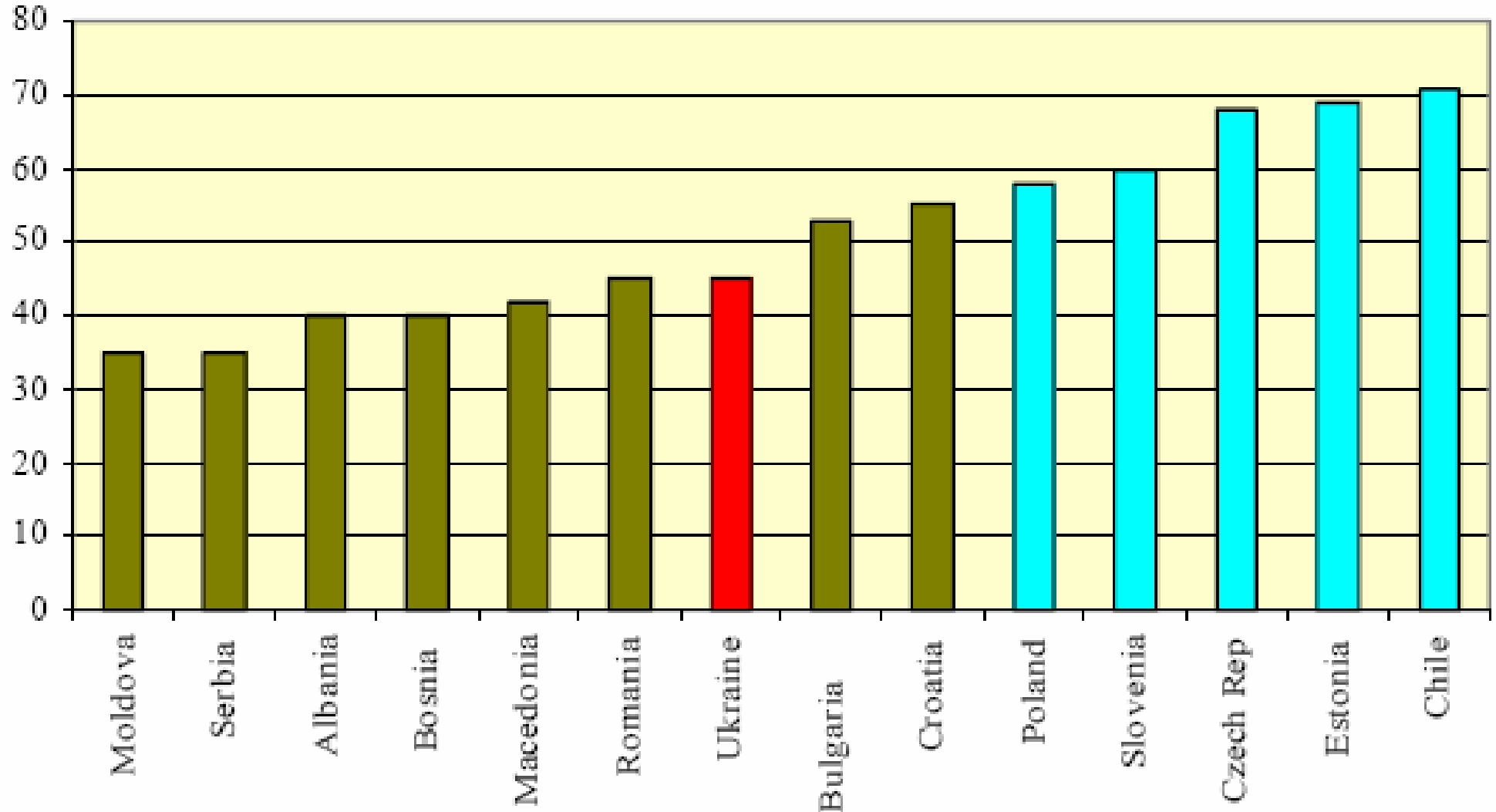
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# Driver #3: Stability and Predictability of Legal Environment



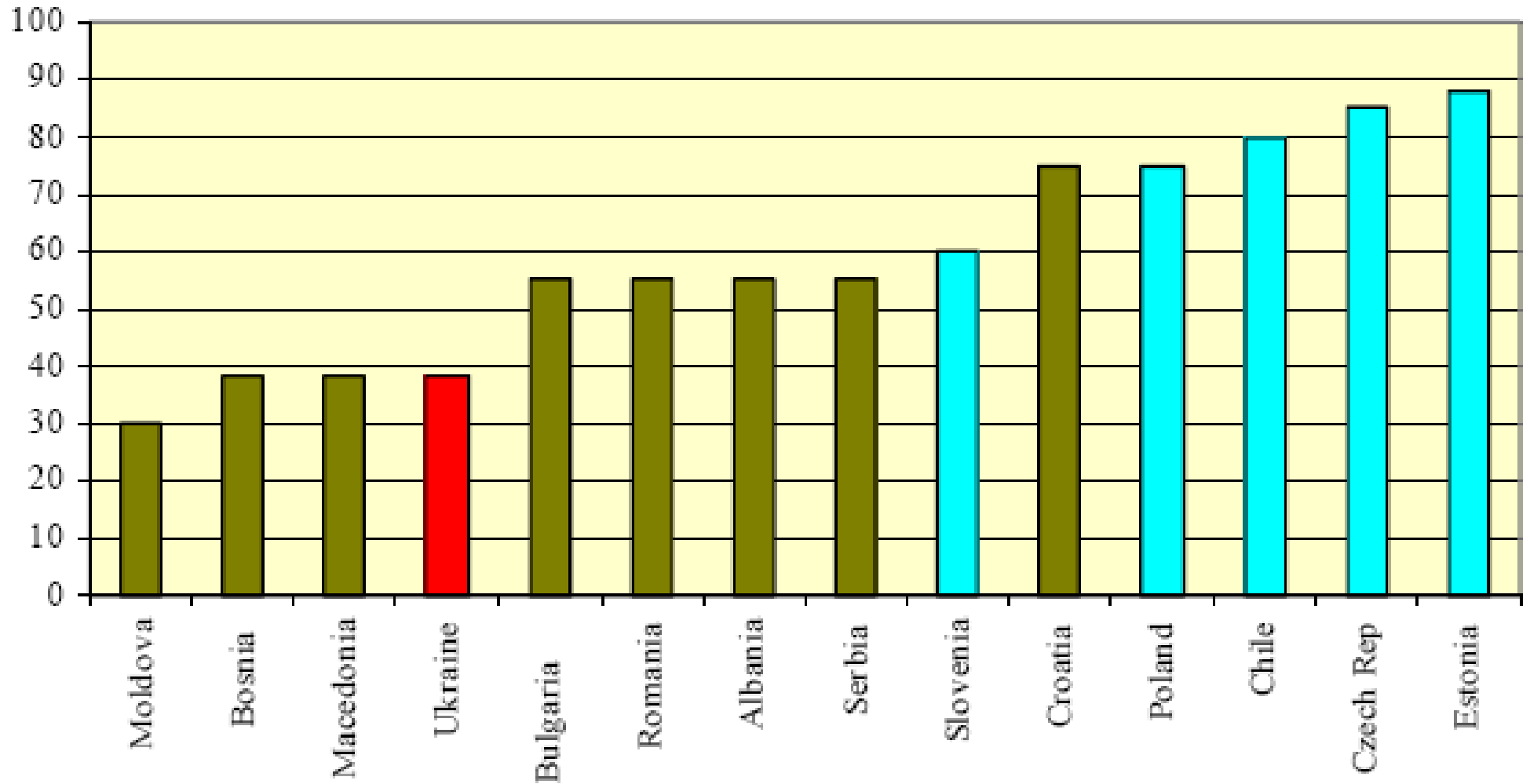
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# Driver #4: Corporate and Public Governance



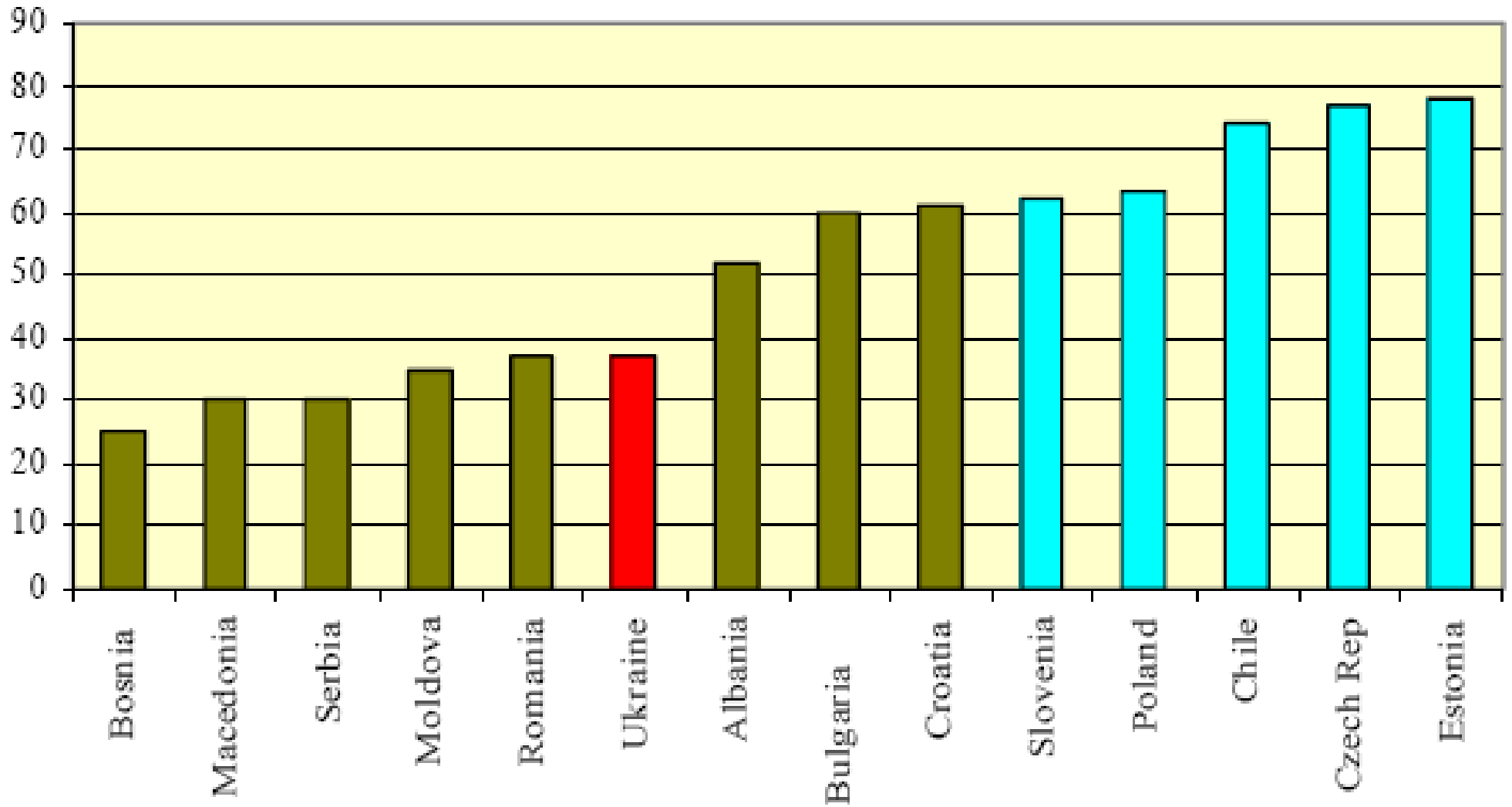
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# Driver #5: Liberalization of Foreign Trade and Capital Movements



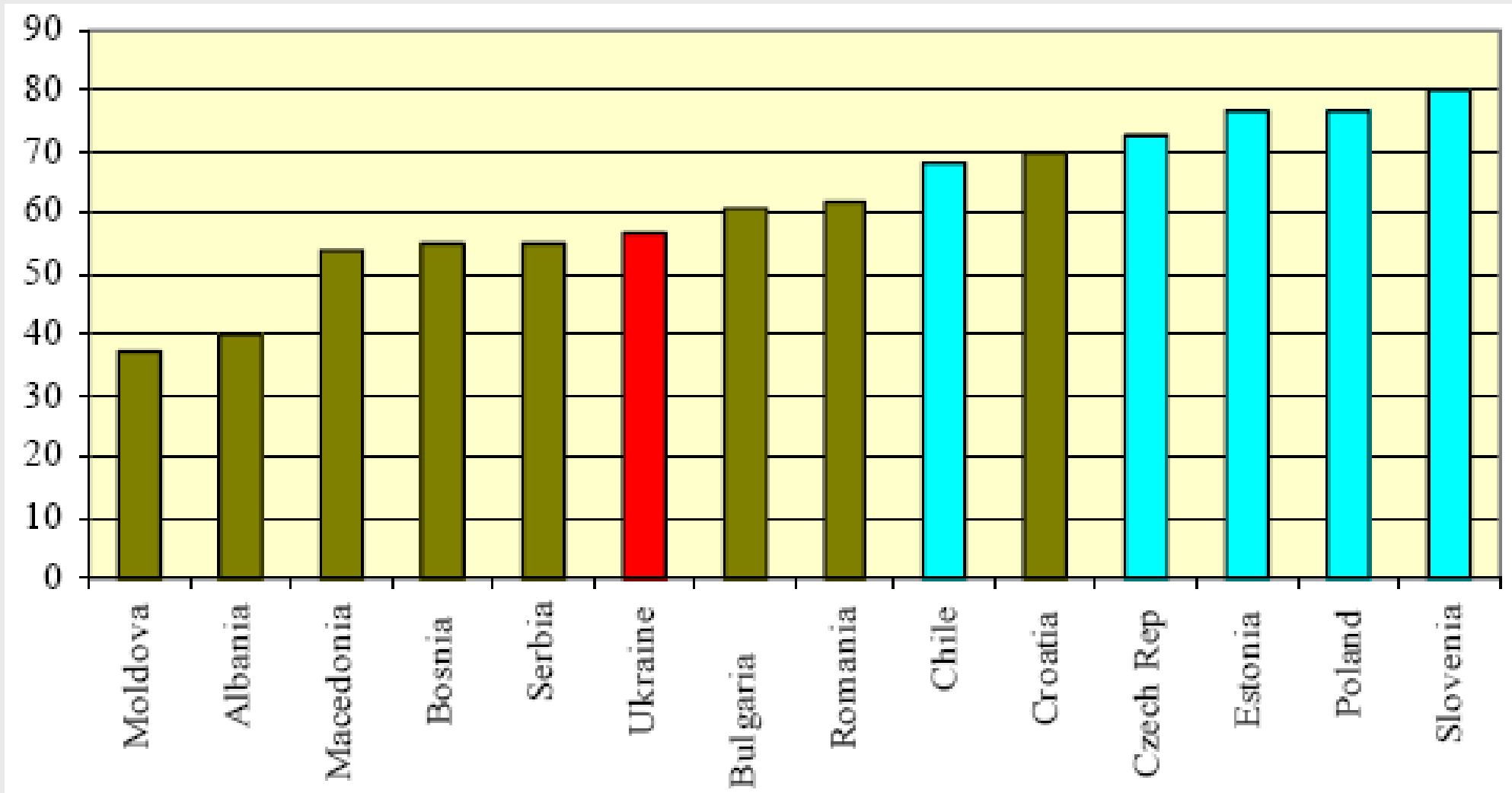
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# Driver #6: Financial Sector Development



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# Driver 7: Country Promotion and Image



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# Need for Further Improvements in the Investment Climate

- Although Ukraine has demonstrated substantial progress in creating an enabling business environment for the private sector, the reform agenda is still largely unfinished.
- To ensure sustainable economic growth, actions should also be taken on the following additional "investment drivers":
  - Corporate Governance
  - Privatization Policies
  - Financial Sector Development
  - Country Promotion and Image

# Conclusions

- Long term value creation in Ukrainian companies is possible only through the route of sustainable profitable growth.
- After privatization of “Kryvorozhstal”, Arcelor Mittal Kryviy Rih is well on its way towards creating long term value for the company and fully satisfying all its stakeholders including government and society.
- There is need for further improvement in reforms agenda in Ukraine. Experience in other transition economies shows that only a “big-bang” comprehensive reform program will have chance to succeed!
- Step-by-step reforms do not work over time as too much resistance is created and vested interests are able to stifle reforms.