ArcelorMittal

ArcelorMittal South Africa Limited
(Incorporated in the Republic of South Africa)
Registration number: 1989/002164/06 **Share code:** ACL **ISIN:** ZAE 000134961
("ArcelorMittal", "the company" or "the group")

Unaudited operational information for the quarter ended 30 September 2015 and trading statement

- Approximately $70/t (20%) decrease in benchmark China sales prices since 30 June 2015
- Estimated apparent steel consumption (ASC) increased by approximately 6% to 1 256kt in Q3 2015 when compared to Q3 2014 but imports as a percentage of ASC increased from approximately 17.5% in Q3 2014 to 23.1% in Q3 2015
- Capacity utilisation decreased from plan of 95% to 72% due to a slowdown in production due to the depressed trading conditions
- Steel production 16% higher when compared to Q3 2014 due to the reline of the blast furnace in 2014 but a decrease of 17% when compared to normalised production levels in Q3 2014
- Steel sales 13% higher when compared to Q3 2014 due to the focus to supply the local market during the blast furnace reline resulting in very limited long steel export sales during Q3 2014.

Commentary

Production

Liquid steel production was 161 000 tonnes (15.8%) higher than the corresponding prior period. This is due to the completion of the reline of the blast furnace at Newcastle partly offset by the cut back on production due to negative market conditions. The company was running at 72% capacity overall versus a planned 95% capacity.

Sales

Local

Local sales increased by 44 000 tonnes (5.9%) with flat products higher by 24 000 tonnes and long products higher by 20 000 tonnes compared to the corresponding prior period.

Export

Export sales increased by 92 000 tonnes (31.9%) compared to the corresponding prior period driven mainly by the availability of long products for the export market following the completion of the reline at Newcastle.

Commercial coke

Commercial coke sales were 15 000 tonnes (14.4%) lower than the corresponding prior period as a result of lower production in Newcastle.

Government engagement update

The company continued with its positive engagements with government to restore the reputation of the company and ensure that ArcelorMittal and the steel industry are sustainable going forward. Negotiations with the Competition Commission are ongoing and will hopefully be resolved in the near future. In addition, significant progress has been made with the Departments of Trade and Industry and Economic Development to reach an agreement on the "fair price" of flat steel in the local market going forward and to address the issue of the designation of primary steel for localisation in government infrastructure projects.

On 25 September 2015, the South African Revenue Services gazetted the increase of customs duties on imports of zinc-coated/galvanised steel, aluminium-zinc coated steel and colour coated steel from 0% to 10% ad valorem following the investigations and conclusions from the International Trade Administration Commission (ITAC). ITAC is currently investigating a further ten applications for customs duty increases from ArcelorMittal and other primary steel producers and we expect this process to be concluded by the end of the current year.

The company and other primary steel producers are also engaging with ITAC regarding the application for a number of safeguard and anti-dumping duties on primary steel products.

Sishen Iron Ore Company Proprietary Limited (Kumba) iron ore contract update

Agreement has been reached with Kumba to amend the pricing mechanism terms of the current agreement from a cost-based price to an Export Parity Price (EPP) with effect from 1 October 2015. The EPP will be calculated on the basis of the Platts 62% Fe CFR China Fines Index (the Index price) and, at certain price levels, ArcelorMittal will receive a discounted price. Hence, if the Index price is between US$60/t and US$70/t, ArcelorMittal will receive a 5% discount to the EPP; between US$70/t and US$80/t, a 6.25% discount would apply and at an Index price above US$80/t, a 7.5% discount would apply. (These terms remain subject to a final definitive agreement being signed by both parties).

This amendment provides the company with much better certainty regarding the costs of iron ore going forward as it is aligned to external market prices.

If the agreement was implemented retrospectively from 1 January 2015, the benefit for ArcelorMittal would have been about R260 million pre-tax up to the end of Q3 based on 2.0 million tonnes off take from Sishen during this period. If the Thabazimbi off take of 1.5 million tonnes were also subject to the same pricing mechanism (which they will be following the closure of Thabazimbi) the benefit would have been about R450 million. The company is entitled to an annual off take of 6.25 million tonnes from Kumba.

Closure of Thabazimbi mine

Following Kumba's announcement on 16 July 2015 that they would commence with the closure of the Thabazimbi mine, the company requested from Kumba that the company be afforded the opportunity to assess whether the mine could be taken over by the company and operated viably.

Unfortunately the company's due diligence undertaken revealed that given the immediate reserves available (obviously aggravated by the slope failure) and the current depressed economic conditions in the iron ore market, which is widely viewed by economists to persist for the foreseeable future, that there are currently no viable options available for the company to take over the mine and operate it successfully.

Kumba is thus proceeding with the closure of the Thabazimbi mine.

Vereeniging Works, Vanderbijlpark Works and Corporate Services sustainability update

Shareholders are referred to previous announcements by the company dated 31 August 2015 relating to the potential closure of the Vaal Meltshop and the Forge plants in Vereeniging Works, the initiation of an industrial footprint review of Vanderbijlpark Works as well as a review of Corporate Services to optimise structures and costs.

The Section 189 process with regards to the potential closure of the Vaal Meltshop and the Forge at the Vereeniging Works commenced in September 2015. Subject to the process being finalised shareholders are hereby advised that the board has taken a decision to place the Vaal Meltshop at Vereeniging Works under "care and maintenance". The Vaal Meltshop is expected to cease production during Q4 2015.

Although the consultations have yielded an alternative solution which will allow the Forge to continue operating and will reduce the number of job losses originally anticipated, there does not appear to be an alternative to the placing of the Meltshop under "care and maintenance". Management is working actively with the unions and Vereeniging employees to consider ways to mitigate the job losses, which includes voluntary early retirements, and voluntary severance pay but unfortunately, it is estimated that approximately 283 people may lose their jobs once the process is completed.

With regard to Vanderbijlpark Works, the footprint review has confirmed that the assets need to run at their optimal capacity. A number of significant operational improvements, productivity and other cost-efficiency improvements have been identified during the review which will be executed over the next two years. However, the sustainability of Vanderbijlpark Works is heavily dependent on the implementation of import tariffs and other trade remedies requested from government as well as the designation of primary steel for localisation.

Our current plans assume that all the initiatives undertaken with government will be in place in Q1 2016. Under this scenario, no closure of any plants or reduction of the current labour force is required. However, even under this scenario, a strong social pact with the labour force will be required in ensuring that the productivity improvement measures required can be implemented in order not to reduce headcount. Flexibility is required from the labour unions and the workforce.

The management and board will continue to monitor the success of the initiatives above on a regular basis and make the necessary adjustments to the plans as appropriate.

With regards to Corporate Services, the review is ongoing and various savings initiatives are being identified which will be implemented over the next few months.

Trading statement

In terms of paragraph 3.4 (b) of the JSE Limited Listings Requirements, a listed company is required to publish a trading statement as soon as it is satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported upon next will differ, by at least 20%, from those of the previous corresponding period.

Shareholders are advised that the loss per share and headline loss per share for the year ended 31 December 2015 is expected to be higher by more than 600 cents or 11 times (1 100 %) when compared to the year ended 31 December 2014. This is mainly due to:

- the depressed trading conditions in the local steel industry which was adversely affected by record low steel prices and a surge of cheap imports;
- pre-tax adjustment of R1 529 billion relating to:
  - the final decision to proceed with the closure of the Thabazimbi mine by Kumba and the resultant provision of retrenchment costs of an estimated R350 million and a write-down of iron ore inventory of R233 million at Thabazimbi which will not be processed due to the closure;
  - an impairment of R378 million related to the Meltshop at Vereeniging which is to be placed under "care and maintenance" for the foreseeable future; and
  - a write-off of R568 million relating to the company's previously deferred contributions to stripping costs at the Kumba mine, for inventory to be received in the future, which will now be written off due to the new agreement reached with Kumba.

A further trading statement will be published once the group has a greater degree of certainty of the financial results for the year ended 31 December 2015.

The financial information on which the above trading statement has been provided has not been reviewed or reported on by the external auditors of the company.

Outlook for Q4

Market conditions are expected to remain tough and all our units are expected to maintain their current below capacity production levels, however, we expect that sales will decrease due to the seasonal impact.

By order of the board

6 November 2015

Sponsor to ArcelorMittal South Africa Limited
JP Morgan Equities South Africa Proprietary Limited

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Operational information

		Quarter ended					Nine months	Year
		30 Sept 2015	30 Jun 2015	% change	30 Sept 2014	% change	**30 Sept 2015**	31 Dec 2014
Liquid steel production		**1 182**	1 214	(2.6)	1 021	15.8	**3 745**	4 518
Flat steel products	000't	**772**	811	(4.8)	936	(17.5)	**2 479**	3 586
Long steel products	000't	**410**	403	1.7	85	382.4	**1 266**	932
Capacity utilisation		**72**	75	(4.0)	62	16.1	**77**	70
Flat steel products	%	**73**	78	(6.4)	88	(17.0)	**79**	85
Long steel products	%	**71**	70	1.4	15	373.3	**74**	41
Steel sales								
Local	000't	**794**	688	15.4	750	5.9	**2 355**	3 002
– Flat steel products	000't	**503**	412	22.1	479	5.0	**1 486**	1 951
– Long steel products	000't	**291**	276	5.4	271	7.4	**869**	1 051
Export	000't	**380**	265	43.4	288	31.9	**851**	1 238
– Flat steel products	000't	**245**	218	12.4	243	0.8	**620**	1 030
– Long steel products	000't	**135**	47	187.2	45	200.0	**231**	208
Total	000't	**1 174**	953	23.2	1 038	13.1	**3 206**	4 240
– Flat steel products	000't	**748**	630	18.7	722	3.6	**2 106**	2 981
– Long steel products	000't	**426**	323	31.9	316	34.8	**1 100**	1 259
Coke and chemicals								
Commercial coke produced	000't	**85**	120	(29.2)	150	(43.3)	**313**	522
Commercial coke sales	000't	**89**	145	(38.6)	104	(14.4)	**341**	466
Tar sales	000't	**24**	23	4.3	29	(17.2)	**71**	110

BASTION GRAPHICS