STANDARD & POOR'S

RATINGSDIRECT®

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Research Update:

ArcelorMittal Downgraded To 'BBB/A-3' On Severe Steel Market Downturn; Outlook Negative

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Overview

- The steel sector is experiencing a significant downturn.
- We are lowering our long-term rating on ArcelorMittal to 'BBB' from 'BBB+'.
- The negative outlook reflects our expectations of ongoing difficult market conditions.

Rating Action

On June 5, 2009, Standard & Poor's Ratings Services lowered its long-term corporate credit and debt ratings on Luxembourg-registered steel group ArcelorMittal and subsidiaries to 'BBB' from 'BBB+'. At the same time, the short-term corporate credit and debt ratings on finance subsidiary ArcelorMittal Finance were lowered to 'A-3' from 'A-2'. We removed all ratings from CreditWatch with negative implications, where they were placed on March 20, 2009. The outlook is negative.

Rationale

The downgrade reflects a severe downturn underway in the global steel sector and its impact on ArcelorMittal's credit metrics. We do not envisage credit metrics remaining consistent with the 'BBB+' rating, including a ratio of funds from operations (FFO) to adjusted debt of about 35%.

Like its peers, ArcelorMittal is experiencing a broad and severe weakening of its operating performance, caused by very difficult market conditions in the steel sector. This is evident in sharply reduced capacity utilization, shipments, and steel prices. Market conditions appear to be stabilizing but are likely to remain weak, in our view.

We recognize that ArcelorMittal's management is responding with corrective actions to adjust its business strategy and to protect its financial profile. This includes production cuts; cost-saving initiatives; reducing working capital, capital expenditures, dividends, and debt; and refraining from acquisitions. We also note the lengthening of debt maturities and raising of $3.2 billion of new equity. These actions are, however, not sufficient in our view to fully mitigate the negative effects of the downturn.

We factor in a materially weaker operating performance in 2009 compared with 2008. We expect a combination of much lower cash flow generation and substantial adjusted debt to put pressure on ArcelorMittal's credit quality, which could significantly reduce the ratio of FFO to adjusted debt to below

20% in 2009, in our scenario, compared with about 62% at Dec. 31, 2008. Nevertheless, we expect positive free operating cash flow (FOCF) this year.

We also factor in the possibility that in the absence of further corrective action by management and depending on market conditions during the rest of the year, ArcelorMittal could breach a 3.5x net debt to EBITDA financial covenant, which is tested half-yearly.

In the three months to March 31, 2009, ArcelorMittal's EBITDA (before exceptional items, including a hedging gain) was only $380 million, compared with $5.0 billion a year earlier; this was before a further $1.2 billion of asset writedowns. FFO was negative by about $1.2 billion during the three months to March 31, 2009, compared with positive $3.2 billion a year earlier.

We estimate that adjusted debt as of March 31, 2009, was about $35.0 billion (including $8.2 billion of debt adjustments, notably $6.6 billion of pension and other postretirement obligations). The ratio of last-12-months' FFO to adjusted debt was approximately 47% as of March 31, 2009.

The rating continues to be supported by ArcelorMittal's position as by far the world's largest and most diversified steelmaker, with a global spread of operations.

Liquidity

In our view, ArcelorMittal has adequate liquidity for the rating category. On March 31, 2009, the group had substantial short-term debt of $7.6 billion (including $2.2 billion of commercial paper). This was covered by retained cash of $4.0 billion and undrawn committed bank lines of about $7.6 billion. As of March 31, 2009, ArcelorMittal lowered its high debt maturities of $8.1 billion due in 2010 to about $5.4 billion. Since the same date, the group has raised approximately $8 billion of new medium-term senior unsecured bonds and $3.2 billion of new equity, which are supportive of liquidity and deleveraging efforts, alleviate pressure on financial covenant compliance, and indicate ongoing access to capital markets.

Outlook

The negative outlook reflects the possibility of a further downgrade during the next year or so. This could occur if the company is not able to demonstrate on a prospective basis that it is able to improve its credit metrics, including a ratio of FFO to adjusted debt of about 30% by 2010. We would expect this to be driven by an improved operating environment and further corrective action by management. A move to negative FOCF could also place downward pressure on the ratings.

Ratings stability could be established if the group is able to demonstrate that such an improvement were sustainable.

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From

ArcelorMittal		
Corporate Credit Rating	BBB/Negative/A-3	BBB+/Watch Neg/A-2
Senior Unsecured	BBB	BBB+/Watch Neg
ArcelorMittal Finance		
Senior Unsecured	BBB	BBB+/Watch Neg
Commercial Paper	A-3	A-2/Watch Neg
Ispat Inland ULC		
Corporate Credit Rating	BBB/Negative/--	BBB+/Watch Neg/--
Senior Secured*	BBB	BBB+/Watch Neg
Mittal Steel Europe S.A.		
Senior Secured**	BBB	BBB+/Watch Neg
Mittal Steel USA Inc.		
Corporate Credit Rating	BBB/Negative/--	BBB+/Watch Neg/--
Senior Unsecured**	BBB	BBB+/Watch Neg
Senior Secured**	BBB	BBB+/Watch Neg
Usinor S.A.		
Corporate Credit Rating	BBB/Negative/NR	BBB+/Watch Neg/NR
Dofasco Inc.		
Corporate Credit Rating	BBB/Negative/--	BBB+/Watch Neg/--
Senior Unsecured	BBB	BBB+/Watch Neg

*Guaranteed by ArcelorMittal and Mittal Steel USA Inc.
**Guaranteed by ArcelorMittal.

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