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# Table of Contents

- ✍ **Introduction**
- ✍ **What did we find on Day 1?**
- ✍ **Where to from here?**
- ✍ **Conclusion**
- ✍ **Appendix**



# ***Introduction***

# Three European producers...

- ✍ Arcelor created through merger of three European steelmakers
- ✍ Merger completed in February 2002



# ...sharing the same view on the industry

## Demand side...

- Mature industry in developed countries
- Cyclical real final consumption. Amplified apparent consumption cycles (stocking, destocking)
- Concentration and globalisation of industrial clients (auto)
- Competition with other materials
- Low differentiation of products/services

## Supply side...

- Low concentration, many players
- Development of international trade
- World-wide price
- Increase of costs
- Capital intensive industry

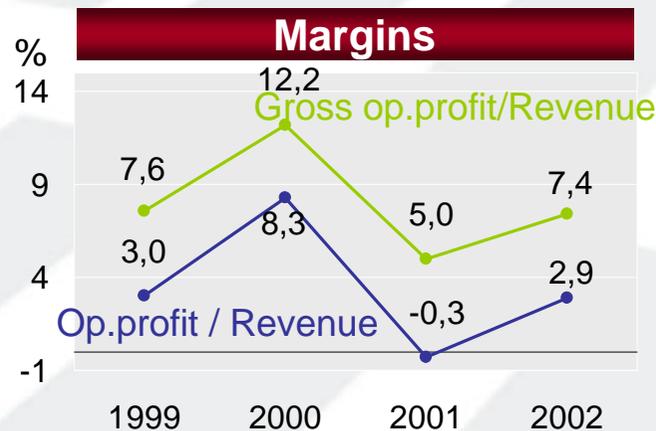
# ... and pursuing the same objectives

- ✍ **Purchasing and selling power**
- ✍ **Capacity management**
- ✍ **Growth outside Europe**
- ✍ **Cost reduction & synergies**
- ✍ **Accompany customer development**



***What did we find on day 1?***

# Key figures (proforma)



€m

Net financial debt

Shareholders' equity<sup>(1)</sup>

**Gearing**

**31 Dec. 2001**

6,510

8,819

**74%**

**31 Dec 2002**

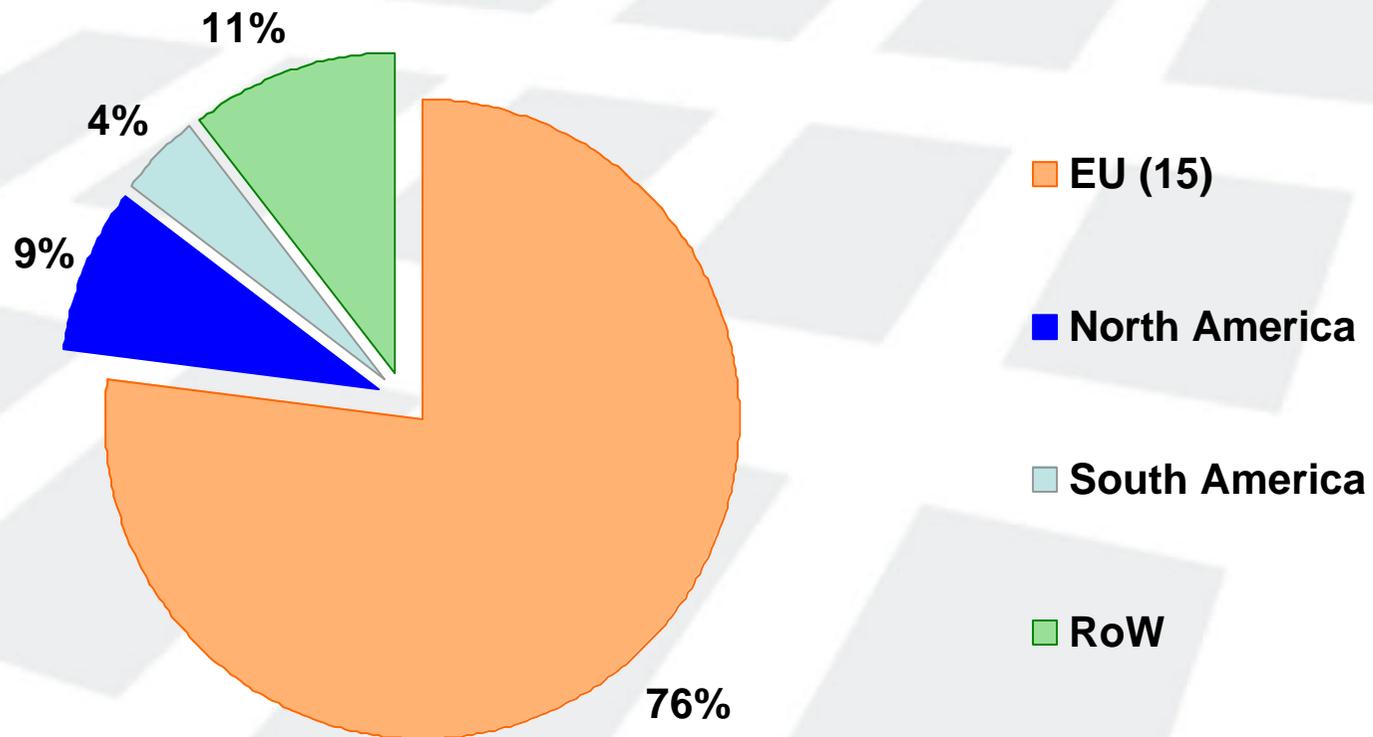
5,993

8,058

**74%**

# A European Group

Sales by geographical area (1H 2003)



# Four main business sectors...

## *Flat carbon steels*



### ✍ **World leader...**

- Revenue: €13.2bn; Gross operating margin 7%
- Shipments: 27.2m tons

### ✍ **... with only ~10% market share**

- Many players, fragmented industry

### ✍ **European production base, but strategic stake in Brazil...**

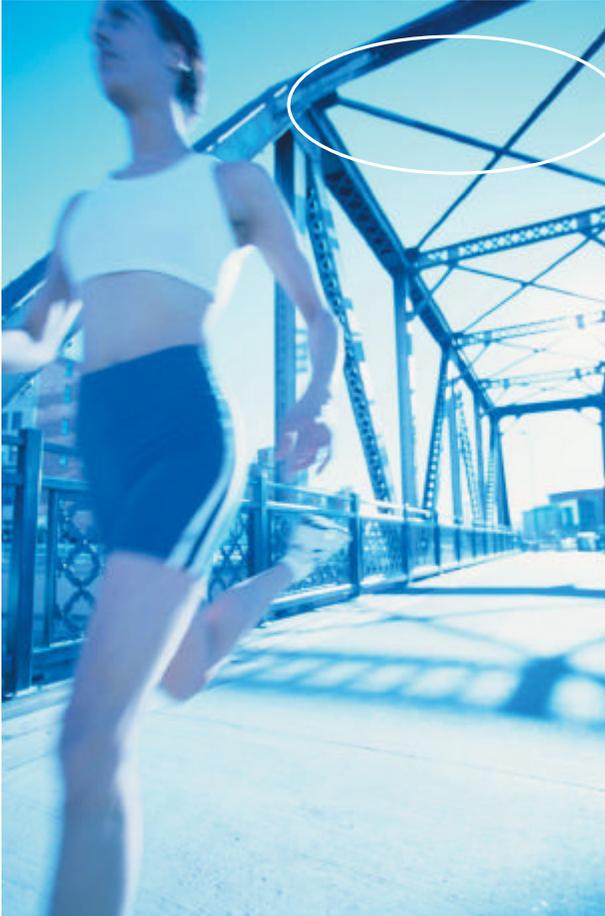
- Integrated continental vs coastal sites: the cost structure issue

### ✍ **...in the context of growing global competition**

### ✍ **Order book: value-added products & commodities**

# Four main business sectors...

## *Long carbon steels*



- ✂ **World leader, or among the top performers...**
  - Revenue: €4.3bn; Gross operating margin 14%
  - Shipments: 11.9m tons
- ✂ **...with strong commercial positions and financial results**
- ✂ **Efficient European production base...**
  - “*Minimill*” technology. Raw material=Scrap
- ✂ **...and jewel asset in Brazil**
  - Majority stake in Belgo-Mineira
- ✂ **Order book: commodities & some specialties**

# Four main business sectors...

## *Stainless steels, alloys and specialty plates*



- ✂ **World leader in different activities...**
  - Revenue: €4.2bn; Gross operating margin 5%
  - Shipments: 2.4m tons
  - The stainless sector is a sum of radically different businesses in Arcelor
- ✂ **European and US production base, but strategic stake in Brazil**
  - Small European sites & structural industrial issue in the US
- ✂ **In the context of a growing market... and competition: a place for everyone?**
- ✂ **From niche products to commodities?**

# Four main business sectors...

## *Distribution, Transformation, Trading*



- ✍ **An extensive network...**
  - Revenue: €9.4bn; Gross operating margin 3%
- ✍ **...with low but less volatile margins**
- ✍ **Predominantly a European coverage model**
- ✍ **A natural client of the Group**
- ✍ **The value-added proposition**

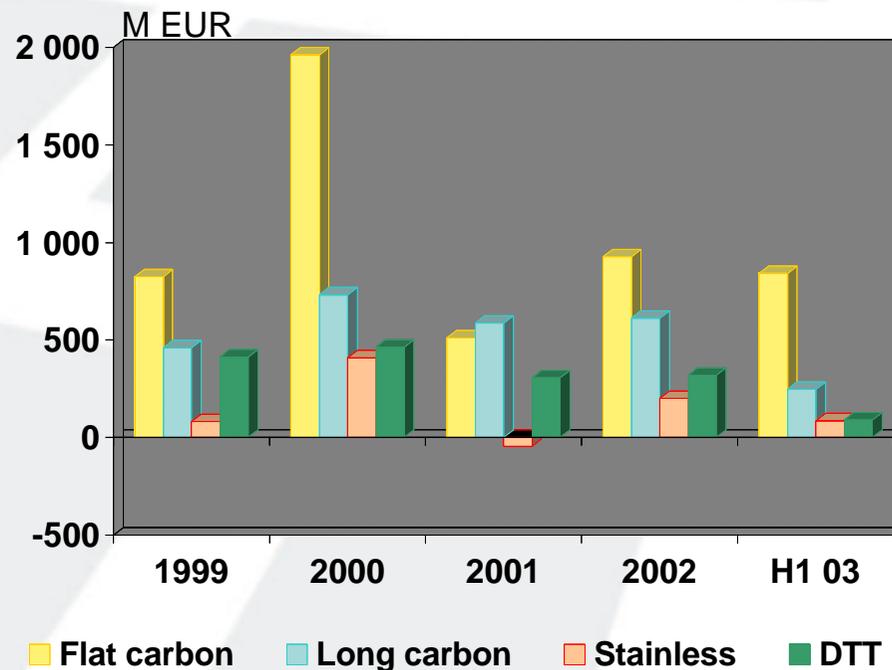
# ...with different contributions and cyclicality...

## Breakdown of turnover by business sector

1H 2003

Flat carbon steel	<b>54.3%</b>
Long carbon steel	<b>15.8%</b>
Stainless steel	<b>16.7%</b>
DTT	<b>31.5%</b>
Other activities	<b>3.2%</b>
Intra-Group	<b>- 21.4%</b>
<hr/>	
Total	<b>100%</b>

## Breakdown of Ebitda by business sector



# ...to serve a variety of steel consuming sectors



## ✍ **Auto**

- Arcelor #1 supplier of flat carbon steels in the world (~15% market share)
- Close cooperation with automakers and subcontractors
- Recognized quality and know-how



Airbus A380 warehouse : 40,000 t  
Long / Flat / Stainless steels

## ✍ **Construction, Infrastructure & General Industry**

- High growth potential (flat and long steels, extensive distribution network)



## ✍ **Packaging**

- Arcelor is one of the leading suppliers of steel solutions for the packaging industry
- Arcelor is a leader in the fast growing market of steel for beverage cans



## ✍ **Appliances**

- Arcelor is #1 in Europe for production of steel for appliances

# Another way to look at it: strategic segmentation

\*: in~% of turnover

~60%\*

## Commodities

Flat Carbon Steel  
Long Carbon Steel  
Stainless Steel  
Standard Tubes

~30%

## Technical products for global customers

Auto  
Packaging  
Household appliances  
Steelcord

~10%

## Specialties

Rails  
Sheet piles  
Heavy beams  
Non Steel Assets  
Alloys  
Special plates  
Construction specialties  
Stainless  
Flat carbon  
Special Tubes



***Where to from here?***

# Given key factors of success...

~60%

## Commodities

- Cost leadership
- Service (supply chain, sales' network)

~30%

## « Niche » and Technical products for global customers

- Innovation, Partnership
- Continuous improvement (cost impact)
  - Just in time
- Capacity to follow global customers

~10%

## Specialties

- Innovation
- Differentiated and renewed offer
- Sales network brand

# ...and required financial performances...

## ROCE

### Create value

Pre-tax ROCE of 15% on average over a cycle

- *increase structural profitability of business*
- *manage capital expenditure*
- *reduce working capital requirements*

## Gearing

### Decrease indebtedness

Gearing between 30 and 50% over cycle

## Dividend policy

First dividend of Arcelor = €0.38 per share (gross) in a difficult 2002 business climate.

# ...fundamental decisions have been taken

- ✎ **One year after the merger, strategic orientations are adopted**
- ✎ **Arcelor has defined and is implementing an ambitious program to adapt its production resources:**

- **Flat Carbon**

*“[...] the board has asked the management board to prepare all necessary measures in view of the concentration of future investments on the most competitive sites in order to guarantee the overall position of the group. As a consequence, major investments for the refurbishment of so-called continental or landlocked blast-furnaces would not be carried out.” (Arcelor - January 24, 2003)*

**Brazil** *“ARCELOR and Companhia Vale do Rio Doce (CVRD) [...] agreed to buy [...] shares of Companhia Siderurgica de Tubarão (CST) owned by Acesita. (Arcelor – 28 March 2003)*

- **Stainless**

*“The board of directors has been informed of the conclusions of the strategic review regarding the group's stainless steel activities. [...] strategic orientations aiming to optimise the industrial and economic performance of all stainless steel activities of the group in the context of a portfolio approach” (Arcelor – May 15, 2003)*

# What does it mean?

## ✍ **Flat carbon: deep restructuring**

- Commercial analysis
  - ✍ Forecast medium to long term growth and market size for main steel products
  - ✍ Sort out order book and stop producing non profitable deliveries (“invisible overcapacities”)
- Industrial consequences
  - ✍ Eliminate overcapacities (“visible” and “invisible” overcapacities)
  - ✍ Upstream facilities: close 6 continental (vs coastal) blast furnaces over time (approx. 8 million tons)
  - ✍ Downstream facilities: close or specialize mills

## ✍ **Stainless steel: a decision on what is core**

- Strategic choice
  - ✍ European operations are worth investing and capable to deliver satisfactory returns
  - ✍ Portfolio analysis for the rest

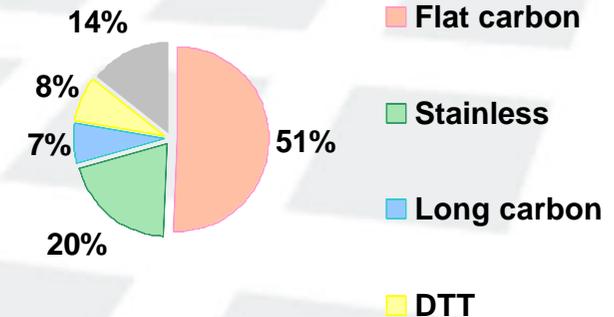
# First achievements

Initially identified synergies well on track

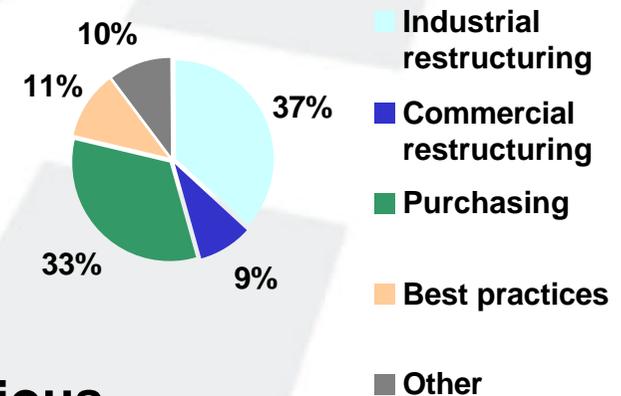
Additional Ebitda due to the merger



Realised at end June 2003 - Split by sector



Realised at end June 2003 - Split by category



But strategic orientations much more ambitious

Execution has started and will progress over the next 5-10 years

# What about growth?

Limited growth potential in Europe due to Arcelor's current market shares and antitrust issues. External growth possible outside Europe

## **Brazil**

- Significant existing presence with Belgo-Mineira (long products, drawn products), Vega do Sul (flat carbon products for Auto industry) and our participations in Acesita (stainless) and CST (flat carbon products)

## **Russia**

- Cooperation with 1st steelmaker in Russia, Severstal. JV for Auto market

## **USA**

- No industrial presence to serve the Auto market, but crisis of the American steel industry might lead to acquisitions, provided legacy costs problems are solved. Political dimension. Trade barriers with section 201.

## **Poland**

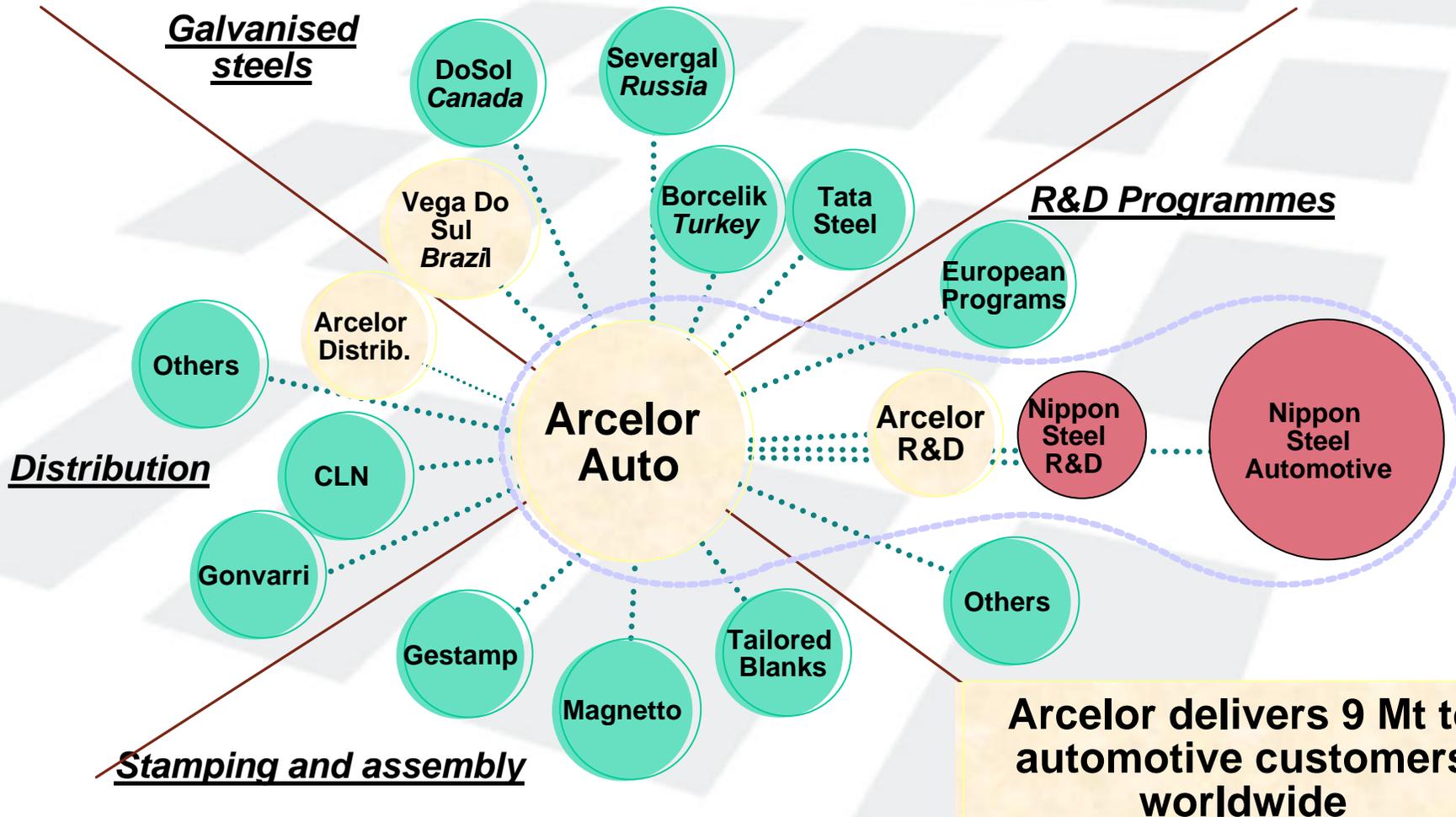
- Privatisation of steel industry mandatory for the government. Complex case: attractiveness of market vs poor assets. No more on the agenda. Bid by LNM.

## **China**

- Attractiveness of the market and investment possibilities with Nippon Steel. Project with Baosteel.

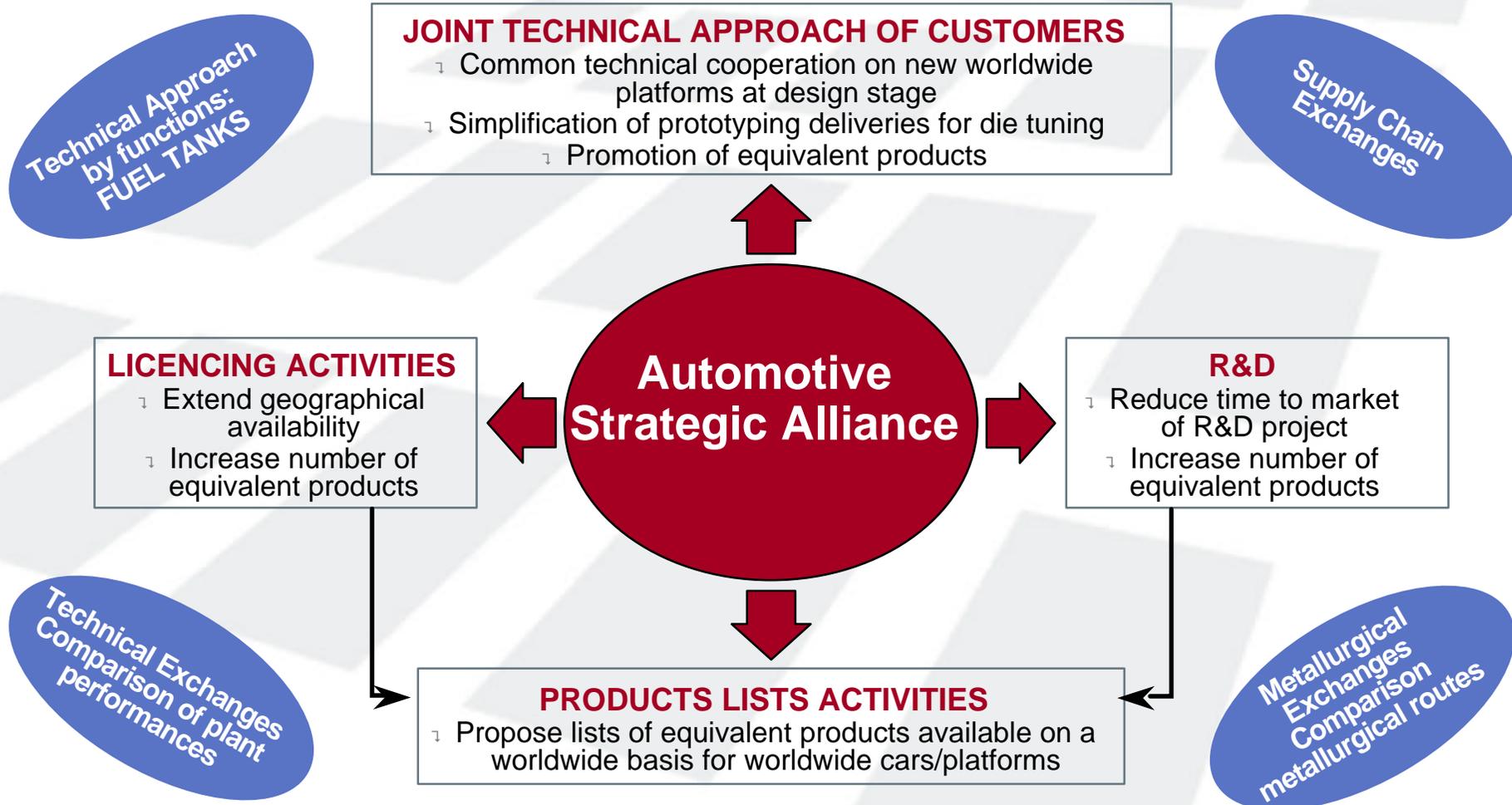
# The multiple alliances model

## Leading and sponsoring a network of automotive suppliers



# One word about our alliance with Nippon Steel

- ✍ **No cross shareholding – “intellectual alliance” – NSC and Arcelor remain independent in the market**



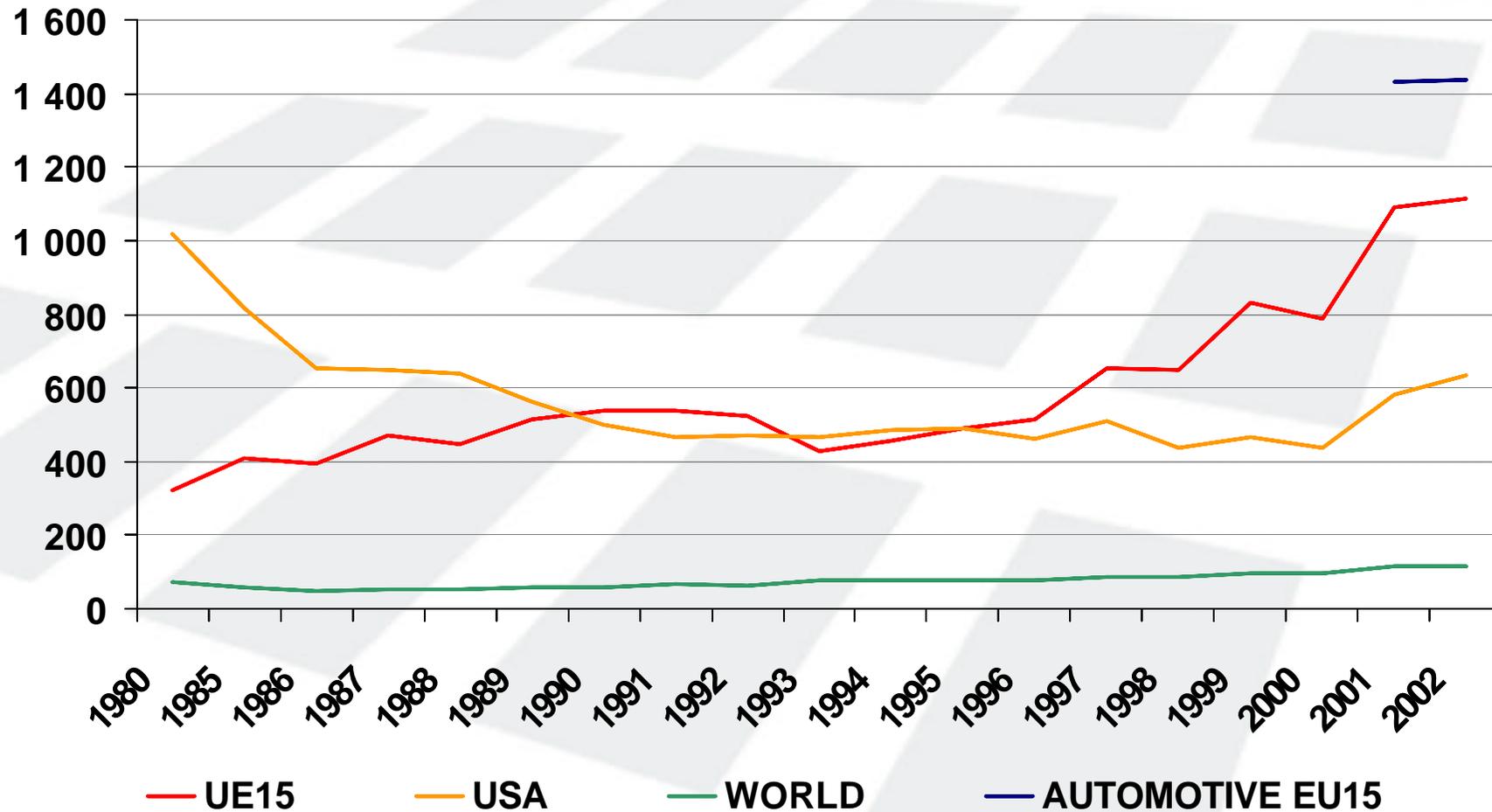


# ***Conclusion***

# Update on the steel industry

## Concentration in Europe

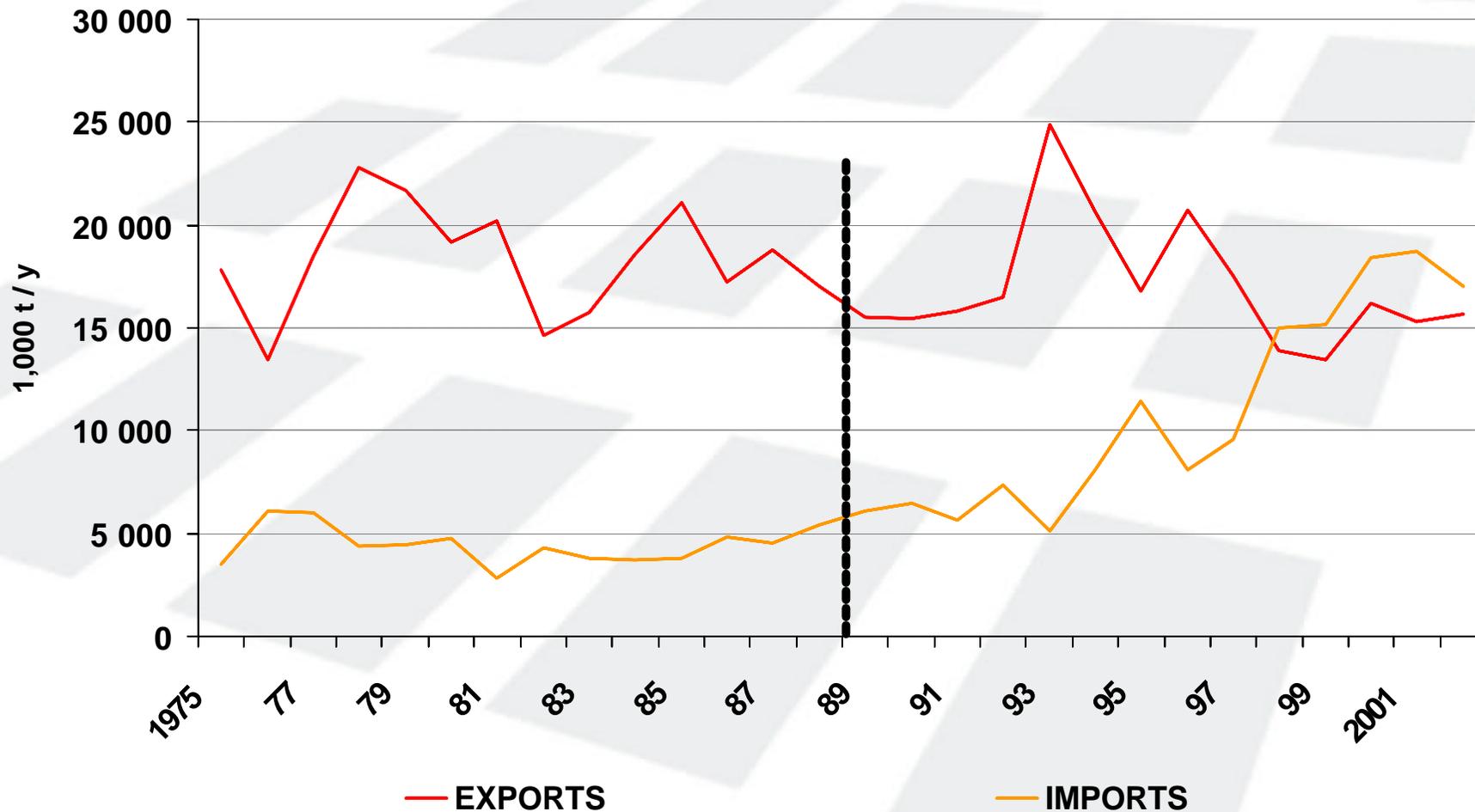
Herfindahl-Hirschman index for the steel industry



# Update on the steel industry

*Western Europe from net exporter to net importer*

Exports & imports (semi-finished and finished products. EU8)



# Today's configuration of the steel industry

## ✎ Consolidation of producers in traditional steel countries

- In Europe
  - ✎ Flat carbon steel and stainless steel: high level of consolidation
  - ✎ Long carbon steel products: scope for further consolidation
- In Japan:
  - ✎ Consolidation in progress (JFE, NSC alliances with Kobe Steel, SMI)
- In USA:
  - ✎ Large scope for restructuring and consolidation
  - ✎ Recent progress both in mini mills ( Nucor-Birmingham) and in integrated works (acquisitions of Bethlehem Steel and National Steel)

## ✎ China

- World largest steel producing country. Role in the world supply-demand balance. Growing impact on raw material markets.
- High speed growth (equiv. 50% of the world's growth in 2002, approx. 25Mt additional production)

## ✎ RoW (South America, Eastern Europe and CIS, Middle East, Asia)

- Diverse scenarios
- Common denominator = growth along the cycle

# Arcelor's key priorities

- ✍ **Reduction of financial debt**
- ✍ **Synergies & restructuring**
- ✍ **Business portfolio strategic management**
- ✍ **Price vs volume policy**
- ✍ **Procurement: Total Cost of Ownership vs Price**

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***Appendix:***  
***1H 2003 financial results***

# Introduction

## Key figures

€m	H1 2002 <sup>(1)</sup>	H1 2002 <sup>(2)</sup>	H1 2003
<b>Revenue</b>	<b>13,705</b>	13,705	<b>13,582</b>
<b>Gross operating profit</b> <i>as % of revenue</i>	<b>881</b> 6.4%	881 6.4%	<b>1,276</b> 9.4%
<b>Operating profit</b> <i>as % of revenue</i>	<b>388</b> 2.8%	341 2.5%	<b>745</b> 5.5%
<b>Net profit, Group share</b> <i>as % of revenue</i>	<b>103</b> 0.8%	93 0.7%	<b>358</b> 2.6%

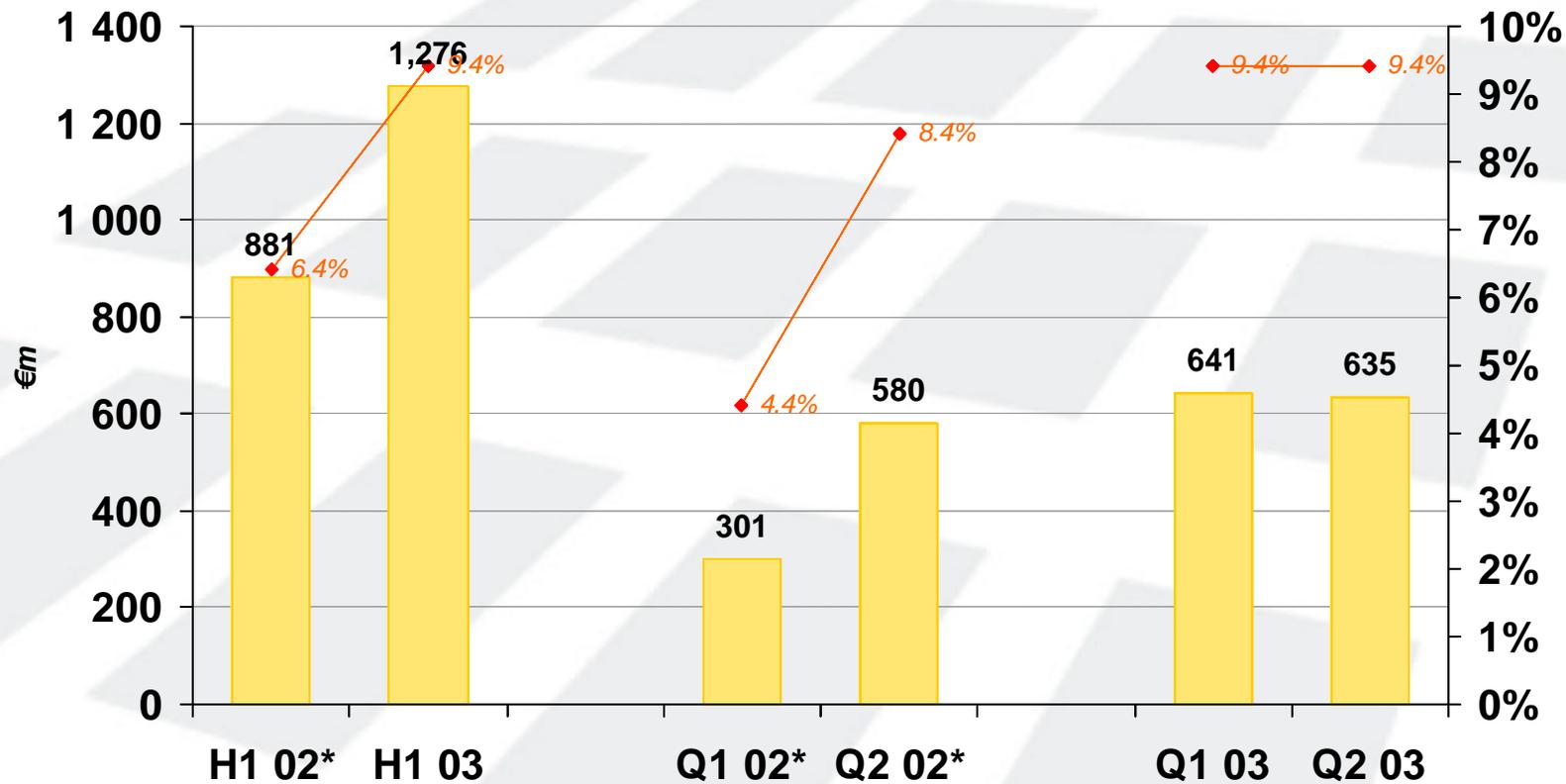
(1) Proforma & adjusted after final allocation of “merger” neg. goodwill.

(2) Proforma, as disclosed in 2002, before final “merger” neg. goodwill adjustment

€			
<b>EPS</b>	<b>0.22</b>	0.2	<b>0.75</b>

	<b>12.31.2002</b>	<b>06.30.2003</b>
<b>Gearing</b>	<b>0.75</b>	<b>0.71</b>

# Sequential & QoQ Gross Operating Profit, absolute & margins



\* Proforma & adjusted after final allocation of "merger" neg. goodwill.

# Flat Carbon Steel

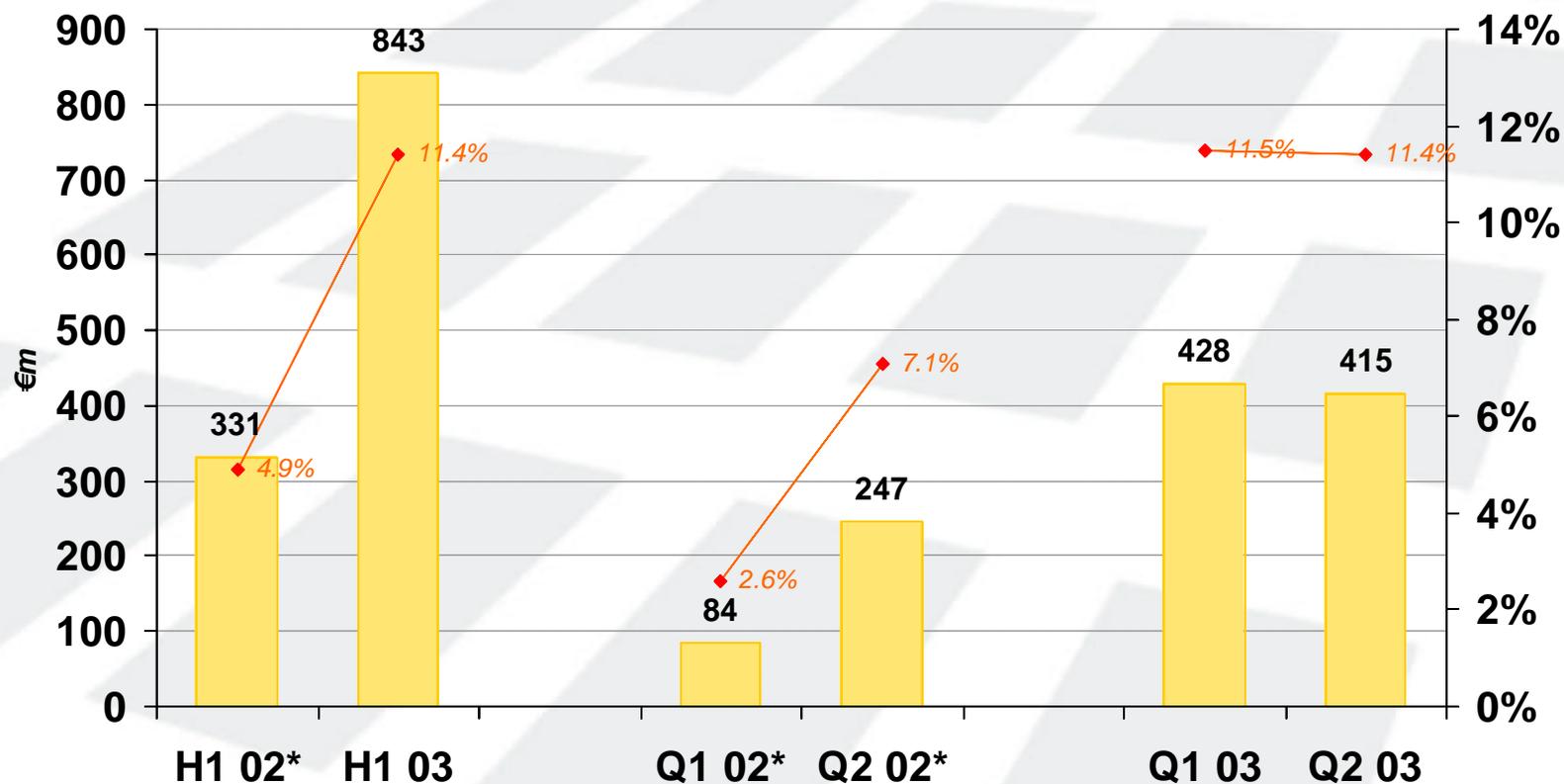
€m	H1 2002 <sup>(1)</sup>	H1 2002 <sup>(2)</sup>	H1 2003	Change
<b>Revenue</b>	<b>6,780</b>	6,780	<b>7,374</b>	<b>+ 8.8%*</b>
<b>Gross operating profit</b> <i>as % of revenue</i>	<b>331</b> 4.9%	331 4.9%	<b>843</b> 11.4%	<i>+2.1% at comparable structure</i>
<b>Depreciation &amp; Amortisation</b>	<b>- 243</b>	- 311	<b>- 281</b>	
<b>Operating profit</b> <i>as % of revenue</i>	<b>88</b> 1,3%	20 0.3%	<b>562</b> 7.6%	
<b>Total shipments</b> <i>(metric tons)</i>	<b>14.2 mt</b>		<b>13.5 mt</b>	

(1) Proforma & adjusted after final allocation of "merger" neg. goodwill.

(2) Proforma, as disclosed in 2002, before final "merger" neg. goodwill adjustment

# Flat Carbon Steel

*Sequential & QoQ Gross Operating Profit, absolute & margins*



\* Proforma & adjusted after final allocation of "merger" neg. goodwill.

# Long Carbon Steel

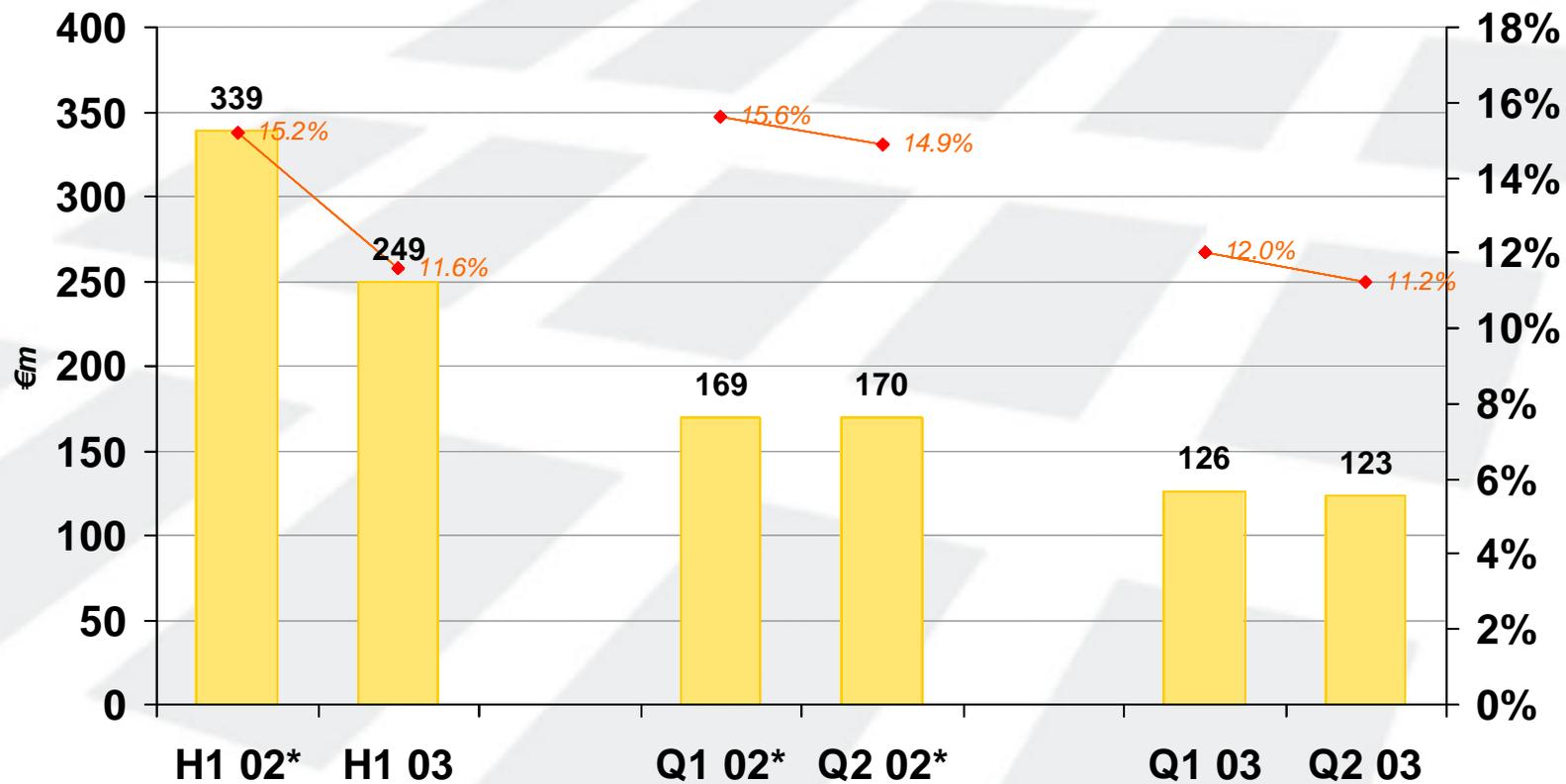
€m	H1 2002 <sup>(1)</sup>	H1 2002 <sup>(2)</sup>	H1 2003	Change
<b>Revenue</b>	<b>2,225</b>	2,225	<b>2,141</b>	<b>- 3.8%*</b>
<b>Gross operating profit</b> <i>as % of revenue</i>	<b>339</b> 15.2%	339 15.2%	<b>249</b> 11.6%	<i>*-3.6% at comparable structure</i>
<b>Depreciation &amp; Amortisation</b>	<b>- 100</b>	- 108	<b>- 99</b>	
<b>Operating profit</b> <i>as % of revenue</i>	<b>239</b> 10.7%	231 10.4%	<b>150</b> 7.0%	
<b>Total shipments</b> <i>(metric tons)</i>	<b>6.1 mt</b>		<b>5.9 mt</b>	

(1) Proforma & adjusted after final allocation of "merger" neg. goodwill.

(2) Proforma, as disclosed in 2002, before final "merger" neg. goodwill adjustment

# Long Carbon Steel

*Sequential & QoQ Gross Operating Profit, absolute & margins*



*\* Proforma & adjusted after final allocation of "merger" neg. goodwill.*

# Stainless Steel, Alloys & Specialty plates

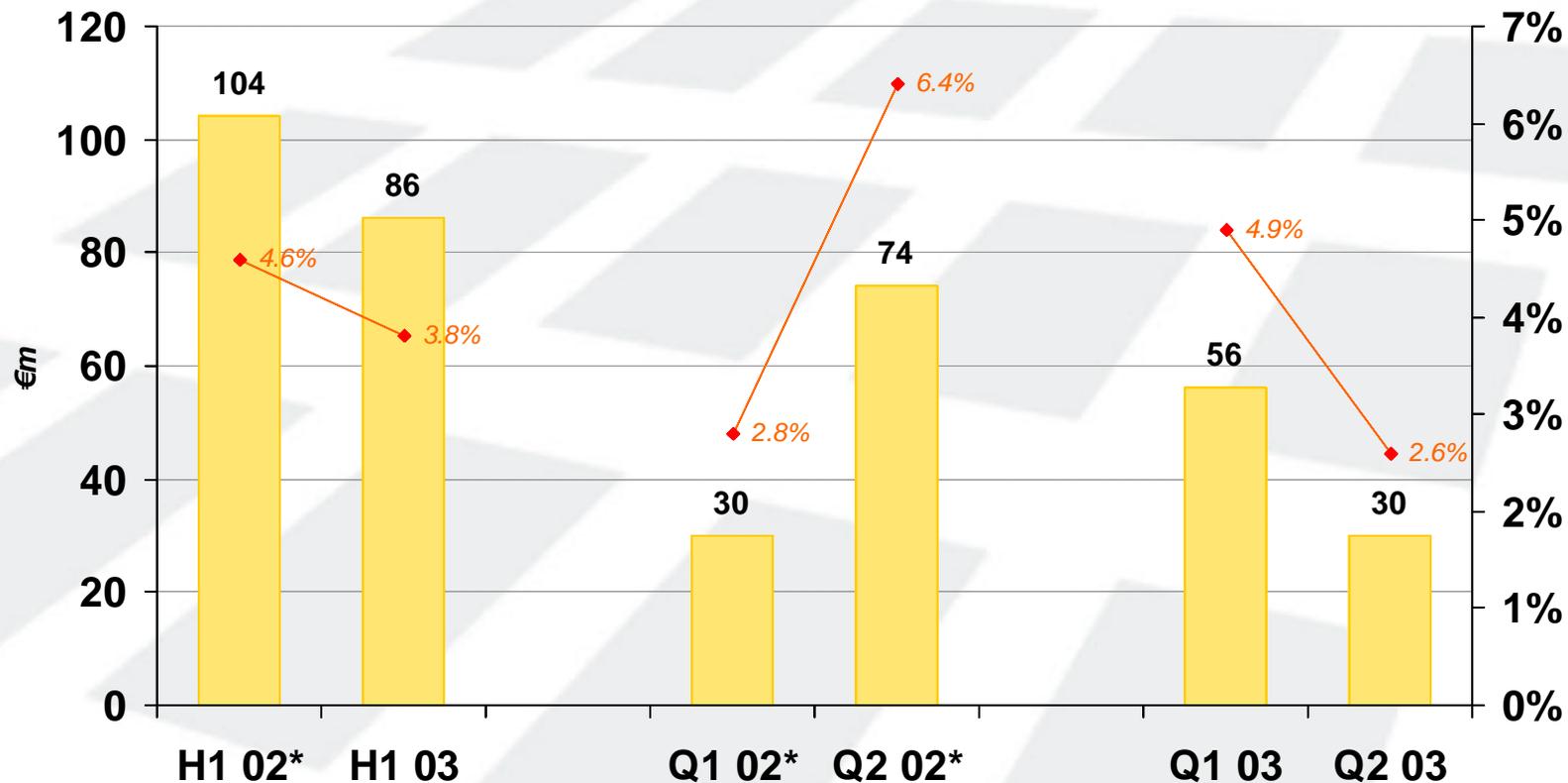
€m	H1 2002 <sup>(1)</sup>	H1 2002 <sup>(2)</sup>	H1 2003	Change
<b>Revenue</b>	<b>2,241</b>	2,241	<b>2,270</b>	<b>+ 1.3%*</b>
<b>Gross operating profit</b> <i>as % of revenue</i>	<b>104</b> 4.6%	104 4.6%	<b>86</b> 3.8%	<i>*-1.2% at comparable structure</i>
<b>Depreciation &amp; Amortisation</b>	<b>- 75</b>	- 79	<b>- 81</b>	
<b>Operating profit</b> <i>as % of revenue</i>	<b>29</b> 1.3%	25 1.1%	<b>5</b> 0.2%	
<b>Total shipments</b> ( <i>metric tons</i> )	<b>1.3 mt</b>		<b>1.3 mt</b>	

(1) Proforma & adjusted after final allocation of "merger" neg. goodwill.

(2) Proforma, as disclosed in 2002, before final "merger" neg. goodwill adjustment

# Stainless Steel, Alloys, Specialty plates

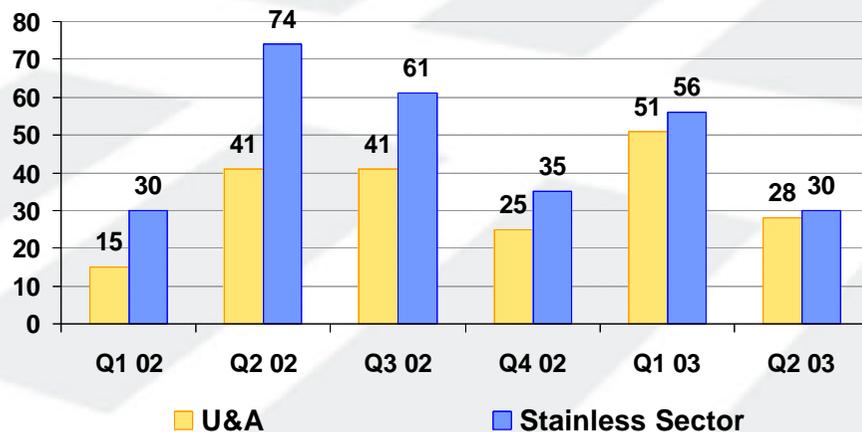
*Sequential & QoQ Gross Operating Profit, absolute & margins*



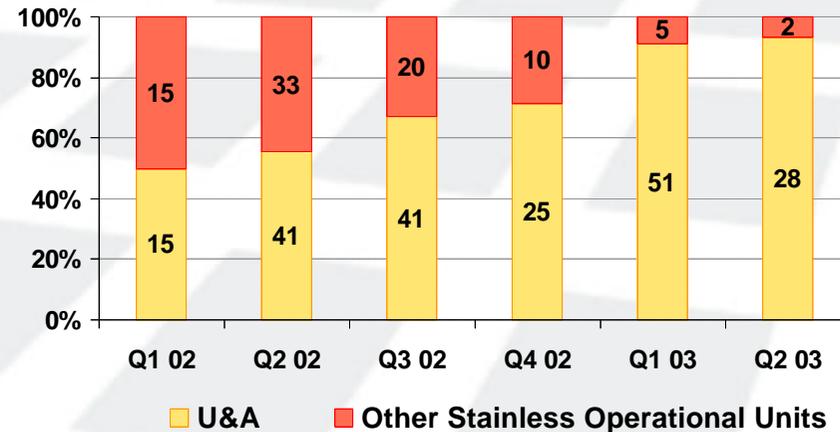
\* Proforma & adjusted after final allocation of "merger" neg. goodwill.

# European Flat Stainless operations – *Ugine & ALZ*

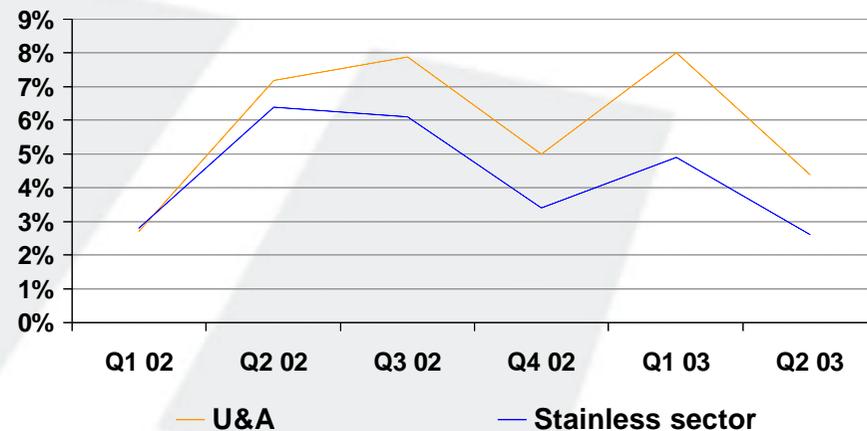
**Gross operating profit of U&A and Stainless sector (€m)**



**Contribution of U&A to Gross operating profit of Stainless sector**



**U&A Gross operating margin vs Arcelor stainless sector**



# Distribution - Transformation - Trading

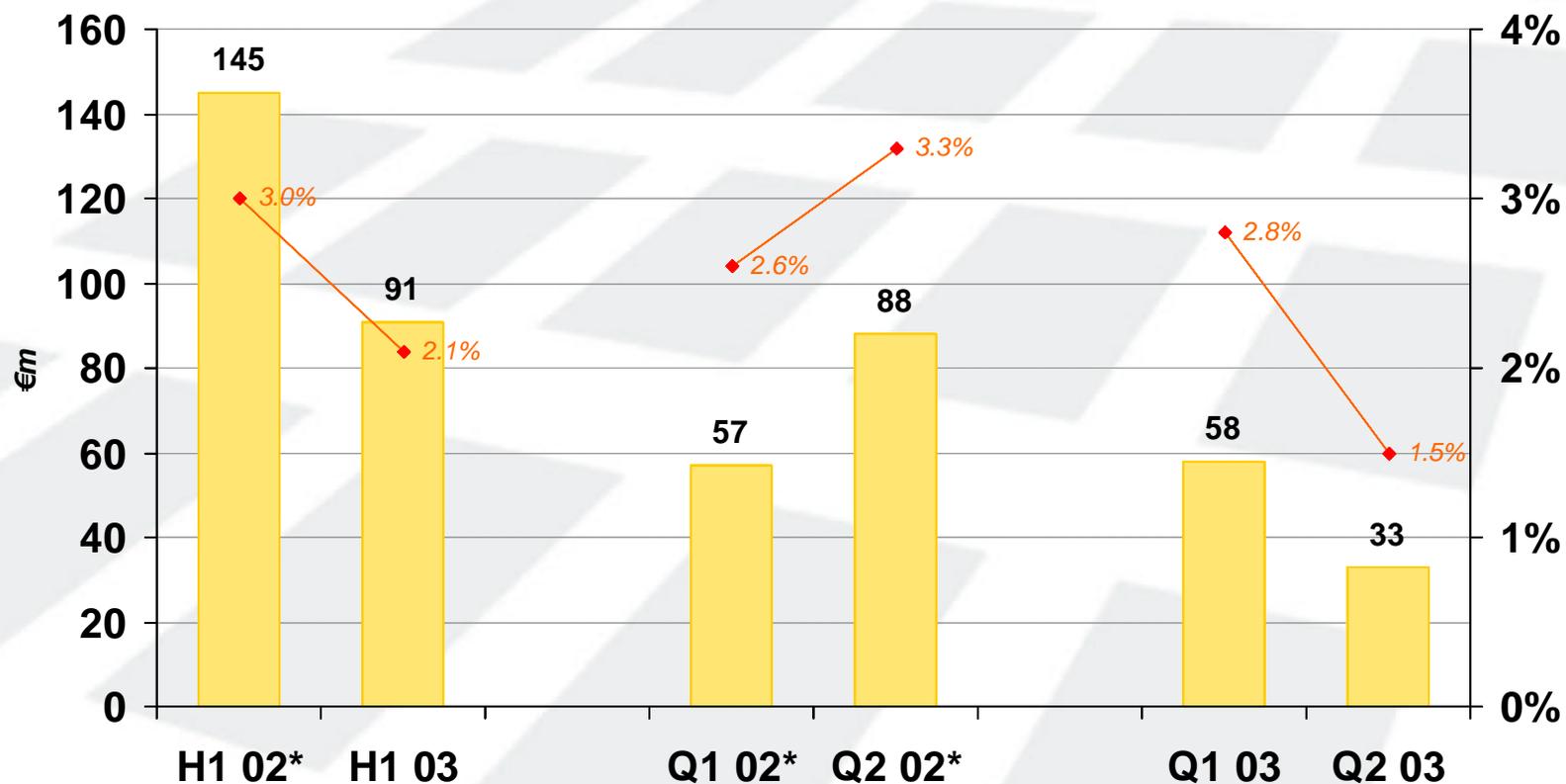
€m	H1 2002 <sup>(1)</sup>	H1 2002 <sup>(2)</sup>	H1 2003	Change
<b>Revenue</b>	<b>4,864</b>	4,864	<b>4,276</b>	<b>- 12.1%*</b>
<b>Gross operating profit</b> <i>as % of revenue</i>	<b>145</b> 3.0%	145 3.0%	<b>91</b> 2.1%	<i>*-5.1% at comparable structure</i>
<b>Depreciation &amp; Amortisation</b>	<b>- 54</b>	- 48	<b>- 51</b>	
<b>Operating profit</b> <i>as % of revenue</i>	<b>91</b> 1.9%	97 2.0%	<b>40</b> 0.9%	

(1) Proforma & adjusted after final allocation of "merger" neg. goodwill.

(2) Proforma, as disclosed in 2002, before final "merger" neg. goodwill adjustment

# DTT

## Sequential & QoQ Gross Operating Profit, absolute & margins



\* Proforma & adjusted after final allocation of "merger" neg. goodwill.

# Working capital

€m	12.31.02	06.30.03	Change
Inventories	6,091	6,086	- 5
Trade receivables	4,320	3,983	- 337
Trade payables	- 4,111	- 4,340	- 229
<b>Operating Working Capital</b>	<b>6,300</b>	<b>5,729</b>	<b>- 571</b>
Other receivables & payables	- 896	- 1,037	- 141
Net financing linked to securitisation	- 1,097	- 69	1,028
<b>Total Working Capital</b>	<b>4,307</b>	<b>4,623</b>	<b>+ 316</b>

# Consolidated Income Statement

€m	H1 2002 <sup>(1)</sup>	H1 2002 <sup>(2)</sup>	H1 2003
Revenue	13,705	13,705	13,582
<b>Gross operating profit</b>	<b>881</b>	881	<b>1,276</b>
Depreciation & Amortisation	- 542	- 678	- 580
Amortisation of goodwill	49	138	49
<b>Operating profit</b>	<b>388</b>	341	<b>745</b>
Net financing costs	- 214	214	- 174
Income from associates	0	0	50
<b>Profit before tax</b>	<b>174</b>	127	<b>621</b>
Income tax	- 43	- 16	- 187
<b>Profit after tax</b>	<b>131</b>	111	<b>434</b>
Minority interests	- 28	- 18	- 76
<b>Net profit, group share</b>	<b>103</b>	93	<b>358</b>

(1) Proforma & adjusted after final allocation of "merger" neg. goodwill.

(2) Proforma, as disclosed in 2002, before final "merger" neg. goodwill adjustment

# Cash-flow & net financial debt

€m

H1 2003

<b>Net profit before Min.Interest</b>	<b>434</b>
Depreciation	537
Other non cash items	74
Change in WC (decr. = +)	- 260
<b>Cash flow from operating activities</b>	<b>785</b>
Acquisitions of tangible and intangible assets	- 798
Others	156
<b>Cash flow from investing activities</b>	<b>- 642</b>
Contribution of shareholders' equity	65
Dividends paid	- 202
<b>Cash flow from / (used in) financing activities</b>	<b>- 137</b>
Others	131
<b>Change in Net financial debt (decr. = +)</b>	<b>137</b>
<b>NFD at the beginning of the period</b>	<b>5,993</b>
<b>NFD at the end of the period</b>	<b>5,856</b>

# Net financial debt & gearing

€m	12.31.02	06.30.03	Change
Interest bearing liabilities, long term	4,594	4,255	- 339
Interest bearing liabilities, short term	3,821	2,694	- 1,127
Net financing linked to securitisation	- 1,097	- 69	1,028
Cash and cash equivalents	- 1,239	- 936	303
Revaluation of financial instruments (short term and long term)	- 86	- 88	- 2
<b>Net financial debt</b>	<b>5,993</b>	<b>5,856</b>	<b>- 137</b>
<i>Shareholders' equity</i>	7,393	7,665	272
<i>Residual neg. goodwill</i> (mainly Cockerill-Sambre)	627	612	- 15
<b>Total shareholders' equity</b>	<b>8,020</b>	<b>8,277</b>	<b>257</b>
<i>Gearing</i>	0.75	0.71	

# Consolidated Balance Sheet - Assets

€m

12.31.02

06.30.03

<b>Non current assets</b>	<b>12,853</b>	<b>12,692</b>
- Intangible assets	- 950	- 948
- Property, plant and equipment	9,268	9,347
- Investments under equity method	1,780	1,859
- Other investments	466	318
- Receivables and other financial assets	766	706
- Deferred tax assets	1,523	1,410
<b>Current assets</b>	<b>12,983</b>	<b>12,424</b>
- Inventories	6,091	6,086
- Trade receivables	4,320	3,983
- Other receivables	1,333	1,419
- Cash and cash equivalents	1,239	936
<b>TOTAL ASSETS</b>	<b>25,836</b>	<b>25,116</b>

# Consolidated Balance Sheet - Liabilities

€m	12.31.02	06.30.03
<b>Shareholders' equity</b>	<b>7,393</b>	<b>7,665</b>
- Group share	6,732	6,902
- Minority interests	661	763
<b>Non current liabilities</b>	<b>8,178</b>	<b>7,757</b>
- Interest bearing liabilities	4,594	4,255
- Employee benefits	1,961	2,011
- Provisions	1,059	1,025
- Deferred tax liabilities	359	341
- Others	205	125
<b>Current liabilities</b>	<b>10,265</b>	<b>9,694</b>
- Trade payables	4,111	4,340
- Interest bearing liabilities	3,821	2,694
- Other amounts payables	2,023	2,330
- Provisions	310	330
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>25,836</b>	<b>25,116</b>

# Consolidated cash-flow statement

€m	2002	H1 2003
<b>Cash flow from operating activities</b>	<b>1,800</b>	<b>785</b>
Acquisitions of tangible and intangible assets	- 1,415	- 798
Other acquisitions and disposals	- 299	156
<b>Cash flow from investing activities</b>	<b>- 1,714</b>	<b>- 642</b>
Contribution of shareholders' equity	35	65
Dividends paid	- 192	- 202
Increase/decrease in loans or other financing	- 864	- 305
<b>Cash flow from / (used in) financing activities</b>	<b>- 1,021</b>	<b>- 442</b>
Impact of exchange rate	-3	- 4
Increase (decrease) of cash	- 938	- 303
<b>Balance at the beginning of the period</b>	<b>2,177</b>	<b>1,239</b>
<b>Balance at the end of the period</b>	<b>1,239</b>	<b>936</b>