ArcelorMittal

news release

31 October 2012

RESULTS FOR ARCELORMITTAL SOUTH AFRICA LIMITED FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2012

SALIENT FEATURES

- **Good safety performance**
- **Weak demand leads to lower sales**
- **Solid progress on operational stability**

Due largely to weak domestic steel demand coupled with de-stocking and higher input costs, specifically electricity as a result of the winter tariffs, ArcelorMittal South Africa reported a headline loss of R168 million, which was marginally lower than the preceding quarter's loss of R177 million.

This quarter's earnings loss was, however, a significant improvement on the loss of R460 million recorded during the corresponding period last year.

Commenting on the results, ArcelorMittal South Africa CEO, Ms Nonkululeko Nyembezi-Heita said: "The primary factors underlying this quarter's results were the continued weakness in domestic steel consumption, lower average selling prices in dollar terms offset to some degree by a softening in raw material prices, especially coking coal, pellets and scrap. Impacting positively was a 24% rise in commercial coke sales as a result of ferrochrome operators restarting furnaces following the end of their electricity buy-back period. This all resulted in our ebitda increasing to R238 million, which compares favourably with the R224 million in the last quarter and the R3 million reported during the same period in 2011".

Production levels were stable at all operating units with the exception of Newcastle, which experienced a longer than anticipated restart of the blast furnace after a scheduled stop to repair a taphole. Tight focus kept costs in check, particularly on flat products where the cash cost of hot rolled coil dropped 6% year-on-year. Rand denominated net realised prices were higher compared to last year offset by lower dispatches. Liquid steel production, however, increased by 140 000 tonnes whilst capacity utilisation was marginally down at 66% compared with 67% achieved in the preceding quarter, but higher than the 59% recorded in the prior year.

Quarter-on-quarter, total steel sales were 152 000 tonnes lower at 1.1 million tonnes, with the domestic component declining by 42 000 tonnes to 802 000 tonnes, while exports were 110 000 tonnes higher at 295 000 tonnes.

Ms Nyembezi-Heita added: "We are pleased to report further improvement in safety performance with our lost time frequency rate per million man-hours worked at 0.52 for the third quarter compared to 1.20 reported during the corresponding period in 2011. This last quarter marks a year since the last fatality at our sites, something we are working hard to maintain".

Market Review

International

A deterioration in global economic growth led to weak steel demand across all regions. China, which accounts for approximately 46% of global steel consumption, lowered its economic growth forecast to 7.5% in 2012, which is the lowest year-on-year growth projection for China in eight years. Europe continues to face challenging market conditions leading to continued declines in industrial output, rising unemployment and low consumption demand. Developing economies, while fairing slightly better, are experiencing rising inflationary pressures and economic data from the US has been mixed. The situation has however been slighly more positive for Africa, and sub-Saharan Africa in particular, as a result of an increase in infrastructure related projects.

Domestic

The South African economic environment remains fragile despite some resilience demonstrated by the economy growing at an annualised rate of 3% in the second quarter. Estimated GDP growth in third quarter has been revised down to 2.5% with marginal improvements in key steel consuming sectors such as construction and manufacturing, while the mining sector recorded a 1.8% contraction. Domestic trading conditions continue to be challenging for steel producers mainly driven by sluggish building and construction activity. Despite an uptick in activity from the automotive industry, domestic demand remains weak with most customers destocking or buying only against real consumption demand. As a result, general steel stock levels trended lower towards the end of Q3.

Estimated domestic market share for flat products increased to 70% and reduced marginally on long products to 52%, leading to an aggregate market share of 63%.

Financial Review

Quarter ended 30 September 2012 compared with quarter ended ended 30 September 2011

Revenue was unchanged at R7.6 billion. Total steel shipments decreased by 3%, with domestic shipments down 7% offset by 9% higher exports. Average net realised prices increased by 3% and the cash cost of hot rolled coil decreased 6%, while the cost of billets rose 5%.

Commercial coke sales were up 20% compared to last year but were offset by a decline in net realised prices, leading to a 7% rise in revenue from the Coke and Chemicals business to R423 million.

The prices of imported coking coal and pellets dropped 33% and 42% respectively, on a US dollar FOB basis and down 23% and 34% on a rand basis. The iron ore price (ex-Thabazimbi mine) increased, while the cost of electricity was 9% higher.

Liquid steel production was 140 000 tonnes up resulting in capacity utilisation for flat steel rising to 67% compared to last year's 64%; the equivalent figures for long steel were 63% versus 46%. The operating loss narrowed by 55% to a loss of R155 million.

Quarter ended 30 September 2012 compared with quarter ended ended 30 June 2012

Revenue decreased 12% to R7,6 billion from R8.6 billion as total steel shipments declined 12%. Domestic and export shipments fell 5% and 27% respectively, with both flat and long steel products posting declines of 12%. Average net realised prices remained flat. The cash cost of hot rolled coil and billets increased marginally by 1% and 2%, respectively.

Revenue from Coke and Chemicals of R423 million was 14% higher following a 24% increase in commercial coke dispatches offset by a 2% drop in net realised prices.

Key raw material prices softened with imported hard coking coal and pellets decreasing by 14% and 19%, respectively, on a US dollar FOB basis, while local coking coal dropped 15% and scrap 4%. This was offset by a 17% rise in electricity prices and 14% for Thabazimbi iron ore. Liquid steel production was 24 000 tonnes lower with capacity utilisation for flat steel at 67% compared to 63% the previous quarter whilst that for long steel decreased from 78% to 63%.

Environment

Notwithstanding the current difficult economic conditions, key environmental projects remain a focus area for ArcelorMittal South Africa. The new emission abatement system for Vanderbijlpark's sinter plant achieved sustainable operating results during the latter half of the quarter. At a total cost of R250 million, the project can be regarded as a milestone as particulate emissions concentrations are reduced by approximately 80%. Good progress has been made at Newcastle's zero effluent discharge project entailing the improvement of effluent treatment and the recovery thereof with a planned completion date of early 2014.

Vanderbijlpark Works recently received a Compliance Notice from the Gauteng Department of Agriculture and Rural Development (GDARD), instructing the company to cease the operation of certain units at the site, as GDARD alleges that these units do not comply with certain conditions in the Atmospheric Emission License. An application has been lodged to suspend the Compliance Notice where after an appeal process will follow.

Ms Nonkululeko Nyembezi-Heita commented: "We are complying with the conditions in our licence that were allegedly breached and are therefore contesting the Compliance Notice. We remain fully committed to maintaining and improving our environmental performance and the recent completion of various improvement projects bears testimony to this".

Key issues

- The arbitration of the dispute between Sishen Iron Ore Company (SIOC) and ArcelorMittal South Africa relating to the iron ore supply agreement remains suspended until the finalisation of an appeal process initiated by Imperial Crown Trading 289 Proprietary Limited and the Department of Mineral Resources following the High Court judgement delivered in December 2011.

- The Interim Pricing Agreement, which the company and SIOC had entered into following the dispute, expired on 31 July 2012. For the period August to December 2012, the parties agreed on the supply of tonnages short supplied to ArcelorMittal during the previous year.

- The company and SIOC are continuing to engage with one another through a mediation process facilitated by an independent mediator appointed by the Department of Trade and Industry, for the continued supply of iron ore after 31 December 2012 until the finalisation of the arbitration between the parties.

- The final approval of the transaction involving the iron ore exploration project in the Northern Cape by the Minister of Mineral Resources in terms of the Minerals and Petroleum Resources Development Act, No 28 of 2002, was received. The exploration programme is progressing according to plan and should be concluded by first quarter 2013.

- The Competition Commission is formally investigating three (previously four) complaints against ArcelorMittal South Africa. The company is co-operating fully with the Commission in these investigations and continues to deliver all information and documentation to the competition authorities as and when called upon to do so.

- The Competition Commission has also formally referred three (previously two) complaints against the company to the Competition Tribunal. None of these matters are currently at trial stage.

Outlook for fourth quarter of 2012

The earnings loss for the fourth quarter is expected to be substantially more than this last quarter, due largely to the seasonal slowdown in domestic demand during the December month, aggravated by production losses following an extended taphole repair of the blast furnace at Newcastle. This will be partially offset by lower prices for some raw materials, in particular imported hard coking coal and pellets. The recent weakening of the rand/US dollar exchange rate, to the extent sustained, will have a positive impact.

-ends-

Contact person:
Themba Hlengani: 0834400158
ArcelorMittal South Africa