

Steel Success Strategies Conference 2007

Mr Mittal Speech

A Steel Industry for the Modern Age

Good morning ladies and gentlemen. I am really delighted to be here again with you in New York for this year's Steel Success Strategies Conference

Being here again brings back some strong memories. This time last year we were reaching the final stages in our merger with Arcelor with the outcome still unknown. Although I could not share this detail with you at the time it was here in New York - upstairs in this very hotel - that I met with Guy Dollé for the first time since we had announced our offer on 27th January. And as we were meeting here in New York, executives from Arcelor and Mittal Steel were simultaneously meeting for the first time in Brussels to discuss the business plans of the two companies in detail. Fast forward a year and we have seen the creation of the first 100 million ton steel producer with a diversified geographic and product portfolio. There is a well known saying that a week is a long time in politics. I would say the past year for the steel industry has been dramatic and – I hope history will show – defining.

In my speech here last year, I spoke about how scale is a vital component of value creation in terms of building a sustainable model for the steel industry. The same logic could be applied to this conference. Steel Success Strategies is the largest steel conference in the world today, but also I believe the most valuable. In this room we have the most influential stakeholders in the steel industry today, whether company executives, shareholders, analysts, customers or suppliers. Such a delegate presence provides a unique opportunity to catch up on people's

views and discuss the challenges and the opportunities for the future. Peter and Karlis must be congratulated for everything they have done to build this event into a must-attend for anyone involved in the industry.

One of the reasons I am very keen to attend and speak at this year's conference is that I believe today we have much cause for celebration. I agree with Peter's comments yesterday that "The Age of Discontinuity" is over and that we have reached a "New Continuum." There is a new momentum in the steel industry today and that is not something that should be taken lightly. All of us in this room have worked hard to reach this position and we should be very satisfied with the progress achieved to date.

I was telling a journalist the other day that I nearly didn't actually pursue a career in the steel industry. When I left St Xavier's College in India, I was offered a job by the Head of the College to be a Professor of Finance. I was very interested until I learnt that Finance classes at St Xavier's always started at 6am. It would mean my working life would be spent getting up at 5am. Having just endured such a regime for the last few years, I felt I deserved a bit of a rest and a lie-in. So I turned down the job and decided to take things a bit easier by joining my father's steel company! If I had really been looking for an easy life, I definitely made the wrong judgement! Looking back over the past 30 years, there have certainly been times where I think getting up at 5am to teach Finance would have been a walk in the park compared to life in the steel industry. We have gone through some incredibly hard times, but often the harder the battle, the more satisfying the success. After years of struggle, the industry has finally reached a platform from where it can pursue a brighter future with confidence.

This conference was originally called "Steel Survival Strategies." Then it was re-named "Steel Success Strategies." I remember saying at that time that the word

“Success” was not one automatically associated with the steel industry. Since then we have had a lot of success which we should all take a moment to enjoy. We have successfully made considerable progress in consolidation. We have successfully demonstrated the benefits that a more consolidated industry creates. We have successfully demonstrated our ability to better manage supply and demand. We have successfully demonstrated the benefits of a global business model, with a presence in developed and developing countries. We have successfully demonstrated an ability to deliver substantial and consistent profitability. We have successfully achieved a re-rating of the sector from the financial markets.

This is a really big achievement. As recent as five years ago I doubt many people would have believed this possible. Of course we have been helped by external factors, such as the increased demand from countries such as China. But what is so pleasing to see is that the industry has really taken advantage of these dynamics. It has not sat back and just enjoyed the latest boom in dread of the next bust. Rather it has used them as a platform to restructure to ensure that it is protected from such future volatility.

These are big successes and I am beginning to wonder whether it is now the time for Peter and Karlis to re-brand this conference to give a new momentum to continuing this success up to the next level! Might I suggest “Steel Sustainability Strategies”?

My speech last year focussed on setting out the arguments why I strongly believed that the best way to create a sustainable model for a steel company was through scale and diversification. I said that scale was a proven and crucial ingredient in the pursuit of value. I said that companies must be embedded in both the fast growing emerging markets and the higher value developed markets

to ensure consistent and sustained profitability across the cycle. And I also said that I believed in the benefits of an integrated business model. One where steel companies would run an integrated manufacturing process right from mining through steel production to distribution.

This is why I believed so strongly in the benefits of a merger between Arcelor and Mittal Steel. The combination of no other two steel companies could make such a giant leap forward in making this model a reality.

I am delighted that our results over the past ten months or so offer strong evidence to support the benefits of this model. Our scale has created an enormous knowledge pool from which all units can benefit. Operationally we can leverage expertise from our operations in more established markets to our operations in developing ones, thus accelerating their progress. Our product and geographic diversification has created a more stable earnings base. Our enhanced stability has enabled us to increase our R&D budget to ensure we produce the most sophisticated products. We are able to offer our customers a global solution with a common standard.

And critically, integration is progressing very well and we are making excellent progress in creating a united culture and operational approach. I don't think anyone ever really doubted the industrial logic of merging Arcelor and Mittal Steel. But by the end of the bid I was aware that people had some doubt over the cultural compatibility of the two companies. I was always confident that any differences could be ironed out, on the basis that the profile of the new company would create so many exciting, new opportunities.

I am delighted that one year on this is proving to be the case. I have recently returned from our first senior management conference where we brought the top

500 executives from the company together for the first time. What really stood out was the enormous amount of energy and optimism within the company. People can see the benefits the merger is bringing and this is creating a great motivation. It is infectious. I left the conference feeling as motivated as I ever have in my career!

I am also delighted that externally people are recognising this. I was talking to some French journalists recently who told me that even when the deal had been done, they were not expecting it to be a success. They just didn't believe that the two companies would be able to integrate successfully. They were genuinely surprised that this was not the case, but quite happy to admit that they had been wrong in their initial judgement. And of course the strength and opportunities created by the new business profile has been well understood by the financial markets. Our share price has increased some 90% per cent since the merger.

But I have not come here to talk purely about ArcelorMittal. Rather I would like to concentrate on where we are as an industry today and what we need to focus on to continue to drive progress in the future.

I have spoken for many years about the need for consolidation. I think we are all agreed that today the industry is in a far healthier position. I am still not convinced however that this progress is understood in full. People see an improvement but I am frequently asked when the next downturn will be. And when they say downturn, it is clear they still envisage the type of "death spiral of the past" - if I may borrow the much-used phrase of Peter and Karlis! It would be interesting to keep count of how many times they have used that phrase in this annual conference. I suspect not even once!

Still, we need to keep working to ensure we really have seen the death of the death spiral! I feel that the new period of stability we have entered calls for a new focus.

The focus of the past years has been the basic survival of the industry. Today that immediate pressure has gone away. Yet despite the considerable progress that has been made, steel is still the poor relation in the modern manufacturing world.

If you think back to the industrial revolution, the opposite was the truth. Steel-making came to the fore in this period, which changed the whole of civil society. As manufacturing has developed, steel has been pushed more and more to the sidelines. This is understandable given the problems the industry has encountered. But it does not mean it must remain this way.

Although we have moved towards a more technology and financially driven economy, it is still difficult to imagine a world without steel. Steel is the best material for many of the things we want to do as human beings. It is in the houses we live, the buildings we work in, the cars we drive, the trains we travel to work in. The list is endless. And I believe its use can be further extended. One example is the current drive to increase the use of steel in construction as a viable alternative to concrete. Massive urbanization requirements require safe, affordable, aesthetic, sustainable and rapid construction. Steel is the perfect material for this. It can be built more quickly. It is 50% lighter than traditional materials. It is environmentally friendlier, with 80% of steel used in construction today coming from recycling. Composite construction using steel creates considerable energy savings and reduces CO2 emissions. I suggest Steel Industry should continue to promote more usage of steel for different applications.

Given its wide usage, it is perhaps not surprising that “steel” has taken on its own meaning in the English language, connected with positive attributes. Think of the much used expression “Nerves of Steel” used to convey an element of braveness. Describing someone as having a steely determination conveys a feeling of strength and substance. These relate directly to the strengths of the product we make. People are not described as having “Nerves of Aluminium” or “Nerves of Oil” or “Nerves of Gold.”

Steel may not drive economic growth in the same way today as it did in the 19th century, but it still plays a meaningful role in today’s economy.

So where do we go from here? I believe as an industry we need to start thinking, acting and behaving like a long-term manufacturing company. It is worth taking a few moments to consider what are the contributing factors in today’s leading manufacturing companies? I believe there are a number of key traits:

- They have highly disciplined operating practises
- They have strong performance management processes
- They have a clear direction and strategy driven at all times by quality of product, performance and process
- Their manufacturing process follows strict quality criteria
- The worker is at all times in the middle of this quality management approach
- They demonstrate a commitment to invest in continuous improvement and research and development to ensure product innovation and quality
- They understand customer individual requirements and create tailor-made solutions accordingly
- They demonstrate long-term operational and industrial excellence

- They have a global footprint across the developed and developing world
- They offer products of a consistently high standard anywhere in the world
- They operate a rationalised, stream-lined and ethically-driven supply chain with international distribution
- They boast the most talented skill-set in their sector
- They demonstrate the highest standards of social awareness and corporate responsibility

The uniting factors in all of these elements are two-fold. Firstly, they all relate to “quality”. Secondly, they are to the benefit and satisfaction of the customer and stakeholder more broadly. We have often talked about the benefits of consolidation in terms of creating a sustainable business model. Historically by sustainable we have largely been focussed on the survival of the steel industry and the ironing out of its cyclical and volatility. But what does it mean to create a truly sustainable business?

It means being in a position to fulfil and outperform the expectations of our customers and deliver the optimum product solutions because their long-term satisfaction is critical. It means being in a position where we can deliver good return on investment to our shareholders consistently throughout the cycle. It means being able to provide long-term career prospects for our employees. It means being a responsible corporate citizen, helping to develop and transform the long-term prospects of the communities in which we operate.

We have succeeded in proving that the steel industry has the chance of a future. Now we have to concentrate on building a steel industry for the modern age. One which is quality driven in terms of product, process and supply chain. One

which takes its corporate and social responsibilities in the world seriously. One whose central area of focus is customer and stakeholder satisfaction, not self preservation. We have to think more like a service company, which are customer demand led and innovative, rather than supply driven.

Clearly customers are critical to our business. I was interested in the point Peter made yesterday on the “pendulum of trust” between steel sellers and buyers. One of the negative impacts of the progress the industry has made is that our customers find it difficult to come to terms with the new pricing levels. This is understandable given the pricing model of the past. Volatility of steel pricing has led to sustained periods of low-cost steel, spattered with short periods of exaggerated pricing highs.

But it is not conducive to the industry for a relationship with a key stakeholder to operate in such a way. Sustained customer satisfaction will never be achieved through uncertainty and unpredictability. Imagine how frustrating it would be if such volatility extended into our daily life. One year a car costs US\$30,000. The next year it is US\$15,000, the next US\$20,000 and the next US\$10,000. Ultimately pricing volatility is helpful for no-one, including our customers, as it can also lead to volatility and dissatisfaction in their business. This in turn can develop into resentment against the supplier. It is hard to justify why a product should cost one price one year and a totally different one the next. If I come back to my car analogy, I don’t believe customers have a problem spending US\$100,000 on a luxury car if they believe the product they are buying offers exceptional quality and performance. However if that car costs US\$100,000 one year and US\$50,000 the next it is difficult to believe it was ever worth US\$100,000. The customer who bought the car at US\$100,000 is understandably going to feel short-changed.

This I believe is at the heart of the perception problem we have with our customers. It is also one of the reasons why we are now talking about the implementation of a steel futures market. Some customers have expressed a belief that this would be a useful starting point to help establish a more stable pricing market. I do not believe this to be the case. Steel futures are essentially a mechanism for financial companies mainly dealing with hedging and futures. It is not a solution for curbing price volatility. Indeed nickel, copper and aluminium transactions on the LME have become very volatile with a large amount of transactions not physically executed.

Further consolidation of the industry will be a much more effective way of delivering price and supply sustainability. We need to therefore work hard to ensure that our customers fully recognise the benefit this will bring. It enables us to continue to invest heavily in R&D and product development. It enables us to meet even the most sophisticated customer demands and therefore to improve the quality of their products. It enables us to offer global solutions with consistent quality anywhere in the world, whether a developed or a developing market. It enables them to better manage their own input costs. It enables us to identify new value proposals for them.

We must really focus on implementing this partnership approach with our customers. We must work together, not against each other. We must build a sustainable relationship with our customers, based on trust, quality and support. If we can achieve this, then I am confident over time our customers will see the benefits of the strength of the new steel industry model.

Indeed from ArcelorMittal's perspective, I think we are already making good progress in this sphere. We have had extensive discussions with our customers over the past nine months as a result of the merger, culminating in a customer

convention held last week. Immediately after the merger, customers had a whole range of concerns and questions. This led to us presenting a clear business model to them, to which they demonstrated a high level of satisfaction. Quite rightly, they expect more from us in terms of quality and service. But they recognise that we are committed to working with them as reliable, responsible partners.

One of the most important stakeholders in a business is the employees. Without our employees, we have no product, no sales and no profits. Employees are critical to the success of any company. As an industry we want to be in a position to attract and retain the very best talent. I hope that the continued re-rating of the industry will help in attracting new talent. There is no reason why executives from leading steel companies should not be regarded with the same level of respect as executives from other leading companies. As Peter said yesterday, steel company executives should be proud to tell strangers at a cocktail party that their company produces steel. I was at the Monaco Grand Prix recently where I was stopped by Martin Brundle, the ex-Formula 1 driver who is now the lead commentator of the sport for the ITV channel in the UK. He asked me for my thoughts on the grand prix and the cars in general. I told him I thought they would be better if they were made of steel. Of course I was joking, but this is a reflection of how proud I feel to work in this industry.

We must also ensure our new sustainability forms the foundation for ensuring we act responsibly as an industry. In today's world, business is expected – and rightly so – to play a meaningful role in improving the prosperity of the world in which we operate – both directly and indirectly. There are many examples of this but the most high profile at present relates to environment and climate change. Steel clearly has a responsibility in this area and it is one that should be taken seriously, whichever continent we operate in. This is a global problem which

requires a global solution. Any company with a social conscience should be committing attention and resource to this issue.

ArcelorMittal is fully dedicated to this global issue. As a global company we feel we can address it on a global scale. We are committed to creating a global CO2 database to provide solid data for the CO2 emissions of all its production facilities around the world. Thereafter, we will continue to look for opportunities to reduce our CO2 emissions in all regions where we have businesses. For the long term, we are investing in R and D which will most likely include carbon capture and storage. We are looking at technologies with the ability to further reduce CO2 emissions. We are the leader of ULCOS, an EU sponsored R&D program aimed at finding breakthrough technologies to further cut industry emissions. We are also the largest recycler of steel in the world.

In conclusion, the steel industry today is continuing to make great strides forward in establishing itself as a sustainable business playing a meaningful role in today's economy. If the past few years have been about ensuring our survival, the future must be about re-creating an industry admired for its operational excellence and quality of application and product. To do so will require a new and focussed approach on the interests of our stakeholders. We must think, behave and act like a leading manufacturing company, not an industry in survival mode. It has been a tough journey, but we have survived. We stand here today as executives working in a profitable, global, fundamental business which has an important role to play in building the modern world around us. We should be proud of our industry and confident in its prospects.

I have just finished reading a very interesting book called Built to Last, by Jim Collins and Jerry Porras. It is essentially about the world's most successful and visionary companies. Those that have stood out consistently over their peers

over the course of time. It is interesting that one of the defining attributes of these most successful companies is their ability to succeed in the long-term. Very few of the world's biggest and most admired companies have experienced a one-way journey to success. Many, if not all of them, have faced challenges and obstacles in their road to longevity. Similarly all industries and sectors face their own challenges as the economy and the world develops around them. Certainly in the past few decades steel has gone through its fair share of difficult times, but it is testament to the resilience of the sector that we have survived. If such thinking were to extend to industries as well as companies, then surely steel should continue to re-invent itself to play a role in the modern economy and in the modern world.

This reminds me of a quote I read recently by a lady named Elizabeth Rivers-Bulkeley, who was one of the first women elected to the London Stock Exchange. In her column in the Daily Telegraph in the 1960's, she wrote: "A man buys shares in any company that he thinks will offer capital appreciation, whatever it makes, although he prefers it to be in something solid, like steel. A woman tends to prefer investing in products she knows, like stores, food and clothing."

I suspect this sentiment may not have been repeated for many of the intervening decades. But who knows, if she was alive and writing today, she might just regard steel as a portfolio necessity for both men and women!

Thank you very much.