31 January 2018

news release

ARCELORMITTAL SOUTH AFRICA
ANNUAL FINANCIAL RESULTS FOR YEAR ENDED 31 DECEMBER 2017

SALIENT FEATURES

The analysis below relates to the 12 months ended 31 December 2017 (current year) compared to 12 months ended 31 December 2016 (prior year)

- Revenue increased by 19% following a 15% increase in average net steel prices
- Cash cost per tonne of liquid steel produced increased by 16% following higher input material prices
- Headline loss down from R2 589 million to R2 518 million
- Positive EBITDA of R650 million achieved in Q4 2017 – first positive quarter EBITDA since Q3 2016
- Imports declined by 195 000 tonnes in the year
- Apparent steel consumption (ASC) at lowest level since 2010, from 5 137kt to 4 801kt
- Flat steel products market share increased to 75% while market share for long steel products decreased
- Volatility in the rand against the US dollar continued to significantly impact the business
- Non-cash impairment of property, plant and equipment recognised, mainly due to the weakening economic conditions and strengthening of the rand against the US dollar towards the end of the year
- Safeguard duties on hot rolled coil and plate implemented from August 2017, safeguards on cold rolled coil not approved
- 10% duties on heavy sections approved in August 2017
- Designation of local steel in the rail sector effective from December 2017
- ArcelorMittal South Africa B-BBEE status improved from Level 4 to Level 3
- Three fatalities at plants in the first half of the year; higher lost time injury frequency rate of 0.66 from 0.62

Johannesburg, 31 January 2018: ArcelorMittal South Africa's headline loss decreased slightly for the year, from R2 589 million to R2 518 million, while the operating loss increased by R128 million, primarily as a result of the strengthening of the rand and higher raw material prices.

Cost increases were partly offset by a 15% increase in average net realised sales prices and a 4% increase in sales volumes.

Encouragingly, in the fourth quarter the company recorded a substantial EBITDA profit with the Long Steel Products (LSP) division reducing losses of the first three quarters.

"The domestic and export markets in which we operate continued to be constrained, with minimal growth in demand resulting from negligible local investment and infrastructural spend," said Wim de Klerk, ArcelorMittal South Africa's Chief Executive Officer.

In the face of subdued economic growth, apparent steel consumption decreased further to its lowest level since 2010.

Throughout 2017, primary steel products from other countries continued to flow into South Africa, although there was a steady and sustained decrease in the second half of the year. Steel imports for the year amounted to 965 000 tonnes, a decrease of 195 000 tonnes compared to the previous year. This decline was mainly due to poor economic conditions, merchants' high inventory levels and the imposition of safeguards on hot rolled coil and plate, effective from 11 August 2017.

However, imports of finished goods increased by 3% over the previous year and ArcelorMittal South Africa is still heavily involved in initiating trade protection measures for the key steel-consuming sectors, including the downstream industry.

"We appreciate Government's efforts to promote the use of locally produced steel products and we were encouraged by the Department of Trade and Industry's (dti) announcement on 2 December 2017 that it is designating local steel for permanent railway infrastructure projects," said De Klerk.

This was the latest designation of local steel by the regulators and followed the similar designation of local steel for public-sector infrastructure, including rolling stock.

"However, despite the positive progress with safeguards on flat steel products, import duties and the designation of local steel for Government infrastructure projects, the company has not yet been able to return to profitability or to generate full-year positive cash flows due to the low economic growth and ongoing imports flowing throughout the year," added De Klerk.

The company's capacity utilisation was 81% compared to 78% the previous year. Liquid steel production for the year was 4.9 million tonnes, an increase of 139 000 tonnes (3%). This was due to a better plant performance at Flat Steel Products (FSP), partly offset by cut-backs in production at LSP.

FSP liquid steel production increased by 237 000 tonnes and plant utilisation improved to 82%, compared to 77% in 2016 when the stove at blast furnace C at Vanderbijlpark Works ruptured, and poor iron ore and import coke quality affected production. Production at Saldanha Works increased by 286 000 tonnes after the mini reline in 2016.

This year the LSP division reduced production due to a spike in coal prices, compounded by the decrease in scrap prices which favoured manufacturers that use scrap in their production processes. LSP liquid steel production declined by 98 000 tonnes due to poor market conditions, high input costs and increased competition.

Cash cost per tonne of liquid steel produced increased by approximately 16% from R6 544 to R7 581. The cost of raw materials, mainly iron ore, coal and scrap (which together account for 50% of total costs), increased by 32%. Consumables and auxiliaries, which represented approximately 28% of costs, rose by 4% and fixed costs per tonne by 3%.

International coking coal and iron ore prices increased by 33% and 23% respectively in 2017. Iron ore prices rose in Q4 2016 before softening in Q2 2017, but the average cost over the full year remained higher than that of 2016. Imported coking coal prices gradually retracted during 2017 and started to increase again towards the end of 2017.

In 2017 the company launched several initiatives to improve operational efficiencies, increase volumes and/or reduce costs:

- In terms of a contract with Evraz Highveld Steel, which became effective in April 2017, ArcelorMittal South Africa delivered 101 000 tonnes of input material for processing into heavy steel products at Highveld's heavy structural steel mill.
- The N2 battery refurbishment at Newcastle Works was completed in Q3 2017, improving the sustainability of the coke batteries and restoring coke-making capability to 381 000 tonnes per year.
- A 10MW off-gas boiler, costing R138 million, was commissioned at Vanderbijlpark Works in March 2017. The new boiler increases the electricity self-generation capacity by 40% to a projected total of 70 000MWh per year, representing approximately 10% of total electricity requirement, while reducing indirect CO_2 emissions by around 71 000 tonnes per annum.
- The ArcelorMittal South Africa Distribution Centre was opened in February 2017, in partnership with Transnet Freight Rail, Barloworld Limited, Grindrod Limited and the Newlyn Group, to address historical logistics challenges. The Centre enables transport by rail of final product from Newcastle and Saldanha Works to customers in Gauteng, saving significantly on costs traditionally related to road transport.

Revenue increased by 19% to R39 022 million, mainly due to a 15% increase in average net realised steel prices, from R7 282 per tonne to R8 338 per tonne. Total steel sales volume increased by 170 000 tonnes, with local sales rising by 1% and export sales by 18%.

Coke and Chemicals' revenue grew by 2% despite a decrease in commercial coke sales of 44%. This drop resulted from scheduled but lengthy repairs to the coke batteries at Vanderbijlpark and Newcastle Works and was partly offset by an 89% increase in the sales price of commercial coke.

The loss for the year increased by R422 million to R5 128 million, largely due to a higher impairment adjustment as a result of the declining economic environment and the strengthening of the rand against the US dollar towards the end of Q4 2017. Financing costs rose by R639 million because of a higher debt position. The weakened debt position was a consequence of operations' increased cash requirements – funded mainly through the new

borrowing-base facility – and exchange rate losses (which resulted from movements of the rand against the US dollar) on financial instruments used for imports.
An impairment of R2 594 million (2016: R2 143 million) was raised on property, plant and equipment. R1 007 million was for the LSP cash-generating unit and R1 587 million was raised for the FSP cash-generating unit. The additional impairment of R1 996 million raised since H1 2017 is primarily due to the strong exchange rate at year-end.

It is important to highlight, however, that the impairment does not have a cash flow impact. In fact, the performance in the last quarter of 2017 is in line with management's forecast. This reflects a turnaround of R1 billion from Q3 2017 to Q4 2017.

Given the ongoing volatility and the current level of the rand against the US dollar, ArcelorMittal South Africa has identified various cash-generating initiatives which include, inter alia, procurement savings, stock liquidation, sale of non-core assets, and increased operational reliability and efficiencies through best practice benchmarking.

A Section 189 process was announced on 15 August 2017 to reduce costs and to make the company more competitive and sustainable. The consultation process has been concluded and implementation is now underway.

"Safety remains our number one priority and it is with great regret that we reported three fatalities at our plants in the first half of this year, all contractor employees," shared De Klerk. "Also, our lost time injury frequency rate weakened in 2017, from 0.62 to 0.66, and this is something that we are very focused on improving in the year ahead. However, we must acknowledge the good work of Saldanha Works and Coke and Chemicals, which both achieved 365 days without a lost time injury."

The company continues to invest in projects to mitigate environmental impacts and to maintain or improve compliance levels. Most environmental expenditure is currently directed at air-emission abatement projects at Vanderbijlpark and Newcastle Works. At considerable expense, Newcastle and Vanderbijlpark Works improved their zero-effluent discharge performance during 2017, thus reducing their potential impact on the environment.

The proposed carbon tax, on which the final draft bill was published on 14 December 2017, remains a concern. The tax will have a significant financial impact on the company and the desired outcome of the tax – to effect behavioural change – cannot be achieved in our sector as no alternative methodologies exist for the production of steel without emissions.

In 2017, ArcelorMittal South Africa undertook many initiatives to drive enterprise and supplier development and preferential procurement, all of which will have a positive impact on local communities:

- Twenty-one vendors benefited from ArcelorMittal South Africa's supplier development programme. Eleven of these vendors are now in their second year of incubation with collective spend on the programme increasing by R71 million (109%) in 2017.

- The Matlafatso Incubation Hub, the only one of its kind in the South African steel sector, was launched in Vanderbijlpark in 2017. The R30 million facility, which is co-funded by the dti, reflects the company's commitment to transforming the steel and manufacturing sectors and investing in the growth of black entrepreneurs. Eleven companies were placed in the incubation hub and the company spent R6.5 million securing goods and services from them. Together with the dti, further investment of R15 million is planned over the next two years.
- The third phase of an industrial business park in Vanderbijlpark was in progress at 2017 year-end, while the first phase of the Newcastle business park had been concluded. The aim of these initiatives is to assist entrepreneurs with access to office infrastructure and support systems. These premises are being constructed and refurbished by local B-BBEE construction companies.

Outlook

In 2018, domestic steel demand is likely to remain constrained due to low economic growth and a lack of infrastructural spend. However, the optimistic view of steel pricing globally, especially China, USA and Europe, will flow through to South African pricing as well. As such, export sales are also projected to increase marginally. The FSP division should see higher local sales due to both the volume effect of safeguards on hot rolled coil and plate and the strong global prices.

"The performance of ArcelorMittal South Africa will continue to be affected by the volatility in the rand/US dollar exchange rate, having a material impact on our financial results. However, on the plus side, steel prices in international markets are expected to stay strong in 2018, continuing the trend seen in the second half of 2017," concluded De Klerk.

This is largely because of Chinese production cuts to comply with environmental regulations and the Chinese government driving the sustainability of the domestic steel industry. The consequent reduction in Chinese export tonnages, down over 30% in 2017, is supportive of global steel prices in general.

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