

# Acquisition of Companhia Siderúrgica de Tubarão (“CST”) and Warrants Rights Issue

June 2004



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# Transaction summary

- Control of CST secured**
  - Arcelor has entered into definitive, binding agreements with Companhia Vale do Rio Doce (“CVRD”) to acquire majority control of Companhia Siderúrgica de Tubarão (“CST”)
- Ongoing role in Brazilian steel consolidation**
  - Building on a long established commitment to Brazil, the transaction is another step forward for Arcelor with respect to growth and investment in Brazilian steel
- Funding**
  - Transactions to be financed via approximately EUR1.0 billion Warrant’s Rights Issue – *Bons de Souscription d’Actions*
- Value creation**
  - Transaction is earnings, EBITDA and ROCE accretive
- From integration to transformation**
  - First major international transaction since the creation of Arcelor. Further consolidation of the Group’s global leadership position via expansion into the highest quality, most competitive steel producing region

# Transformational event that meets strategic objectives

**Arcelor secures control of one of the world's most profitable steel makers**

- Accelerates consolidation of CST ownership – one of the world's highest quality, lowest cost steel producers
- Re-confirms Arcelor's position and commitment in Brazil – world's most attractive region to make steel
- Earnings, EBITDA and ROCE accretive to Arcelor. Pro forma EBITDA +25.1% (€2.2bn to €2.8bn). Pro forma EBITDA margin increases +17.4% (8.6% to 10.1%)
- Geographic diversification of revenue and earnings streams towards a more competitive and balanced international portfolio
- No adverse impact on overall leverage position
- Coupled with Arcelor's existing investments in Brazil, the transaction provides a strong platform with significant growth potential

# Overview of Arcelor

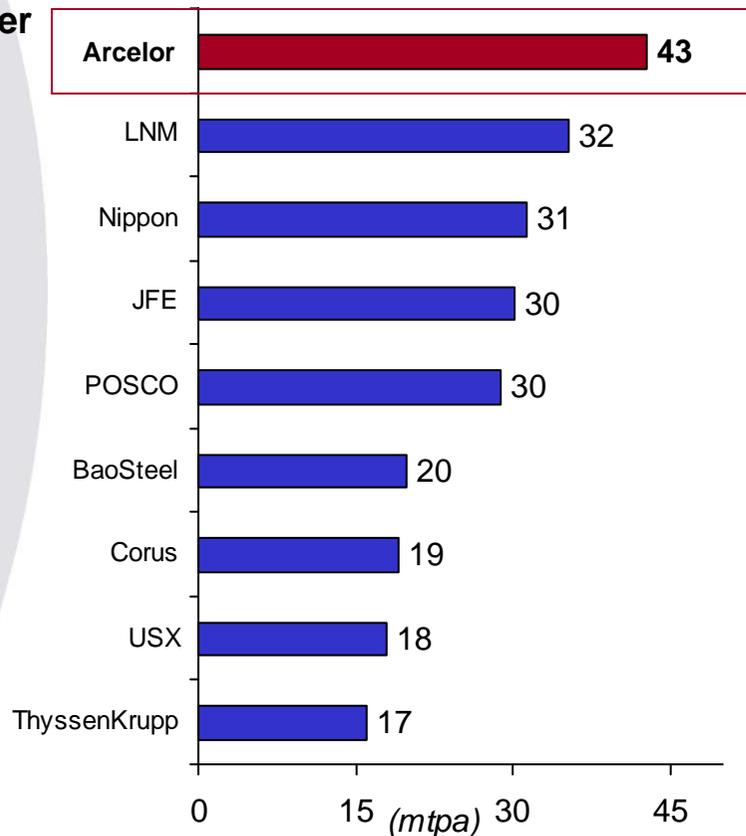
Section 1



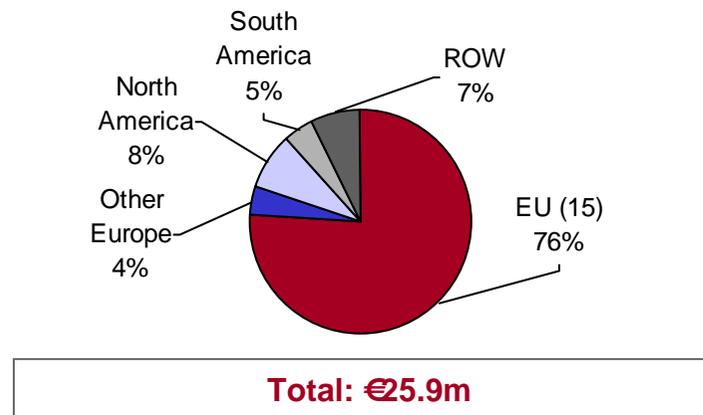
# Arcelor – world's largest steel producer

Arcelor is the world's largest steel producer

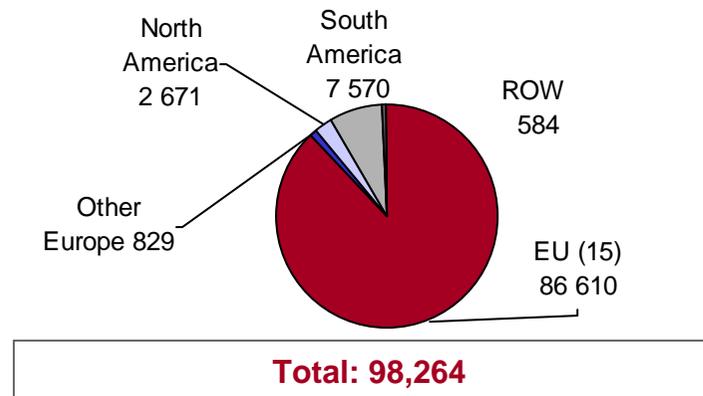
### Crude steel production (2003)



### Revenues by geography (2003A)



### Employees by geography (2003A)



Source: IISI and Company data

# Competitive positioning and strategy

Arcelor is delivering on its strategy articulated at the creation of the company

## Historical steel market

- Upstream consolidation
- Downstream consolidation
- Excess production capacity
- Large number of market participants
- Structural downward price pressure

## Arcelor strategy

- **Economies of scale**
- **Synergies**
- **Global product offering to global customers**
- **Cost reduction**
- **Average pre-tax ROCE 15%**
- **Net debt/equity <50%**
- **Optimise production layout**
- **Value creating acquisitions**

## Progress to date

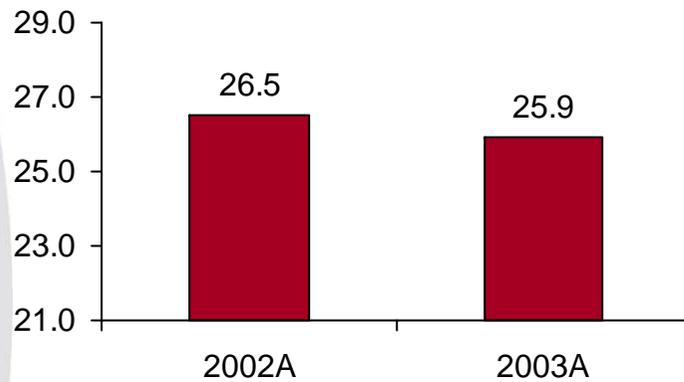
- Operational restructuring progressing
- Financial targets met within reach
- Synergies ahead of schedule
- Progress towards through-the-cycle profitability
- Delivering transformational acquisitions

# Arcelor – Financial highlights

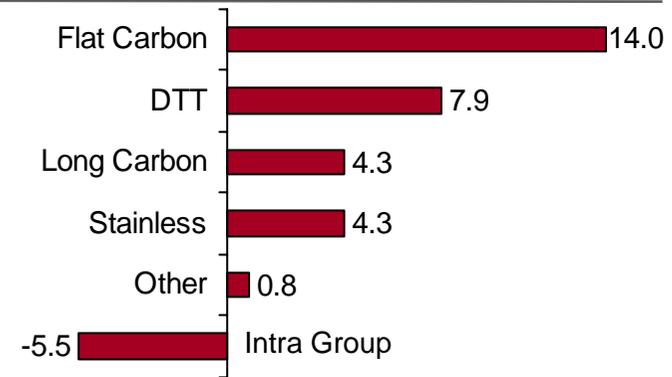
Arcelor is delivering growth in profitability

Year-on-year growth of 13%.  
Margin growth of 16%

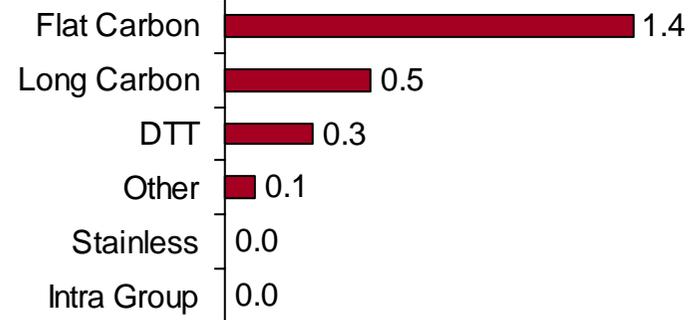
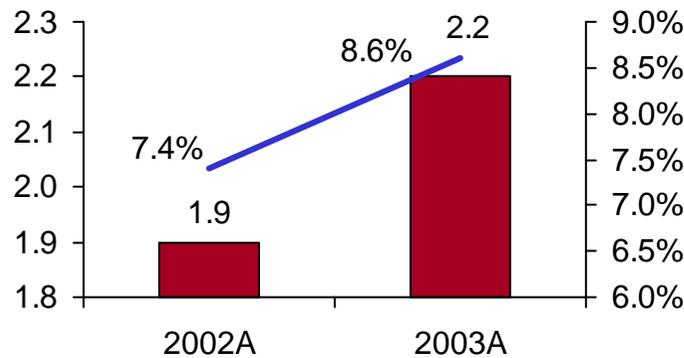
Revenue trends (€bn)



Revenue by sector (2003) (€bn)



Gross op. Result - margin (€bn) Gross Op.Result by sector (2003) (€bn)

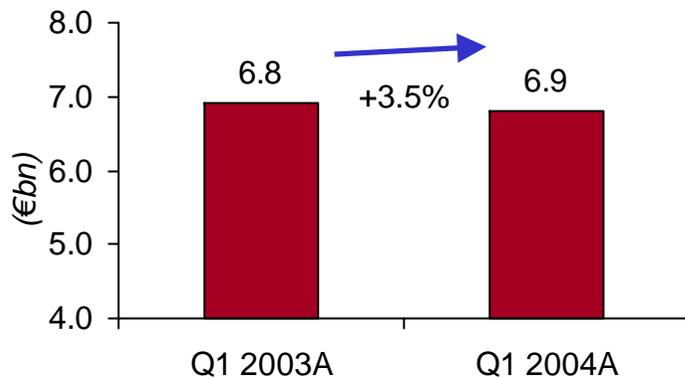


Source: Company data

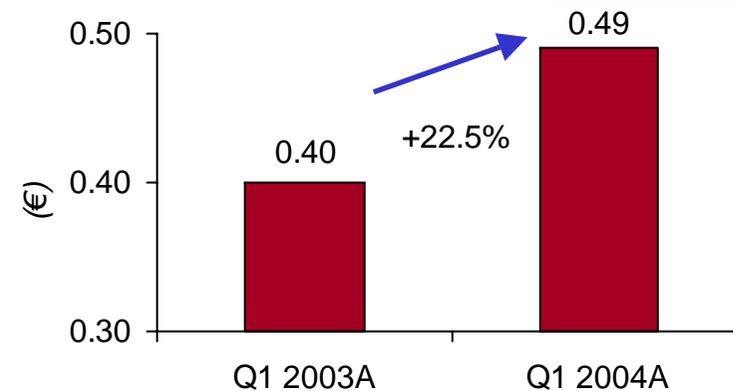
# Current trading – Strong results in 2004

Profitable growth continuing on into 2004

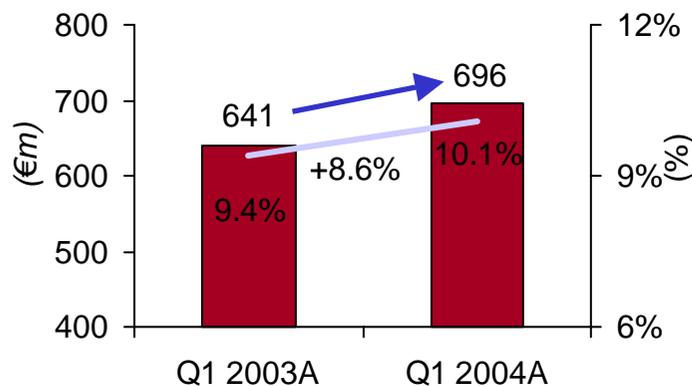
Revenues (Q1 2004)



EPS (Q1 2004)



Gross Op. Res. - Margin (Q1 2004)



Outlook for Q2 2004

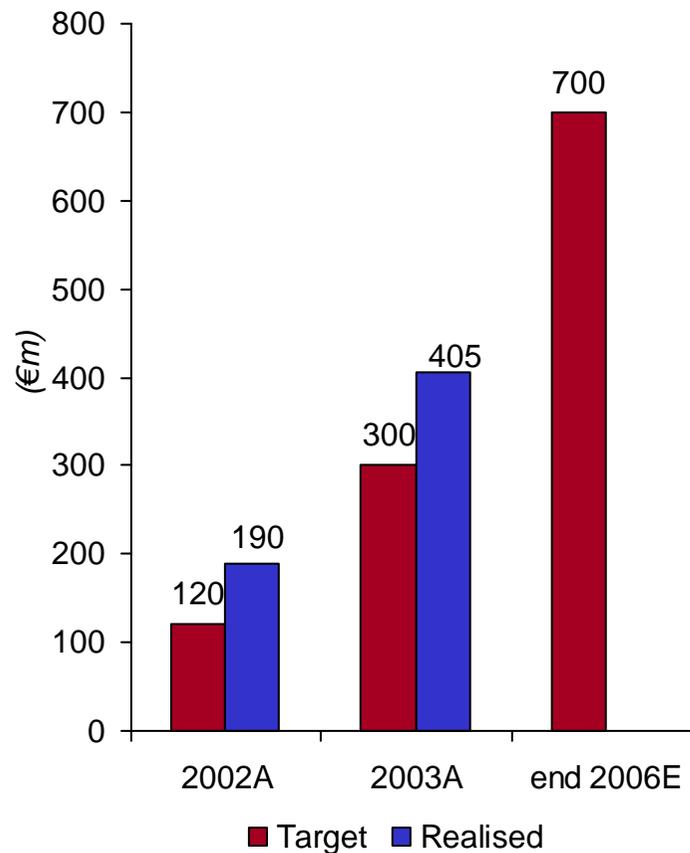
- ✓ Economic recovery world-wide
- ✓ Continued demand growth
- ✓ Buoyant steel prices
- ✓ Low inventory levels
- ✓ Pass through input price increases
- ✓ Synergies ahead of schedule

Positive outlook for Q2 2004

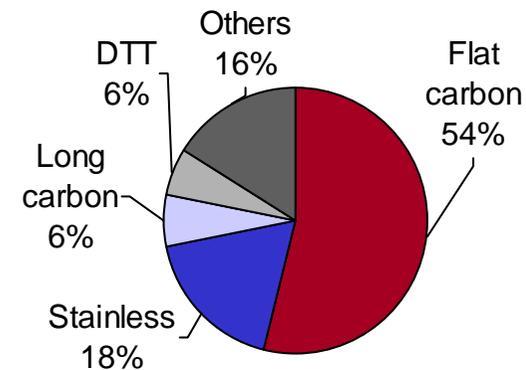
# Merger integration ahead of schedule

Merger synergies delivered well ahead of plan

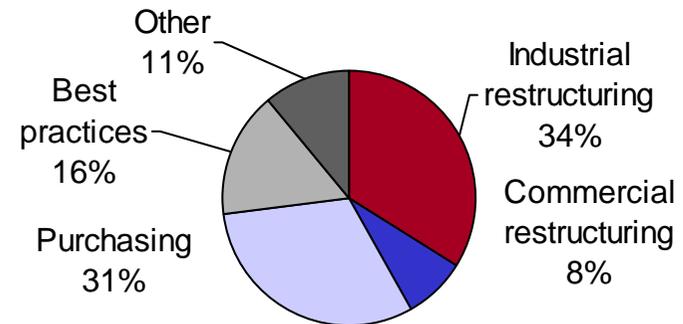
Additional EBITDA due to merger



Synergies by sector (end of 2003)

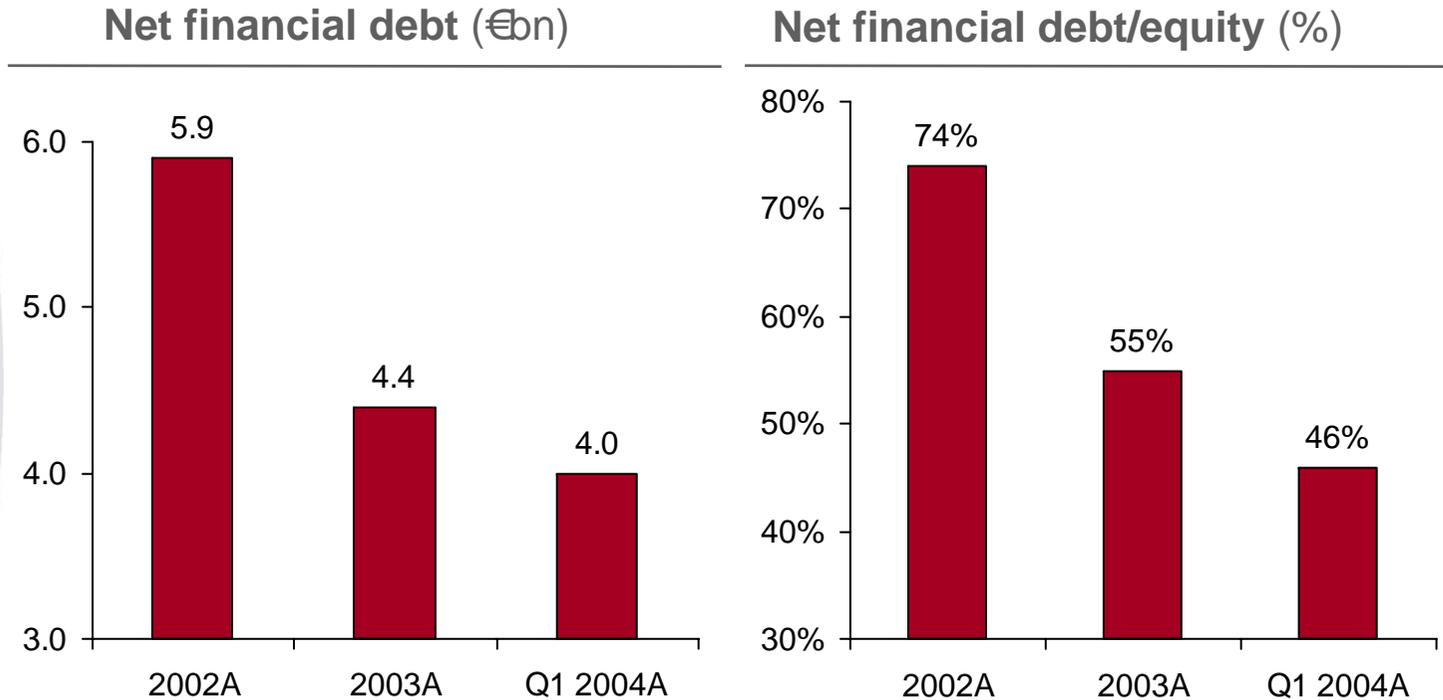


Synergies by type (end of 2003)



# Balance sheet discipline

Increasing operating cash flow and working capital management has led to Arcelor reaching its target gearing ratio of below 50%



Ratings	LT	ST	Outlook
S&P	BBB	A2	Stable
Moody's	Baa2	P2	Stable

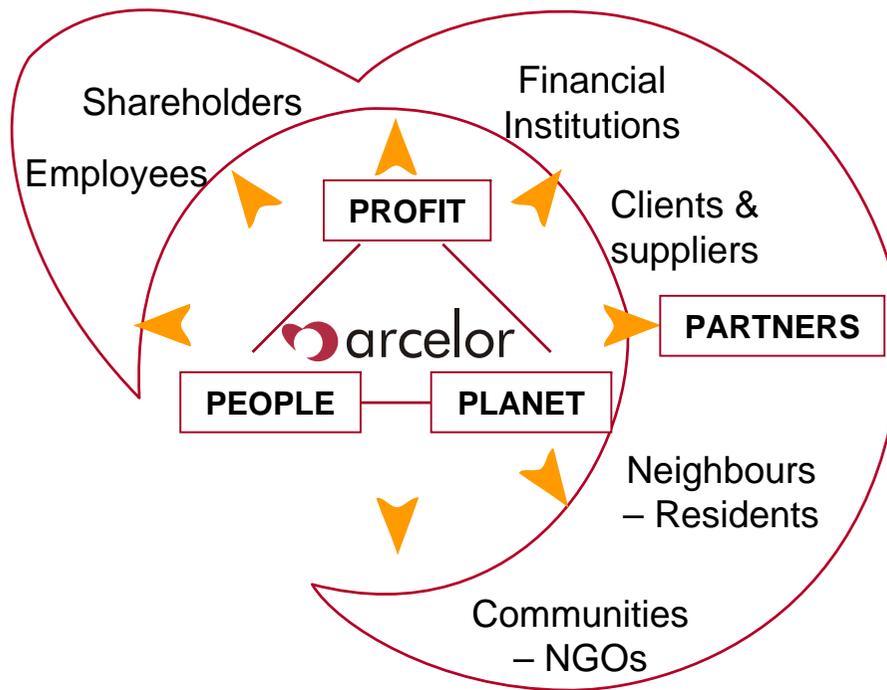


Source: Company data

# From integration to transformation

After a highly successful two years focusing on the integration of Arcelor, the Group can now also focus on transformation...

...global expansion underpinned by growth in low cost steel production and increased customer connectivity



## Step 1 Integration

- ✓ Creation of world leader and global reference investment in steel

## Step 2 Transformation

- ! Focus switches from integration to transformation
- ! Acquisition of control of CST provides a major step forward in achieving transformation

# Arcelor in Brazil

Section 2



# Arcelor's current investments in Brazil

Arcelor has an extensive and a long established presence in Brazil



**Vega do Sul (75%)**  
CRC & Galvanised steel  
US\$456m investment

**Products**

**Arcelor present shareholding**

**Accounting**

**Key financials**

	<b>Belgo Mineira</b>			<b>CST</b>			<b>Acesita</b>		
<b>Products</b>	Long Carbon Steel			Flat Carbon Steel			Stainless Steel		
<b>Arcelor present shareholding</b>	Ord 60.6%	Pref 45.97%	Total 54.03%	Ord 24.93%	Pref 29.96%	Total 28.02%	Ord 38.94%	Pref 22.04%	Total 27.68%
<b>Accounting</b>	Consolidated			Equity			Equity		
<b>Key financials</b>	(€m*)	2002	2003	(US\$m**)	2002	2003	(US\$m***)	2002	2003
	Sales	1,134	1,079	Sales	976	1,284	Sales	581	741
	<b>EBITDA</b>	<b>340</b>	<b>333</b>	<b>EBITDA</b>	<b>297</b>	<b>448</b>	<b>EBITDA</b>	<b>147</b>	<b>162</b>
	<b>Margin</b>	<b>30%</b>	<b>31%</b>	<b>Margin</b>	<b>30%</b>	<b>35%</b>	<b>Margin</b>	<b>25%</b>	<b>22%</b>
	Net debt	199	105	Net debt	756	631	Net debt	634	526
	Equity	764	995	Equity	2,409	2,407	Equity	237	335
	Gearing	26%	11%	Gearing	31%	26%	Gearing	267%	157%



Source: Company data  
\*IFRS in euros as consolidated by Arcelor  
\*\*USGAAP  
\*\*\*BrazilianGaap, converted into USD

# The Transaction – key terms

The agreements with CVRD provide Arcelor with a 61.8% total ownership in CST

## Asset Purchase Agreement with CVRD

- Relates to all ordinary voting and preferred shares held by CVRD outside the CST Shareholders Agreement (“**unaffected shares**”)
- Total of 869m ordinary (4.4% of the voting capital) and 9.4bn preferred shares (29.9% of the non-voting capital)
- Exercisable immediately – subject to conditions precedent including regulatory approval
- Upon completion, Arcelor to own 29.4% of the voting capital and 59.9% of the non-voting capital of CST
- Total amount paid to CVRD US\$415m

## Put & Call Agreements with CVRD

- Relates to ordinary voting shares bound by the CST Shareholders’ Agreement (“**affected shares**”)
- Total of 4.0bn ordinary shares (20.5% of the voting capital)
- Exercisable earlier of:
  - I) termination of CST Shareholders Agreement (May 2005), or
  - II) granting of waiver by members of CST Shareholders Agreement
- Transfer to Arcelor of call rights initially granted by Acesita to CVRD (March 2003) on 1.5bn ordinary shares (7.4% of the voting capital)
- Together upon completion, will result in acquisition of 27.9% of the voting capital
- Total amount paid to CVRD US\$163m

- **Transaction will result in the acquisition of all ordinary & preferred shares held by CVRD in CST for US\$578m**
- **After the completion of the transactions, Arcelor will own, directly and indirectly, 61.8%\* of the total capital of CST**

# Shareholdings in CST

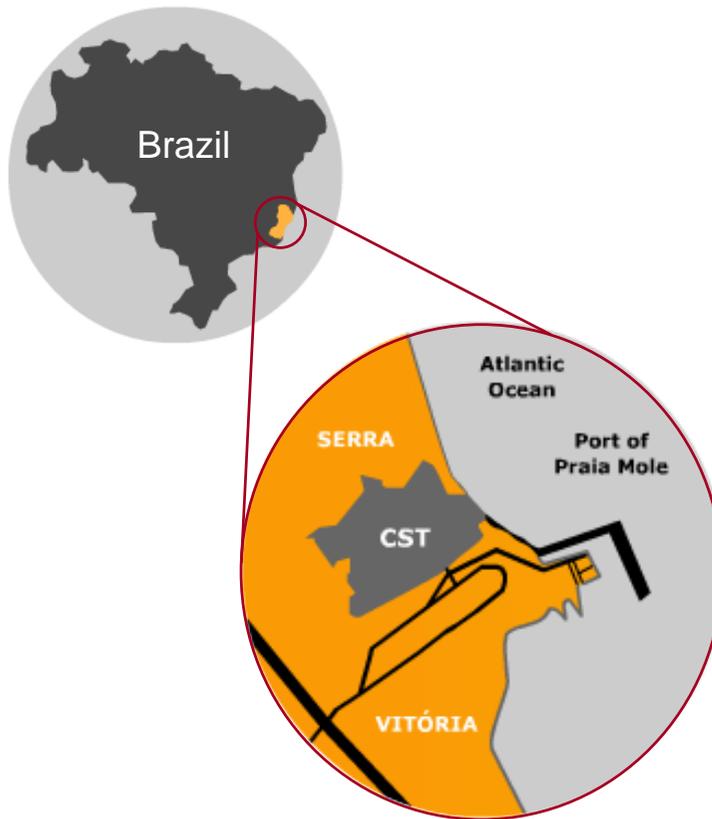
Arcelor will acquire the entire shareholding of CVRD in CST

	Before transaction (%)			Post transaction (*) (%)		
	Ordinary Voting	Preferred Non Voting	Total	Ordinary Voting	Preferred Non Voting	Total
Arcelor	24.9	30.0	28.0	64.7	59.9	61.8
CVRD	24.9	30.0	28.0	-	-	-
Acesita	14.8	-	5.7	-	-	-
JFE	20.5	-	7.9	20.5	-	7.9
CSI	4.0	-	1.5	4.0	-	1.5
Minorities	10.9	40.1	28.9	10.8	40.1	28.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

# Overview of CST

CST is one of the lowest cost producer of slab products worldwide

## CST – Location

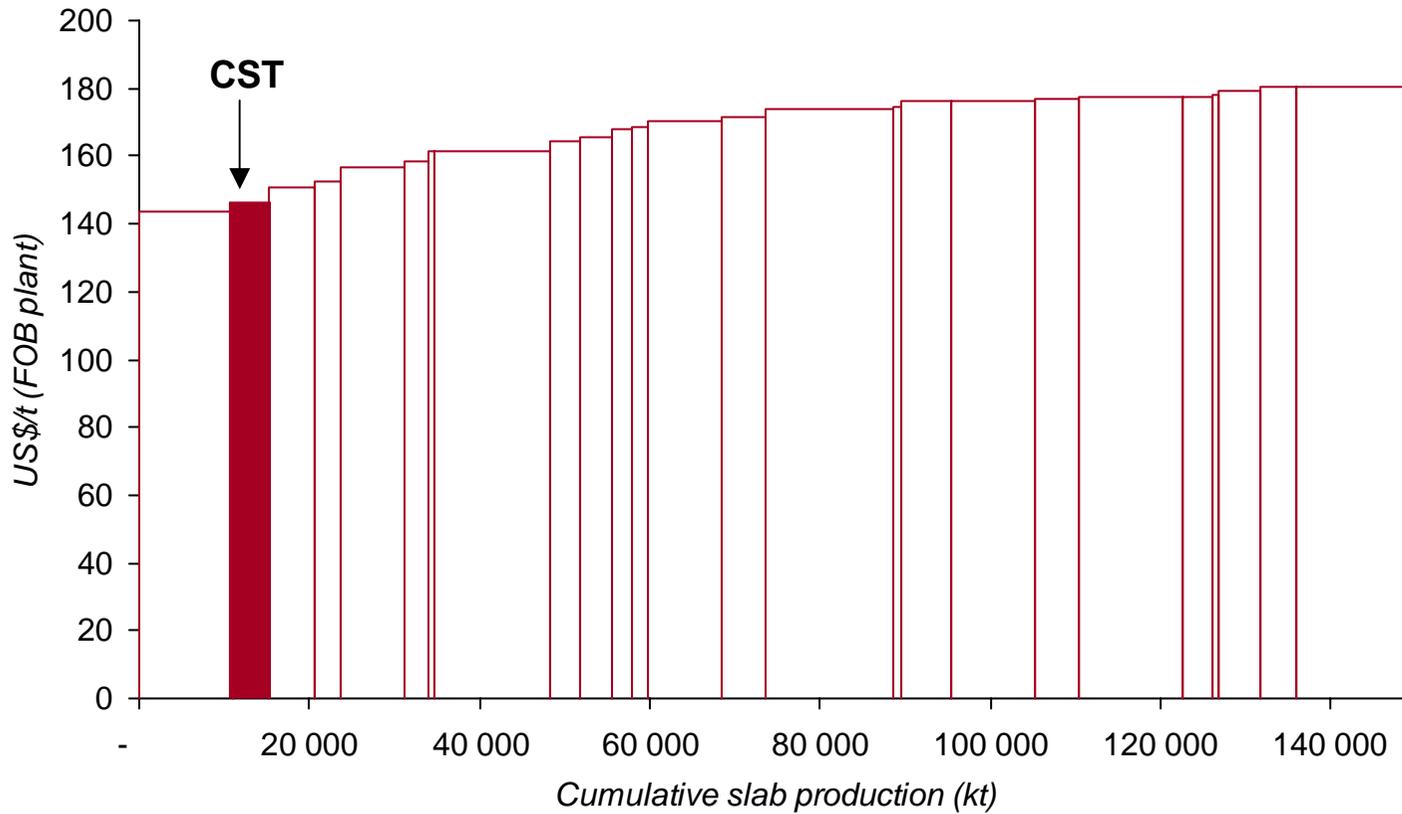


## CST – Overview

- Leader in carbon steel slab market – approx. 20% global market share
- One of lowest cost producers of slab in the world (average production cost of US\$146/t)
- Located in South Eastern Brazil adjacent to port facilities and an extensive logistics network. Exports over 90% of produce
- Customer base: auto, appliances, shipbuilding, and engineering sectors globally
- Publicly listed in Brazil. Market cap. of approx. 1.4US\$bn. In 2003, under USGAAP, CST reported revenues of US\$1,284m and EBITDA of US\$448m (EBITDA margin 35%)
- Enjoys significant growth potential through the commissioning of a third blast furnace increasing crude steel capacity from 5.0mtpa to 7.5mtpa

# CST – a true cost leader in steel

Top 25 flat carbon slab producers



CST is a world leader in low cost steel production

CST average cost per tonne US\$146/t

World weighted average US\$212/t



Source: Metal Bulletin

## CST – key figures

Cost leadership  
reflected in  
highly  
profitable  
operations

<i>(US\$m – US GAAP)</i>		FY 2001	FY 2002	FY 2003	Q1 2004
Slab production	<i>Kt</i>	4 742	4 865	4 771	1 241
HRC production	<i>Kt</i>	-	118	1 192	495
Net revenues	<i>US\$m</i>	866,5	976,1	1 283,9	350,6
<b>EBITDA</b>	<b><i>US\$m</i></b>	<b>209,6</b>	<b>296,8</b>	<b>448,0</b>	<b>141,9</b>
<b>EBITDA margin</b>	<b>%</b>	<b>24</b>	<b>30</b>	<b>35</b>	<b>40</b>
Net income	<i>US\$m</i>	-4,3	84,4	169,2	61,7
Net debt	<i>US\$m</i>	900	756	631	593
Shareholders' equity	<i>US\$m</i>	2 358	2 409	2 407	2 468
Net debt / equity	%	38	31	26	24

# Financing/use of proceeds

Section 3



# Financing and use of proceeds

## Financing

- Warrants Rights Issue - expected to be approximately €1bn
- Details to be announced shortly

## Use of proceeds

- Satisfy the consideration due (US\$578m) in respect of:
  - the CST Asset Purchase Agreement and CST Put-Call Agreement, to be executed at the end of the Shareholders' Agreement or earlier
- Satisfy the consideration due in respect of the Acesita Put-Call Agreement, such amount to be determined in accordance with the terms of such agreements
- Facilitate further acquisitions which are consistent with Arcelor strategy and value criteria
- Maintain a strong financial profile
- General corporate purposes

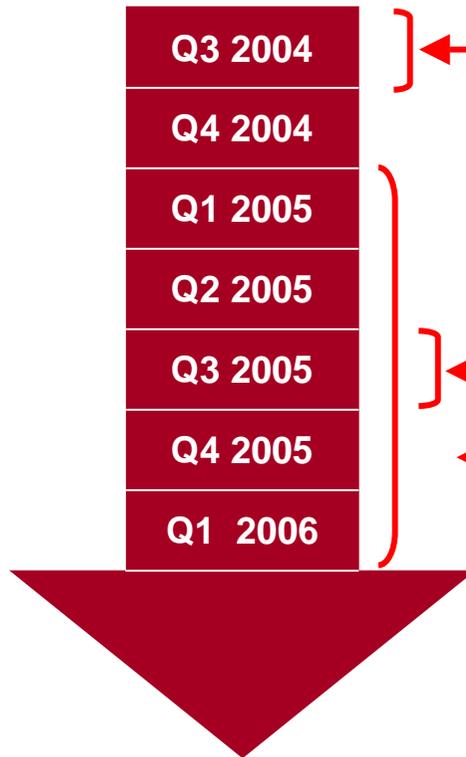
# Uses of funds & timetable

Mechanisms in place to secure control of CST

Further follow on acquisitions expected

Funds to be released once shares become available

## Acquisition timetable



## Uses of funds (US\$m)

- Acquisition of non-affected CST shares **415**
- Acquisition of affected CST shares from CVRD **163**
- Further initiatives, such as acquisition of Acesita affected shares

Consolidation of Brazilian interests

# Pro forma financials

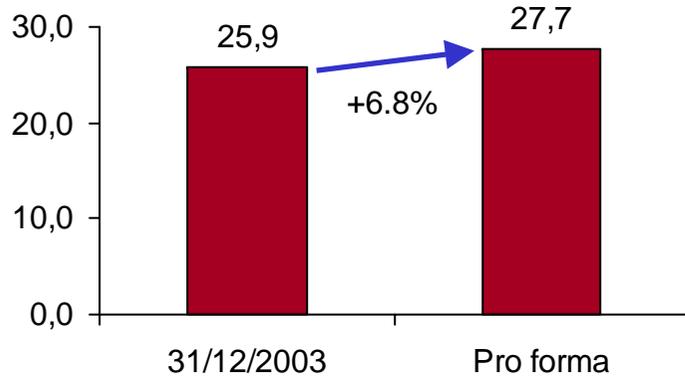
Section 4



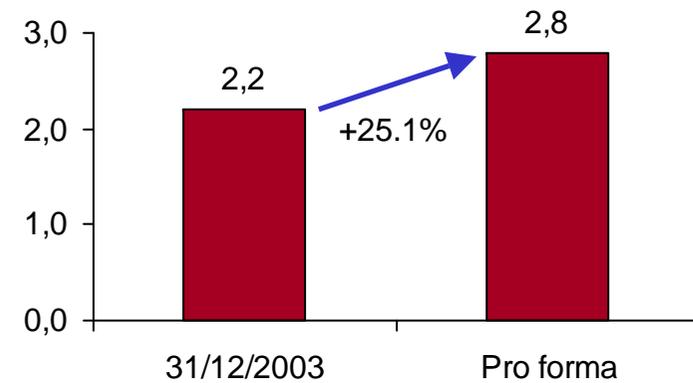
# Pro forma effects – profit & loss

Significant earnings uplift through consolidation of highly profitable operations

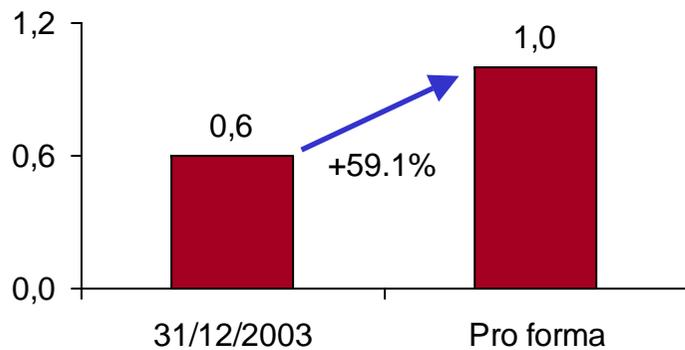
Revenues (€bn – IFRS)



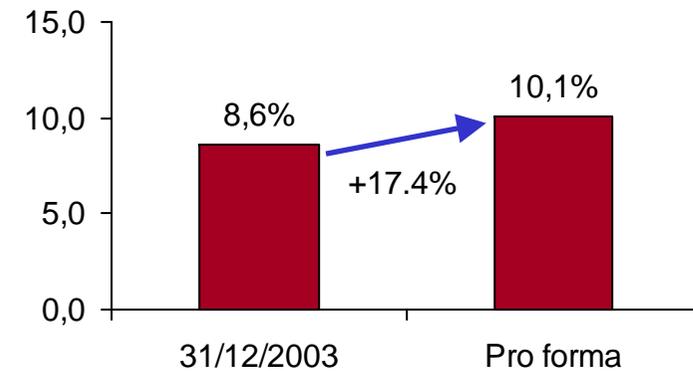
Gross Op. Result (€bn – IFRS)



Operating Result (€bn – IFRS)



Gross Margin (% – IFRS)



# Conclusions

- **Arcelor's interests in Brazil are central to its strategy of continued global leadership in low cost, high quality steel production**
- **Transactions to secure control of CST are a major step forward in executing this strategy**
- **Value proposition is compelling and clear: one of the most competitive, profitable steel producers globally**
- **Underscores Arcelor's long standing commitment to Brazil and, together with existing Brazilian investments, represents a unique platform for future growth and optionality**

# Shareholdings

Appendix I



# Belgo Mineira

	Ordinary voting	Preferred non voting	Total
Shareholder	% class	% class	% total
Arcelor	60.6%	46.0%	54.0%
Bradesco	11.5%	0.0%	6.4%
Centrus	9.4%	0.0%	5.2%
Previ	7.3%	9.9%	8.5%
BNDES	0.0%	9.6%	4.3%
Minorities*	11.2%	34.5%	21.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# CST

	Ordinary voting	Preferred non voting	Total
Shareholder	% class	% class	% total
Arcelor	24.9%	30.0%	28.0%
CVRD	24.9%	30.0%	28.0%
Acesita	14.8%	0.0%	5.7%
JFE	20.5%	0.0%	7.9%
CSI	4.0%	0.0%	1.5%
Minorities*	10.9%	40.0%	28.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Acesita

	Ordinary voting	Preferred non voting	Total
Shareholder	% class	% class	% total
Arcelor	38.9%	22.0%	27.7%
Previ	18.9%	10.4%	13.3%
Sistel	12.1%	0.0%	4.1%
Petros	5.7%	1.1%	2.6%
Other Funds	2.5%	0.3%	1.1%
BNDES	0.0%	26.2%	17.5%
Minorities*	21.9%	40.0%	33.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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