MOODY'S INVESTORS SERVICE

Rating Action: Moody's downgrades ArcelorMittal's ratings to Ba1: remains on negative outlook

Global Credit Research - 06 Nov 2012

Approximately $24 billion of debt affected by the rating action

London, 06 November 2012 -- Moody's Investors Service today downgraded ArcelorMittal's senior unsecured note ratings to Ba1 (LGD3, 49%) from Baa3. The rating action includes the senior unsecured notes and Euro MTNs of ArcelorMittal and the senior unsecured notes of ArcelorMittal Finance and ArcelorMittal USA. The rating for the parent's subordinated perpetual capital security was lowered to Ba3 (LGD6, 97%) from Ba2 and its commercial paper rating was lowered to NP from P-3. A corporate family (CFR) and probability of default rating (PDR) of Ba1 was assigned to ArcelorMittal. The rating outlook remains negative for all three debt issuers.

RATINGS RATIONALE

The downgrade reflects the deterioration in global steel markets over the last six months, as evidenced by ArcelorMittal's third quarter 2012 performance, its worst quarter since 2Q09. Steel shipments were down 8.3% from 2Q12, ArcelorMittal had an operating loss and free cash flow was negative $1.9 billion, causing an increase in the company's gross debt.

"We see challenging conditions continuing for ArcelorMittal over several quarters with its operating environment more likely to get worse before it gets better. As a result, the amount of debt reduction the company must realize in order to hold a Baa3 rating is so large as to be unachievable or, if attempted through asset disposals, will materially impact the core operations and earnings of the company," says Steve Oman, senior vice president and lead analyst for the EMEA steel industry at Moody's. The execution of asset sales or other credit enhancing measures is also uncertain in this environment and the receipt of the cash proceeds will take place further out in 2013 than a Baa3 rating can accommodate. Also weighing on the rating and the outlook is the potential for a covenant breach (the company's revolving credit facilities require net debt to EBITDA to be less than 3.5x), although the company's planned debt reduction should relieve these concerns.

The announced actions taken by the company thus far to preserve cash and reduce leverage have been modest. The dividend cut announced last week will not impact cash flow until 2013 and the $650 million subordinated perpetual capital security issued in September only resulted in a $325 million reduction in debt, which was more than offset by the 3Q12 debt increase that funded operating losses and capex. Nevertheless, Moody's expects that the company will pursue steps to materially reduce debt over the next few quarters.

At the Ba1 rating, Moody's now includes the full amount of ArcelorMittal's pension underfunding as debt resulting in another $840 million of adjusted debt. This makes the company's adjusted gross debt $34 billion at 30 September 2012, while LTM adjusted EBITDA was $7.2 million, yielding a 4.6 debt/EBITDA ratio.

ArcelorMittal has access to approximately $10 billion of credit facilities (currently unused) and had $3.4 billion of cash at 30 September. This compares to $4.8 billion of debt maturities between now and March 2014. However, using our EBITDA projections, a credit facility covenant violation may occur in June 2013 unless the company repays a considerable amount of debt or receives an amendment from its lenders, as it did in 2009.

OUTLOOK

The current environment and ArcelorMittal's weak credit metrics argue for maintaining a negative outlook until Moody's sees (1) that the global economy and steel markets have improved, (2) the company has carried out more of its asset disposals and other credit enhancing actions, and (3) it is comfortably in compliance with its financial covenants.

WHAT COULD CHANGE THE RATINGS UP/DOWN

The Ba1 rating could be lowered if it appears debt to EBITDA leverage will remain above 4.0x and retained cash flow (RCF) to debt is less than 14%, or if liquidity is seen as being constrained by covenants or other factors. The rating could be raised if steel market conditions improve significantly and ArcelorMittal's leverage is expected to be approaching 3.0x EBITDA, RCF to debt is above 18% and its liquidity profile is secure.

The principal methodology used in rating ArcelorMittal was the Global Steel Industry Methodology published in October 2012. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

ArcelorMittal is the world's largest steel company. It operates approximately 65 integrated and minimill steel-making facilities in over 20 countries, which have a production capacity of around 125 million tonnes of crude steel per year. The company also has sizable captive supplies of iron ore and coal and a trading and distribution network. Over the last 12 months, the company shipped 84 million tonnes of steel and had sales of $87 billion.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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