ArcelorMittal South Africa Limited
(Incorporated in the Republic of South Africa)
Registration number: 1989/002164/06
Share code: ACL ISIN: ZAE 000134961
(ArcelorMittal South Africa, the company or the group)

Short-form announcement
Group financial results for the year ended 31 December 2019
and appointment of company secretary

Salient features
- Best annual safety frequency metrics ever reported
- Liquid steel production of 4.4 million tonnes decreased by 13%
- Sales volumes decreased by 8%
- Revenue decreased by 9% to R41.4 billion
- Cash cost per tonne of liquid steel produced increased by 12%
- Ebitda decreased by R4 240 million to a loss of R632 million
- Turnaround in headline earnings from a profit of R968 million to a loss of R3 265 million
- Commercial wind-down of Saldanha Works

Overview
The 2019 financial year represented the most challenging year since the global financial crisis for the world steel industry, and an exceptionally difficult year for the South African economy and ArcelorMittal South Africa.

The downturn in world steel has been faster and deeper than could have ever been anticipated. The correlation between steel prices and raw material costs has broken down. The size of the dislocation between steel prices and raw material cost is very unusual, and although recently, raw material prices have moderated a little, the dislocation continues. Internationally, steel producers are struggling to respond fast enough to the dramatic change in the business environment compared to 2018. Domestically, numerous downstream steel businesses have disclosed being in financial distress.

For ArcelorMittal South Africa, this necessitated an intense focus on cash preservation (having released some R1 940 million from working capital alone) and cost reductions, along with the launching of strategic asset footprint review targeting the establishment of an affordable asset footprint with an enduring competitive advantage, and in so doing, ensuring the long-term sustainability of the company.

The business's current business transformation programme (BTP) initiatives yielded R1 450 million of EBITDA improvements during the year or R2 130 million (USD36 per tonne) cumulatively since the programme was launched in August 2018. The programme is targeting at least a USD50 per tonne improvement in real terms to address the controllable elements of the cost gap between its production costs relative to that of subsidised China-sourced steel.

Markets
Compared to 2018, weak global steel demand in 2019 presented an extremely challenging situation, especially against the backdrop of escalating geopolitical and trade tensions throughout the year. This was broadly reflected in a slower global economic growth, than anticipated at the beginning of 2019.

However, global crude steel production(1) increased to 1.8 billion tonnes (mainly due to growth in Chinese output, increasing in excess of 7% to 991 million tonnes), which is 3% higher than the previous year. China's market share in global crude steel output increased from 51% to 54% in 2019. The European Union's (EU's) crude steel output declined by some 4.5% due to weakening economic fundamentals while the United States remained fairly constant year-on-year.

Turning to South Africa, 2019 real gross domestic product (GDP) growth is anticipated to reach only 0.3%. Unsurprisingly, the apparent steel consumption decreased by 6% to 4.5 million tonnes for the year.

Total steel imports for the year were 918 000 tonnes(2) which constitutes some 20% of South Africa's apparent steel consumption compared to 16% in the previous year.

(1) Worldsteel (27 January 2020) (2) SARS November 2019 import statistics

Operational
The group's capacity utilisation reduced from 84% in 2018 to 68%. Liquid steel production fell by 13% or 681 000 tonnes from 5.1 million tonnes to 4.4 million tonnes. These metrics reflect the planned and unplanned repair outages affecting mainly flat products, electricity load-shedding and dramatically weaker domestic trading conditions. The successful blast furnace D interim repair at Vanderbijlpark Works resulted in the loss of an equivalent 272 000 tonnes of liquid steel during the planned downtime of 60 days.

Safety
Notwithstanding the intention to achieve zero fatalities and injuries, the company regrettably experienced one fatal incident at Newcastle Works on 27 October 2019. Encouraging, however, lost time injury frequency rate improved from 0.53 to 0.44 and a total injury frequency rate improved from 6.91 to 6.57.

Financial
Revenue
Revenue decreased by 9% to R41 353 million due to an 8% reduction in sales volumes. Net realised prices in rand terms remained flat against that of the comparative period. Revenue from the Coke and Chemicals business decreased due to lower selling prices.

Operating expenses
The company's raw material basket (iron ore, coking coal and scrap), which represents 51% (2018: 50%) of costs, increased by 12% in rand terms, driven by sharp increases in iron ore.

Increases in electricity, port and rail tariffs had a detrimental impact on the company's international competitiveness. These unaffordable increases, off an already inflated base, resulted in R439 million of additional costs against the comparable period.

Total fixed cost for the company decreased by a substantial R999 million or 12%.

Loss for the year
The loss for the year amounted to R4 676 million compared to a profit of R1 370 million for the comparative period. The 2018 profit included the profit on the disposal of the investment in Macsteel of R415 million.

Net impairment charges for the year amounted to R1 401 million against R10 million for 2018. The amount consisted largely of R1 087 million for the impairment of the property, plant and equipment at Newcastle Works, R294 million for Saldanha Works and R99 million towards the closure of the tin plant at the Vanderbijlpark Works.

Headline (loss)/earnings
After adjusting for the net impairment and loss on disposal of assets of R1 401 million (2018: net gain of R402 million), headline earnings decreased from a profit of R968 million to a loss of R3 265 million, amounting to a 299 cents per share loss against an 89 cents per share profit.

Cash flow and borrowing position
Cash generated from operations of R423 million was R1 859 million lower than in 2018.

The net borrowing position of R475 million in the comparable period weakened to R3 370 million at 31 December 2019. This increase is due to the capitalisation of interest and group payables of R1 508 million to the loan of ArcelorMittal Holdings AG.

Strategic asset footprint review

The large-scale labour reorganisation in terms of section 189(3) of the Labour Relations Act, as announced in July 2019, was largely finalised at year-end. Through natural attrition and avoidance of vacancy-filling, it has been possible to reduce the directly affected own-employees, yet still reaching the cost-saving targets. The severance package charge associated with this reorganisation of R234 million has been recognised in full for the 2019 financial year-end.

The first phase of the asset footprint review resulted in the announcement on SENS on 11 November 2019 of the orderly and commercial wind-down of Saldanha Works. The process is progressing according to plan and is anticipated to be largely completed by the end of the first quarter of 2020. The impairment of the fixed assets amounted to a charge of R294 million for Saldanha Works, while the charge associated with severance packages and onerous contracts of R396 million has been recognised in full for the 2019 financial year-end.

In November 2019, the second phase of the asset footprint review was announced, focusing on the long steel products business. This phase has now been completed. Although the benefit of a more concentrated operating footprint remains fundamentally important to the longer-term sustainability of the company, this phase of the asset footprint review reached the following conclusions and prioritised these actions:

- The closure of significant long steel product plants is not anticipated in the foreseeable future.
- Primary steel-making operations will continue at Newcastle Works, although now focused primarily on servicing the domestic and Africa Overland markets.
- The company-wide operating model will be reconfigured into a single platform.
- The balance sheet to be strengthened through targeted corporate actions.

Significant organisational configuration opportunities have been identified to improve both operational effectiveness and controllable cost competitiveness of not only the long steel product business, but that of the overall company. Development of this "One Organisation" initiative has begun, with an envisaged implementation in 2020. Shareholders will be informed of the outcomes of the process as and when key decisions are taken.

Appointment of company secretary

As previously announced, Ms NB Bam resigned as company secretary effective 10 January 2020. In terms of paragraph 3.59 (a) of the JSE Limited Listings Requirements, shareholders are advised that FluidRock Co Sec (Pty) Ltd has been appointed as the company secretary of the company as from 1 March 2020.

The board of directors considers that FluidRock Co Sec (Pty) Ltd has the requisite knowledge and experience for the position and the board looks forward to their contribution.

Outlook

Internationally margins have been tightly squeezed though elements of normalisation are becoming evident. Expected low domestic growth will require immediate interventions. As ArcelorMittal South Africa heads into 2020, it will continue to vigorously focus on the BTP, the "One Organisation" implementation and other strategic cost-reduction initiatives; and unaffordable regulated tariffs and developmentally priced raw materials. In so doing, the company will be better prepared for the upturn.

The volatility of ZAR/USD exchange rate is also likely to continue to have an impact on the company's results.

On behalf of the board of directors

HJ Verster	AD Maharaj
Chief executive officer	Chief financial officer

6 February 2020

Key statistics

for the year ended 31 December	2019	2018	% change
Financials (R million)			

Revenue	41 353	45 274	(8.7)
EBITDA and exceptional items	(632)	3 608	
(Loss)/profit from operations	(2 359)	2 777	
Net (loss)/profit	(4 676)	1 370	
Headline (loss)/earnings	(3 265)	968	
Net borrowings	(3 370)	(475)	
Net asset value	3 405	7 961	(57.2)
Financial ratios (%)			
Return on ordinary shareholders' equity	(57.5)	12.1	
Net borrowings to equity	(99.0)	(6.0)	
Share statistics (cents)			
(Loss)/profit per share	(428)	125	
Headline (loss)/earnings per share	(299)	89	
Dividends per share	-	-	
Net asset value per share	3.11	7.28	(57.2)
Safety			
Lost time injury frequency rate	0.44	0.53	17.0
Operational statistics (000 tonnes)			
Liquid steel production	4 411	5 092	(13.4)
Steel sales	4 112	4 491	(8.4)
- Local	2 967	3 337	(11.1)
- Export	1 145	1 154	(0.8)
Commercial coke sales	152	158	
Segmental performance (R million)			
Flat steel products			
- Revenue	27 709	31 919	(13.2)
- EBITDA and exceptional items	(574)	2 670	
Long steel products			
- Revenue	14 599	14 905	(2.1)
- EBITDA and exceptional items	(369)	808	
Coke and Chemicals			
- Revenue	1 310	1 376	(4.8)
- EBITDA and exceptional items	250	370	
Corporate and other			
- EBITDA and exceptional items	61	(240)	

Short-form announcement

This short-form announcement is the responsibility of the board of directors of ArcelorMittal South Africa and is a summarised version of the group’s full announcement and as such, it does not contain full or complete details pertaining to the group’s results. Further the auditors conclusion in the full announcement, contains a paragraph on material uncertainty relating to going concern. Any investment decisions by investors and or shareholders should be made after taking into consideration the full announcement. The full results announcement is available for viewing at https://senspdf.jse.co.za/documents/2020/JSE/ISSE/ACL/AMSAAnn20.pdf and on the group’s website at https://southafrica.arcelormittal.com/InvestorRelations/AnnualResults.aspx. The full announcement is available for inspection, at no charge, at the registered office of (ArcelorMittal South Africa Limited, Room N3-7, Main Building, Delfos Boulevard, Vanderbijlpark) and the offices of the sponsor (Absa Bank Limited (acting through its Corporate and Investment Banking Division), 15 Alice Lane, Sandton), from 09:00 to 16:00 on business days. Copies of a full announcement can be requested from the registered office by contacting (016) 889-2352. The short-form announcement has not been audited or reviewed by the company’s auditors.

This report is available on the ArcelorMittal South Africa's website at:
http://www.arcelormittal.com/southafrica/
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