ArcelorMittal

news release

1 August 2013

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

Key features

- ***H1 headline loss of R123 million***
- ***Strong recovery in the second quarter with headline earnings increasing to R147 million compared to the first quarter loss of R270 million***
- ***Healthy net cash position of R1.1 billion***

Johannesburg, 1 August 2013: For the six months ended 30 June 2013, ArcelorMittal South Africa reported a headline loss of R123 million compared to headline earnings of R106 million for the half year ended 30 June 2012. However, the company recorded a strong rebound in operating and financial results in the second quarter of this half year, driven mainly by restocking activity and a return to normal operations at Vanderbijlpark after a fire caused production disruptions in February

Headline earnings in the second quarter rose to R147 million compared to an earnings loss of R270 million in the first quarter. Second quarter earnings before interest, tax, depreciation and amortisation of R808 million compared favourably to the preceding quarter’s R169 million and the R224 million in the corresponding period last year.

The positive net cash position of R1.1 billion at the end of June was much the same as the previous quarter, but double the R550 million reported for the corresponding period last year.

Ms Nonkululeko Nyembezi-Heita, Chief Executive Officer of ArcelorMittal South Africa, commented: "We have reason to be pleased with the second quarter's strong rebound in earnings, which was underpinned by a return to normal production at Vanderbijlpark coupled with stable operations at all the other mills. It is also most gratifying that the positive trend in safety performance continued with a first half lost time injury frequency rate of 0.66 and reaching an all-time record of 23 months without a fatality."

Steel production for the six months was 246 000 tonnes lower at 2.5 million tonnes, while steel sales for the period totalled 2.1 million tonnes compared to 2.5 million tonnes at the end of June 2012. Repairs to the Vanderbijlpark steel making plant were completed in record time leading to the lifting of the *force majeure* on 9 May 2013.

Ebitda of R977 million was down 6% from the corresponding six month period in 2012, but rose substantially from the R80 million achieved in the preceding six months.

Revenue decreased by 11% to R15.9 billion, over the half-year, on the back of a 16% decline in steel shipments. Average prices increased by 6% with domestic prices up 2%, while export prices rose 17%. Prices for flat steel increased 8%, while long steel prices were up a more modest 2%. Revenue for the Coke and Chemicals division declined 13% due to a 16% year-on-year decrease in average prices and a 9% drop in commercial coke sales as the ferrochrome industry cut back production in response to Eskom's electricity buy-back programme. Tar sales were, however, more resilient.

The cash cost of hot rolled coil rose marginally while those of billets declined slightly. Capacity utilisation for flat steel was 68% compared to 76% a year earlier; the equivalent figures for long steel were 82% and 74%, respectively.

Quarter-on-quarter, revenue rose 5% to R8.1 billion on the back of an 8% increase in average steel prices. Domestic prices were 7% higher, while exports increased by 15%. Cash costs of hot rolled coil increased by 8% with billets increasing by 4%. Steel production was 425 000 tonnes or 41% higher, resulting in a rise in capacity utilisation for flat steel to 79% compared to 54% in the previous quarter. The equivalent figures for long steel were 84% and 81%, respectively.

Quarterly revenue from the Coke and Chemicals business of R448 million was 18% higher than the preceding quarter due to a 47% increase in commercial coke sales volumes, offset to some degree by a 5% drop in net realised prices.

Ms Nyembezi-Heita added: *"Our business improvement efforts are beginning to yield tangible results with cost savings coming through in a number of key areas. Saldanha has made significant energy related management gains, resulting in savings of R127 million from reduced energy consumption. Performance at all plants is improving as a result of an intense focus on getting the basics right."*

MARKETS

Global steel demand remained sluggish as result of uncertainty in the euro zone. Recent data from the US indicates a strengthening in overall industrial production, a slight recovery in the housing market and automotive production, which is providing some stimulant for steel demand. Global business confidence remains low on poor economic prognosis and a lower growth rate projected in China. The sub-Saharan African region continued to offer growth opportunities, with infrastructure related projects in energy, rail, residential developments and mining investment activities underpinning steel demand.

The South African economy continues to bear the negative effects of the global economic slowdown, with weakening demand for manufactured goods. The much anticipated infrastructure related investments failed to materialise and activity in the mining industry was weak. There were some positive trends in key data in recent months, mainly in the lower residential segment of the construction sector. The recent uptick in the manufacturing purchasing index was primarily driven by improved exports in the machinery and automotive segments. Nevertheless, overall industrial production and construction activity remain relatively weak, which will hamper steel demand.

CARBON TAX

ArcelorMittal South Africa estimates that the proposed carbon tax will cost the company more than R600 million a year if implemented as currently contemplated. This is based on the Carbon Tax Discussion Paper published on 2 May 2013 by National Treasury. There are still a number of uncertainties to be clarified by National Treasury regarding the proposed carbon tax prior to its planned implementation in January 2015.

DISPUTE WITH SISHEN IRON ORE COMPANY PROPRIETARY LIMITED ("SIOC")

On 28 March 2013 the Supreme Court of Appeal delivered judgement in terms of which the court effectively agreed with the trial court that SIOC was awarded 100% of the mining rights in the Sishen mine and therefore the award to Imperial Crown Trading 289 (Propriety) Limited ("ICT") was invalid. The Department of Mineral Resources and ICT subsequently lodged an application for leave to appeal this decision with the Constitutional Court, which has been set down for hearing on 3 September 2013. The arbitration process remains deferred pending the outcome of this hearing.

OUTLOOK

While international prices appear to have stabilised, lingering weakness in the domestic economy will continue to negatively affect steel demand. Domestic sales are expected to remain flat and any increase in steel prices will be more than offset by increasing costs – in particular, higher winter electricity tariffs and iron ore.

Accordingly, ArcelorMittal South Africa expects third quarter earnings to be lower than those reported in the second quarter.

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