01 August 2018

news release

ARCELORMITTAL SOUTH AFRICA
FINANCIAL RESULTS FOR HALF YEAR ENDED 30 JUNE 2018

Salient features

- EBITDA improved by R2 121 million, from a loss of R534 million to a profit of R1 587 million
- Liquid steel production increased by 8%
- Steel sales volumes up 10%, despite apparent steel consumption at nine-year low
- Disposal of holding in Macsteel International Holdings BV (MIHBV) progressing well
- Net debt improved by R1 374 million, from R3 262 million in December 2017 to R1 888 million before proceeds from the sale of MIHBV
- Imports declined by 31%
- Higher international steel prices
- Cash cost per tonne of liquid steel well managed, decreased by 6%
- Results negatively impacted by strengthening of the average Rand/USD exchange rate
- Buoyant international market, with exports up by 26%

The analysis below relates to the six months ended 30 June 2018 (current year) compared to the six months ended 30 June 2017 (prior year), except where otherwise indicated.

Johannesburg, 01 August 2018: ArcelorMittal South Africa has achieved an operating profit of R1 224 million, from a loss of R983 million, for the six months ended 30 June 2018.

The headline loss improved by R1 673 million to a profit of R54 million, compared to the same period last year.

“This turnaround is on the back of favourable international steel pricing together with higher steel sales volumes, despite a weakening economy and stronger average Rand/USD exchange rate in the first half of the year,” said ArcelorMittal South Africa’s Chief Executive Officer, Kobus Verster. “We also maintained a strong focus on the management of costs throughout the period.”

Growth in global steel demand maintained the momentum from 2017 into the first half of 2018, attributable to broad-based economic expansion. The positive market sentiment in most African markets flowed from 2017 into 2018, driven primarily by ongoing investment in infrastructure development in certain regions. However, South Africa was an exception to this growth story, with H1 2018 showing weaker demand when compared to the second half of 2017, especially in mining, construction and manufacturing.

"Despite the continued strengthening of global steel demand and the stability of steel pricing, the domestic economy is lacking the major infrastructure investment that could provide the necessary stimulus for growth," said Verster.

As part of its transformation strategy, ArcelorMittal South Africa has implemented and continues to investigate various initiatives to maintain the return to profitability and generate positive cash flows, aimed at ensuring the ongoing sustainability of the business.

In line with these initiatives, the board approved the sale of ArcelorMittal South Africa's 50% investment in Macsteel International Holdings BV (MIHBV) for $220 million (around R3 billion), which will significantly strengthen the company's balance sheet. As part of the proposed transaction, the Sale of Shares and Marketing Agreements have been signed and are subject to the fulfilment of certain conditions precedent.

ArcelorMittal South Africa's total capacity utilisation was 85%, up from 79% in the comparable period. Liquid steel production for the period was 2.6 million tonnes, an increase of 8% or 185 000 tonnes. Liquid steel production in flat products increased by 165 000 tonnes and plant utilisation increased to 87% from 79% at H1 2017. This was due to better plant performance at Vanderbijlpark Works of 176 000 tonnes. Long products' liquid steel production increased by 20 000 tonnes and plant utilisation increased to 79% from 77% in H1 2017.

Thanks in part to a focused campaign to manage costs down, the cash cost per tonne of liquid steel decreased by 6% to R7 396. This decrease was also attributable to lower prices of raw materials, which accounted for 48% of total costs and which decreased by 7% overall. Consumables and auxiliaries, which represent approximately 29% of costs, decreased by 3%, and fixed costs per tonne were 8% lower. The lower cost of raw materials was driven by declining coking coal and iron ore prices, aided by the stronger exchange rate, while the cost of scrap was higher.

Total Group revenue increased by 19.4% to R22 868 million, primarily because of an 8.5% increase in average net realised steel prices, from R8 138 per tonne to R8 827 per tonne, and higher sales volumes of 10.2%. Local sales were higher by 5% and exports increased by a significant 26%. Revenue from the Coke and Chemicals business was in line with H1 2017, while commercial coke sales volumes decreased by 4 000 tonnes (4.3%) and tar sales volumes increased by 6 000 tonnes (16.2%). Commercial coke and tar prices increased by 4.3% and 8.9% respectively.

The profit from operations improved by R2 207 million to R1 224 million, given the higher international steel pricing environment and increased sales. Depreciation decreased due to the impairment of the Vanderbijlpark, Saldanha and Long Steel Products cash-generating units in 2017.

The loss for the period decreased by R621 million. This was largely attributable to the profit from operations, although this was partly offset by the fair value adjustment on the MIHBV investment reclassified as an asset held for sale of R1 652 million.

The cash position improved substantially from a net borrowing position of R2 577 million in H1 2017 to a net borrowing position of R1 888 million, following better operational performance that was somewhat offset by financing costs and capital spend. Against the financial year-end of December 2017, the net borrowing position improved by R1 374 million.

Safety remains the company's number one priority. Notwithstanding the intention to achieve zero fatalities and injuries, ArcelorMittal South Africa regrettably experienced one fatal incident on 3 June 2018 at its Saldanha Works. The board and management extend their deepest condolences to the family and colleagues of the deceased.

While the company's total injury frequency rate (TIFR) improved to 6.33 from 7.49 in the previous period, the lost time injury frequency rate (LTIFR) showed a concerning downward movement from 0.62 to 0.83.

"We will not accept a decline in our safety performance and the management team remains steadfast in its commitment to embed a zero-harm culture across the organisation," said Verster.

The group continues its focus on its environmental compliance and its engagement with the authorities on certain environmental concerns.

Various initiatives are aimed at ensuring the Group's sustainability and licence to operate:

- Air emissions are a key focus area and significant challenges with sinter and coke emissions at Vanderbijlpark Works and blast furnace emissions at Newcastle Works are being addressed
- The recently-installed water treatment facility at Newcastle Works is performing as expected, while Vanderbijlpark Works is making good progress to achieve "zero effluent" status
- Further engagements with government on duties for tin products
- Water saving measures at Saldanha Works are ready for implementation, pending all required authorisations
- Reopening of the Vereeniging meltshop in 2019
- Feasibility study for a new electric arc furnace at Vanderbijlpark Works.

In the second half of the year, domestic steel demand and exports are expected to remain stable apart from the seasonal slowdown during December. Sales prices are expected to remain steady, with the volatility in the Rand/USD exchange rate continuing to have an impact on the company's results.

"We have developed a number of key initiatives to address the challenges we face. As part of our transformation programme, we have completed a detailed top-down diagnostic identifying various areas of improvement across the business and we will continue to drive the implementation of interventions aimed at returning the company to sustained profitability," concluded Verster.

Contacts:

Vuyo Mtawa
Head of Corporate Communications
ArcelorMittal South Africa
(016) 889 4100

Tracey Peterson
Aprio Strategic Communications
(on behalf of ArcelorMittal SA)
083 408 7173