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Steel Industry Outlook
Federal Reserve Bank of Chicago
November 30, 2007

Robert J. DiCianni
ArcelorMittal USA



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2008 Steel Industry Outlook

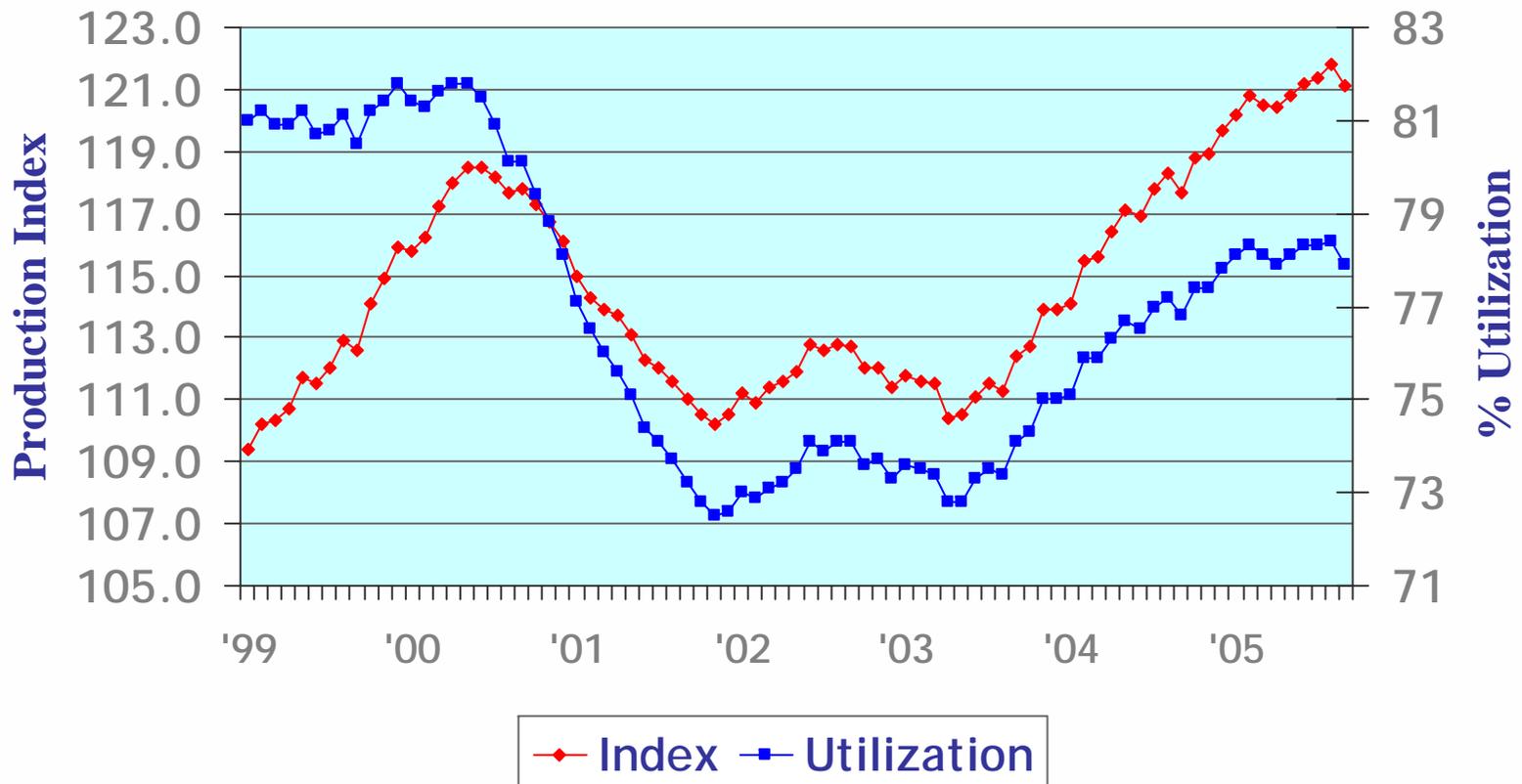
- General Economic Indicators
- Some Key Steel Consuming Markets
- Overall USA Steel Demand Forecast
- Global Steel Demand, Input Costs and other Steel Industry Factors

Industrial Production Manufacturing Only



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Manufacturing Production Index and Capacity Utilization

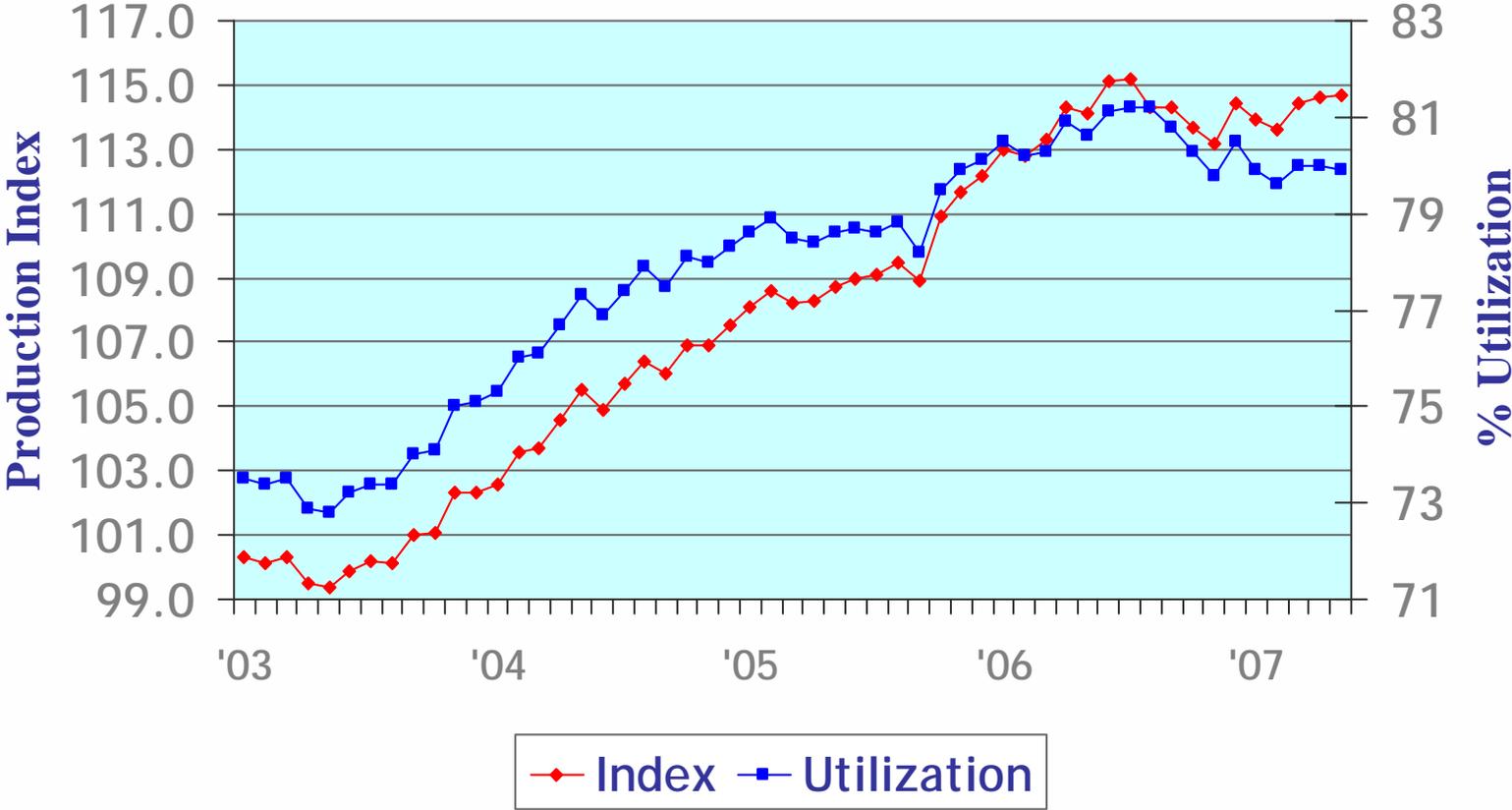


Industrial Production Manufacturing Only



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Note that on November 7, 2005 the Federal Reserve changed the base year to 2002

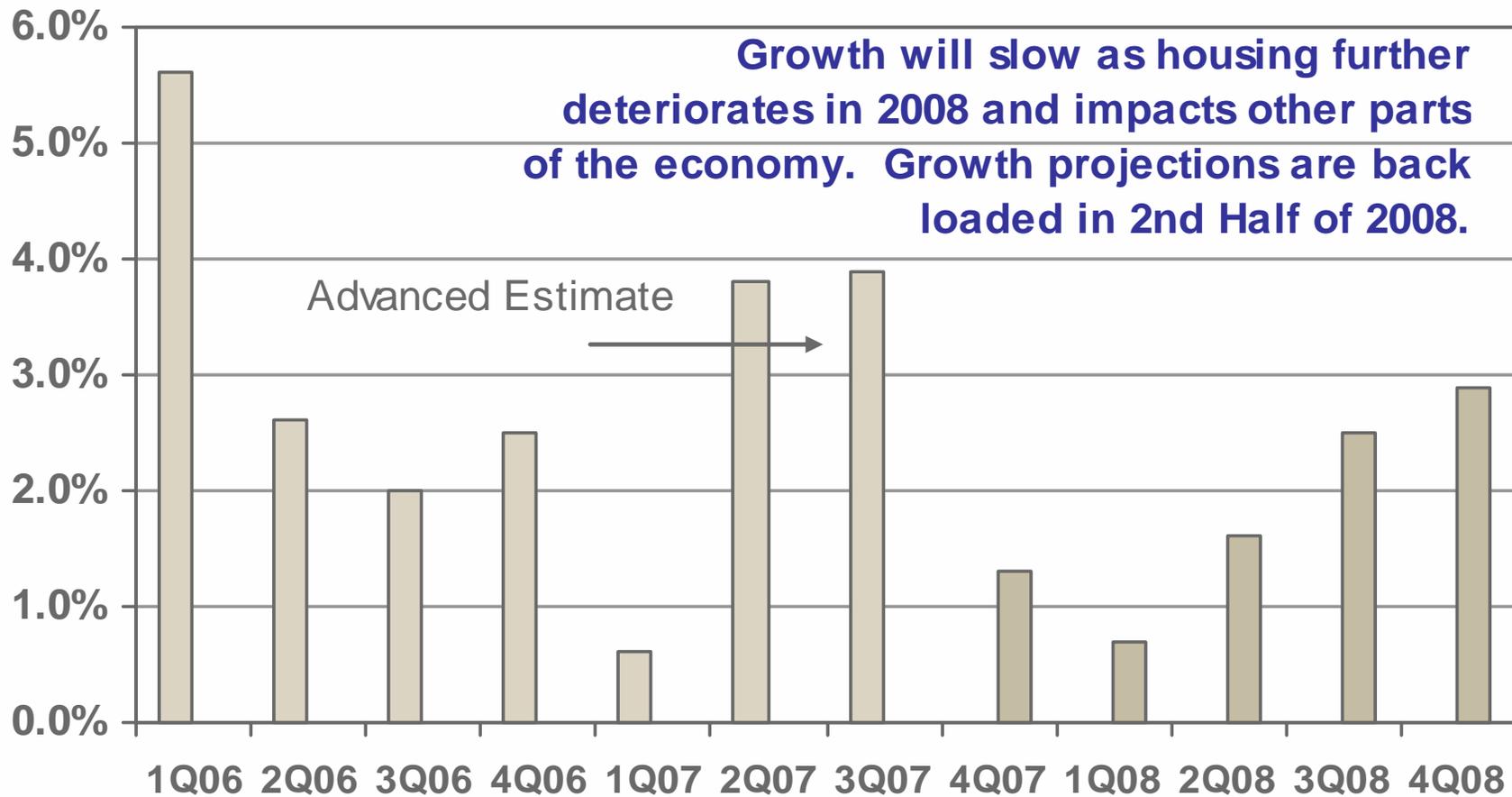


Manufacturing Production Index and Capacity Utilization

USA GDP Growth



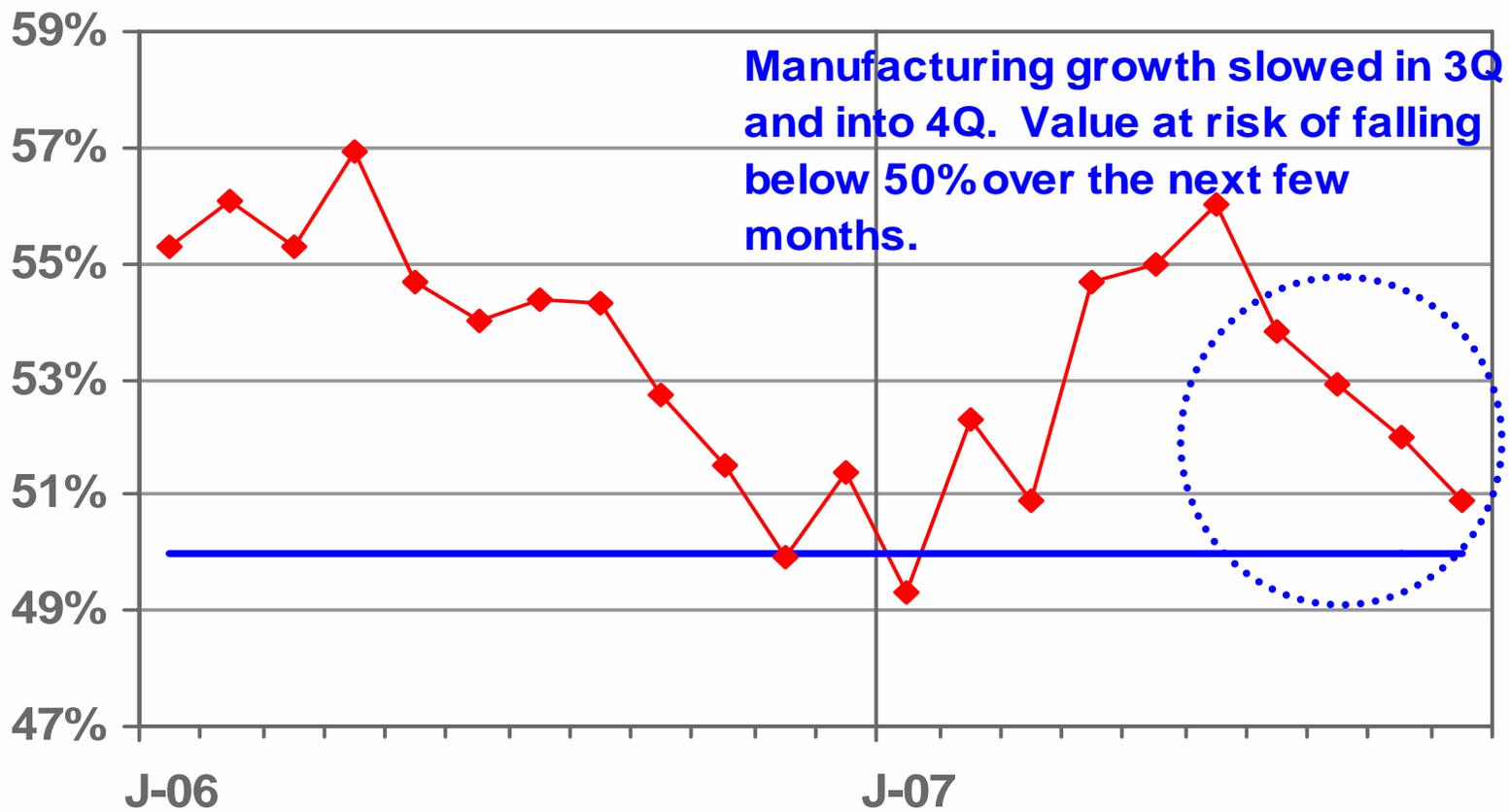
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ISM Manufacturing Index



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Some Key Steel Consuming Markets



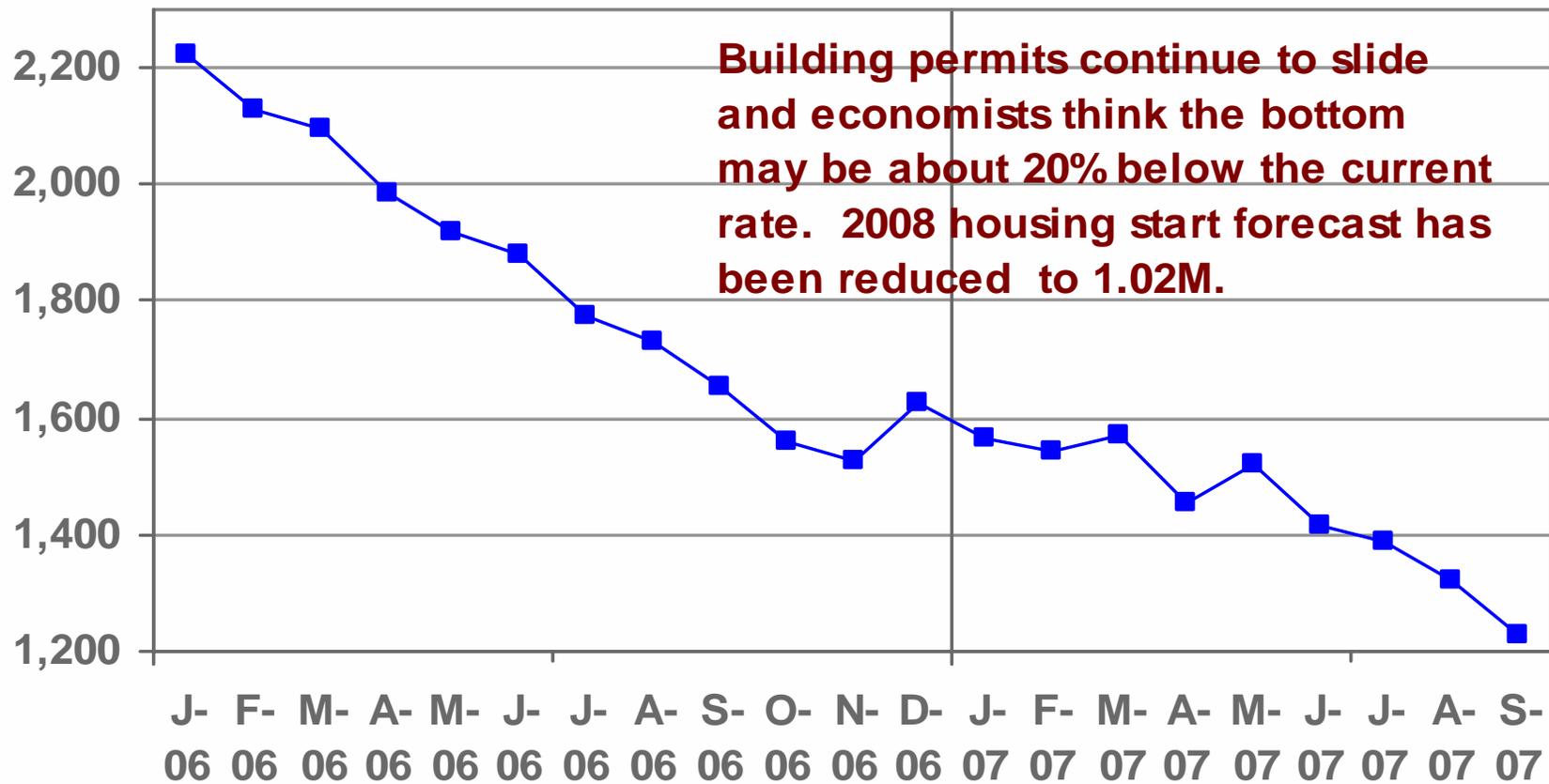
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Residential Housing Building Permits SAAR



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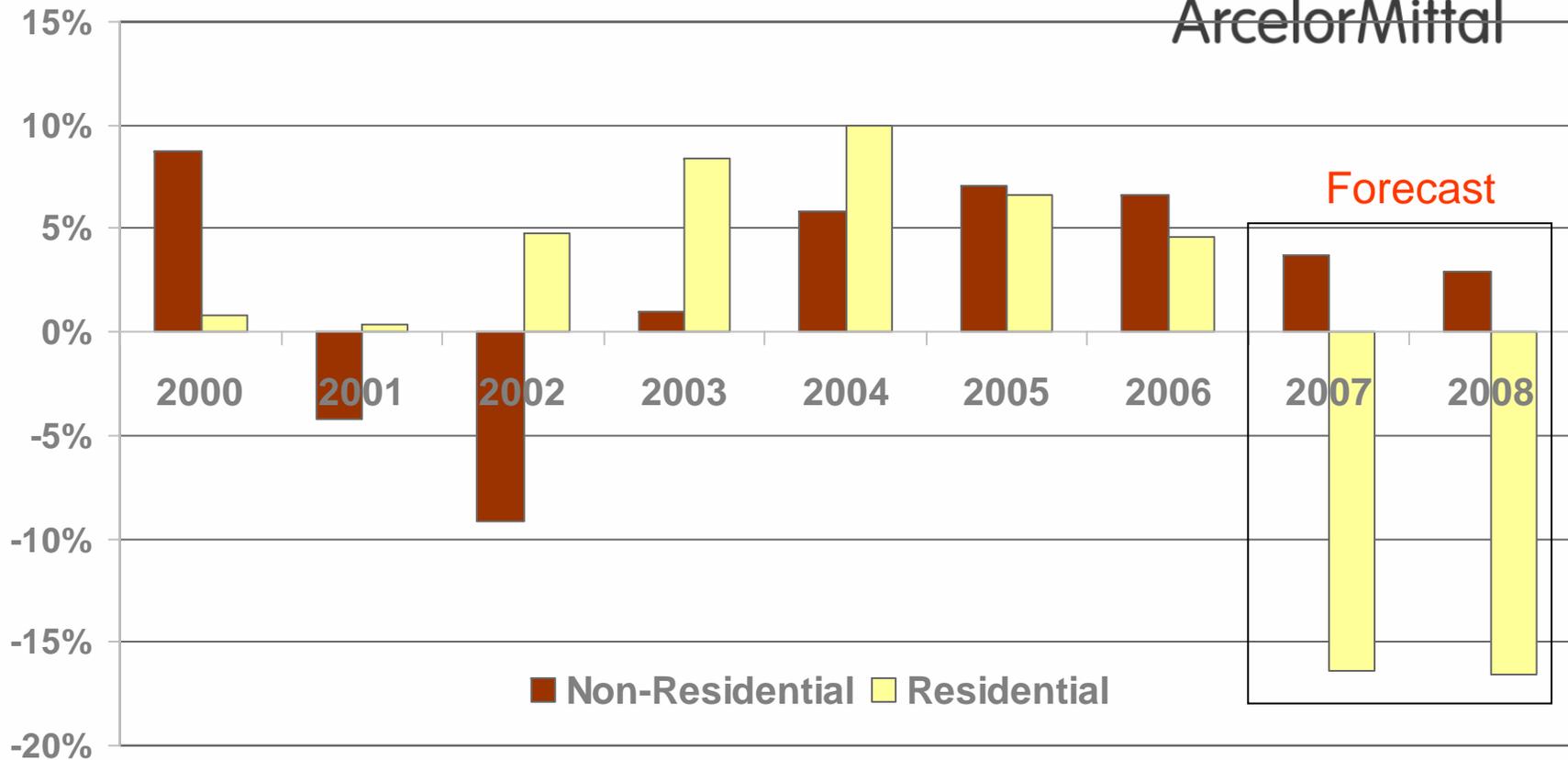


Investment - USA Fixed

Non-Residential and Residential (% change in \$)



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Global Insight: Sept 2007

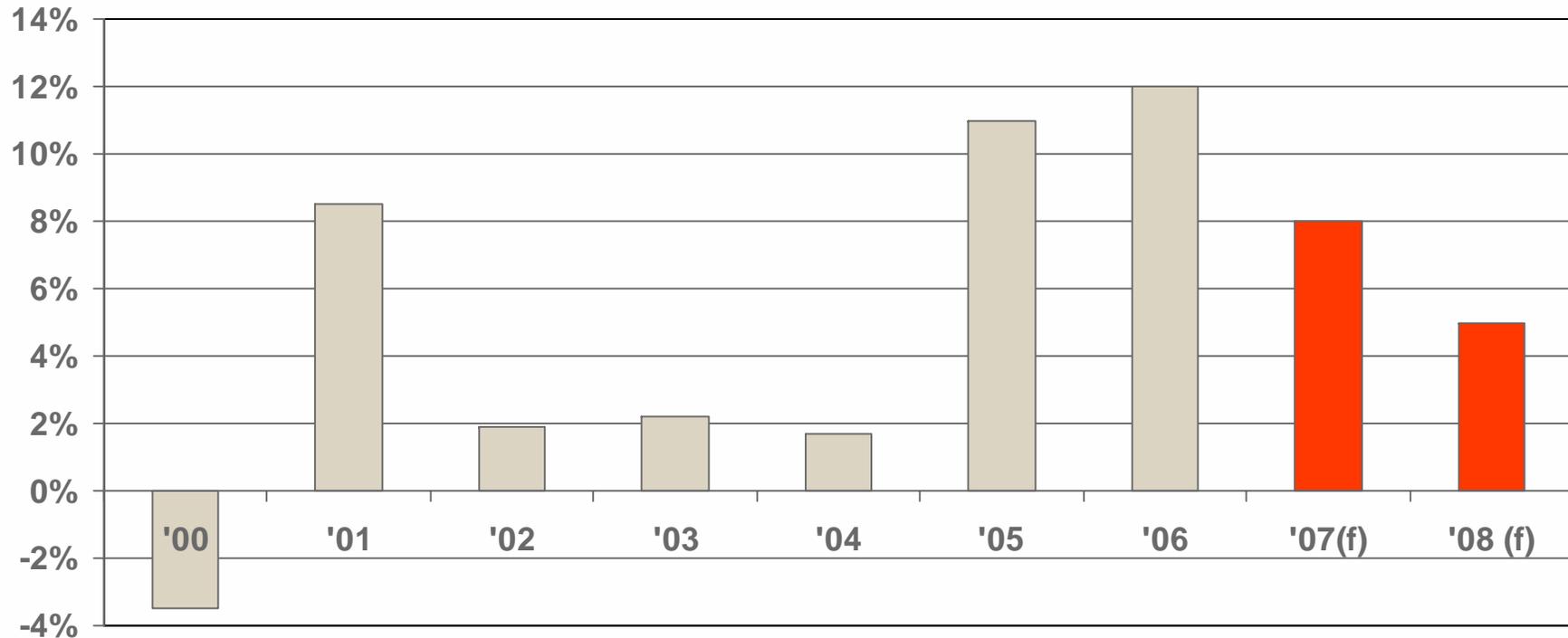
Residential investment (housing, remodeling, etc) will have another very tough year in 2008, while non-residential investment (plants, equipments, etc) will see continued growth in 2008. Non-residential growth potential has been reduced due to the impact of the residential market.

Highways and Bridges

% change y-o-y in value of construction work



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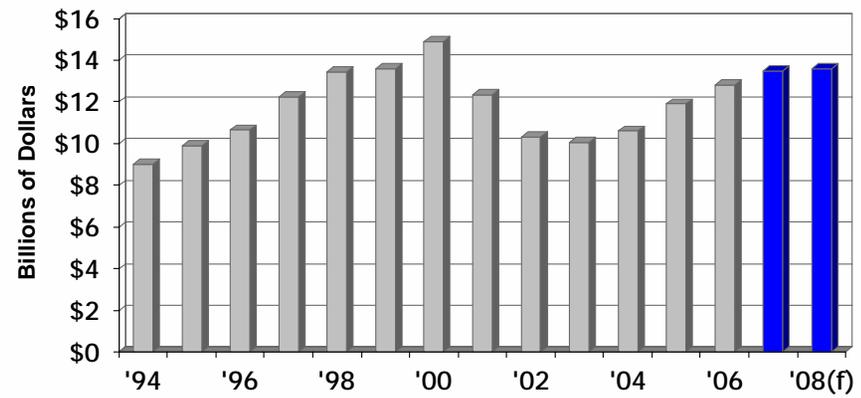
Highway and bridge construction is expected to grow partially in response to increased funding under the Federal transportation bill (SAFETEA-LU). This bill provides a 38% increase in funding over a 6 year period.

AISI Commercial Research Consensus Forecast

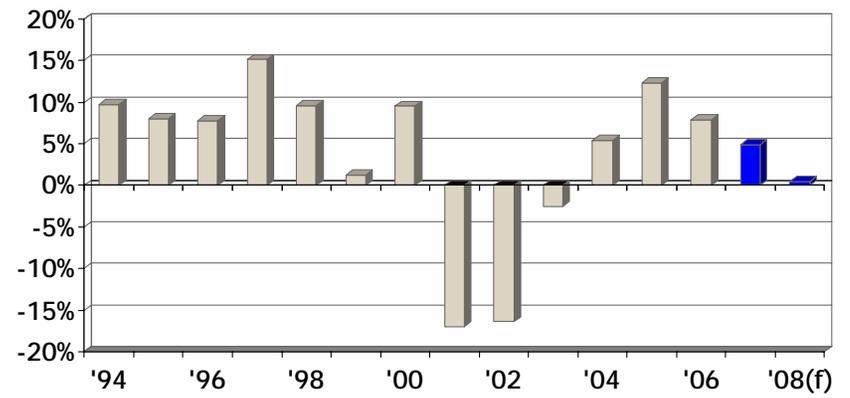
Office Furniture Consumption



Office Furniture Consumption



Change in Consumption



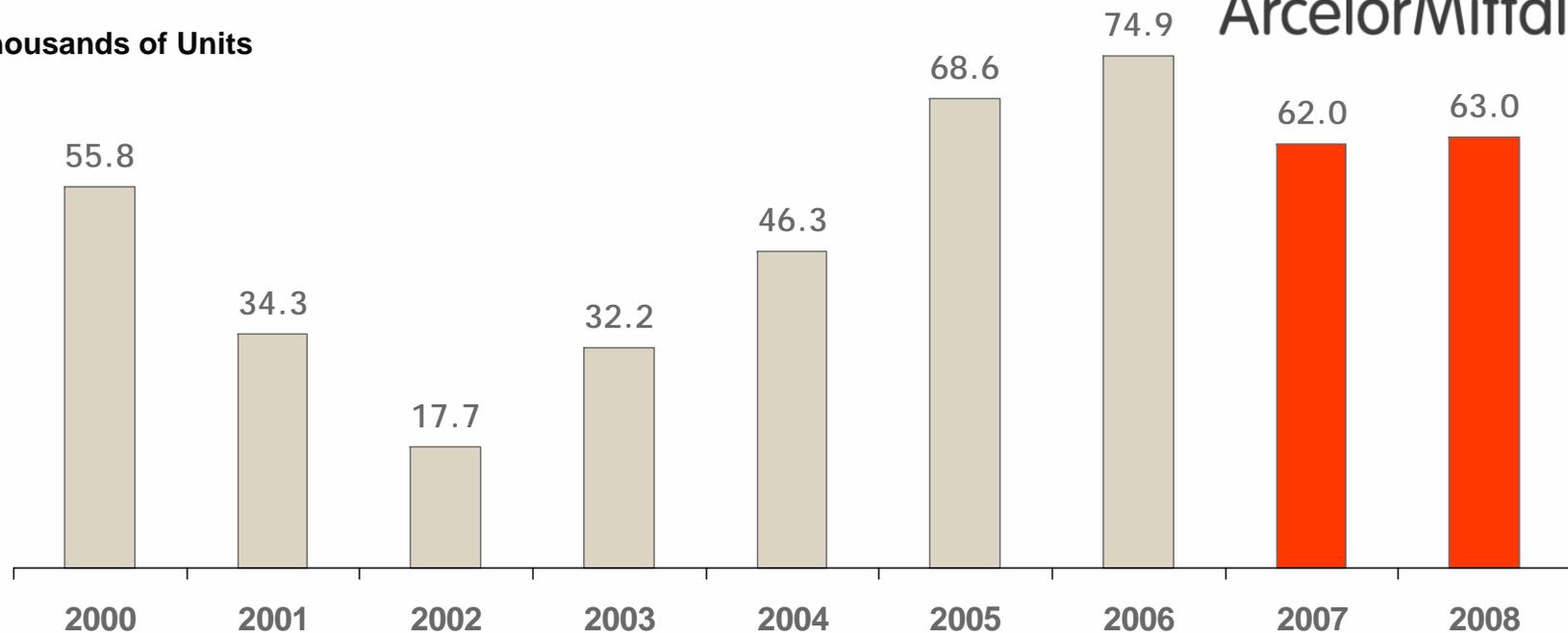
Although slight, growth in consumption of office furniture is anticipated in 2008.

U.S. Railcar Production Freight Car Deliveries



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Thousands of Units



Rail freight car demand has softened since late last year with reduced carload volumes being recorded in 2007. The forecast calls for the building of new rail cars to stabilize during the next 4-5 years unlike the wide swings experienced recently.

The current backlog is 72K units with ethanol tank cars leading in backlog. The forecast is constrained by facility capabilities (type of car produced).

Energy: Pipeline Demand



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- 72% of global pipeline projects are related to natural gas.
- U.S. is 2nd largest builder of pipelines in the world; #1 is the Far East.
- 16,750 miles of pipeline projects are planned or under construction in the U.S. (18.4% of global total).
- Soaring energy prices have made more projects feasible due to high costs, i.e. Canada's oil sands

Global Pipeline Projects

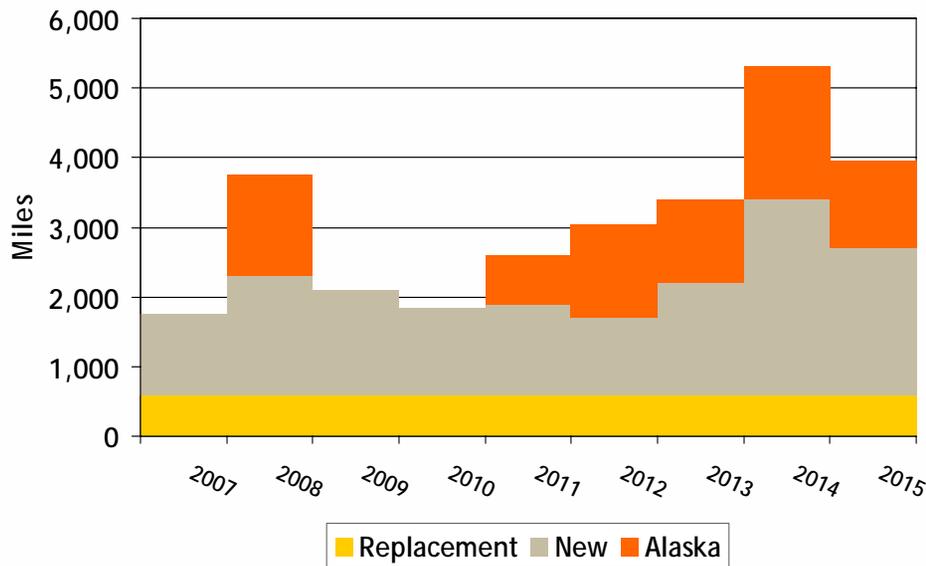
	2006	2007	Δ
Miles of pipeline projects planned or under construction	69,850	91,100	+30%

Source: Bruce Beaubouef, *Pipeline and Gas Technology*; AMM 9/12/07

North American Pipeline Forecasts

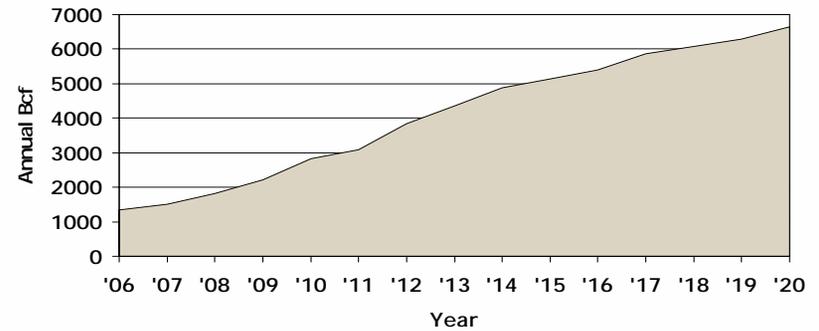


Miles of Pipeline Additions in North America

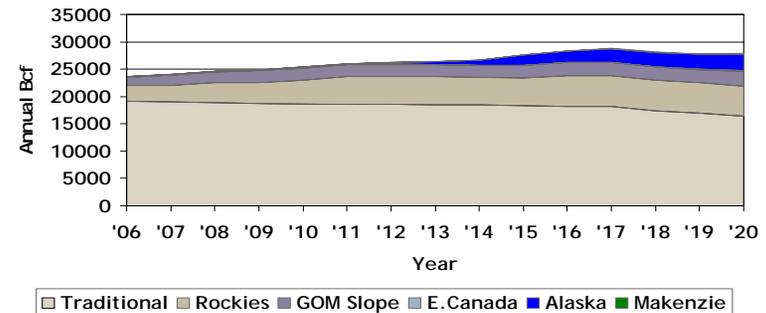


Increased demand and new sources of natural gas supply are driving NG pipeline growth

U.S. LNG Imports



Sources of N.A. Natural Gas

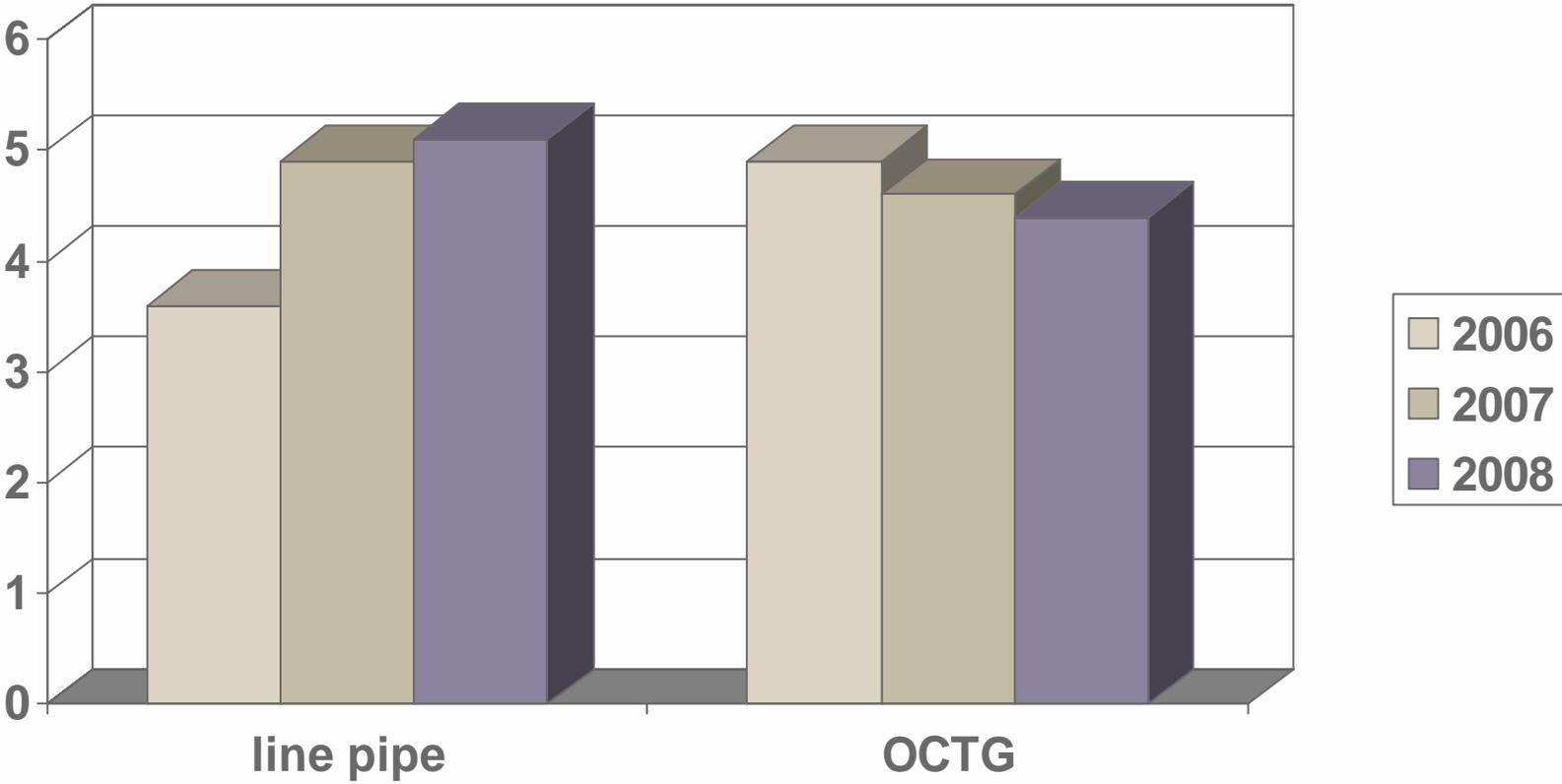


Source: Energy and Environmental Analysis, Inc.

USA Energy Market Steel Demand million of tons



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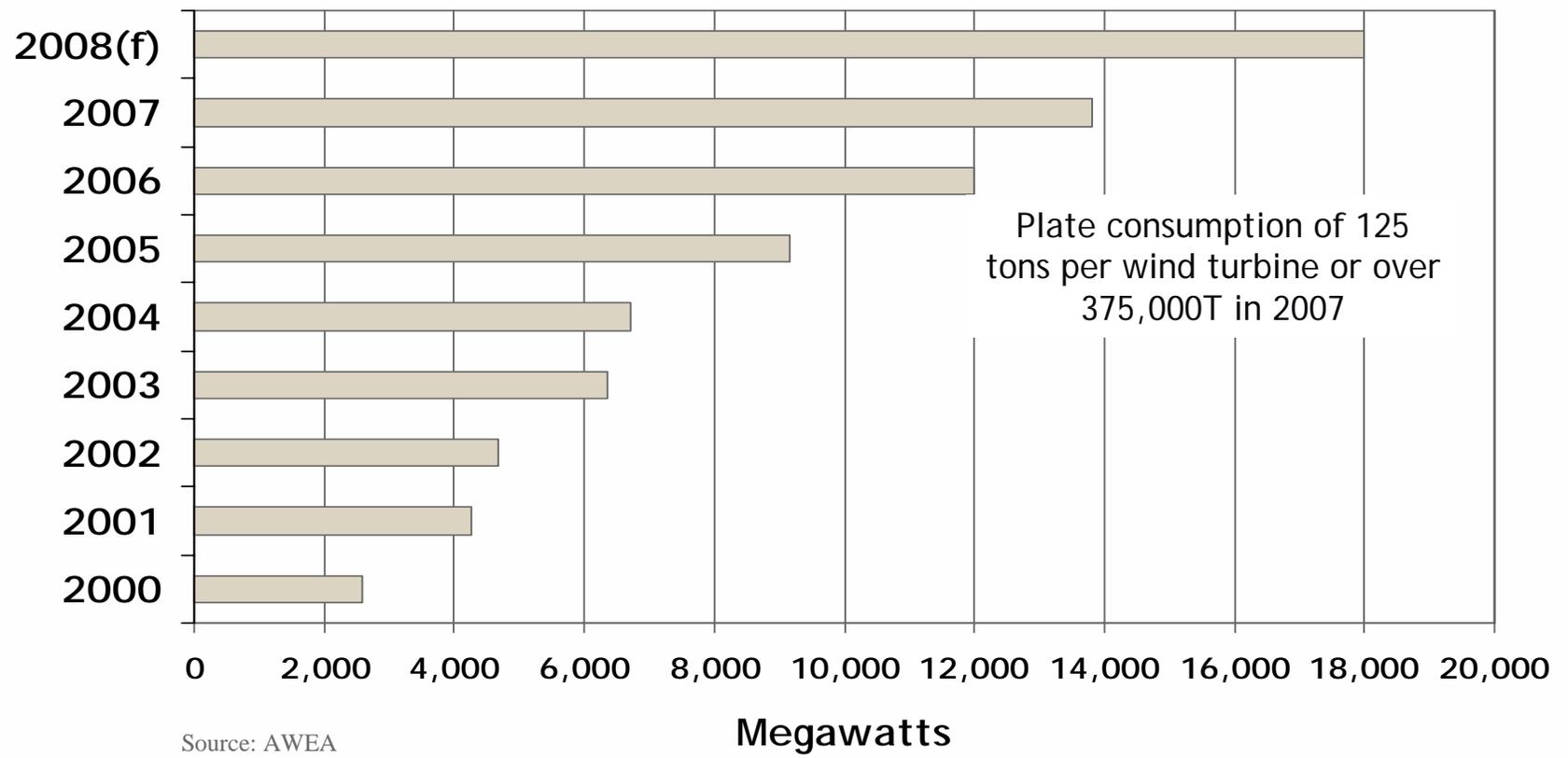
OCTG forecast assumes \$70/barrel oil for 2008

Source: Preston Pipe & Tube Report; Oct 2007

Wind Power U.S. Installed Capacity



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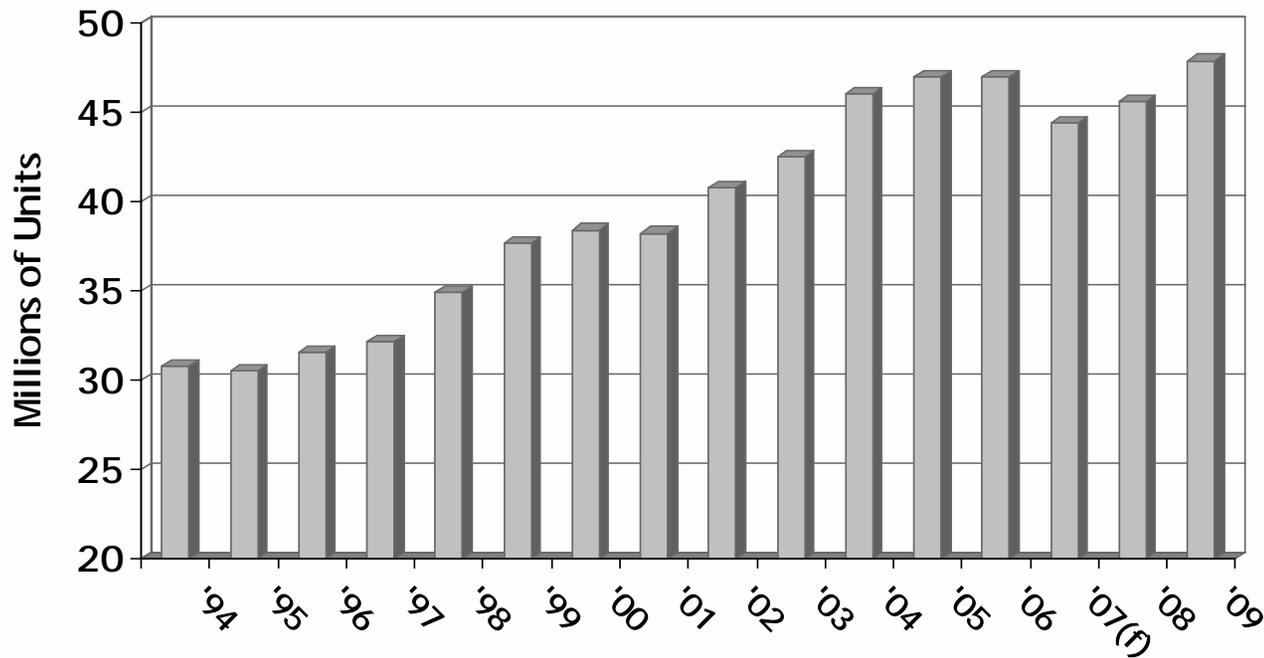


Major* Appliance Annual Shipments

History and Forecast



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**2007 YTD
appliance
shipments are
down 7% vs
2006.
Recovery
expected in 08**

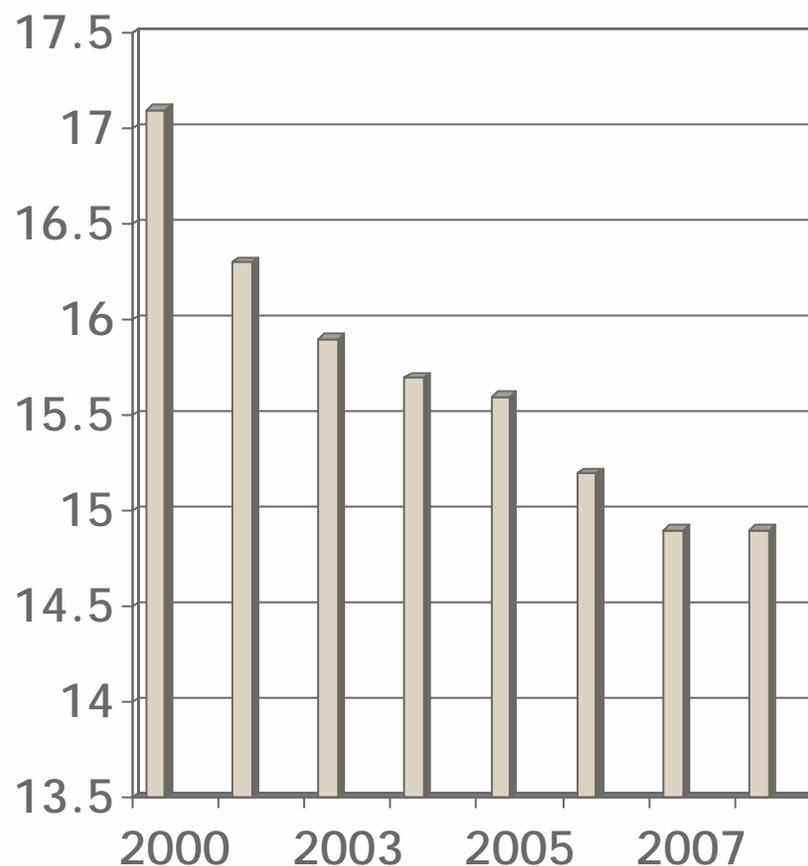
* Washers, Dryers, Dish Washers, Refrigerators, Freezers, Free-Standing Ranges, Built-in Ranges

Automotive Production

- Market has underperformed for seven straight years.
- Imports continued to rise; from 3.2 million in 2002 to 4.2 million in 2005, 4.5 million in 2006, and 4.6 million in 2007.
- NAFTA Production recovery starts after 2008.
- Big 3 become more competitive
- Economy recovers from housing slump. Gas prices stabilize.
- No major shock from CAFÉ
- New capacity; Toyota –Indiana, Woodstock, San Antonio, & Midwest; Honda -Greensburg



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NA production
(millions of units)

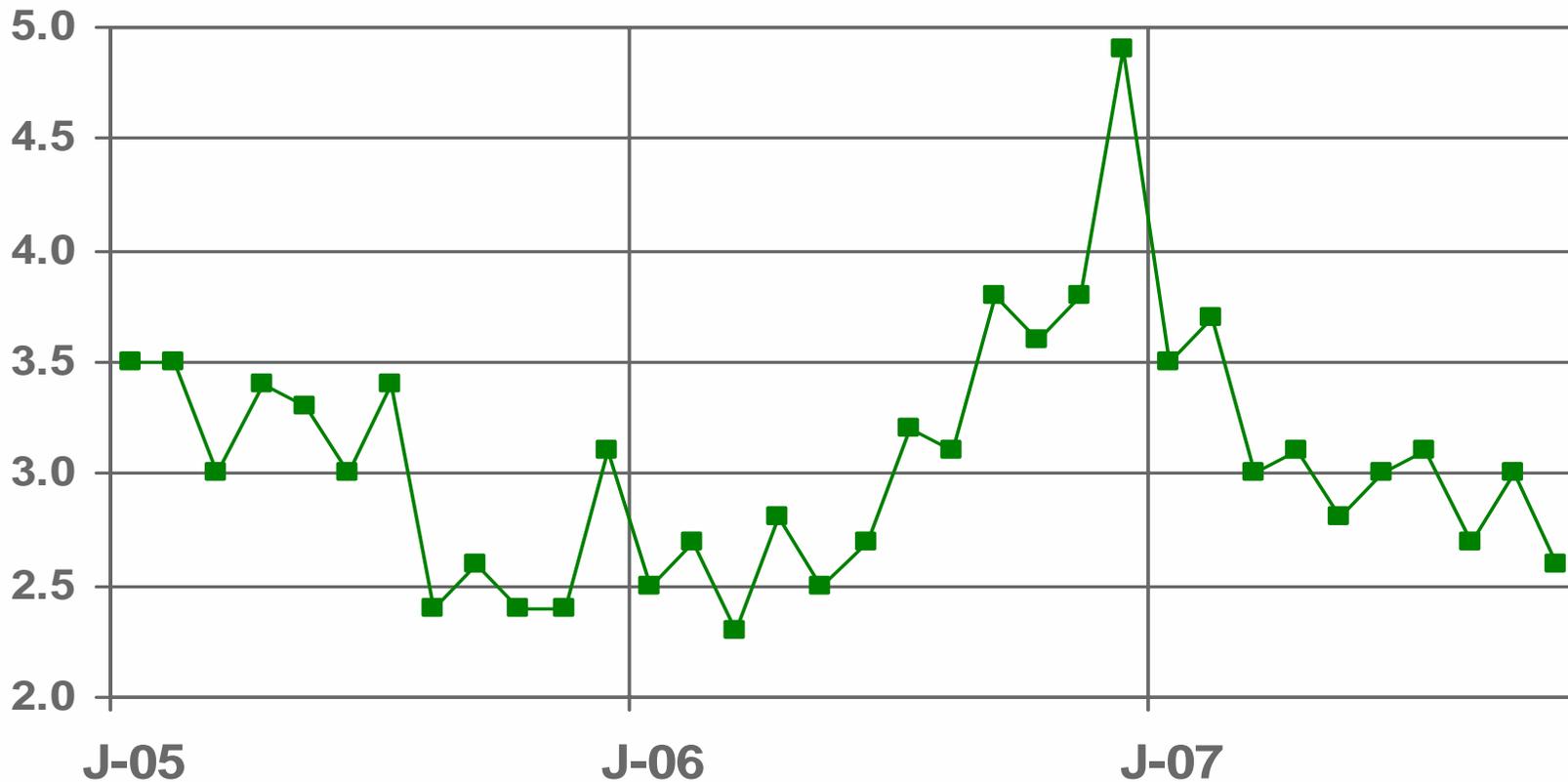


Service Center Inventory

Months on Hand



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Source: MSCI

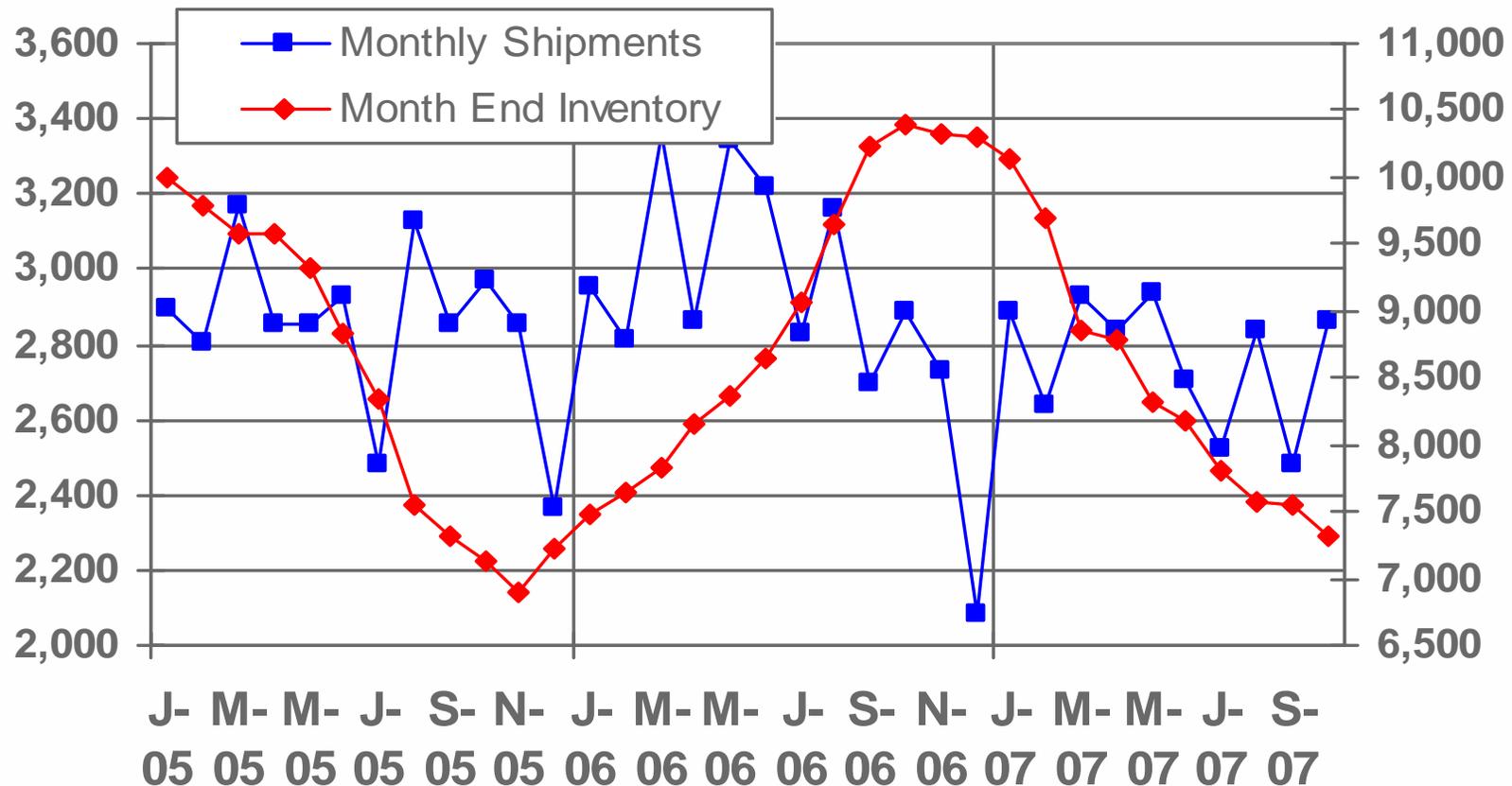


Service Center Inventory

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Monthly shipments, 000 tons

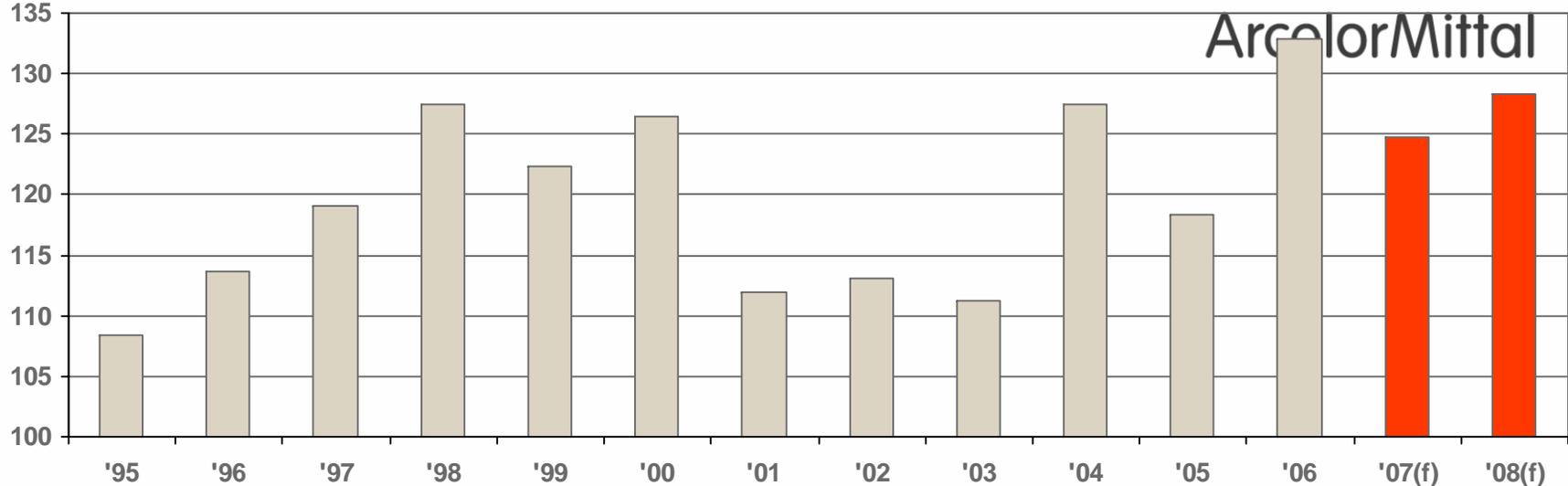
Ending inventory, 000 tons



Apparent Steel Consumption: USA & NAFTA



(Millions of Tons) – TOTAL STEEL: USA



Apparent consumption = AISI shipments + finished imports – exports – non raw steel producers

U.S. inventories were drawn down in 2005 and then replenished during 2006. After inventories peaked in October 2006, stock levels continue to be reduced in 2007. 2007 apparent steel consumption in the USA is 6% less than 2006 due to the inventory correction and weaker demand. 2008 is expected to bring a small increase to steel demand and inventories at stable levels.

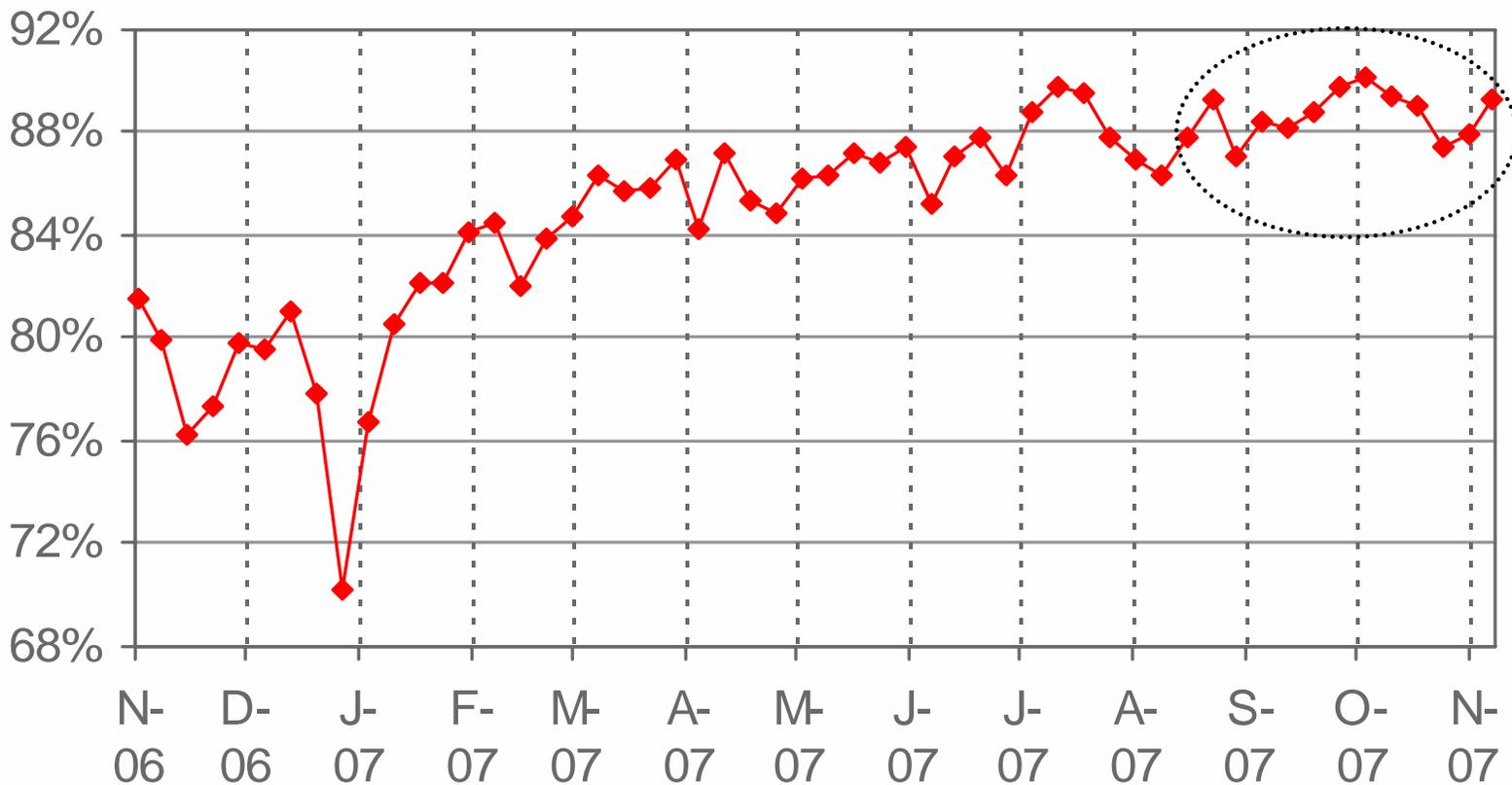
	Million Tons Finished Steel			Change % per Year		
	2006	2007	2008	2005-2006	2006-2007	2007-2008
USA	132.8	124.7	128.3	12.3%	-6.1%	2.9%
Canada	19.1	18.0	18.5	6.9%	-5.8%	2.8%
Mexico	19.8	20.6	21.7	11.4%	4.0%	5.3%
NAFTA	171.6	163.3	168.5	11.6%	-4.9%	3.2%

Source: AISI, IISI, with ArcelorMittal forecast

Weekly US Raw Steel Production Capacity Utilization



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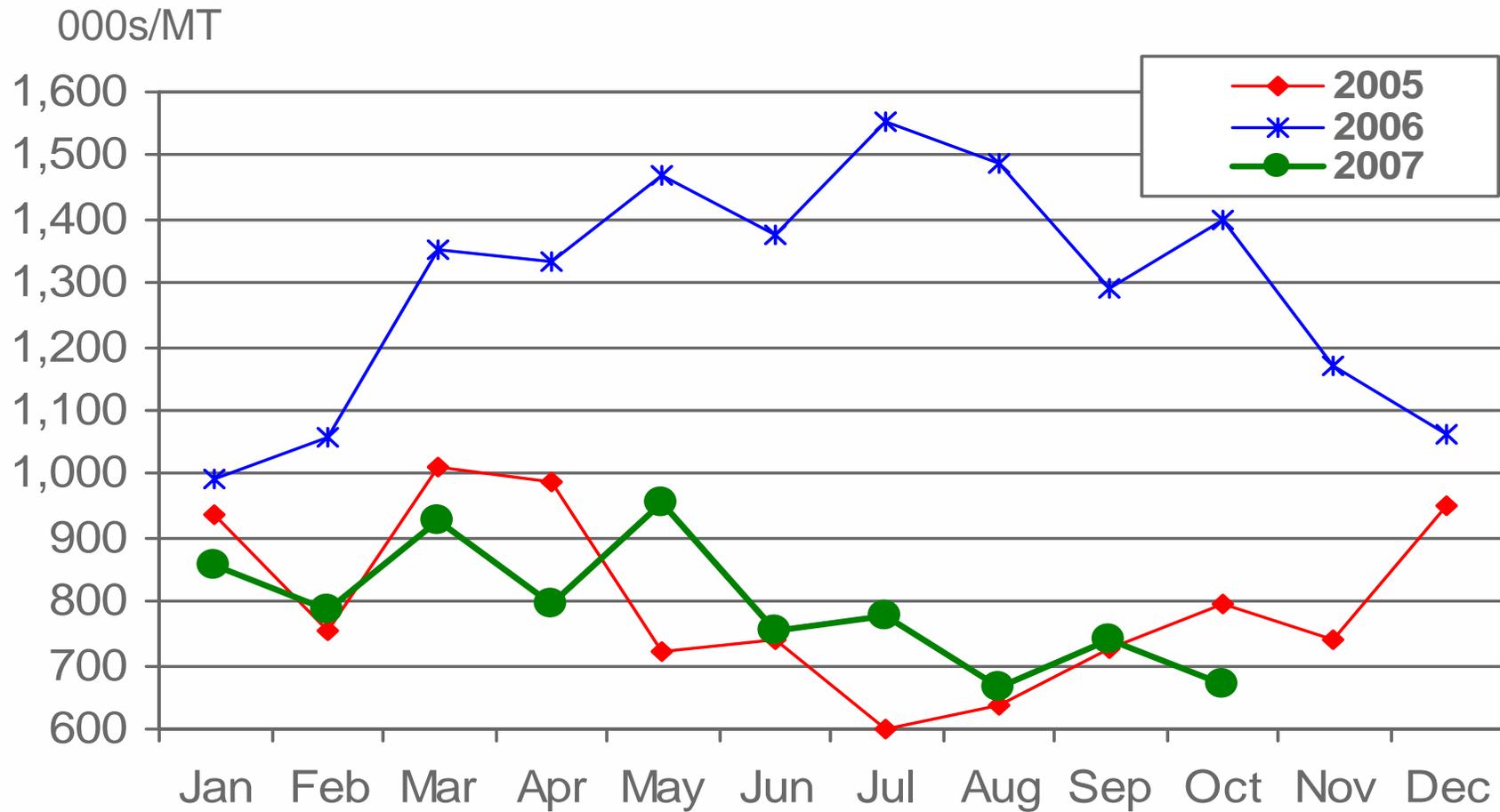


Source: AISI



Monthly Imports: flat rolled steel

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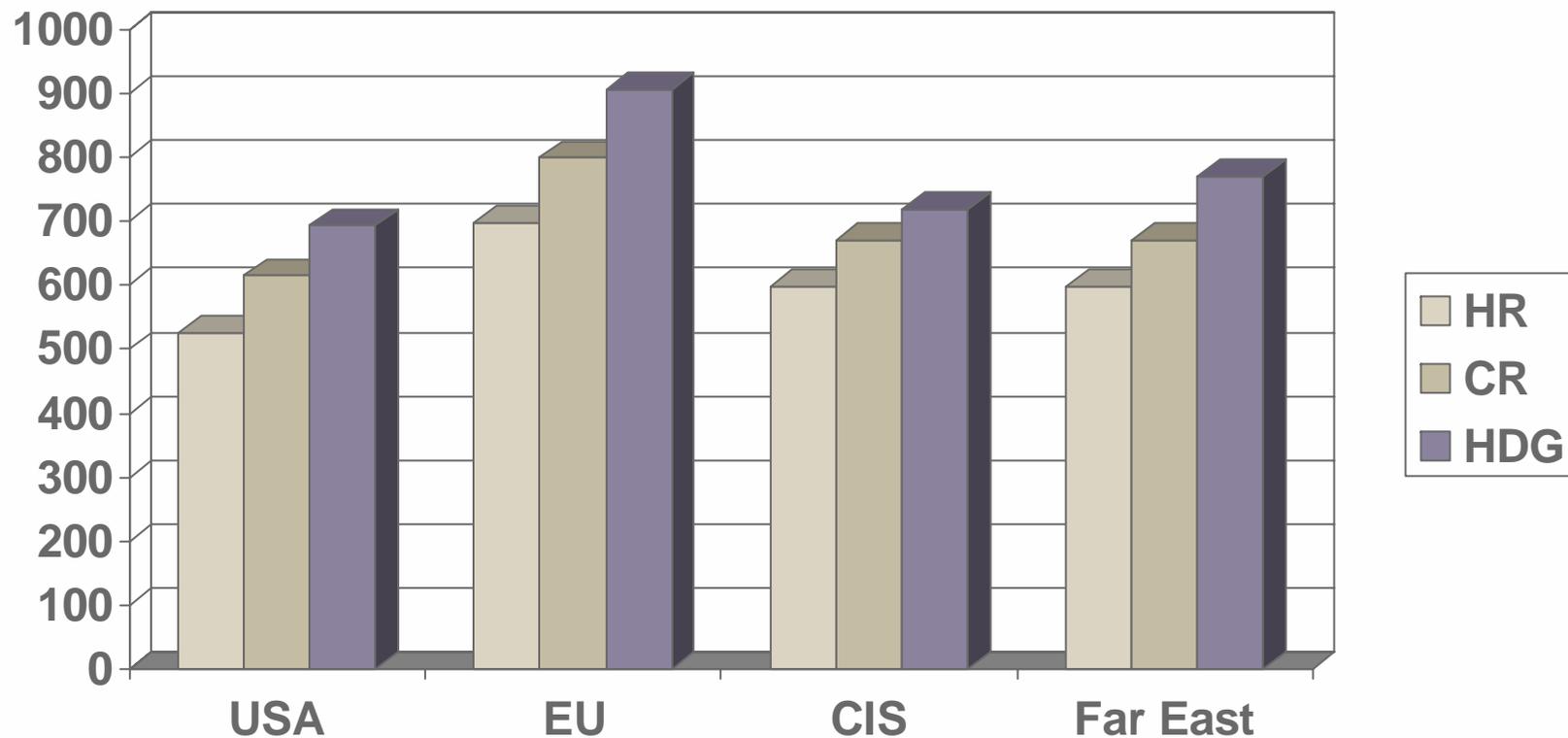


Higher steel prices in other markets
will depress USA imports for the rest
of this year



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US\$/s ton



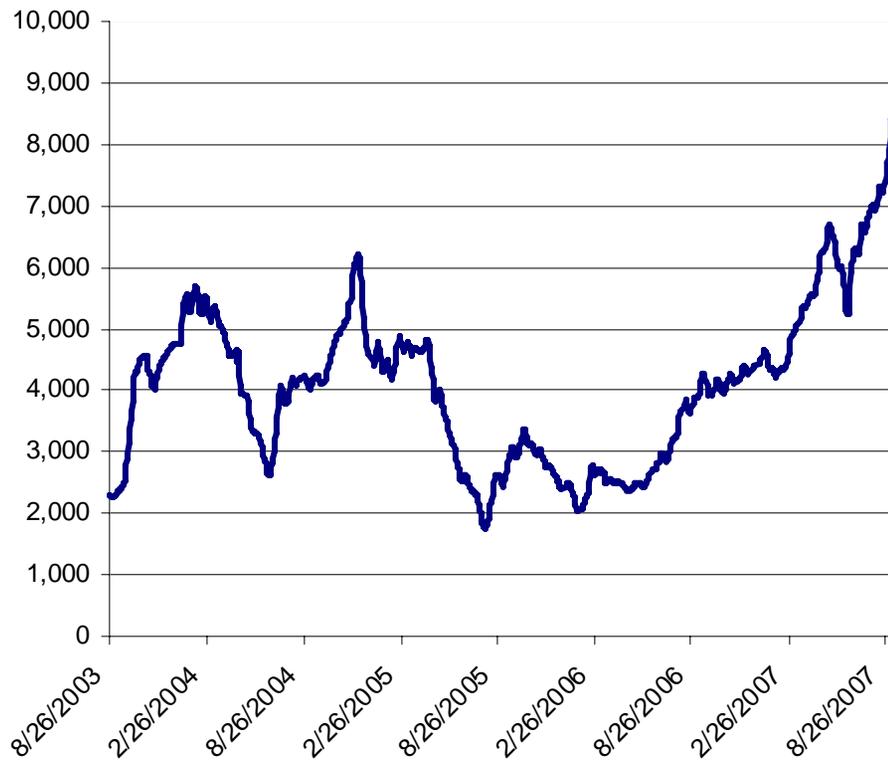
Source: CRU November Steel Monitor

Ocean Freight Costs



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Baltic Dry Index



Ocean freight for iron ore has doubled since beginning of year

The Baltic Dry Index represents a daily index of the price of ocean shipment of bulk raw materials. The cost of shipping iron ore has risen by 300% since 2003.

Currency



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The weakening of the U.S. dollar has increased the cost of imports into the USA from most countries. This includes automobiles & steel. The dollar is expected to weaken an additional 5% vs. the USA's major trading partners in 2008. Due to political pressure, the Chinese Yuan is also expected to finally strengthen.

Global Demand, Input Costs and other Steel Industry Factors



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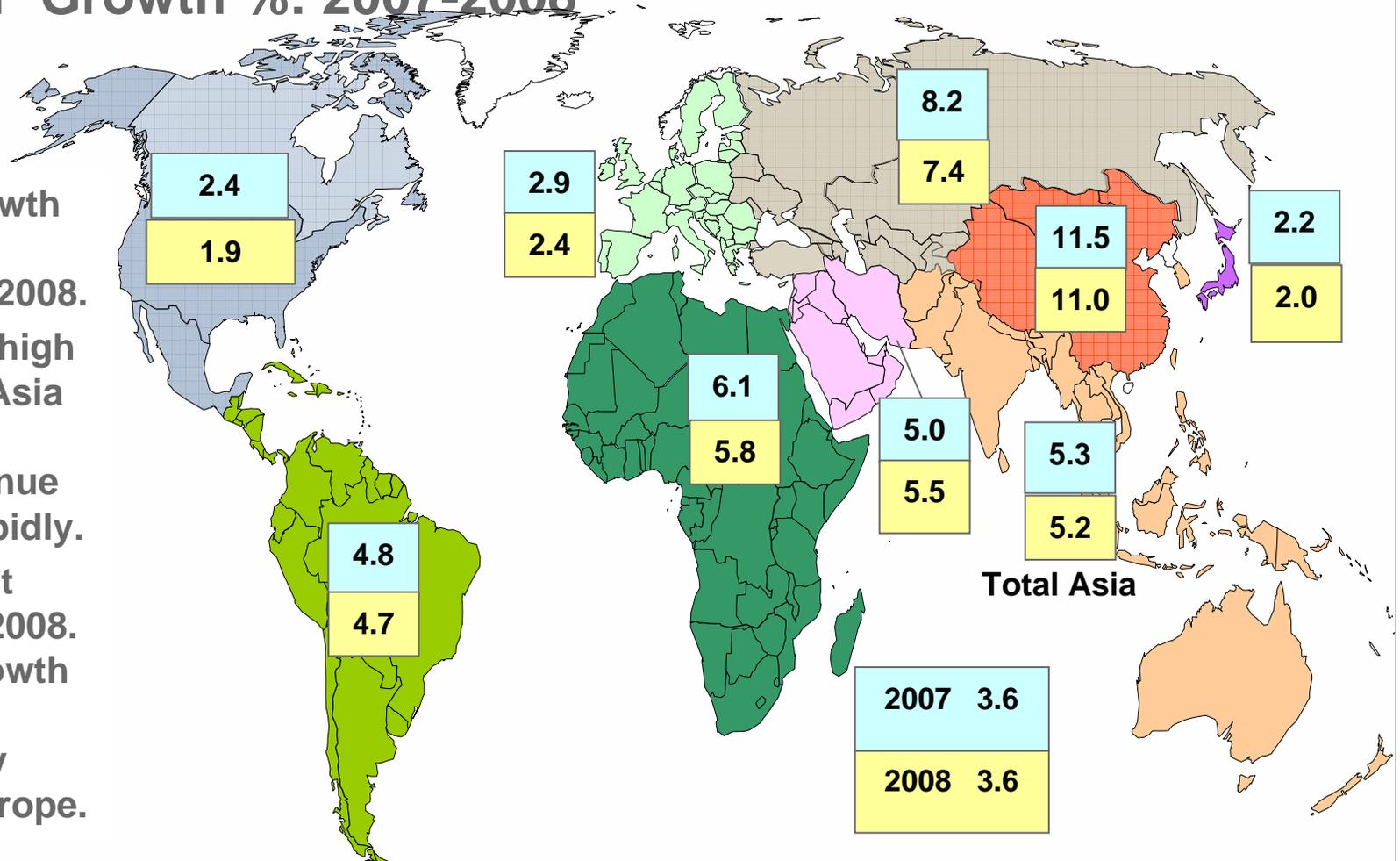
WORLD ECONOMIC PROSPECTS



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Real GDP Growth %: 2007-2008

- Strong growth across all regions in 2008.
- Persistent high growth in Asia as China & India continue to grow rapidly.
- Middle East growth in 2008.
- Robust growth in Europe, particularly eastern Europe.



Global Apparent Steel Consumption



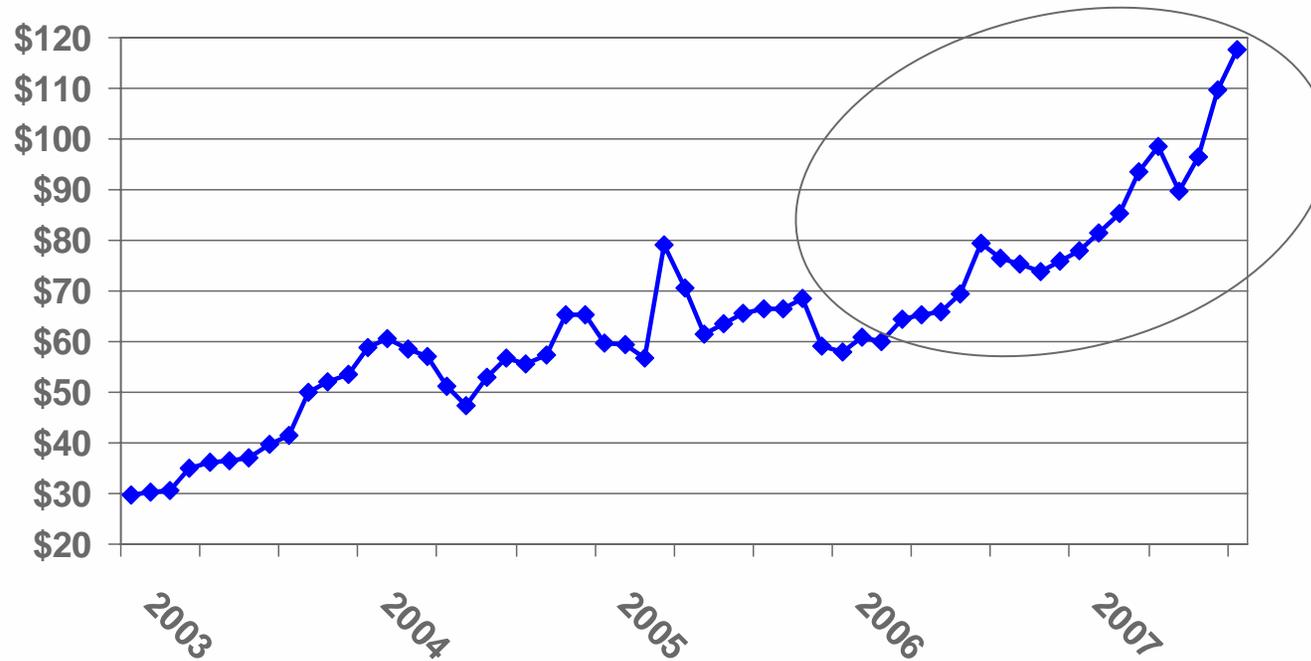
	Million Tons Finished Steel			Change % per Year		
	2006	2007	2008	2005-2006	2006-2007	2007-2008
NAFTA	171.6	163.3	168.5	11.7%	-4.9%	3.2%
EU 27	203.6	214.7	217.9	9.0%	5.5%	1.5%
Turkey	24.1	25.8	27.4	18.4%	6.8%	6.4%
CIS	53.4	66.1	71.8	12.8%	24.0%	8.5%
Central & South America	39.7	43.8	46.1	11.5%	10.3%	5.3%
Africa	23.8	25.7	27.8	9.6%	7.9%	8.2%
Middle East	40.6	44.3	48.1	10.2%	9.2%	8.5%
Asia	655.9	719.8	780.0	6.3%	9.7%	8.4%
Rest of World	14.4	15.9	15.5	27.2%	9.9%	-2.1%
World	1,227.1	1,319.3	1,403.1	8.5%	7.5%	6.3%
China	392.6	439.3	486.1	9.0%	11.9%	10.7%
W/O China	834.4	880.1	917.0	8.3%	5.5%	4.2%

Iron Ore Spot Prices

Brazilian



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Source: CRU

Global iron ore prices have doubled since early 2006. Iron ore spot prices are currently 40% above contract prices.

Strong global demand for steel has pushed up spot prices. Negotiations for 2008 fiscal contracts will begin soon.

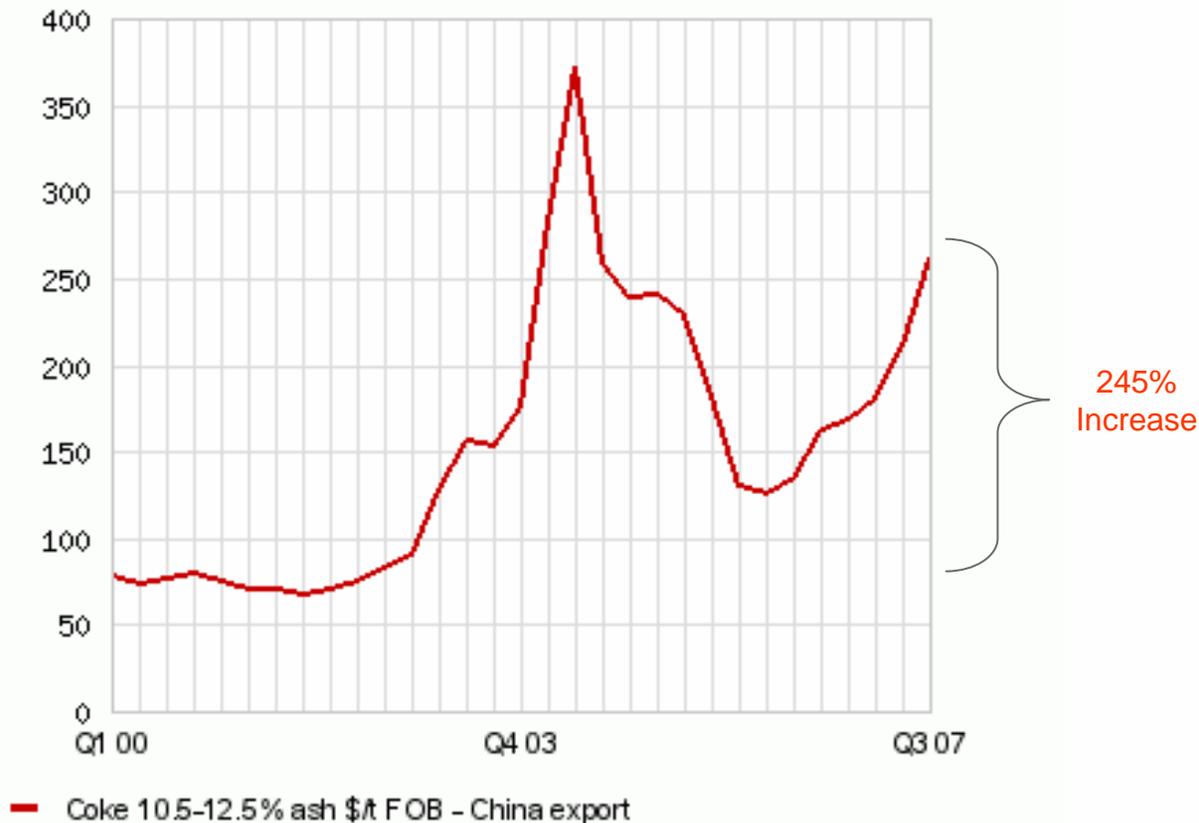
China Export, Coke 10.5-12.5% ash \$/t FOB (SBB Steel Prices, 2007)



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SBB Steel Prices

Coke 10.5-12.5% ash \$/t FOB



China is the largest exporter of coke. China is considering imposing an export tax on coke in order to keep more supply inside the country. If this tax is imposed, coke prices would rise worldwide.

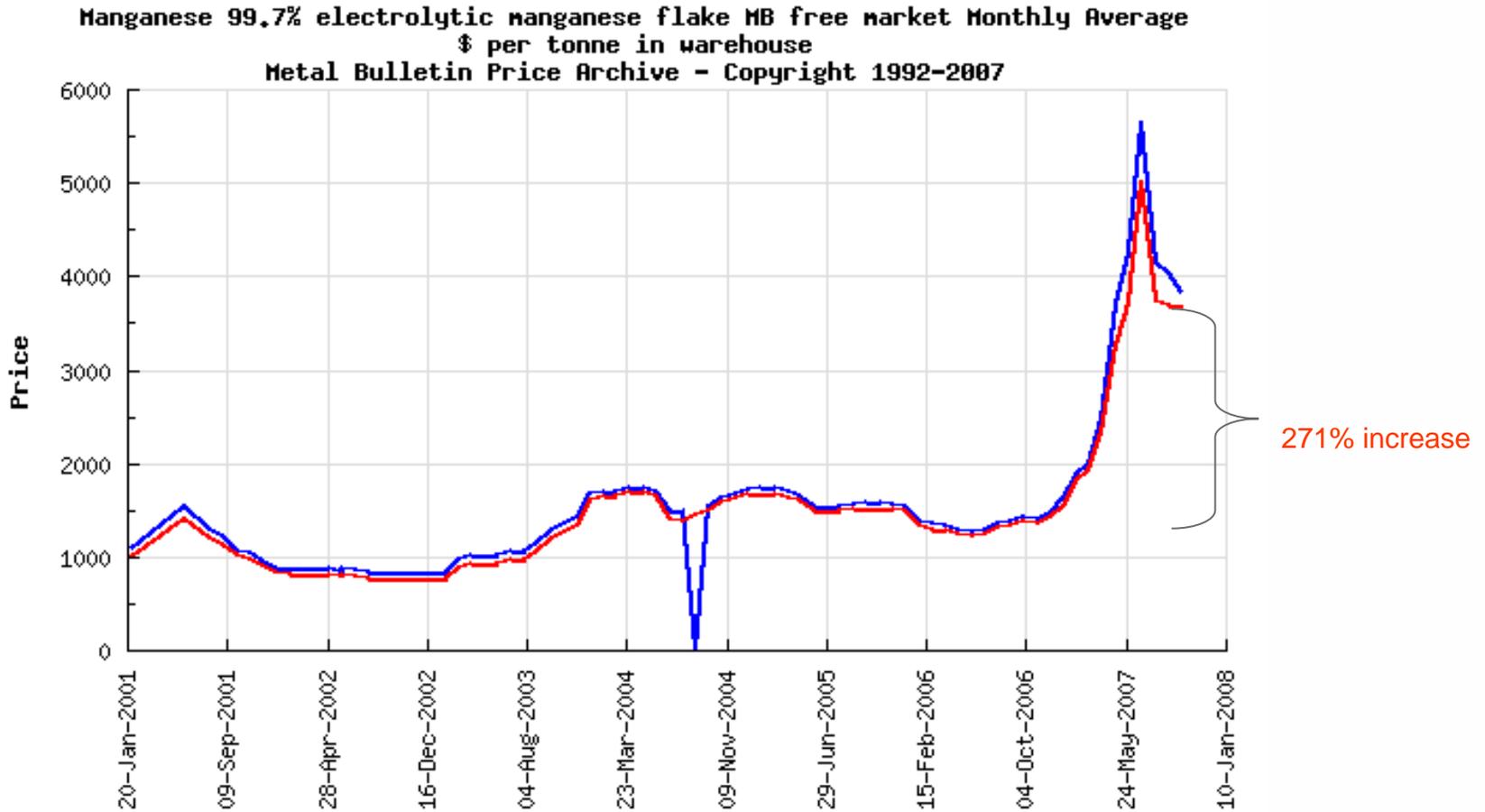
Copyright SBB 2007

Silico-manganese US Free Market Pittsburgh \$/lb

(Copyright Metal Bulletin Pricing, 1993-2007)



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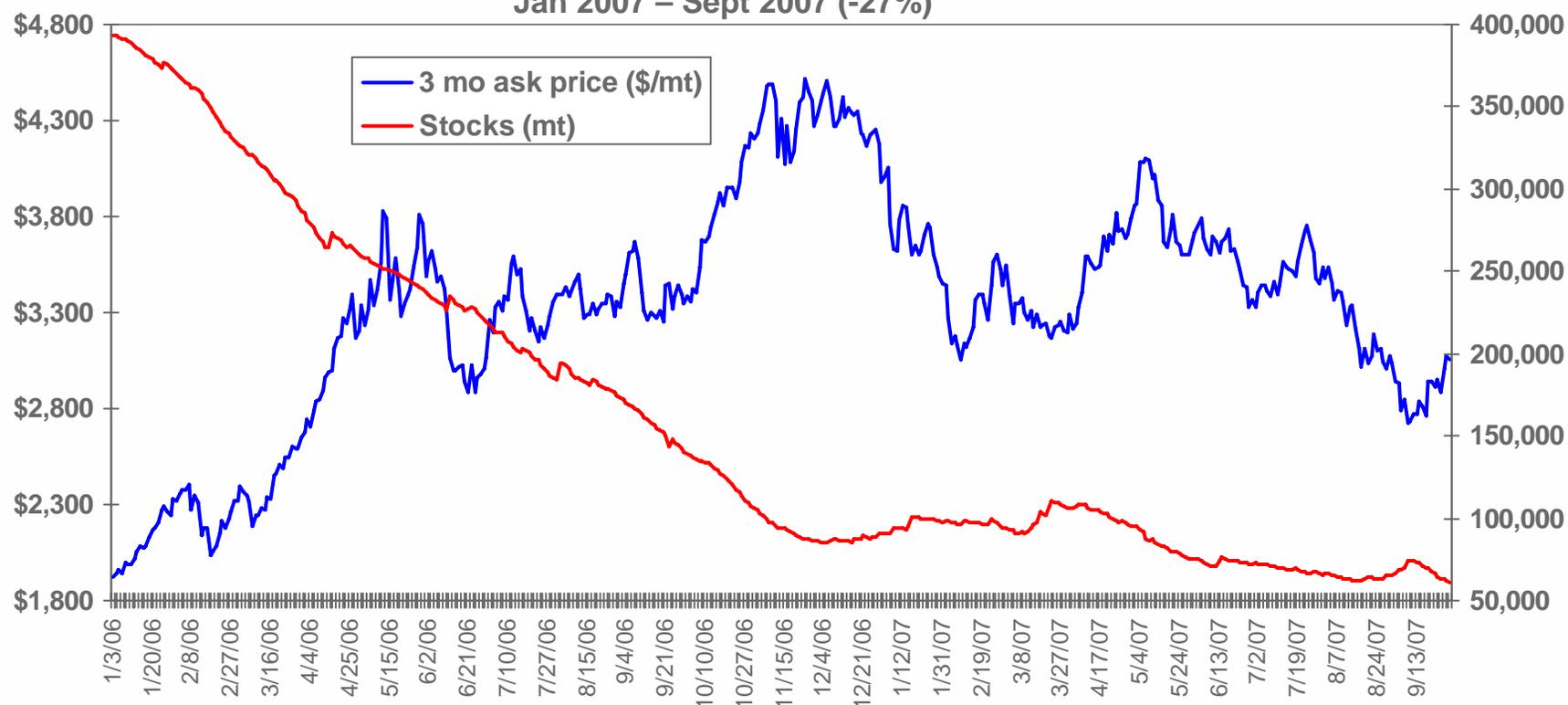
Zinc: LME AM 3 mo price & Stocks



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Jan 2006 – Sept 2007 (+59%)

Jan 2007 – Sept 2007 (-27%)



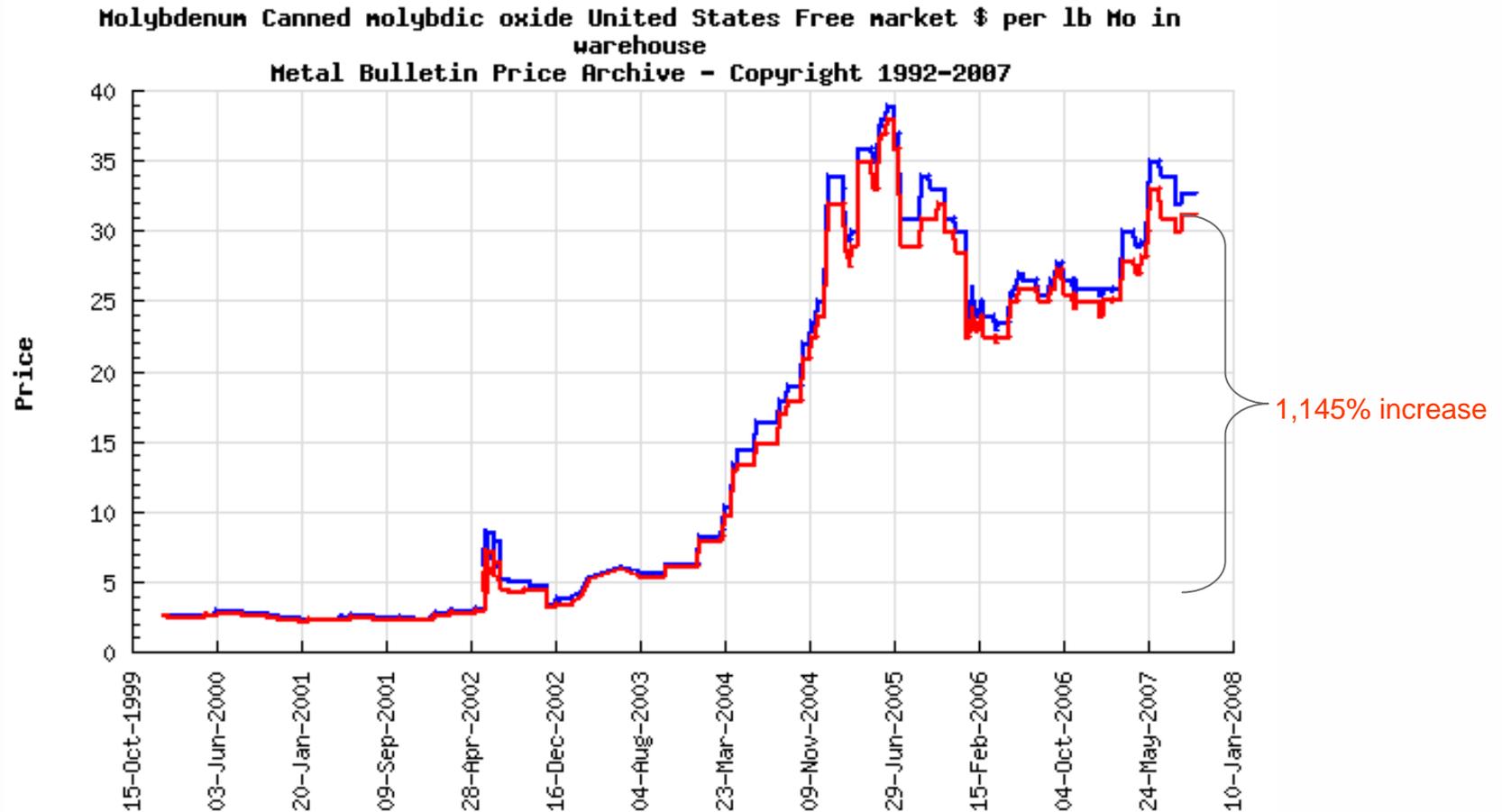
Zinc prices have been extremely volatile for the last two years. For many years it had traded in a relatively tight range of \$900-\$1000 per mt. It is now about 4x that level as global demand outgrew supply. Supply is slowly increasing, but stocks remain very low. We expect continued significant volatility for zinc prices through 2008.

Ferro-molybdenum 65/70% Pittsburgh \$/lb

(Copyright Metal Bulletin Pricing, 1992-2007)



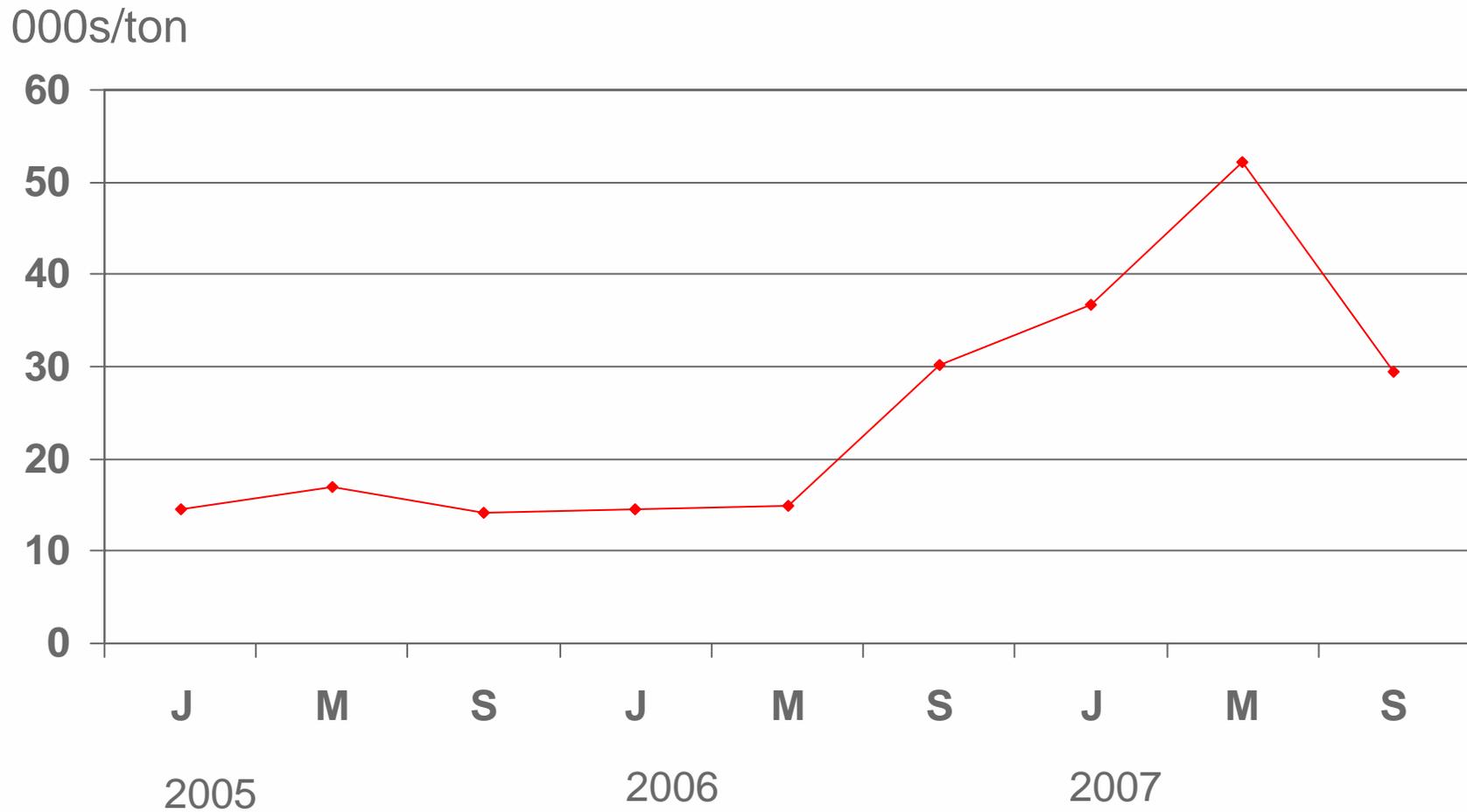
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Nickel: LME spot ask price US\$/metric ton



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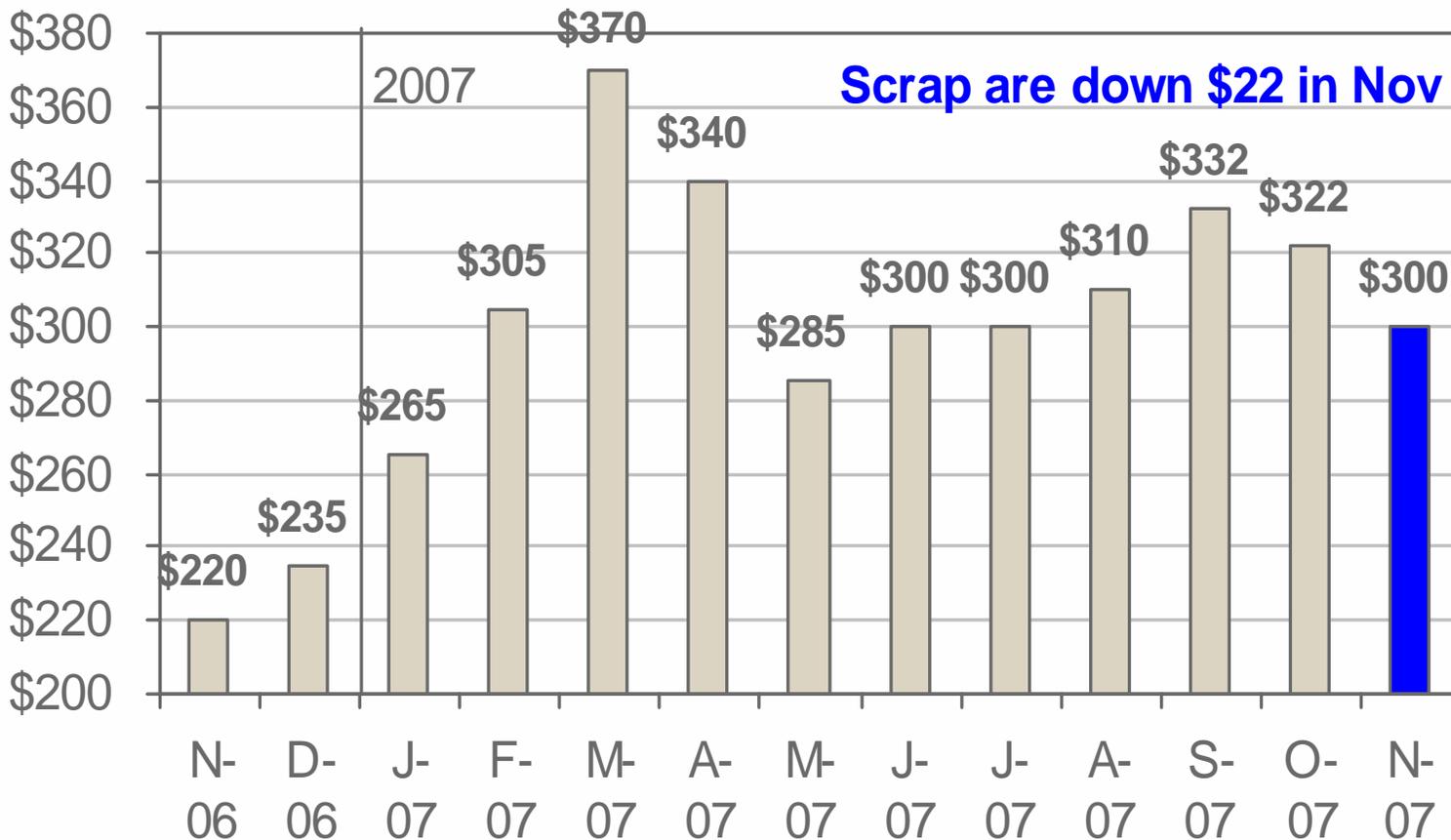


Scrap: #1 Busheling – Chicago

US\$ per ton



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Brazil Export, CVRD blast furnace pellet – Europe \$ cent/t FOB Tubarao (SBB Steel Prices, 2007)



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Q1, 2002	Q2, 2002	Q3, 2002	Q4, 2002	Q1, 2003	Q2, 2003	Q3, 2003	Q4, 2003	Q1, 2004	Q2, 2004	Q3, 2004
47.36	47.36	47.36	47.36	52	52	52	52	61.88	61.88	61.88
Q4, 2004	Q1, 2005	Q2, 2005	Q3, 2005	Q4, 2005	Q1, 2006	Q2, 2006	Q3, 2006	Q4, 2006	Q1, 2007	Q2, 2007
61.88	115.51	115.51	115.51	115.51	112.05	112.05	112.05	112.05	112.05	117.96



SBB Steel Prices

CVRD blast furnace pellet – Europe \$ cent/t FOB Tubarão





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Summary

- Slower than expected GDP growth throughout 2007.
- Significantly high inventories at the start of the year.
- Low imports through 2007
- 2008 will start with low inventory levels
- 2008 imports expected to be low
- Economic growth expected to improve in the second half of 2008 but overall yearly growth will be below trend.
- Industrial markets and export markets will remain strong
- Steel manufacturing cost inputs remain higher than historic levels.