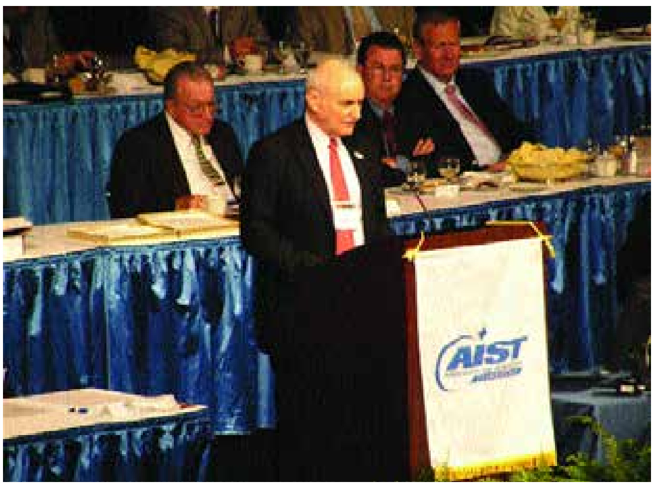


Guy Dollé presents his keynote address before a crowd in excess of 1,100 at AISTech 2006 in Cleveland, Ohio.

President's Award Breakfast Keynote Address

Guy Dollé, Chief Executive Officer,
Arcelor SA

Wednesday, May 3, 2006

Industry Consolidation: Value Versus Volume

From Father W. Hogan's vision to the current industry challenges

Our industry has gone through two decades of hard times, during which Father Hogan was a distinguished observer of the economics of our business. Rev. William Hogan (1919–2002) had a very clear vision about changes within the steel industry. He well perceived the rising dilemma between volume and value.

In few words, Rev. Hogan wrote that demand for steel will be less and less expressed by its weight, than by the quality of the steel products. Here is the way he explained that a decline in volume may not necessarily mean a market drop:

> The steel industry has shrunk, but it's done so because the market has shrunk. For example, the auto industry has downsized its cars, and has required less steel as a result. It's also using more steels that are lighter and stronger. Since we measure shipments in tons, the lighter steel pulls down the industry shipment weights, even though volumes may be equivalent.

Since then, innovation has deeply changed the quality and the value of steel products. Volumes in tons do not take into account all our achievements.

The evolution of Arcelor's automotive steel products illustrates Father Hogan's words. From the early '90s, when he wrote these lines, until now, we tripled the tensile strength of the steels in the car life cell, which protects you in case of a crash. In the same period, we doubled the energy absorption of the front car parts. This makes for safer and lighter cars – something that is important in these times when we target reduced CO_2 emissions and lower fuel consumptions.

I would like to highlight the following three main ideas.

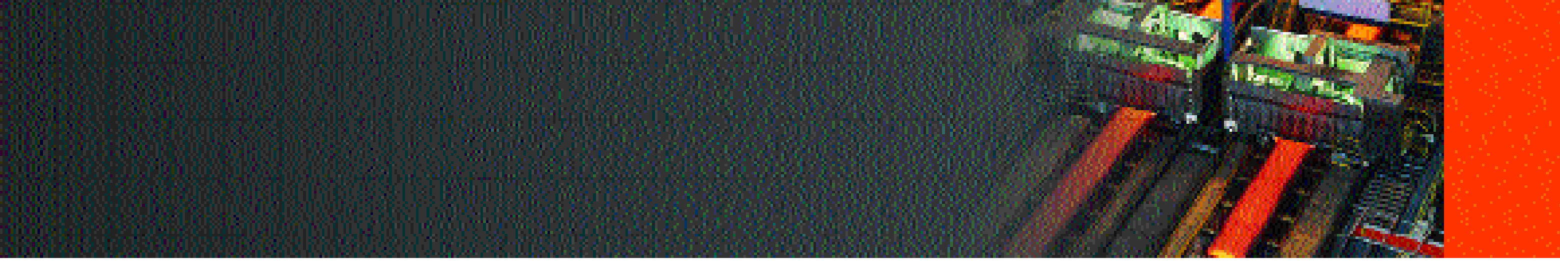
- First, let me show you how Arcelor was born, and also how it has contributed to the change in major paradigms in the steel industry.
- Second, I will elaborate on why mergers and acquisitions (M&A) can therefore be either amalgamation or consolidation.
- Third, as value creation for the shareholders is at stake here, let us look at the criteria for a successful and sustainable consolidation.

1. Arcelor has contributed to changing major steel industry paradigms.

The steel industry was viewed as dangerous, dirty, unprofitable, regional, obsolete and volume driven. Arcelor has contributed to changing this perception of the steel industry. Arcelor is safe, environmentally oriented, highly profitable, worldwide, innovative – our median automotive product is five years old – and therefore value driven. How has Arcelor reached these major achievements?

a. First, Arcelor is a success story, born from a value-oriented consolidation.

Arcelor's creation is a good example to identify the key success factors in the consolidation process and why mergers have to gather similar steel actors rather than disparate companies to be successful. Let me tell you more about Arcelor's success story to highlight this point. Arcelor is the number one steelmaker in turnover (Figure 1).



Arcelor is also:

- Number one for steel solutions and distribution – a key value-added activity added to our industrial core business, and
- Number one for innovation and R&D, rapid growth in key markets, and a sustainable balanced economic model.

Our economic model is based on preference for value before volume. Arcelor's success started by a deep change in our mind-set. A short slogan recaps our belief, which is to place "value before volume." This idea was not intuitive in a heavy industry such as the steel industry. For a long time, our industry was focused on capacity expansion to produce more volume. Everyone here recalls the European steel crisis in the 1970s and '80s – as well as the one in the United States – and the long process to cope with excess capacities. Everyone remembers times where, after having over-invested, some producers tried to maintain their market share through marginal approaches.

Our impressive achievements show that this approach can be upturned.

b. Second, Arcelor's merger is based on a shared vision.

Our success, and the evolution of our steel products, illustrate that it is value and not volume that matters. Value for the final customer, the car user. Value for our customer, the carmaker. And value for our shareholders, because these high-performance products can be sold at better prices.

The four Ps in Figure 2 demonstrate the outstanding results of our shared vision: Profit, People, Partners and Planet.

c. Third, Arcelor's success is also based on a carefully planned implementation.

It is one thing to elaborate a clear vision of the changes you want to achieve, but implementation of the vision is always a tough and long route. By following our preference for value and working very hard, we have successfully triggered a new wave of consolidation in our industry.

Various teams worked together for months before the deal was decided and announced in February 2001. The merger groundwork (between the announcement and the effective merger) spanned more than one year (from February 2001 to February 2002).

A meaningful consolidation, not just an almalgamation of steel companies, with fast and impressive acheivements:

- No. 1 steelmaker in turnover and value.
- No. 1 for steel solutions and distribution.
- No. 1 for innovation and R&D.
- Price before volume and, more generally, value before volume.
- Rapid growth in key markets: Brazil, North America, China.
- Growth led by a long-term, balanced economic model.

Arcelor is the world's No. 1 steelmaker in turnover (2005, in billions of dollars)

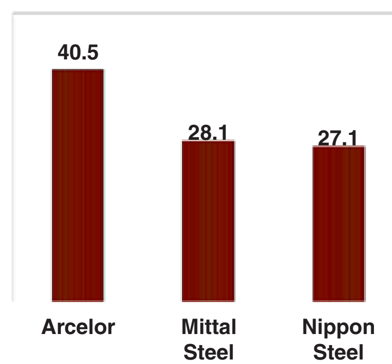


Figure 1

This one year of teamwork gave us time to know each other better. Since the first day, we fashioned a common company culture; we agreed on a joint industrial project; we shaped new approaches sharing our own experience and technologies; we adapted our global line and methods to local situations. But everywhere in the world we remain firm on our value creation, safety and sustainable development commitments.

2. M&A can be either amalgamation or consolidation. Value creation is at stake.

When consolidation is well focused and planned, synergies create more value. Consolidation differs from amalgamation. A poorly managed consolidation can produce a negative effect, and you may know that is most frequently the case:

- Two-thirds of mergers in the world and throughout all types of businesses are failures and destroy shareholders' value.
- Mergers most often fail or create less value than standalone companies for many reasons. They are frequently inspired by top management ego. They are also a way to avoid facing internal difficulties. A successful merger starts with a common vision, a clear industrial project and long-term shared objectives.
- Mergers are often poorly prepared, over too short a period of time. There are many examples outside our industry. You may recall HP/Compaq in the electronics industry. In the car industry or in the process industries, the results of mergers have been divergent.
- A recent survey shows how cultural issues account for merger failures: we have in mind a merger between two U.S. railway companies where cultural differences made value creation very hard.

The beauty of consolidation is when "one plus one makes more than two," but the drawback of consolidation is when the lack of synergies brings the result to less than two. Addition of apparently fitting components does not necessarily produce added value.

In a few words, consolidation works only if the whole is greater than the sum of the parts.

- **Profit:** +$4.5 billion net profit in 2005.
- **People:** frequency of accidents divided by 4.
- **Partners:** more than 200 customer partnerships for new steel solutions.
- **Planet:** 97 percent of Arcelor sites are ISO 14001.

Figure 2

When consolidation is well focused and planned, synergies create more value.

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In main upstream industries, consolidation does not yet seem to have had a positive effect on multiples. Example of the cement industry:

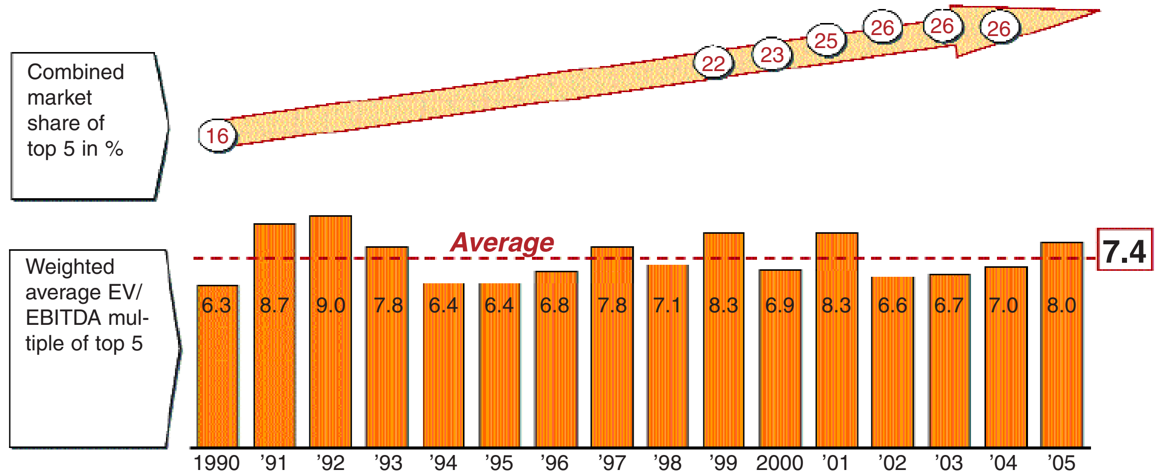


Figure 3

a. In main upstream industries, consolidation does not yet seem to have had a positive effect on multiples.

While investors are generally thinking that consolidation means higher multiples, a quick look at some key upstream industries illustrates that this correlation is not obvious.

Let's have a look at the cement industry (Figure 3), the pulp and paper industry (Figure 4) and the aluminium smelting industry (Figure 5).

We can see that the combined market shares of top players (here in percent) are increasing, while the multiples (weighted average EV/EBITDA) of the same top players are remaining close to the average trend.

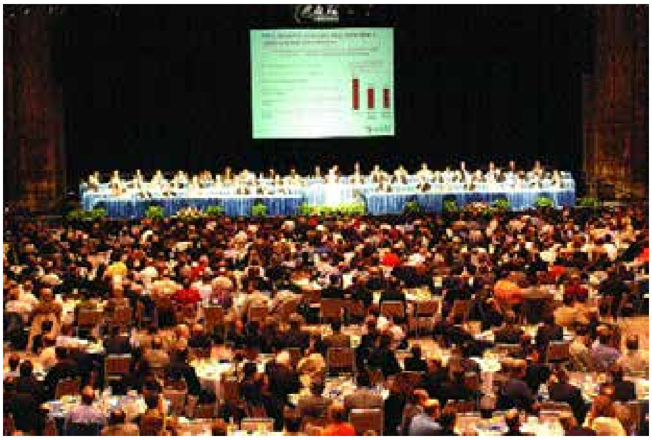
Once again, I want to point out that the relationship between consolidation progress and rise of the multiples is not as obvious as some analysts affirm.

b. Multiples differ from one business to another. This is not directly linked to consolidation, but more to the market perception.

After years of decline, the stock market takes time to acknowledge the steel industry's new paradigm.

For a long time, our industry was in overcapacity. Hence the steel industry has not been able, for a long time, to pay the cost of capital, thus destroying value. In most of the world, these dark ages are over for two reasons. First, a strong rise in demand from the fast-growing economies has brought a better balance between offer and demand. Second, as demand for more sophisticated steel products is soaring, value creation is now a key decision factor.

Value creation is the final purpose of any economic activity, and this applies also to the steel industry. Stock markets are still cautious about reacting to the new steel industry dynamics. But we can see some real progress, as our outstanding results led to the attractiveness that you now know.



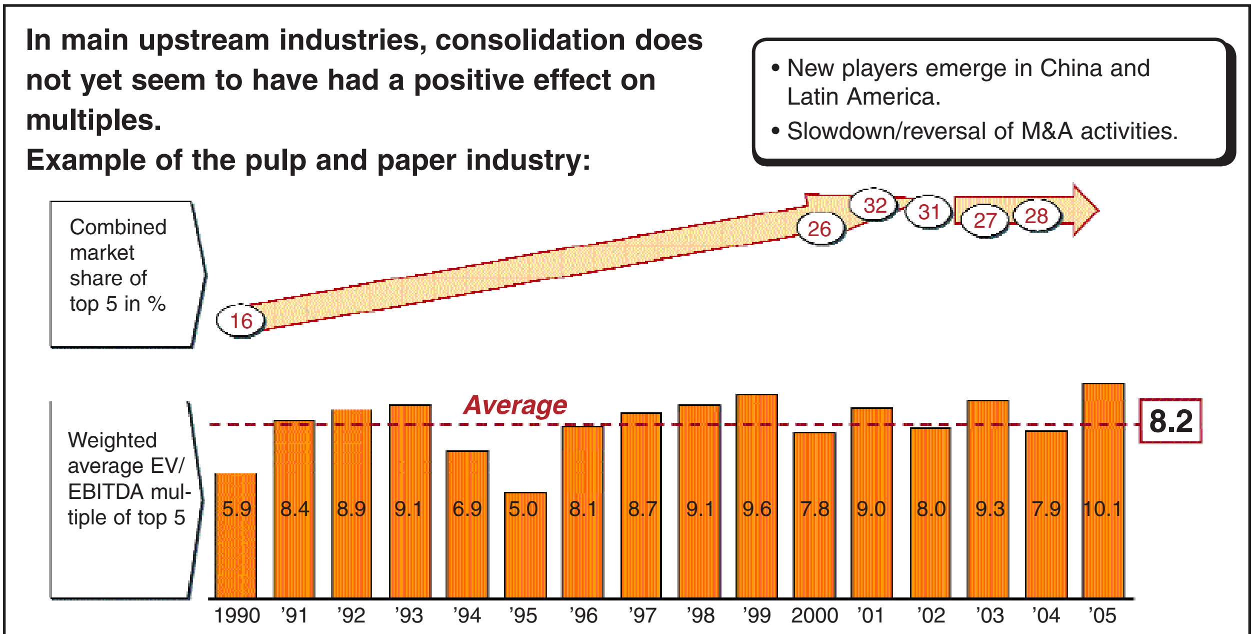


Figure 4

3. The narrow road to a successful and sustainable consolidation.

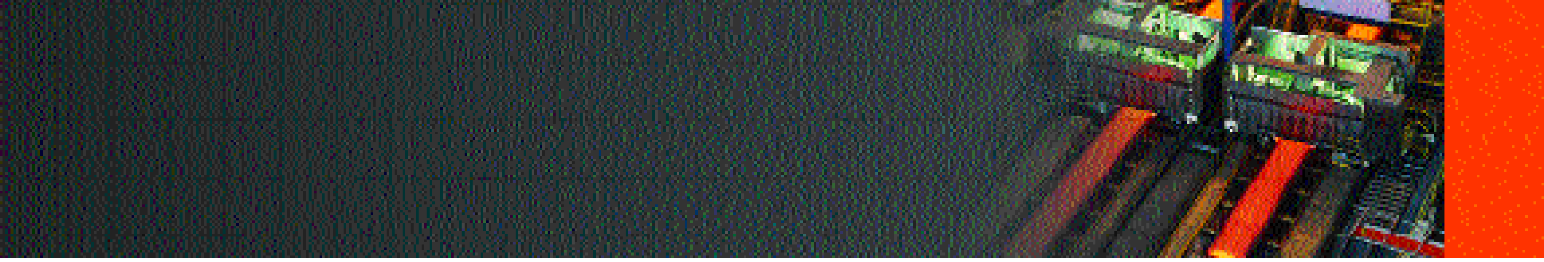
To create value in an industry as complex as steel, consolidation requires:

- A clear vision of the common objective.
- A clear industrial project to implement this strategy.
- The mutual understanding of both parties and their involvement from the beginning.
- A detailed preparation: evaluation of synergies, definition of governance, organization and targets.
- A deal negotiation that respects:
  - Economics and particularly cash flow generations.
  - Shareholders, who should all be fairly treated in the deal and afterward.
  - People, whose buy-in is critical for success (exchange of best practices, optimal performance can work only with strong people involvement).
- A rigorous management of the project, looking simultaneously at all the stakeholders.

Therefore, only a sustainable consolidation creates value. Among the sources of value creation in consolidation, the following synergies matter the most:

- **Customer relationship optimization:** Business synergies help sell more and better. Shorter delivery times. Real-time monitoring of client needs. Ability to supply the same product and service worldwide to global customers (case of the automotive industry).
- **Purchasing optimization:** A larger group of companies increases its purchasing power to buy raw materials, energy, etc. But synergies are weak when they do not have the same business model. A vertically integrated steel producer does not have the same logistic synergies as a steel producer close to its client base.
- **Industrial optimization:** Positive synergies built from a well-planned industrial organization help anticipate clients' steel consumption strategies. Optimization of production processes through the exchange of best practices. Better use of existing capacities (hence reducing capital expenditures and fixed costs). Technological transfer and joint R&D – these partners have to be similar in their efforts to create more value through innovation. To illustrate this key point, if the number of R&D engineers is as different as a ratio from 1 to 7, the gap is too wide to benefit from mutual research.

Consolidation is needed and will go along the value path. To fulfill stakeholders' expectations, the leading steel companies will grow larger, with a worldwide reach. The successful path



In main upstream industries, consolidation does not yet seem to have had a positive effect on multiples.
Example of the aluminum smelting industry:

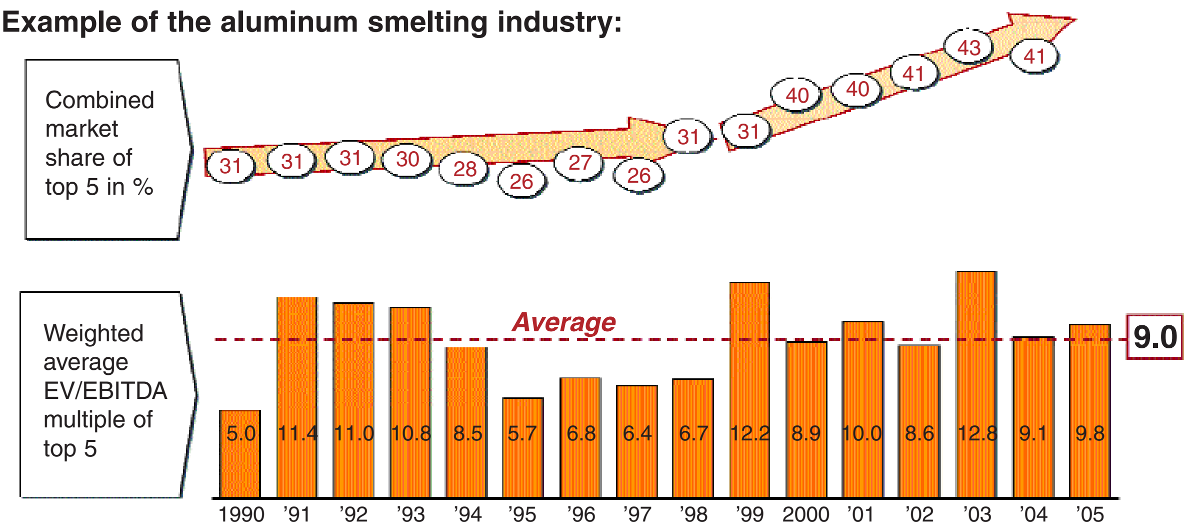


Figure 5

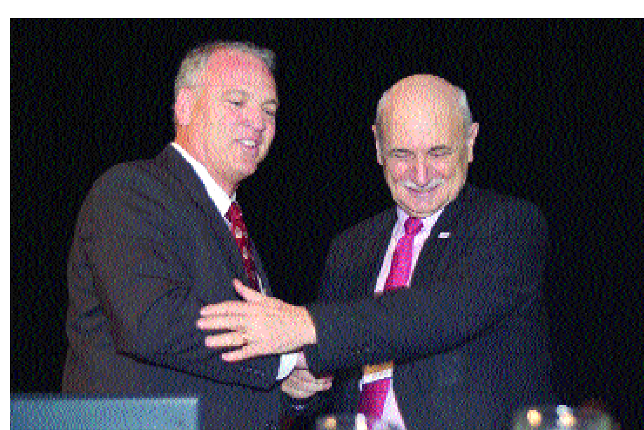
to sustainable growth is narrow, particularly when taking into account the very different types of steel products on the market, and their also deeply different key success factors.

A large majority of mergers destroy value, or create less than the stand-alone activities.

The creation, the development of Arcelor is an illustration of a consolidation that creates value. Arcelor's growth project is a success because it was carefully prepared, based on a common vision of the future and on shared principles of action. The record in terms of value creation is impressive. A strong customer partnership approach is the base of a permanently renewed portfolio of steel solutions. Arcelor's project benefits from a strong adhesion of its management and personnel.

Arcelor is proving that the successful consolidation is the one that adds value to value, in a long-term approach, balanced between the interests of shareholders, stakeholders and the environment. Volume is a consequence of value and not a goal in itself. A consolidation that would simply aim at adding volume to volume would be short-sighted and value-destructive.

In conclusion, the steel industry is now living in a much more favorable environment than the one Rev. Hogan had to deal with. His vision, which is our common heritage, helps us shape a new and profitable steel industry. Arcelor today demonstrates how this is achievable and needs you — and the market confidence — to reach new heights in this new and profitable steel industry. ✦



AIST President Richard E. O'Hara presented Guy Dollé with the 2006 William T. Hogan S.J. Lecture Award in appreciation for his keynote address.