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news release

ARCELORMITTAL SOUTH AFRICA OPERATIONAL UPDATE FOR FIRST QUARTER ENDED 31 MARCH 2017

Salient features

- Two fatalities at Saldanha Works' Corex plant on 3 April 2017
- LTIFR improved to 0.44 at the end of Q1 2017
- Difficult trading conditions in the domestic market
- Volatility in the rand/US dollar exchange rate continues to impact the business significantly
- Refurbishment of coke batteries at Newcastle Works progressing as planned, to be completed in Q2 2017
- Liquid steel production 2% down
- Local sales down 3%
- Export sales up 9%

Johannesburg, 12 May 2017: Local steel demand continues to be subdued, despite the implementation of import duties on certain steel products and the designation of South African steel for use in state infrastructure projects by the Department of Trade and Industry.

ArcelorMittal South Africa's local sales were 30 000 tonnes (3.4%) lower, mainly due to weaker local demand for long products as a result of high stock levels at the merchants and strong competition in the local market. Long product sales decreased by 27.7% while flat product sales increased by 10.7%.

"Although having declined slightly from 2016 levels (257kt Q1 2017 versus 310kt Q1 2016), imports are still high despite the 10% duties having been imposed," explained Wim de Klerk, Chief Executive Officer of ArcelorMittal South Africa.

Liquid steel production was 28 000 tonnes (2.3%) lower, mainly due to lower production at Vanderbijlpark Works as a result of poor raw material quality, and the rupture of the stove at blast furnace C during Q4 2016. This has been partly offset by higher production at Saldanha Works. Newcastle Works' production was lower mainly due to import coke and iron ore quality. The capacity utilisation for Q1 2017 was 80%, slightly down on the 81% of the comparable period.

Export sales increased by 20 000 tonnes (8.8%) of which flat products were slightly higher with 2 000 tonnes and long steel products with 18 000 tonnes. The strong international demand was negatively impacted by the strengthening of the average rand/USD dollar exchange rate for most of the quarter.

Commercial coke sales were 38 000 tonnes (44.2%) lower. The company is currently undertaking a repair programme on two of its coke batteries which has had the effect of limiting the amount of coke available for blast furnace production and for sale to the commercial coke industry. During the repair of the coke batteries, the company is importing metallurgical coke in order to supplement shortfalls.

"Safety remains our number one priority and it is thus with great regret that we reported two fatalities at our Saldanha Plant on 3 April 2017, both being contractor employees," said De Klerk. However, there was a significant improvement in the lost time injury frequency rate from 1.17 in Q1 2016 to 0.44 in Q1 2017.

"Overall, performance was below what was expected, due mainly to the strong rand against the dollar for most of the first quarter, as well as the higher raw material basket as a result of increased coal prices, ongoing imports and the impact of 2016 operational incidents," said De Klerk. "In order to mitigate some of the negative impact, further cost cutting and efficiency measures are being implemented. This will also include a review of the long steel business in light of the price of scrap in relation to the raw material basket."

Looking ahead, De Klerk said that local sales will continue to be under pressure in Q2 2017, due to tough trading conditions mainly as a result of lower steel demand due to poor economic activity and ongoing imports. Export sales will also come under pressure due to weak international prices. The volatility in the rand/US dollar exchange rate will continue to have an impact on the company's financial results.

The International Trade Administration Commission of South Africa (ITAC) has notified the World Trade Organisation (WTO) of its decision to implement safeguards on hot rolled coil (HRC) with effect from 1 July 2017, although there are certain processes to be completed before this is confirmed with all stakeholders. This will provide a benefit in terms of sales volumes and the ability to consistently achieve the basket price.

"We fully support the protection of the downstream industry from cheap imports of finished and semi-finished products that continue to be imported into the country and we will continue to engage with Government and the downstream industry on the implementation of safeguards and initiatives to stimulate local demand," concluded De Klerk.

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