ArcelorMittal

news release

10 May 2012

RESULTS FOR ARCELORMITTAL SOUTH AFRICA LIMITED
FOR THE THREE MONTHS ENDED 31 MARCH 2012

HIGHLIGHTS

- Headline earnings rise to R283 million from a loss of R260 million in the previous quarter;
- EBITDA margin improves from 1.1% in preceding quarter to 8.9%;
- Steel shipments increase 30% to 1.3 million tonnes;
- Focused safety initiatives deliver a record safety achievement.

A return to operational stability, increased steel sales and marginally lower production costs resulted in a significant increase in headline earnings to R283 million from a loss of R260 million reported in the quarter ended 31 December 2011.

This compares to headline earnings of R195 million in the corresponding quarter last year.

Commenting on the results, ArcelorMittal South Africa CEO, Ms Nyembezi-Heita said, "We are pleased with our first quarter results. Earnings are significantly better than last quarter and margins have improved. After two difficult quarters, it was a huge relief to regain operational stability. The fact that we did so, whilst simultaneously achieving the best safety performance in the company's history is extremely satisfying."

Quarter-on-quarter steel dispatches increased by 30% on the back of restocking activity in the market. Total EBITDA improved substantially to R817 million from R82 million. Sales prices were stable and production cash costs marginally down. Liquid steel production was up 15% following the return to normal operations at Newcastle. A first insurance payment of R489 million related to the incident was received in December last year and a second payment of R245 million in March. This is approximately R80 million more than the opportunity loss for the quarter.

The exchange rate impact was fairly benign, with net losses of R17 million as a result of a 6% strengthening of the rand against the US dollar over the quarter.

Whilst the drivers in the steel business were mostly positive, this trend was not mirrored in the coke and chemicals business, which faced a significant challenge following developments in the ferrochrome industry. The unforeseen closure of a number of smelters during the quarter led to a 12% drop in commercial coke sales volumes, resulting in a 5% decline in revenue on a quarter-on-quarter basis.

Compared to the corresponding period last year, steel dispatches were flat and total EBITDA improved by nearly R170 million from R648 million. Sales prices increased 23% and production cash costs were up 15%.

ArcelorMittal South Africa's safety performance for the quarter was commendable. Ms Nyembezi-Heita commented, "I am very pleased to report that the lost time injury frequency rate has improved to an all-time company record of 0.81 per million man hours worked: an 18% improvement from the prior year. Our journey to zero harm in the workplace is a major focus area for everybody at ArcelorMittal and we remain committed to further improving this tremendous achievement".

MARKET REVIEW

Global steel consumption remained moderate during the period, with the most notable features being the following:

- China is still the dominant steel consumer despite a slowdown in consumption caused by a decline in industrial production and slower GDP growth.
- In the USA, demand and pricing were relatively firm over the quarter.
- Despite some restocking demand in Europe, the outlook for the rest of the year remains sluggish due to major weakness in eurozone economies.
- African demand was less robust than 2011 largely due to political unrest in West Africa and a general slow-down in infrastructural project implementation, particularly in Southern Africa. Steel demand in East Africa, however, remained fairly strong.

In South Africa, higher steel sales was underpinned by restocking activity. As yet, there are no tangible signs of a sustained recovery in underlying demand, with the all-important construction sector remaining fairly lacklustre. Similarly, the mining sector continues to register a slow-down in fixed asset investment and output levels. The manufacturing industry however, has proved resilient, with the automotive sector in particular experiencing stable conditions.

FINANCIAL REVIEW

Quarter ended 31 March 2012 compared with quarter ended 31 December 2011

Revenue was 26% higher at R9.1 billion, with domestic steel shipments increasing by 37% and exports up 10%. Flat steel product shipments rose 7%, while long steel products increased by 126% after the return to normal operations at Newcastle.

Total liquid steel production was 15% higher than the previous quarter of which flat steel was at the same level and long steel increased by 92%. Reflecting the improved operational performance, average capacity utilisation was up from 60% last quarter to 69%.

The production cash cost of hot rolled coil decreased by 4% whilst that of billets increased by 4% due to a combination of input price movements consisting mainly of imported pellets (25% lower), scrap (5% lower), iron ore (5% higher) and local coking coal (8% higher).

Revenue from the coke and chemicals business dropped 5% following a 12% decline in commercial coke volumes, off-set by a marginal increase in net realised prices of 2%. The business unit was negatively affected by the unexpected shutdown of a number of smelters in the ferrochrome industry, following an agreement with Eskom to reduce electricity off-take, which resulted in a decline in coke sales by some 50 000 tonnes.

Quarter ended 31 March 2012 compared with quarter ended 31 March 2011

The company's revenue rose 18% to R9.1 billion compared to this time last year, despite steel shipments being fairly stable. Production cash costs were higher: hot rolled coil costs increased by 16% and that of billets by 13%, largely due to increases in the prices of imported hard coking coal (31%), local coking coal (30%), iron ore (12%) and electricity (23%).

Average net realised prices for flat and long steel products increased by 19% and 32% respectively.

Revenue from the coke and chemicals business decreased by 16% following a 27% decline in commercial coke volumes, offset by a 7% increase in prices.

COMPETITION COMMISSION

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

On 30 March 2012 the Competition Commission referred a case of restrictive horizontal practice against ArcelorMittal South Africa and Highveld Steel and Vanadium Corporation Limited to the Competition Tribunal for adjudication. This relates to alleged price fixing and market allocation in respect of flat steel products. The form of price fixing alleged by the Competition Commission, in this instance, is one based on the "conscious parallelism" phenomenon. This mainly relates to Highveld increasing its prices each time ArcelorMittal South Africa increased its own prices. ArcelorMittal South Africa strongly rejects the allegations and will vigorously defend its position.

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

Judgement in the High Court application to review the award of the rights to Imperial Crown Trading 289 (Pty) Limited by the Department of Mineral Resources was delivered in December 2011. The judge found, as argued by ArcelorMittal South Africa, that SIOC was awarded 100% of the mining rights in the Sishen mine and therefore the award to ICT was invalid. ICT and DMR have now applied for leave to appeal this judgement, and this application will be heard on 11 May 2012. The arbitration proceedings between ArcelorMittal South Africa and SIOC have been postponed pending the finalisation of the High Court Application.

ACQUISITION

In April 2012, ArcelorMittal South Africa acquired nearly 20% of an iron ore exploration project in the Northern Cape area. Early-stage exploration activities, which are fully funded by the company, commenced in February 2012 and are expected to extend into early 2013.

OUTLOOK FOR SECOND QUARTER 2012

Earnings for the second quarter 2012 are expected to be substantially lower than the previous quarter due to lower domestic demand, lower steel prices, higher costs such as electricity and transport and lower sales of commercial coke due to the usual shutdown by the ferrochrome industry during the winter months.

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