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For immediate release

news release

ArcelorMittal South Africa interim results for six months ended 30 June 2022

- Headline earnings up 22% at R3 025 million (2021: R2 482 million)
- Net debt position down 61% to R1 087 million (2021: R2 782 million)
- EBITDA up 12% at R3 591 million (2021: R3 218 million)
- 8% decrease in sales volumes despite a 30% drop in crude steel production
- 23% increase in realised dollar steel prices
- Company's raw material basket (RMB) increased by 41%, while international RMB was up 39% - both in rand terms
- Value Plan Programme realised improvements valued at R577 million
- R464 million Newcastle blast furnace restoration completed by end July 2022
- Progressing the feasibility of the investment in two 100 MW renewable energy projects

The analysis below relates to the six months ended 30 June 2022 (current period) compared to the six months ended 30 June 2021 (prior or comparable period), except where otherwise indicated.

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Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa

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Johannesburg, 28 July 2022: ArcelorMittal South Africa recorded stronger headline earnings of R3 025 million (2021: R2 482 million) in the first six months of the year, supported by higher EBITDA of R3 591 million (up 12%) and notably lower net finance charges of R250 million (2021: R445 million).

The net debt position was 61% lower at R1 087 million (2021: R2 782 million), as well as R171 million below 31 December 2021 levels (R1 258 million) due to robust cash generation from operations.

"The company has largely delivered against the outlook we predicted at February's results announcement which, although positive, expected demand to return to more normal levels and steel pricing to be supported by raw material pricing trends," said Kobus Verster, ArcelorMittal South Africa's Chief Executive Officer.

Despite the robust profitability, various specifics related to the current period's delivery were far more complicated, with several challenges:

- A month-long shutdown of one of Vanderbijlpark's blast furnaces and intermittent stoppages of the remaining fleet to avoid the risk of an uncontrolled stop due to insufficient inventory (particularly of iron ore), resulting from the unavailability of the rail service
- Impact on customers of the damaging floods in KwaZulu-Natal
- An unnecessary two-week labour strike and associated violence, intimidation and criminality
- Severe electricity load shedding, which is particularly disruptive to suppliers and customers
- A softer local steel trading environment

"The rail, labour and electricity events represent lost opportunities, which is sad for a country that so desperately needs to take advantage of every economic opportunity to rebuild after the destructive pandemic," added Verster.

Addressing the challenges
Having maximised road transport opportunities, ArcelorMittal South Africa and Transnet Freight Rail (TFR) are collaborating on aspects of security and technical assistance. ArcelorMittal South Africa is supporting tactical security initiatives to supplement TFR's own actions. Technical teams from both businesses are working to improve locomotive spares' assessment and availability. Although locomotive availability has improved, it remains far below the contracted service levels and is still very volatile. In the third quarter of this year, ArcelorMittal South Africa will deploy external consultants to assist the operational teams. Should the Department of Transport's Rail Policy be successfully implemented, ArcelorMittal South Africa has indicated its willingness to progress a commercially sensible train investment programme to supplement volumes which TFR does not have capacity to move. Verster added, "The renewable energy sector is proof of what can be achieved when government policy is both certain and enabling."

South Africa has recently experienced its worst period of electricity loadshedding, a situation which is aggravated by highly unreliable municipal infrastructure. As a sign of confidence in the country, ArcelorMittal South Africa recently announced the start of a feasibility study to construct two 100 MW renewable energy facilities, with the objective of yielding meaningful cost reduction benefits by 2024/25. These benefits will be increased and accelerated if regulations are relaxed.

Regarding energy diversity and supply, like many major manufacturers, ArcelorMittal South Africa is dependent on a ready supply of competitively priced natural gas. With dwindling supplies of natural gas from Mozambique, the company is working closely with the Industrial Gas Users Association of Southern Africa (IGUA-SA) to find a solution to this challenge. Progressing South Africa's Gas Master Plan with key public and private sector participants will be vital to ensure that South Africa is not inappropriately exposed to this increasingly vital commodity.

ArcelorMittal South Africa's bargaining category pay scales remain the highest in the sector. Though satisfied with the outcome of the wage negotiation, which ended after an unnecessary and disruptive two-week strike, much work remains to reset the relationship with organised labour, while addressing the unsustainable increases in base pay that undermine the company's competitiveness.

Verster added: "The steel industry is highly cost sensitive, and all parties need to agree on ways to address this vulnerability, particularly given the more challenging economic landscape ahead."

Global steel supply impacted by Russia-Ukraine conflict
In the first quarter of 2022, the global steel environment reflected the implications on supply from the Russia-Ukraine conflict, with stronger than anticipated steel prices because of tighter supply/demand dynamics. The second quarter saw an increase in uncertainties and risk, including the length of the Russia-Ukraine conflict, implications of higher energy prices and inflation on economic activity and consumer confidence, the slow-down in China, and the risk of recession in the US and EU due to tighter monetary policies.

In the wake of the global pandemic and reverberating effects of the Russia-Ukraine conflict, global economic activity is expected to slow to a GDP growth rate of 2,3% in 2022. After a substantial increase in international steel prices in May 2022, prices started correcting in June. In developing economies, the positivity in the near-term improvement in some commodity exports more than offset headwinds of global inflation and tighter monetary policy. GDP growth in these regions has been reduced to 3%.

Understandably therefore, slowing economic growth and the heightened risk of a global recession present challenges for the outlook of commodities and steel demand in the next 12 to 18 months. In China, the world's largest steelmaker, plants are being idled to reduce high inventories and address weak orders. Inflation is at its highest levels in decades across many parts of the world. Inflationary pressures are expected to continue at least through 2022.

Value Plan Programme intensified
It is against this backdrop that ArcelorMittal South Africa is intensifying its growth-orientated Value Plan Programme (VPP).

The VPP realised improvements valued at R577 million in this first six-month period through various commercial and cost-based initiatives.
The focus in the next six months will be on:

- Addressing immediate and short-term product pipeline opportunities arising from broader industry supply chain challenges
- Improving asset utilisation, production yields and overall reliability in, particularly, the coke making and long steel business
- Realising the first volumes of the next phase of the Thabazimbi mine stockpile beneficiation project by the end of 2022, while launching a definitive feasibility study into a banded iron mining opportunity
- Accelerating the regional sourcing of hard coking coal to reduce dependency on sea-borne imports
- Improving the effectiveness of logistics spend by implementing an integrated platform for efficient logistics planning
- Rebasing and rescoping variable costs with a focus on procurement effectiveness from H2 2022
- Accelerating energy efficiencies, with a specific focus on reducing fuel and gas consumption
- Reducing fixed costs with a focus on discretionary spend, overtime, sub-contractors and vacancy management.

ArcelorMittal South Africa's average capacity utilisation decreased from 59% in the first half of 2021 to 42% in 2022 and will be at 76% after the Newcastle blast furnace restoration project is completed. Crude steel production decreased by 30%, or 441 000 tonnes, from 1,5 million tonnes to 1,1 million tonnes in 2022. The reduction in capacity utilisation and production reflects the impact of the lower demand, and the challenges associated with rail service unavailability, labour disruptions and electricity loadshedding.

The focus on maintenance and reliability continued into 2022 with particular attention given to the coke battery restoration programme, lowering fuel rates in iron making, reducing energy consumption, improving yields in steelmaking and rolling, and increasing scrap melting, which is particularly relevant given the anticipated complete ban on the export of domestic steel scrap.

The R464 million, three-month Newcastle blast furnace restoration project will reach completion at the end of July 2022 with more than 40 000 hours worked without a single lost-time injury. The major benefits of the project include plant life extension, improvement in reliability and cost competitiveness, lower energy consumption and a reduced carbon footprint. The project created 1 030 temporary job opportunities through 28 contractor companies.

The company's total sales volumes decreased by 8%, or 104 000 tonnes, to 1,2 million tonnes compared to the same period in 2021, due to a 10% fall in domestic sales to 1,0 million tonnes, while exports increased by 12% to 137 000 tonnes. The regional mix of exports weakened as Africa Overland sales fell to 81 000 tonnes, representing a decrease of 26%.

ArcelorMittal South Africa's realised average steel prices increased by 30% (in rand terms), reflecting the weakened average dollar/rand exchange rate and the lagged benefit of higher steel prices, while its raw material basket increased by 41%. In absolute rand terms, coking coal increased by 91%, scrap by 8% and iron ore by 4%.

Six-month South African steel consumption reduced to 2Mt
In South Africa, apparent steel consumption (ASC) for the first half of 2022 decreased by 14% to 2,0 million tonnes, reflecting high market inventory levels, slowing market activity in key steel-consuming sectors, slow realisation of infrastructure projects, as well as inflation and rising interest rates affecting disposable income in the retail sector.

As predicated, total steel imports of primarily hot rolled coil, galvanised sheet and plates decreased by 41% to 456 000 tonnes in response to slowing market conditions. This volume constituted some 23% of South Africa's ASC (2021: 33%). Regarding fair trade protection, numerous import duty and safeguard investigations and reviews were initiated internationally with a specific focus on China, Russia, Turkey and India. South Africa remains one of the least protected jurisdictions globally for steel trade, with rate structures notably lower than comparable countries.

ArcelorMittal South Africa remains the only primary producer in South Africa which offers a formal support programme to the downstream steel industry which received support to the value of R126 million, a 19% increase on H1 2021, through value-added export and strategic rebate assistance.

ESG remains a priority

Safety remains the company's highest priority and substantial time has been invested in behaviour interventions. These include changing the safety culture and improving leadership visibility and audits, reporting of unsafe conditions, plant quarantining, increasing environmental focus, leadership training, and intensifying both recognition and fatality prevention standards.

The company's lost-time injury frequency rate (LTIFR) improved from 1,13 to 0,71 and the total injury frequency rate (TIFR) improved from 8,86 to 5,78.

Later this year, ArcelorMittal South Africa will present its Decarbonisation Roadmap which will describe how the company plans to achieve its ambitious carbon reduction targets for 2030 and 2050. The journey will also involve close collaboration with the ArcelorMittal Group and local and international first-mover public and private sector participants.

Joint development agreements have already been, or are in the process of being, concluded and span the range of advancing steel localisation, energy efficiency, carbon capture and use, green hydrogen and green iron and steel. With the appropriate support, the restart of Saldanha Works as an early supplier of green directly reduced iron to the international market is a very exciting prospect.

Second half outlook

Verster said, "During this second half of the year, we are building on our improving safety performance, which remains a key priority for me and our management teams."

Economic headwinds have intensified both internationally and domestically, significantly affecting the trading environment. The international price correction in a soft local demand environment will impact the financial results. However, managing through a cyclical business environment is all-too familiar territory for ArcelorMittal South Africa, its employees, customers, and suppliers, and the focus for the company will be on:

- Preservation of the hard-won gains of the past few years
- Continuing to implement the critical Value Plan Programme initiatives
- Agile management of the asset and cost base
- Cash preservation in a downward price cycle.

Barring any further rail service challenges, production levels should improve as capacity utilisation levels recover.

"It is important to remember that, despite the current challenges, the long-term investment case for steel remains intact given steel's inherently vital role in the transition to a low carbon, circular economy," concluded Verster.

**** Please refer to the detailed SENS announcement (available on the company's website** https://arcelormittalsa.com/**) for further financial information***

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