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Arcelor Mittal Takeover

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This case was written by Theo Vermaelen, Professor of Finance, with research assistance provided by David Andrade, Brattle Group Senior Associate, as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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On 24 January 2006, Guy Dollé, president of Arcelor's board of directors and CEO of the company, had reason to be pleased. Two months earlier Arcelor had made a hostile bid for Dofasco, a Canadian steel company. Although Dofasco had tried to fight the bid by negotiating a friendly deal with white knight ThyssenKrupp, they eventually agreed to the takeover on 24 January. The final offer price was C$71 per share, approximately 25% above the initial bid (C$56) made on 23 November 2005. The C$5.6 billion acquisition cost would be paid with cash.

The acquisition was part of Guy Dollé's consolidation strategy. He believed that fragmentation of the industry led to overproduction when prices rose, making it impossible to have sustainable long-term profitability. Consolidation would generate a profitable oligopolistic industry, rather than a cyclical industry with large busts followed by large booms. Arcelor was the largest steel company in the world, and Dollé felt that it should take the lead in this consolidation phase.

Two days later Dollé was looking far from pleased. The hostile bidder had itself become a target: on 26 January Mittal Steel made an unsolicited bid for Arcelor at €28.21 per share, valuing Arcelor's equity at €18 billion. Approximately 25% of the amount would be paid in cash and the remainder in shares in Mittal. On 29 January Arcelor officially rejected the bid, saying that Mittal and Arcelor did not share the same strategic vision, business model or values. Guy Dollé stated that "the two companies' management styles were diametrically opposed and that different product ranges and little geographic overlap do not constitute a strategic fit." Moreover he pointed out that Mittal was trading at its all time high and had a free float of only 12 %. This suggested that the stock was likely to be overvalued and that the small float would prevent Arcelor shareholders from getting out at current prices.

Another argument for rejecting the bid was that the price proposed (€28.21) was too low. Although this represented a 27% premium above the pre-announcement price, management believed that the stock was significantly undervalued. Based on its forecasts of future cash flows, the company had estimated its fair value in the fall of 2005 was at least €26 per share. At that time, the company had seriously considered making a repurchase tender offer for its own shares to correct this undervaluation, but finally decided against it because it could have been perceived as a mixed signal. Repurchasing shares would have meant using cash the firm had earmarked to complete its consolidation strategy. It would have given the wrong signal, suggesting that management no longer believed in the strategy.

Mittal's bid created shockwaves in continental Europe, where such Anglo-Saxon tactics were uncommon. Politicians from various countries, including France, Luxembourg and Spain, rallied behind Arcelor's management and spoke out against the bid, possibly influenced by concern that the takeover would generate job losses. Arcelor had approximately 100,000 employees, mainly in Europe. This European political response led to accusations of racism by the Indian government who accused Europeans of fighting the bid simply because Lakshmi Mittal, the CEO and owner of Mittal Steel, was of Indian descent, and not part of the European business establishment.

Mittal Steel

Mittal Steel came into existence in 1989 and expanded rapidly by taking over existing steel companies, many state-owned. From January 2002 until December 2005 its stock price rose by more than 1000%. During this period, Mittal had the best stock price performance of any steel company in the world. Unlike Arcelor, which had a diversified ownership structure, 88% of Mittal's shares were owned by the Mittal family. The company's strategy was similar to Arcelor's (see exhibit 1), in the sense that it also believed that global consolidation and vertical integration were the way forward. As a result of its acquisition strategy, by the end of 2005 Mittal had become the world's largest, most global, steel company, with more than 227,000 employees. Exhibit 2 shows that approximately 42% of its shipments came from the Americas, 35% from Europe and 23% from Asia and Africa. European production was mainly concentrated in the low labour cost countries of Eastern Europe. As a result of its lower costs, Mittal was able to generate operating margins of 28% in 2004 and 17% in 2005, significantly above the industry average. The acquisition of Arcelor was a further step in the consolidation strategy. As CEO Lakshmi Mittal stated, when announcing 2005 full results on 15 February 2006:

> *"The strength of our performance in current market conditions illustrates the increased stability that industry consolidation has delivered. This same logic lies at the heart of our proposed strategic merger with Arcelor. The steel industry needs strong, value creating, growing companies with global reach, which this combination would deliver. We are pleased with the very positive reception our offer has received."*

The last comment referred to the positive market response to the offer. Exhibit 3 shows daily stock prices, daily excess returns relative to a Steel company index (which excludes Mittal and Arcelor) from January 2006 until the beginning of August 2006. Exhibit 4 and exhibit 5 provide a graphic illustration of some of the data in exhibit 3. On the day of the announcement of the bid, January 27, Mittals's stock price rose by 6.1% from €26.03 to €27.63, and by another 7.5% on January 28. During these two days, the Standard and Poor's 500 only increased by 0.9%. Note from exhibit 3 that the steel index increased by 7% during the same two-day period.

Defensive Moves

Arcelor's financial advisors came up with a shortlist of potential takeover defences:

- get regulatory and/or political support to block the bid;
- make a buyback tender offer at a premium to shake out the "weak hands";
- pay out excess cash through a dividend;
- search for a white squire;
- search for a white knight;
- lock up "crown jewels";
- start a PR campaign to convince the market that the bid was much too low;

- restructure the ownership to a leveraged recapitalization or a leveraged buyout;
- initiate a bid for Mittal (the "Pac-man defence").

The question was which of these alternatives would be the most effective. As the percentage of shares held by management and employees was tiny, ultimately the public shareholders would decide whether they would accept the Mittal bid or not. So far only Luxembourg, the largest stockholders, owning 5.6% of the company, had said that it was not willing to sell to Mittal. So, unless Arcelor could make Mittal withdraw its bid by setting up regulatory hurdles, defensive moves that were considered to be tactics to stay independent, regardless of Mittal's bid price, were likely to be badly perceived by stockholders. The ultimate objective had to be to get the best deal for stockholders.

Dividend Policy

On 16 February, Arcelor increased its dividend by 85%. With a 10 % payout ratio, Arcelor had one of the lowest payout ratios in the industry. Paying out excess cash to the shareholders lowers the value per share. As under French law, a bidder can only revise its bid upwards, the dividend payment increased the cost to Mittal.

Political/Regulatory Lobby Work

Because Arcelor employed nearly 100,000 people, it might have been able to count on the support of politicians in Spain, Luxembourg and especially France, where the government had been promoting economic nationalism through the promotion of "national champions". On 1 February 2006, the French Finance Minister, Thierry Breton, disparaged Mittal's offer, telling parliament that "he had never seen such a badly prepared takeover attempt"[1]. On 13 February, a French daily newspaper reported that Arcelor might buy minerals group Eramet, which was partially controlled by the French state. A deal with Eramet would grow Arcelor and would mean the French government could defend the combination on the grounds of national interest. A variant of this defense was employed by Danone, a French company who bought a hotel that owned a casino in Evian. According to French law no one can operate a casino in France without government approval. This effectively meant that no one could buy Danone without French government approval.

The Luxemburg establishment was most helpful. On 15 March, the Luxembourg Chamber of Commerce proposed amendments to merger and acquisition laws. The amendment would require any company with a free float of less than 25% to pay for an acquisition with cash. As Mittal had only a free float of 12%, it would effectively block a takeover bid that currently involved 75% to be paid in stock. On 23 March, Luxembourg's parliamentary finance committee backed another change in the country's takeover laws: it would prevent a bidder from resubmitting a takeover offer for a listed company in Luxembourg for a period of 12 months. However, such a move would go against the EU's takeover directive, possibly triggering a legal row with the European Commission. On 24 March the Luxembourg government decided that it would not change the takeover laws because legal prohibition was not being considered as the Luxembourg way.

1 Financial Times

Buyback Tender Offer

Repurchasing shares at a higher price than the Arcelor bid might induce investors who were looking for a quick profit, such as arbitrageurs and hedge funds, to tender their shares to the company. Moreover, the repurchase would increase leverage, reduce excess cash and make the firm a less attractive takeover target. However, in contrast to the US, where a buyback needs only to be approved by the board of directors, a repurchase tender offer would have to have the stockholders' approval. If the buyback was simply perceived as a takeover defence, rather than a signal of undervaluation or increased commitment to shareholder value, shareholders would not support this move.

On 4 April, Arcelor announced its intention to ask shareholders to distribute €6 billion through a share buyback tender offer for 150 million shares. This payout would be financed partially by borrowing €4 billion.

The company was aware of academic research that showed that, on average, share prices rise after a repurchase tender offer. Specifically they were familiar with an academic study that predicted total announcement returns (TOTALR) by the following regression:

TOTALR = 0.6 PREM + 0.25 BOUGHT

where PREM is the repurchase premium above the market price and BOUGHT is the percentage of shares repurchased.

Considering the significant premium paid and shares repurchased, Arcelor expected a significant price boost from this action. The market would perceive it as a strong signal that management believed its stock was seriously undervalued and that Mittal was simply trying to "steal" the company.

The Dutch Treat – Locking Up Crown Jewels

On the same day (4 April), Arcelor also announced that it was transferring the recently acquired Dofasco to a special-purpose company, a Dutch foundation. Under this typical Dutch structure, Mittal would be entitled to the cash flows of Dofasco, but not to the voting rights, which would be in the hands of 3 administrators who unanimously have to approve the sale of Dofasco. The foundation can only be dissolved after 5 years. This move would prevent any acquirer from selling Dofasco for the next five years without the administrators' approval. This created a significant hurdle for Mittal, who had planned to sell Dofasco to Thyssen-Krupp after the acquisition of Arcelor was completed. It knew that the US Federal Trade Commission would have forced the new company to sell Dofasco in order to comply with anti-trust regulation. Arcelor's move would increase the cost to Mittal because, if it could not sell Dofasco, it would have to sell other US divisions to comply with the regulatory authorities.

White Knight

Besides Mittal Steel and Arcelor, the next two largest steel companies were Nippon Steel and JFE holdings, two Japanese companies with similar market capitalisations of around €20 billion. While in theory they could jump into the fight, Japanese companies had no real track record of intervening as white knights in hostile overseas acquisitions.

Public Relations Campaign

Instead of making broad statements about the undesirability of the merger, Arcelor decided to make a clear statement of how much the company's shares would be worth if Arcelor remained independent. On 3 May, Guy Dollé stated in a press release that "Arcelor should be worth €40.7 billion, or around five times EBITDA, the typical industry multiple."

On May 10, Mittal announced it would be willing to increase its bid if management recommended its offer. Although no such recommendation was made, on May 19 Mittal made a new revised offer of €11.1 in cash and 1 Mittal share for each Arcelor share. The closing price of Mittal's stock on 18 May was €27.33, which meant that Arcelor shareholders were offered €38.43 per share, a premium of 37% over the previous offer. He offer would also improve the corporate governance provisions: the Mittal family would not have any extra voting rights, so that after the merger they would only control 45 % of the shares.

White Squire

The surprising increase in the offer was made when Arcelor was in talks with Severstal, a Russian steel company. Apparently rumors about a potential deal with Severstal had reached Mittal which apparently was making a pre-emptive higher bid. On 26 May Arcelor announced a merger proposal with Severstal, a Russian company. The transaction valued Arcelor at €44 per share. Severstal would make a cash payment of €1.25 billion and contribute all its steel assets as well as its iron ore and coal assets in return for a 32% stake in the combined company, Arcelor-Severstal. Severstal also obtained a break-up fee of €140 million, in case Arcelor decided to merge with someone else.

The Closing

Because the Severstal deal had been so badly received by investors and in the financial press, on 7 June 2006 Arcelor seemed to be willing to negotiate a deal with Mittal and agreed to meet Mittal face-to-face for the first time. However, on 12 June the revised Mittal offer was rejected. On 19 June Arcelor cancelled the shareholders' meeting to vote on the €6 billion share buyback. On 21 June Severstal improved the terms of its offer. On 23 June it was reported that Mittal was revising its offer and finally on 25 June Arcelor's board recommended that shareholders accept the improved takeover offer from Mittal.

Under this final offer, Arcelor shareholders would receive 13 Mittal shares and €150.60 in cash per block of 12 Arcelor shares. Alternatively, investors would be given €40.40 cash per share as well as an all-share alternative of 11 new Mittal shares for each block of 7 Arcelor shares. These alternatives were provided under the constraint that, in aggregate, 69% of the deal would be financed with Mittal common stock. Mittal also offered to acquire Arcelor's convertible bonds in a mixed offer of 13 Mittal shares and €188.42 in cash per batch of 12 Arcelor convertible bonds. It was estimated that, as a result of this offer, after the merger there would be 1,417 million Mittal shares outstanding, an increase of 713 million shares issued to Arcelor shareholders and bondholders. Subsequently, Mittal announced a tender offer for all

Arcelor shares. The tender offer would expire on 13 July and in order for the merger to be completed, Mittal needed 50.1% of the Arcelor shares to be tendered.

Synergies

On 5 July, Arcelor started a road show aimed at conveying the synergies in the deal to investors. This was necessary as on that day Mittal's stock closed at €22.15, the lowest level in 2006. Arcelor's stock price closed at €35.29, not far below its 2006 high of 37.74 of 30 June.

According to the company, the following synergies could be identified:

Marketing and trading synergies (estimate: €460 million)

- Accelerated growth of distribution in developing regions (Eastern Europe, CIS, Africa)
- Cross-selling through enlarged and enhanced product portfolio
- Optimisation of order book for cross product flows and logistical savings
- Market volume impact of mill specialisation

Manufacturing and process optimization (estimate: €380 million)

- Benchmarking and best practice alignment across all operating assets
- Optimisation of utilisation of assets through selected mill product specialisation (i.e. productivity gains with better sequencing rates, fewer changeovers)
- Logistical and mill optimisation through transfers of semi-finished products

Purchasing (estimate: €400 million)

- Scale effects of standardisation of procurement contracts
- Optimisation and efficiencies from maintenance services, sub-contracting, spare parts and consumables
- Logistics savings on optimisation of raw material flows

SGA (estimate: €50 million)

- IT synergies
- Reduction in external contracts, e.g. consulting services
- Duplication in commercial network avoided

Arcelor assumed that during the first year synergies would be equal to €500 million, during the second, €900 million and from year three on, €1.3 billion (see exhibit 6). Implementing these synergies would not be a problem, because both companies had a strong track record of successful integration.

On 12 July, Mittal announced that, one day before the expiration of the tender offer, 18% of the shareholders had tendered their shares. On 13 July it announced that "at least" 50% of the shares had been tendered. The actual amount turned out to be 92%.

New Payout Policy

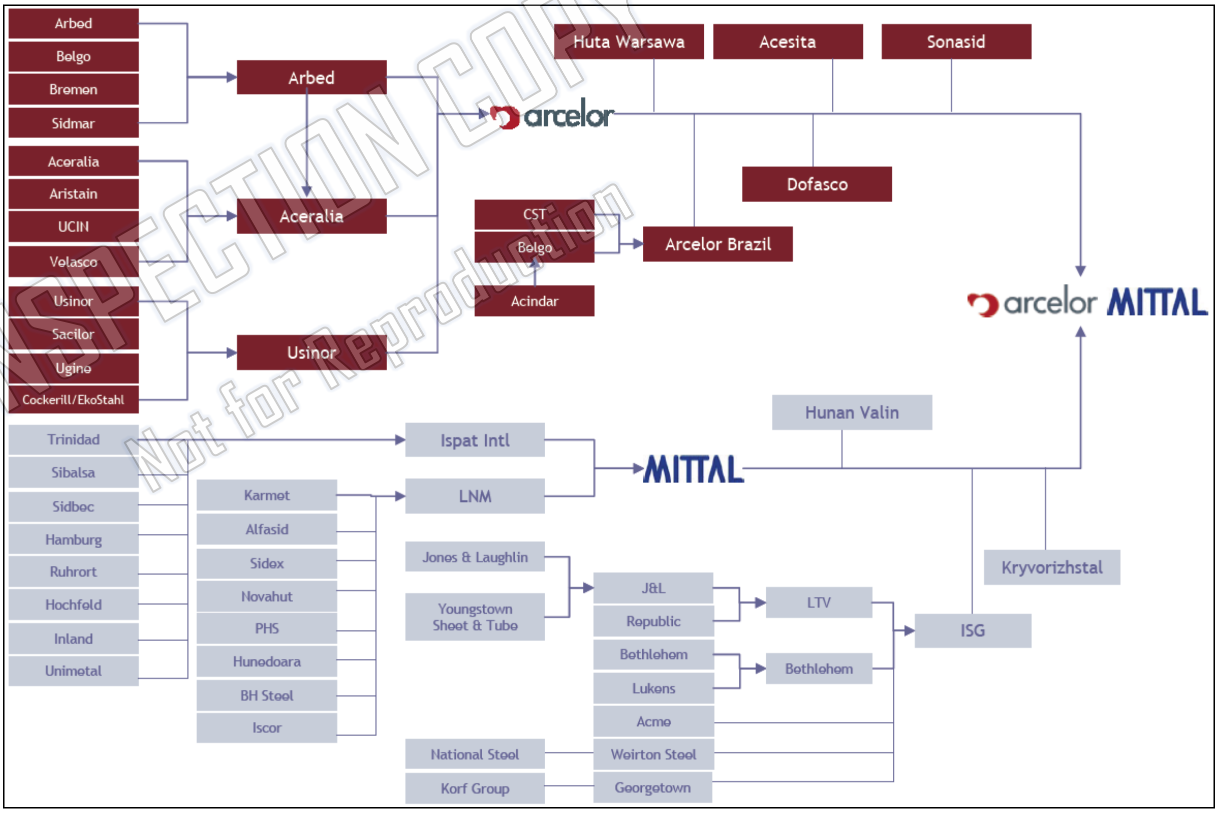
On 27 September, Arcelor-Mittal announced a new payout policy, 30% of net income, financed either by dividend payments or share repurchases. At the time of this decision, Arcelor-Mittal's stock price was €27. The decision to repurchase stock was dependent on the stock price. Arcelor-Mittal was wondering whether it was indeed a good time to start repurchasing shares. The company also made a forecast of €12 billion EBITDA in 2006 and was confident of its EBITDA target of €16 billion for 2008.

Exhibit 7 shows a valuation of €21.22 per share for Arcelor-Mittal, assuming no synergies. These forecasts were perceived to be reasonable, considering the historical financials of the companies (see exhibit 8 through 11). The residual value assumed that the company's net new investments, after 2009, would only generate a rate of return equal to the 8.3% cost of capital. The company was wondering to what extent the synergy benefits of the merger would warrant a higher value. This was an important issue as the company wanted to repurchase shares, rather than pay dividends, while it felt its shares were undervalued.

Some also questioned the use of an unlevered beta of 1.13 for Arcelor. Although this unlevered beta was higher than the industry average (see Exhibit 12), management felt that Arcelor-Mittal was much less risky than an average steel company. Arcelor-Mittal had significant iron ore assets, which made its profits much less risky than those of other steel companies, who suffered when ore prices rose. The firm was also more globally diversified, with a larger portfolio of business than the typical steel company. The company was also pursuing a strategy of price over volume in order to stabilize its profits. This way it believed it could change the risk perception of the company and bring it more in line with the risk of metal producers and producers of other construction materials, such as cement.

Exhibit 1

History of Prior Consolidations



Source: July 2006 Joint Mittal-Arcelor Presentation “The Clear Leader in Steel”

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Exhibit 2

Mittal Steel's Global Reach

Mittal Steel 2005 Shipments by Country

Thousands of Short Tons

<u>Americas</u>	
United States of America	14,299
Mexico - Lazaro Cardenas	3,908
Canada	1,461
Trinidad - Point Lisas	796
TOTAL AMERICAS	**20,464**
<u>Europe</u>	
West Europe - Germany and France	3,255
Poland	4,894
Romania	5,164
Czech Republic - Ostava	2,692
Ukraine - Kryvly Rih	493
Others	715
TOTAL EUROPE	**17,213**
<u>Asia and Africa</u>	
Kazakhstan - Temirtau	3,672
South Africa	6,866
Algeria - Annaba	963
TOTAL ASIA AND AFRICA	**11,501**
MITTAL STEEL COMPANY	**49,178**

Source: Mittal Steel Q4-2005 Results Report dated February 15, 2006.

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Exhibit 3

Table of Cumulative Excess Returns over Steel Index

	Arcelor			Mittal		
Date	Share Price	Excess Return	Cumulative Excess Return	Share Price	Excess Return	Cumulative Excess Return
02-Jan-06	21.14	1%	1%	23.27	4%	4%
03-Jan-06	21.27	-2%	-1%	22.50	-6%	-2%
04-Jan-06	21.94	2%	1%	22.52	-1%	-3%
05-Jan-06	21.90	0%	1%	22.23	-1%	-4%
06-Jan-06	21.89	-1%	-1%	22.40	0%	-5%
09-Jan-06	22.03	0%	-1%	23.55	4%	-1%
10-Jan-06	22.02	0%	-1%	23.47	0%	-1%
11-Jan-06	22.14	1%	0%	23.72	2%	1%
12-Jan-06	22.11	2%	2%	23.67	2%	3%
13-Jan-06	21.91	0%	2%	23.67	1%	3%
16-Jan-06	21.27	-3%	-1%	23.62	0%	3%
17-Jan-06	21.08	-1%	-2%	23.74	0%	3%
18-Jan-06	20.86	0%	-3%	23.22	-1%	2%
19-Jan-06	21.12	-1%	-4%	23.61	0%	1%
20-Jan-06	20.99	1%	-3%	23.50	1%	2%
23-Jan-06	20.91	-2%	-5%	23.38	-2%	0%
24-Jan-06	21.61	-1%	-6%	24.38	0%	0%
25-Jan-06	21.83	0%	-6%	26.06	6%	6%
26-Jan-06	22.22	-1%	-6%	26.03	-2%	3%
27-Jan-06	28.54	23%	16%	27.63	0%	4%
30-Jan-06	29.75	5%	21%	29.69	8%	12%
31-Jan-06	28.90	-3%	18%	29.20	-2%	10%
01-Feb-06	29.23	1%	19%	29.69	2%	11%
02-Feb-06	29.34	2%	21%	29.40	1%	12%
03-Feb-06	30.53	3%	24%	29.55	0%	12%
06-Feb-06	31.31	0%	24%	29.77	-2%	10%
07-Feb-06	30.32	1%	25%	29.60	3%	13%
08-Feb-06	29.31	-2%	23%	27.73	-5%	8%
09-Feb-06	29.39	1%	24%	28.49	4%	12%
10-Feb-06	29.30	0%	24%	27.60	-3%	9%
13-Feb-06	30.20	4%	28%	28.60	5%	13%
14-Feb-06	30.12	-2%	26%	28.92	0%	13%
15-Feb-06	29.79	0%	26%	28.42	-1%	12%
16-Feb-06	29.90	-1%	24%	27.00	-7%	5%
17-Feb-06	30.32	2%	26%	27.85	3%	9%
20-Feb-06	30.40	0%	26%	28.20	1%	10%
21-Feb-06	30.30	-1%	25%	27.68	-3%	7%
22-Feb-06	30.40	-1%	25%	27.69	-1%	6%
23-Feb-06	30.45	0%	24%	28.21	1%	8%
24-Feb-06	30.40	-1%	23%	28.36	0%	7%
27-Feb-06	30.65	1%	24%	28.32	0%	7%
28-Feb-06	30.66	1%	26%	27.90	0%	7%
01-Mar-06	31.25	0%	26%	28.40	0%	7%
02-Mar-06	32.05	3%	28%	29.15	3%	10%
03-Mar-06	32.85	1%	29%	29.79	0%	10%
06-Mar-06	33.05	1%	30%	29.56	-1%	10%
07-Mar-06	32.20	-1%	29%	28.43	-2%	8%
08-Mar-06	31.56	-2%	27%	27.90	-2%	6%
09-Mar-06	31.72	1%	28%	28.00	0%	7%
10-Mar-06	31.70	-3%	25%	27.79	-4%	3%

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Date	Arcelor Share Price	Arcelor Excess Return	Arcelor Cumulative Excess Return	Mittal Share Price	Mittal Excess Return	Mittal Cumulative Excess Return
13-Mar-06	31.77	1%	26%	27.81	1%	4%
14-Mar-06	31.09	-4%	22%	28.46	0%	4%
15-Mar-06	31.46	0%	22%	28.70	0%	4%
16-Mar-06	31.10	-3%	19%	28.42	-3%	1%
17-Mar-06	31.50	0%	19%	28.94	1%	2%
20-Mar-06	31.78	1%	20%	29.90	3%	5%
21-Mar-06	31.71	-1%	19%	30.03	0%	5%
22-Mar-06	31.60	-1%	18%	29.36	-3%	2%
23-Mar-06	31.60	-1%	17%	30.03	2%	3%
24-Mar-06	31.75	-1%	16%	30.26	0%	3%
27-Mar-06	31.75	0%	16%	30.99	2%	5%
28-Mar-06	32.10	2%	18%	31.33	2%	7%
29-Mar-06	32.62	0%	18%	31.89	0%	7%
30-Mar-06	32.72	0%	18%	32.50	2%	8%
31-Mar-06	32.53	0%	18%	31.59	-2%	7%
03-Apr-06	32.79	0%	18%	32.27	1%	7%
04-Apr-06	32.50	-2%	16%	31.10	-4%	3%
05-Apr-06	32.90	1%	17%	31.41	1%	4%
06-Apr-06	33.00	-1%	16%	31.17	-2%	2%
07-Apr-06	32.96	1%	17%	30.98	0%	3%
10-Apr-06	33.04	0%	18%	31.60	2%	5%
11-Apr-06	32.96	1%	19%	31.00	0%	4%
12-Apr-06	32.81	-1%	18%	30.67	-1%	3%
13-Apr-06	33.10	0%	18%	31.30	1%	4%
14-Apr-06	33.10	0%	18%	31.30	0%	4%
17-Apr-06	33.10	-1%	17%	31.30	-1%	2%
18-Apr-06	33.05	-2%	14%	31.70	-1%	2%
19-Apr-06	33.55	-1%	13%	31.90	-2%	0%
20-Apr-06	33.40	3%	16%	31.25	1%	1%
21-Apr-06	33.90	0%	16%	31.67	0%	1%
24-Apr-06	34.09	0%	16%	31.49	-1%	0%
25-Apr-06	34.11	0%	17%	30.98	-1%	-1%
26-Apr-06	34.08	-1%	16%	30.86	-1%	-2%
27-Apr-06	33.40	1%	17%	30.39	2%	-1%
28-Apr-06	32.60	-4%	14%	29.23	-5%	-6%
01-May-06	32.60	-2%	12%	29.23	-2%	-8%
02-May-06	33.69	1%	13%	30.30	1%	-6%
03-May-06	33.83	0%	13%	30.28	0%	-7%
04-May-06	34.16	0%	13%	31.30	2%	-4%
05-May-06	34.95	1%	14%	31.66	0%	-4%
08-May-06	35.00	0%	14%	32.50	2%	-2%
09-May-06	35.76	2%	16%	33.10	2%	0%
10-May-06	35.38	-2%	14%	32.65	-2%	-2%
11-May-06	35.45	2%	16%	32.08	0%	-2%
12-May-06	34.65	0%	17%	30.73	-2%	-4%
15-May-06	33.93	1%	18%	28.99	-3%	-6%
16-May-06	33.06	-1%	17%	28.13	-1%	-8%
17-May-06	32.85	3%	20%	28.00	4%	-4%
18-May-06	32.00	-2%	18%	27.33	-2%	-6%
19-May-06	34.84	7%	25%	25.41	-9%	-14%
22-May-06	32.90	0%	26%	23.91	0%	-15%
23-May-06	33.88	1%	26%	24.06	-2%	-16%
24-May-06	33.60	0%	26%	23.89	0%	-16%
25-May-06	34.06	-3%	23%	24.52	-2%	-18%

	Arcelor			Mittal		
Date	Share Price	Excess Return	Cumulative Excess Return	Share Price	Excess Return	Cumulative Excess Return
26-May-06	33.05	-6%	17%	25.00	-1%	-19%
29-May-06	32.80	5%	22%	26.25	5%	-14%
30-May-06	32.85	4%	26%	25.32	0%	-14%
31-May-06	33.30	0%	26%	25.71	0%	-14%
01-Jun-06	34.00	0%	26%	26.56	1%	-13%
02-Jun-06	34.29	0%	26%	26.58	-1%	-14%
05-Jun-06	33.80	2%	28%	25.97	1%	-12%
06-Jun-06	32.80	-1%	27%	24.89	-2%	-14%
07-Jun-06	33.29	4%	31%	24.67	2%	-12%
08-Jun-06	32.10	-3%	29%	23.60	-3%	-16%
09-Jun-06	33.70	5%	34%	24.24	2%	-13%
12-Jun-06	33.30	1%	35%	23.59	0%	-14%
13-Jun-06	32.66	1%	35%	23.35	1%	-12%
14-Jun-06	32.77	-1%	34%	23.36	-2%	-14%
15-Jun-06	32.77	-4%	30%	24.70	1%	-12%
16-Jun-06	32.77	1%	30%	24.20	-1%	-14%
19-Jun-06	34.70	6%	36%	24.88	3%	-11%
20-Jun-06	35.40	1%	38%	25.35	1%	-10%
21-Jun-06	35.02	-4%	34%	26.03	0%	-10%
22-Jun-06	35.02	0%	34%	25.99	0%	-9%
23-Jun-06	35.02	-3%	32%	25.32	-5%	-15%
26-Jun-06	37.80	7%	39%	24.38	-4%	-19%
27-Jun-06	37.00	-2%	37%	23.97	-1%	-21%
28-Jun-06	37.19	-1%	35%	23.58	-4%	-24%
29-Jun-06	37.51	-2%	33%	24.12	-1%	-25%
30-Jun-06	37.74	0%	33%	24.19	0%	-25%
03-Jul-06	36.92	-3%	30%	23.54	-4%	-29%
04-Jul-06	36.07	-3%	27%	22.90	-3%	-32%
05-Jul-06	35.29	0%	28%	22.15	-1%	-33%
06-Jul-06	35.45	1%	28%	22.14	0%	-33%
07-Jul-06	36.84	3%	31%	23.44	5%	-28%
10-Jul-06	36.90	0%	32%	23.30	-1%	-28%
11-Jul-06	36.88	0%	32%	22.82	-2%	-30%
12-Jul-06	38.22	4%	36%	24.39	7%	-23%
13-Jul-06	38.52	5%	40%	26.75	14%	-9%
14-Jul-06	39.04	1%	42%	25.40	-5%	-14%
17-Jul-06	39.22	3%	44%	25.20	1%	-13%
18-Jul-06	38.89	-1%	43%	25.20	0%	-13%
19-Jul-06	40.05	-1%	43%	26.19	0%	-13%
20-Jul-06	40.55	3%	46%	26.81	5%	-8%
21-Jul-06	40.00	1%	47%	26.05	0%	-8%
24-Jul-06	39.53	-3%	44%	25.97	-2%	-11%
25-Jul-06	39.58	-2%	42%	25.50	-4%	-15%
26-Jul-06	43.00	8%	50%	26.50	3%	-12%
27-Jul-06	42.40	-1%	49%	26.40	0%	-12%
28-Jul-06	41.64	-4%	45%	26.25	-2%	-14%
31-Jul-06	41.75	0%	45%	26.60	1%	-13%
01-Aug-06	42.00	2%	47%	27.05	3%	-10%

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Exhibit 4

Post-Takeover Bid Share Prices

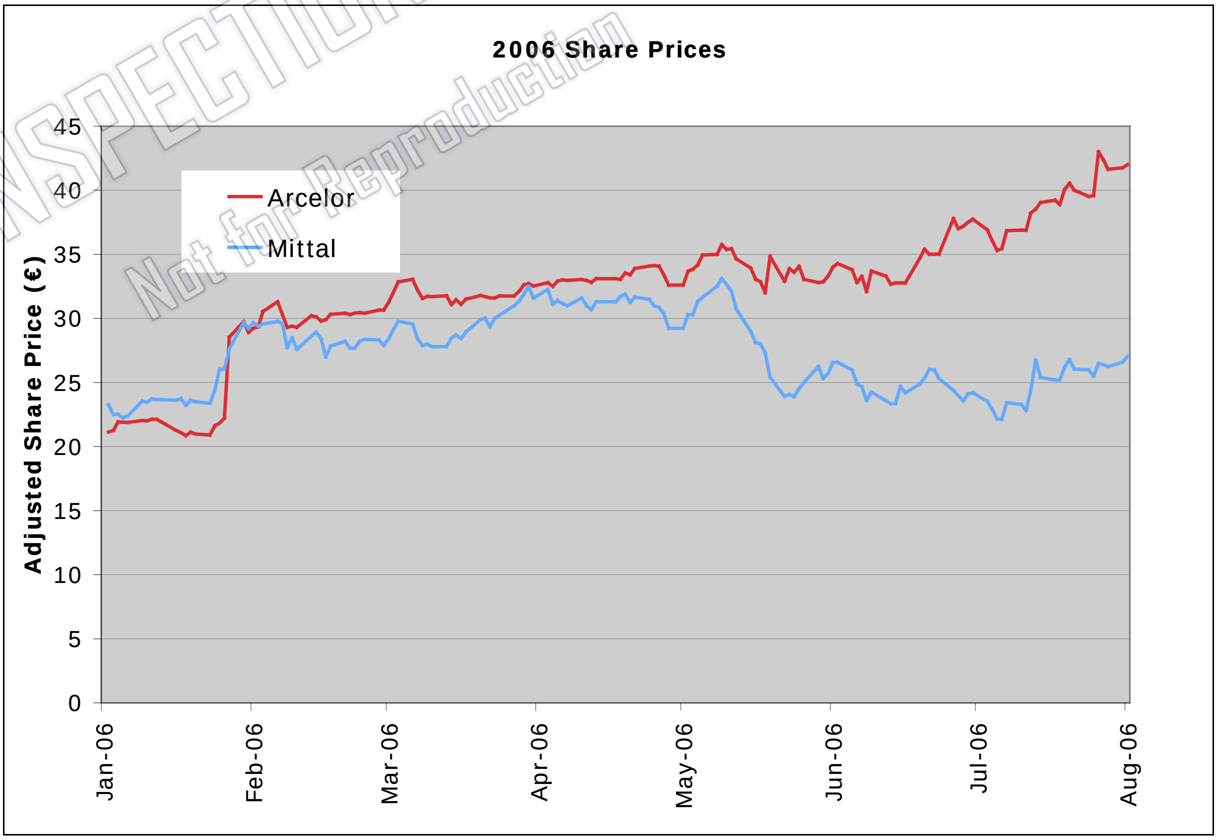
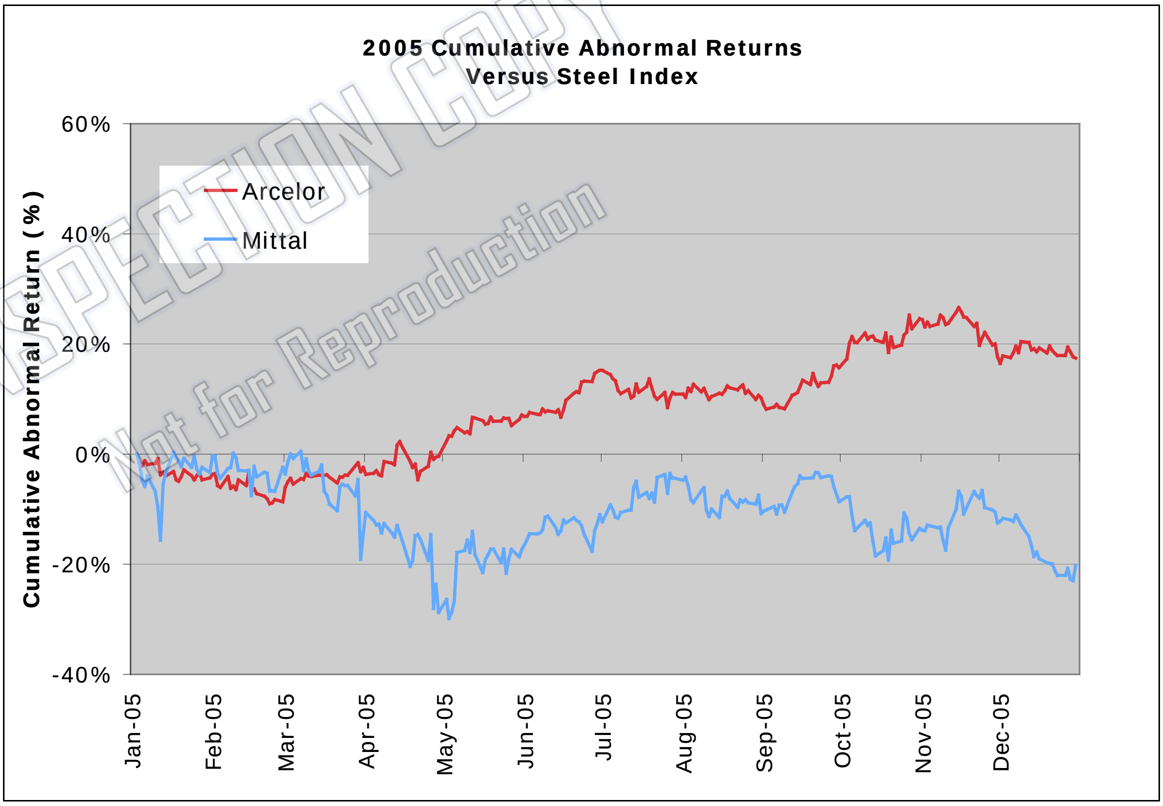


Exhibit 5

Pre- and Post-Takeover Bid Cumulative Excess Returns over Steel Index



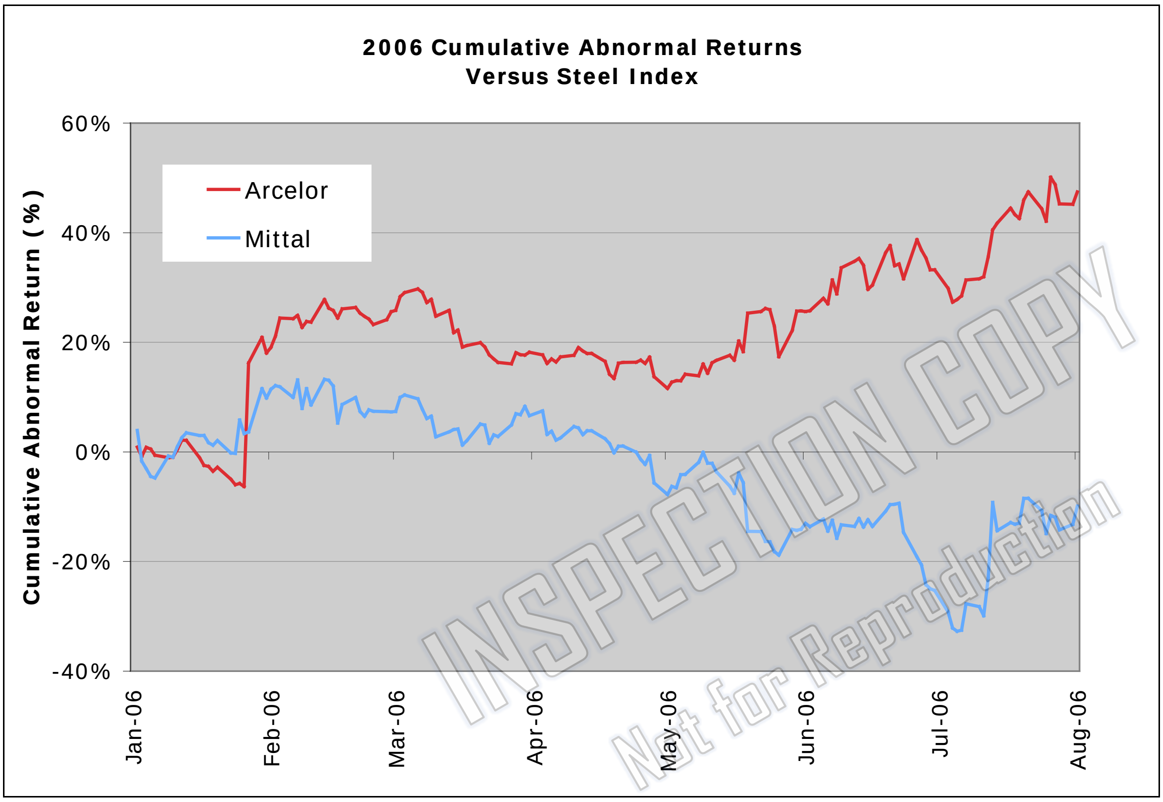


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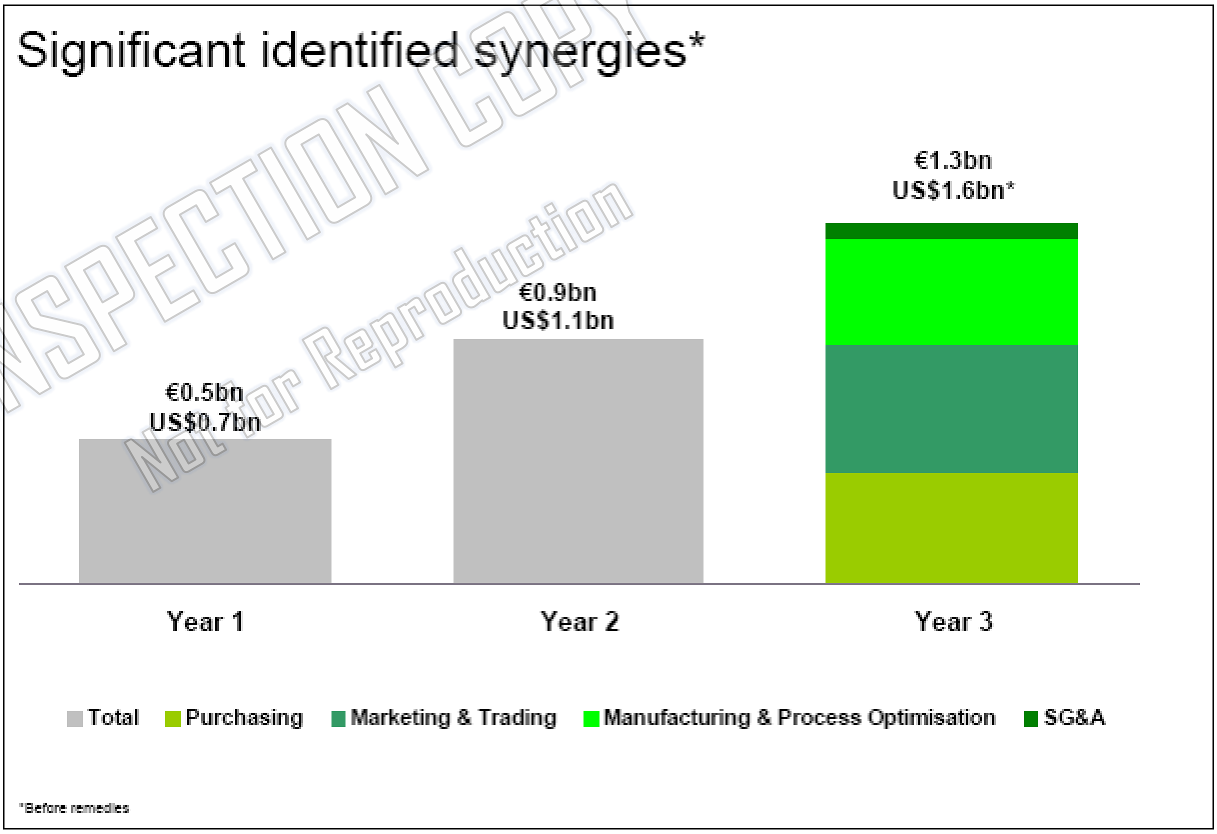
Exhibit 6

Management forecast of synergies



Source: July 2006 Joint Mittal-Arcelor Presentation "The Clear Leader in Steel"

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Exhibit 7

Arcelor-Mittal Valuation Model

Assumptions	2004	2005	2006	2007	2008	2009	CV
Sales Growth (%/yr)		15,0%	20,8%	13,0%	11,0%	4,0%	2,0%
COGS + SG&A (% of Sales)	78,2%	80,7%	80,0%	82,0%	82,0%	88,0%	90,0%
EBITDA Margin (% of Sales)	21,8%	19,3%	20,0%	18,0%	18,0%	12,0%	10,0%
Depreciation (% of Sales)	3,3%	3,5%	3,8%	3,7%	3,5%	3,5%	3,5%
EBIT Margin (% of Sales)	18,5%	15,8%	16,2%	14,3%	14,5%	8,5%	6,5%
Marginal Tax Rate			25,0%	30,0%	30,0%	30,0%	30,0%
NOPLAT (% of Sales)			12,2%	10,0%	10,2%	6,0%	4,6%
PPE (% of Sales)	36%	48%	45%	42%	41%	39%	37%
WCR (% of Sales)	18%	19%	19%	19%	19%	19%	19%

Forecasts	2004	2005	2006	2007	2008	2009	CV
Sales	48 047	55 244	66 735	75 410	83 705	87 054	88 795
COGS + SGA	37 577	44 560	53 388	61 836	68 638	76 607	79 915
EBITDA	10 470	10 684	13 347	13 574	15 067	10 446	8 879
Depreciation	1 592	1 932	2 536	2 790	2 930	3 047	3 108
EBIT	8 878	8 752	10 811	10 784	12 137	7 400	5 772
Taxes			2 703	3 235	3 641	2 220	1 731
NOPLAT			**8 108**	**7 549**	**8 496**	**5 180**	**4 040**
Depreciation	1 592	1 932	2 536	2 790	2 930	3 047	3 108
Capex		10 891	6 289	4 432	5 577	2 679	3 108
ΔWCR		1 875	2 237	1 689	1 615	652	-
Free Cash Flow		(10 834)	**2 118**	**4 218**	**4 235**	**4 896**	**4 040**
PPE	17 318	26 277	30 031	31 672	34 319	33 951	
Capex=ΔPPE+Depr		10 891	6 289	4 432	5 577	2 679	
WCR	8 878	10 753	12 989	14 678	16 293	16 944	
ΔWCR		1 875	2 237	1 689	1 615	652	
Invested Capital	26 196	37 030	43 020	46 350	50 612	50 895	
ROIC			**22%**	**18%**	**18%**	**10%**	
RONIC (set = to WACC)							**8%**

Cost of Capital	
Cost of Debt (rd)	4,5%
Target D/V	40%
Tax Rate	30%
Risk-Free Rate (rf)	3,5%
Unlevered beta	1,13
Market Risk Premium	5%
Cost of Equity (re)	11,8%
Target E/V	60%
WACC	8,3%
Levered beta	1,66

Valuation	2004	2005	2006	2007	2008	2009	CV
Discount Factor			1,00	0,92	0,85	0,79	
PV(FCF)			2 118	3 894	3 608	3 851	
Total PV(FCF)			13 472				
Continuation Value (CV)							48 490
PV(CV)			38 140				
Enterprise Value {=Total PV(FCF) + PV(CV)}			**51 612**				
- Financial Debt			18 200				
- Minority Interest			3 467				
+ Affiliates			2 434				
- Pension Obligations			2 311				
TOTAL EQUITY VALUE			**30 068**				
Estimated Shares Outstanding (millions)			**1 417**				
Equity Value (EUR per Share)			**21,22**				

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Exhibit 8

Mittal Income Statement

MITTAL
Income Statement
in $ Million

	2004	2005
Sales	**22 197**	**28 132**
Gross Profit	6 950	5 808
Operating Income	6 146	4 746
EBITDA	**6 951**	**5 871**
EBIT	**6 398**	**5 042**
Less Interest Expense	265	339
Pre-Tax Income	**6 133**	**4 703**
Less Taxes	817	818
Net Income After Tax	**5 316**	**3 885**
Less Minority Interest	615	520
Net Income	**4 701**	**3 365**

Income Statement
in EUR Million

	2004	2005
Sales	**17 871**	**22 633**
Gross Profit	5 595	4 673
Operating Income	4 948	3 818
EBITDA	**5 596**	**4 723**
EBIT	**5 151**	**4 059**
Less Interest Expense	**213**	**273**
Pre-Tax Income	4 938	3 786
Less Taxes	658	659
Net Income After Tax	4 280	3 128
Less Minority Interest	495	419
Net Income	**3 785**	**2 709**

Cash Flow Statement
in $ Million

	2004	2005
Net Income	**4 701**	**3 365**
Depreciation	553	829
Def Income Taxes	86	155
Minority Interest	615	520
Other Adj. to Cash from Operations	(115)	(375)
Cash from Changes in Operating Assets	(1 229)	(520)
Net Cash Flow - Operations	**4 611**	**3 974**
Capital Expenditures	(898)	(1 181)
Net Assets from Acquisitions	(19)	(6 220)
Disposal of Fixed Assets	83	59
Other Investing Cash Flows	33	(270)
Net Cash Flow - Investing	**(801)**	**(7 612)**
Bank and Debt Proceeds	3 519	10 006
Bank and Debt Payments	(5 040)	(4 557)
Purchase of Stock	(54)	-
Proceeds from Stock Issue	9	3
Cash Dividends	(763)	(2 092)
Other net financing activities	-	(11)
Net Cash Flow - Financing	**(2 329)**	**3 349**
Effect of Exchange Rates on Cash	254	(171)
Net Cash Flow	**1 735**	**(460)**

Source: Mittal 2005 Annual Report

Cash Flow Statement
in EUR Million

	2004	2005
Net Income	**3 785**	**2 707**
Depreciation	445	667
Def Income Taxes	69	125
Minority Interest	495	418
Other Adj. to Cash from Operations	(93)	(302)
Cash from Changes in Operating Assets	(989)	(418)
Net Cash Flow - Operations	**3 712**	**3 197**
Capital Expenditures	(723)	(950)
Net Assets from Acquisitions	(15)	(5 004)
Disposal of Fixed Assets	67	47
Other Investing Cash Flows	27	(217)
Net Cash Flow - Investing	**(645)**	**(6 124)**
Bank and Debt Proceeds	2 833	8 050
Bank and Debt Payments	(4 058)	(3 666)
Purchase of Stock	(43)	-
Proceeds from Stock Issue	7	2
Cash Dividends	(614)	(1 683)
Other net financing activities	-	(9)
Net Cash Flow - Financing	**(1 875)**	**2 694**
Effect of Exchange Rates on Cash	204	(138)
Net Cash Flow	**1 397**	**(370)**

Source: Mittal 2005 Annual Report
Values converted to EUR at average exchange rate for year.

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Exhibit 9

Mittal Balance Sheet

Mittal Balance Sheet

in $ Million

	2004	2005
Cash & Short Term Inv.	2 634	2 149
Receivables	2 006	2 287
Total Inventories	4 013	6 036
Other Current Assets	972	1 240
Total Current Assets	**9 625**	**11 712**
Net Property, Plant & Equip.	7 562	15 539
Investments in Affiliates	667	1 187
Other Assets	1 299	2 604
Total Assets	**19 153**	**31 042**
Accounts Payable	1 899	2 504
Short Term Debt and Current LTD	341	334
Dividend Payable	1 650	-
Other Current Liabilities	2 340	2 777
Total Current Liabilities	**6 230**	**5 615**
Long Term Debt	1 639	7 974
Deferred Tax Liabilities	955	1 602
Deferred Employee Benefits	1 931	2 506
Other Long-Term Liabilities	809	1 361
Total Liabilities	**11 564**	**19 058**
Minority Interest	1 743	1 834
Common Stock	59	60
Treasury Stock	(123)	(111)
Capital Surplus	552	2 456
Retained Earnings	4 739	7 891
Other Comprehensive Income	619	(146)
Common Shareholders' Equity	**5 846**	**10 150**
Total Liabilities & Equity	**19 153**	**31 042**

Source: Mittal 2005 Annual Report

in EUR Million

	2004	2005
Cash & Short Term Inv.	2 121	1 730
Receivables	1 615	1 841
Total Inventories	3 231	4 860
Other Current Assets	783	998
Total Current Assets	**7 749**	**9 429**
Net Property, Plant & Equip.	6 088	12 510
Investments in Affiliates	537	956
Other Assets	1 046	2 096
Total Assets	**15 420**	**24 992**
Accounts Payable	1 529	2 016
Short Term Debt and Current LTD	275	269
Dividend Payable	1 328	-
Other Current Liabilities	1 884	2 236
Total Current Liabilities	**5 016**	**4 521**
Long Term Debt	1 320	6 420
Deferred Tax Liabilities	769	1 290
Deferred Employee Benefits	1 555	2 018
Other Long-Term Liabilities	651	1 096
Total Liabilities	**9 310**	**15 344**
Minority Interest	1 403	1 477
Common Stock	48	48
Treasury Stock	(99)	(89)
Capital Surplus	444	1 977
Retained Earnings	3 815	6 353
Other Comprehensive Income	498	(118)
Common Shareholders' Equity	**4 707**	**8 172**
Total Liabilities & Equity	**15 420**	**24 992**

Source: Mittal 2005 Annual Report
Values converted to EUR at average exchange rate for year.

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Exhibit 10

Arcelor Income Statement

Arcelor Income Statement

Income Statement
in EUR million

	2004	2005
Sales	**30 176**	**32 611**
Gross Profit	8 062	9 275
Operating Income	3 314	4 376
EBITDA	**4 874**	**5 958**
EBIT	**3 727**	**4 693**
Less Interest Expense	521	254
Pre-Tax Income	**3 206**	**4 439**
Less Current Taxes	513	161
Net Income After Tax	**2 693**	**4 278**
Less Minority Interest	403	432
Net Income	**2 290**	**3 846**

Cash Flow Statement
in EUR million

	2004	2005
After-Tax Profit	**2 693**	**4 278**
Profit for equity method Companies	(336)	(222)
Depreciation and Amortization	1 147	1 265
Net change in provisions	31	(107)
Net profit on asset disposals	(80)	(63)
Dividends received	31	51
Change in working capital	(726)	(615)
Other items	445	(123)
Net Cash Flow - Operations	**3 205**	**4 464**
Acquisition of Assets	(1 424)	(2 070)
Acquisition of Subsidiaries	(302)	57
Acquisition of Financial Fixed Assets	(414)	(331)
Disposal of Assets	107	82
Disposal of Subsidiaries	459	331
Disposal of Financial Fixed Assets	192	325
Net Cash Flow - Investing	**(1 382)**	**(1 606)**
Capital increase of Arcelor SA	1 136	-
Other net Contributions to Equity	(64)	12
Dividends Paid	(249)	(560)
Proceeds from Borrowing	1 205	499
Repayments	(1 578)	(2 340)
Repurchase of minority interests	(96)	-
Net Cash Flow - Financing	**354**	**(2 389)**
Effect of Exchange Rates on Cash	(24)	133
Net Cash Flow	**2 153**	**602**

Source: Arcelor 2005 Annual Report

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Exhibit 11

Arcelor Balance Sheet

ARCELOR BALANCE SHEET
in EUR Million

	2004	2005
Cash & Short Term Inv.	4 043	4 645
Receivables	3 757	3 716
Total Inventories	6 801	7 580
Other Current Assets	1 372	1 779
Total Current Assets	**15 973**	**17 720**
Net Property, Plant & Equip.	11 230	13 767
Investments in Affiliates	1 366	1 478
Deferred Tax Assets	1 300	1 347
Other Assets	1 369	1 604
Total Assets	**31 238**	**35 916**
Accounts Payable	4 997	5 228
Short Term Debt and Current LTD	2 293	1 623
Other Payables	2 848	2 879
Other Current Liabilities	249	274
Total Current Liabilities	**10 387**	**10 004**
Long Term Debt	4 478	4 341
Benefits	2 539	2 283
Deferred Taxes	605	571
Other Long Term Provisions	920	943
Other Liabilities	82	141
Total Liabilities	**19 011**	**18 283**
Minority Interest	**1 415**	**2 524**
Subscribed Capital	3 199	3 199
Share Premium	5 397	5 397
Consolidated Reserves	2 619	6 364
Translation Reserve	-403	149
Common Shareholders' Equity	**10 812**	**15 109**
Total Liabilities & Equity	**31 238**	**35 916**

Source: Arcelor 2005 Annual Report

Exhibit 12

Unlevered Betas of Various Industries