ArcelorMittal

ArcelorMittal South Africa Limited

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

Unaudited group earnings and physical information for the quarter ended 31 March 2010 and renewal of cautionary announcements

safe sustainable steel

- **Revenue** increased by 22% to R7.5 billion
- **Operating profit** positive

Financial review

ArcelorMittal South Africa has posted a headline profit of R748 million for the three months ended 31 March 2010. This was achieved as a result of an improvement in trading conditions, good cost containment and lower raw material prices compared to the first quarter last year. This quarter's profit compares to a loss of R237 million and a profit of R469 million reported for the first and fourth quarters of 2009 respectively.

The company's total steel sales for first quarter 2010 were 1.3 million tonnes, 30% higher than the corresponding period last year, and 15% higher than the previous quarter.

Net realised selling prices were on average 1% higher than the preceding quarter but 12% lower than the corresponding period last year. In US Dollar terms however, prices were up 11% compared to the first quarter last year due to the strengthening of the Rand from an average Rand/US Dollar exchange rate of 9.96 during the first quarter of 2009 to an average of 7.52 during the first quarter of 2010.

The cash cost of steel sales for the quarter decreased by 27% compared to the corresponding period last year driven largely by a sharp decline in the cost of coal, scrap and alloys as well as an increase in production volumes. Compared to the preceding quarter, the cash cost of steel sales decreased by 3%.

Market review

International

Apparent steel demand increased above fourth quarter 2009 levels supported by restocking (outside China) and rapidly rising steel prices in almost all regions, driven by increasing raw materials costs. Underlying demand is rising strongly in emerging markets, but remains weaker in developed markets. Developing regions continue to rebound given stronger domestic demand underpinned by better fundamentals and less indebted governments and consumers. Demand in China remains strong on the back of an expected real GDP growth rate of 10% for 2010, up from an already impressive 8.7% in 2009. ArcelorMittal South Africa's exports increased by 33% compared to the preceding quarter.

Domestic

Growth in real GDP accelerated to an annualised rate of 3.2% in the fourth quarter following an increase of 0.9% in the third quarter of 2009. Sales to the domestic market during the first quarter of 2010 increased by 8% compared to the fourth quarter 2009 with a further improvement expected during the second quarter, supported by lower interest rates.

Segmental review

Flat Carbon Steel Products

The flat products business posted an operating profit of R601 million compared to a loss of R276 million during the corresponding period last year and a profit of R262 million during the preceding quarter.

Sales increased by 22% from a year ago to 860 000 tonnes, up 17% on last quarter. On average, sales prices were 4% below the prices achieved a year ago due to the strengthening of the Rand, but increased by 1% compared to the preceding quarter.

Liquid steel production remained in line with the previous quarter, but increased by 40% compared to the corresponding period last year. Production levels increased to approximately 75% of capacity compared to 55% a year ago. The cash cost of production for hot rolled coil decreased by 19.3% compared to the corresponding period last year and 3.3% compared to the previous quarter.

Long Carbon Steel Products

The long products business posted an operating profit of R322 million compared to a loss of R8 million during the corresponding period last year and a profit of R189 million recorded in quarter four 2009.

Sales increased by 49% to 471 000 tonnes compared to the same period last year and 12% compared to the preceding quarter. Sales prices on average were 25% below the prices achieved a year ago due to higher volatility of long steel prices and the strengthening of the Rand but increased by 1% compared to the preceding quarter.

Liquid steel production for the first quarter remained in line with the previous quarter, but increased by 23% compared to the corresponding period last year. Production levels increased to approximately 85% of capacity compared to 70% a year ago. The cash cost of production for billets decreased by 30.8% compared to the corresponding period last year and 0.6% compared to the preceding quarter.

Coke and Chemicals

The Coke and Chemicals business posted an operating profit of R201 million compared to a profit of R15 million during the corresponding period last year and a profit of R213 million during the preceding quarter. Sales of 143 000 tonnes increased substantially from a year ago due to a sharp rise in demand from the ferro-alloy industry. However, compared to the preceding quarter, sales dropped by 27% due to capacity constraints as a result of higher metallurgical coke requirements in the steel manufacturing process. Chinese coke prices increased by 14% compared to prices achieved a year ago and remained in line with the preceding quarter.

Contingent liabilities

- The case brought before the Competition Tribunal ("Tribunal") by Barnes Fencing Industries Limited relating to alleged price and payment discrimination on the sale of low carbon wire rod products is continuing in accordance with Tribunal procedures. A date for the hearing has not been set.
- The Competition Commission ("Commission") has referred ArcelorMittal South Africa and four other primary steel producers in South Africa to the Tribunal for alleged market collusion and price fixing of certain long steel products. The Commission has recommended the imposition of a financial penalty of 10% of the company's 2008 turnover. The parties and the Commission are engaged in preliminary applications regarding access to documents. The matter continues.
- ArcelorMittal South Africa received notice from Sishen Iron Ore Company (Proprietary) Limited ("SIOC") on 5 February 2010, asserting that with effect from 1 March 2010, it will no longer supply iron ore to ArcelorMittal South Africa on a cost plus 3% basis as provided for in the supply agreement concluded between the parties in 2001, on the grounds that ArcelorMittal South Africa has lost its 21.4% undivided share in the mineral rights at the Sishen mine. ArcelorMittal South Africa has rejected this assertion and is of the firm opinion that SIOC is obligated to continue to supply iron ore to ArcelorMittal South Africa at cost plus 3%. The parties have commenced the arbitration process to resolve the abovementioned dispute.

SIOC has further advised that it will continue to invoice ArcelorMittal South Africa on a cost plus 3% basis until the dispute has been resolved, but will seek to hold ArcelorMittal South Africa liable for the difference between a price derived from an export parity principle and the contractual cost plus 3% price, in the event SIOC prevails in the arbitration.

Subsequent to the end of the period under review, an invoice has been received from SIOC for the month of March 2010 indicating a difference between export parity price and the contractual cost plus 3%. ArcelorMittal South Africa has notified SIOC that it disputes SIOC's entitlement to this amount. A contingent liability is noted in this regard.

As a result of the higher iron ore prices now being demanded by SIOC, ArcelorMittal South Africa has announced that an iron ore surcharge will be introduced from 1 May 2010 on domestic sales until the dispute is resolved. ArcelorMittal South Africa further announced that the surcharge will be refunded should the company prevail in the arbitration. The company is in the process of evaluating various alternative options to determine the most appropriate mechanism to implement such a refund in consultation with its customers for the benefit of the steel industry in South Africa. This surcharge will not be recognised as revenue, but recorded as a liability.

Safety, health and environment

Our lost time injury frequency rate, measured over a million man hours, improved to 1.7 from 2.9 reported in the fourth quarter of 2009. There were no fatalities during this period. A number of concrete measures were taken to reinforce adherence to safety standards and entrenched a positive safety culture.

Various environmental improvement projects that had to be delayed due to the impact of the global financial crisis have now gained momentum and are scheduled for completion over the next two to three years.

The company is also advanced in its preparations to become compliant with the new Air Emission Standards that were promulgated on 31 March 2010.

Group income statement

Rm	Quarter ended 31 March 2010	Quarter ended 31 March 2009	Quarter ended 31 December 2009	Year ended 31 December 2009
Revenue	**7 507**	6 177	6 735	25 598
Flat Carbon Steel Products	**4 837**	4 149	4 226	16 292
Long Carbon Steel Products	**2 415**	1 988	2 176	8 531
Coke and Chemicals	**516**	150	681	1 653
Intergroup eliminations	**(261)**	(110)	(348)	(878)
Profit/(loss) from operations	**1 106**	(145)	521	229
Flat Carbon Steel Products	**601**	(276)	262	(614)
Long Carbon Steel Products	**322**	(8)	189	315
Coke and Chemicals	**201**	15	213	449
Corporate and Other	**(18)**	124	(143)	79
(Losses)/gains on changes in foreign exchange rates and financial instruments	**(12)**	(14)	29	(813)
Interest received	**14**	118	8	199
Finance costs	**(95)**	(97)	(51)	(276)
Interest expenses on bank overdrafts and loans	**(2)**	(3)	(9)	(43)
Interest expense on finance lease obligations	**(20)**	(18)	(20)	(79)
Discounting rate adjustment of the non-current provisions	**(28)**	(27)	33	49
Unwinding of the discounting effect in the present valued carrying amount of the non-current provisions	**(45)**	(49)	(55)	(203)
Income from investments	**1**	1	1	3
Income from equity accounted investments (net of tax)	**26**	40	89	206
Impairment reversal			9	9
Income tax expense	**(295)**	(142)	(164)	(35)
Profit/(loss) from ordinary activities	**745**	(239)	442	(478)
Profit/(loss) attributable to:				
– Ordinary shareholders	**745**	(239)	442	(478)
ADDITIONAL INFORMATION				
Attributable earnings/(loss) per share (cents)	**186**	(54)	110	(113)
Reconciliation of headline earnings/(loss)				
Profit/(loss) for the period	**745**	(239)	442	(478)
Adjusted for:				
– loss on disposal or scrapping of assets	**4**	3	14	29
– impairment charge			26	26
– impairment reversal			(9)	(9)
– tax effect	**(1)**	(1)	(4)	(8)
Headline earnings/(loss)	**748**	(237)	469	(440)
Headline earnings/(loss) per share (cents)	**186**	(53)	117	(104)

Capital projects and investments

Several large capital investments were approved during the first quarter of 2010. These are mainly aimed at maintaining capability and environmental legal compliance.

Competition Commission investigations

The Commission is also investigating a case of alleged price fixing in the flat steel market and a case of alleged prohibited pricing behaviour in the tinplate market. ArcelorMittal South Africa is co-operating fully with the Commission in these investigations.

Outlook for quarter two 2010

Financial results for the second quarter of 2010 are expected to show some improvement on the first quarter mainly due to higher expected sales volumes and prices offset by higher raw material input costs as well as electricity and rail tariffs. The movements in the Rand/US Dollar exchange rate will always have an important impact.

Physical information

('000 tonnes)	Quarter ended 31 March 2010	Quarter ended 31 March 2009	Quarter ended 31 December 2009	Year ended 31 December 2009
Flat Carbon Steel Products				
Liquid steel production	**1 052**	753	1 080	3 428
Sales	**860**	704	737	2 858
Long Carbon Steel Products				
Liquid steel production	**497**	405	485	1 879
Sales	**471**	316	419	1 615
Total				
Liquid steel production	**1 549**	1 158	1 565	5 307
Sales	**1 331**	1 020	1 156	4 473
– Local	**904**	686	836	3 072
– Export	**427**	334	320	1 401
– Local sales as % of total sales	**68**	67	72	69

Further cautionary announcements

Further to the following cautionary announcements relating to:

(a) Sishen Iron Ore Company (Proprietary) Limited ("SIOC") Dispute (dated 3 March 2010 and 30 March 2010); and
(b) the Proposed Broad-Based Economic Empowerment Ownership transaction (dated 30 March 2010)

Shareholders are advised that the full impact of the above events are still being determined and that these events may have a material effect on the price of the company's securities.

Accordingly shareholders are advised to continue to exercise caution when dealing in the company's securities until full announcements on the above are made.

29 April 2010

Vanderbijlpark

Directors: **Non-executive**
MJN Njeke* (Chairman), DK Chugh■, CPD Cornier#, EK Diack*, M Macdonald*, S Maheshwari■, LP Mondi, DCG Murray*, ND Orleyn*, AMHO Poupart-Lafarge#

Executive
N Nyembezi-Heita (Chief Executive Officer), HJ Verster (Chief Financial Officer)

■ Citizen of India #Citizen of France
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Company Secretary: Premium Corporate Consulting Services (Proprietary) Limited

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Forward-looking statements

BASTION GRAPHICS