ArcelorMittal South Africa Limited

06 January 2025

news release

ArcelorMittal South Africa announces key decisions

ArcelorMittal South Africa Limited has issued a significant update detailing the wind down of its Longs Business and has provided insights into the overall Company's financial performance for the year ended 31 December 2024.

Decision on the Longs Business

The Company has taken the decision to wind down the Longs Business. This comes after sustained challenges, including weak economic growth, high logistics and energy costs, and an influx of low-cost steel imports, particularly from China. Persistent high logistics and energy costs, combined with insufficient policy interventions (especially those policy decisions made some time ago (namely, the Price Preference System [PPS] and Export Scrap tax) relating to the substantial subsidisation of scrap-based steelmaking operations to the detriment of the Newcastle Works - which beneficiates South African-sourced raw materials), have left the Longs Business unsustainable. Despite extensive consultations with Government and stakeholders to find viable solutions to sustain the Longs Business, progress was insufficient to avert the wind down. The Company will now transition the Longs Business into care and maintenance. Steel production is anticipated to cease by late January 2025, with the wind-down of the remaining production processes completed in Q1 2025.

The persistent overcapacity in the global and local markets, and unsustainably low international steel prices have further exacerbated the business' structural difficulties. Asset utilisation in the Longs Business reached only 50% as weak market conditions necessitated the operation of its blast furnace at the lowest level technically and responsibly possible.

Commenting on the decision, CEO Kobus Verster said: *"It is with deep regret that we must take this difficult decision. Over the past year, our employees and dedicated management team have shown remarkable commitment and resilience in the face of serious uncertainty. Unfortunately, despite everyone's best efforts, including significant engagement with stakeholders, the structural challenges in the Longs Business were not resolved. While this outcome is deeply disappointing, especially given the economic challenges facing South Africa, we remain focused on securing a sustainable future for the remaining operations."*

Impact on jobs and operations

This wind down decision will directly affect operations constituting the Longs Business, namely, at the Newcastle and Vereeniging Works, and AMRAS (the rail and structural subsidiary). Newcastle's coke-making operations will continue, though scaled back to reflect reduced demand.

There will also be a knock-on impact on certain roles in the Flat Business as well as for some personnel within the corporate support service areas. It is envisaged that approximately 3,500 direct and indirect jobs will be affected. The broader economic effect on induced jobs is expected to be significantly higher, especially in the Newcastle region. A formal Section 189(3) labour consultation process will commence shortly, and the company remains committed to a responsible process to minimise the impact on employees and suppliers.

The Company is actively working to realign its R1 billion working capital facility secured in 2024 to support this transition.

Decision drivers

The South African steel industry is currently facing its greatest sustained challenge since the 2008/09 financial crisis. International steel prices remain unsustainably low amidst record Chinese exports, with Chinese Hot Rolled Coil and Rebar prices retreating to below $500 per tonne levels in Q4 2024. Furthermore, ever-higher Chinese exports have led to global announcements of production stoppages, capacity cutbacks, and plant closures, with international markets prioritising fair trade actions and reviewing decarbonisation ambitions due to affordability concerns.

South Africa's crude steel production for 2024 is anticipated to be 2.3% lower than in 2023, with imports increasing nearly 50% since 2018 and exports declining by 40%. The weak domestic market for Long steel products, coupled with the overcapacity of local and international steel production, has left the business unsustainable despite ongoing efforts.

At the inaugural sectoral engagement convened by SEIFSA and the Department of Trade, Industry, and Competition (DTIC) in November 2024, it was unanimously agreed by stakeholders that radical interventions were required to address the decline in the steel and engineering value chain.

Financial performance

The company anticipates a significant decline in earnings, with earnings per share expected to decrease to a loss within a range of R5.48 to R6.21 per share, compared to the previous year's loss of R3.52 per share. Headline earnings per share are projected to decline to a loss between R4.06 and R4.41 per share, from the previous year's loss of R1.70 per share. These increased losses reflect the challenging market conditions, including unsustainably low international steel prices, record Chinese exports, instability of the blast furnaces operations in the Flats Business in the second quarter, and the impact of the Longs Business wind down costs, which include approximately R2.7 billion in asset impairment, wind down, and severance charges.

Revenue for 2024 is expected to decline by more than 5% compared to 2023, driven by weaker net realised prices, reduced asset utilisation, and the challenges in the Longs Business. Actions are underway to address the aspects of cost competitiveness that are within the company's control, ensuring its remaining operations are sustainable.

The Company continued to assertively manage its cash and net borrowings position by targeting working capital optimisation, incremental cash initiatives (sales of non-core properties) and by optimising the timing of the receipts and payments in managing its peak funding requirements. Net borrowing levels continue to remain within tolerable levels.

Focus on the future

CEO Kobus Verster affirmed the Company's commitment to long term sustainability and competitiveness. The leadership team will have a dedicated focus on ensuring the sustainability and improvement of the Flats Business. ArcelorMittal South Africa will focus on re-establishing itself as a champion of innovative, export-driven, steel-based industrialisation for South Africa, Sub-Saharan Africa, and other key geographies. This includes advancing the bankability of high-payback investment opportunities to support downstream industries like automotive, renewable energy, mining, and infrastructure; and affecting a recapitalisation of the business to improve the balance sheet and support these investments.

The Company will also prioritise driving innovation and sustainability in its operations, ensuring it meets the demands of a competitive and evolving global market. ArcelorMittal South Africa is confident in its ability to drive the growth, performance, and sustainability of the Flats Business. These efforts will solidify its position as a leader in the steel industry and as a key contributor to South Africa's industrial development.

The full details of the trading statement and business update are available on the company's website at www.arcelormittalsa.com. Reviewed financial results for the year ended 31 December 2024 will be published on SENS on 06 February 2025, accompanied by a virtual presentation accessible to stakeholders. ArcelorMittal South Africa Limited is committed to maintaining transparency with its shareholders and stakeholders during this challenging period.

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