

Short-form announcement



ArcelorMittal

Reviewed condensed consolidated financial results for the six months ended 30 June 2022

Salient features

Pleasing improvement in **safety** performance

Headline earnings up **22%** at R3 025 million (2021: R2 482 million) with net finance charges down **44%** at R250 million (2021: R445 million)

61% lower net debt position of **R1 087 million** (2021: R2 782 million)

EBITDA up **12%** at R3 591 million (2021: R3 218 million)

23% increase in realised dollar steel prices

Raw material basket (RMB) **increased** by **41%** (rand terms) (international RMB up **39%** in rand terms)

Value Plan Programme realised improvements valued at **R577 million**

Successful **R464 million** Newcastle blast furnace mid-life campaign restoration due to be completed early August 2022

Progressing the feasibility of the announced investment in **two 100MW renewable energy** projects

#smartersteels

Overview and sustainability

On 10 February 2022, at the announcement of the company's 2021 full-year financial results, the outlook for the coming six months was overall positive, though with demand returning to more normal levels and steel pricing generally being supported by raw material pricing trends. Central banks' responses to rising inflation was flagged as a risk.

Broadly assessed, the company has successfully delivered against its predicted outlook and, in some instances, outperformed expectation. That said, the specifics of the delivery were far more complicated, and a particular word of thanks goes to ArcelorMittal South Africa's loyal staff, customers and suppliers who enabled the company to manage through some tumultuous events.

Stronger headline earnings of R3 025 million (2021: R2 482 million) were 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 cash generated from operations.

The company's more growth-orientated Value Plan Programme, successor to the successful Business Transformation Programme, realised improvements of R577 million, being commercial-related initiatives of R343 million and cost-based initiatives of R234 million. This result was notable given the backdrop of disruptive events which lead to a 30% drop in crude steel production.

The following events require highlighting to appreciate complexity of the delivery of this financial performance:

- A month-long shutdown of one of Vanderbijlpark's blast furnaces and the 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, criminality and misconduct
- Severe electricity load shedding, which is proving to be particularly disruptive to suppliers and customers
- A softer local steel trading environment

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

South Africa experienced its worst bout of electricity loadshedding in June 2022, taking the year-to-date levels for 2022 to the full-year 2021 levels. The situation is aggravated by highly unreliable municipal infrastructure. Loadshedding is negatively impacting the economy and does not bode well for investor sentiment and job creation. As a sign of confidence in the country, ArcelorMittal South Africa, with the support of the ArcelorMittal Group, announced that it was embarking on a process to develop two 100MW renewable energy projects, planned for Gauteng and the Western Cape, subject to the outcome of a feasibility study, which should be finalised in 2023/2024, with the objective of yielding meaningful cost reduction benefit 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 the current source in 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 parties will be vital to ensure that South Africa is not inappropriately exposed to the increasingly vital commodity.

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 policy.

Regarding fair trade protection, numerous import duty and safeguard investigations and reviews initiated internationally with a specific focus on China, Russia, Turkey and India. South Africa is one of the least protected jurisdictions globally for steel trade, with rate structures notably lower than comparable countries.

Safety

Safety is the company's highest priority as it remains committed to Zero Harm.

Substantial time has been invested in:

- Behaviour interventions to change the safety culture, with a clear safety culture roadmap, firmly based on the recognition to staff, depend on one another for their collective safety
- Refreshed Seven Focus areas, being leadership visibility and audits, reporting of unsafe conditions, plant quarantines, environmental focus, leadership training, 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.

Markets

Global crude steel production¹ decreased to 949 million tonnes due largely to plant idling because of pandemic-related lockdowns, high inventories and weak order levels in China. This performance is 54 million tonnes (or 5%) lower than the 2021 comparative period. Global crude steel production increased by 5% compared to the immediately preceding six months.

Turning to South Africa and the regional economy, the consensus GDP growth forecast for South Africa is 2.3% for 2022, and those for near and Sub-Saharan African markets between 3.4% and 3.7% but with significant risk and the potential for downward revision.

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; inflation and rising interest rates affecting disposable income in the retail sector. ASC decreased by 9% compared to 2.2 million in the immediately preceding six months.

The company's total sales volumes decreased by 8%, or 104 000 tonnes, to 1.2 million tonnes compared to the 2021 comparative period, due to a 10% fall in domestic sales to 1.0 million while exports increased by 12% to 137 000 tonnes. The regional mix of exports weakened as Africa Overland sales fell to 81 000 tonnes, being a decrease of 26%. Total sales volumes decrease by 4% compared to the immediately preceding six months.

The company's overall realised steel price in dollars increased by 23%. In rand

terms, this represented a 30% increase as the average dollar/rand exchange rates weakened by 6%. Realised dollar steel prices increased by 7% compared to the immediately preceding six months, with rand prices up by 10% for the same period. This trend reflects the lag-effect of steel price movements which characterise the company's order intakes. The higher international steel prices early in the year contributed to this improvement. By the same measure, when steel prices drop, the impact thereof is delayed in reflecting in the realised prices. The Company is the only primary producer in South Africa which supports the downstream industry through a formal support programme. This industry support saw a 19% increase to R126 million in value-added export and strategic rebate assistance.

Operational

The company's average capacity utilisation decreased from 59% in the 2021 comparable period to 42% in 2022 and should reach at 76% after the Newcastle blast furnace mid-life campaign restoration. The reduction in capacity utilisation reflects the impact of the delivery complexities associated with rail service unavailability, labour disruptions and electricity loadshedding as described earlier.

Crude steel production decreased by 30%, or 441 000 tonnes, from 1.5 million tonnes to 1.1 million tonnes in 2022. Crude steel production decreased by 31% to 1.1 million tonnes to 1.5 million tonnes in the immediately preceding six months. The R464 million, three-month Newcastle blast furnace mid-life campaign restoration is rapidly approaching completion with more than 40 000 hours worked without a single lost-time injury. The major benefits of the project include plant life extension, improved reliability and cost competitiveness, lower energy consumption and a reduced carbon footprint. Some 50 tonnes of steel, 5 382 carbon blocks and 14 047 refractory bricks have been consumed while 1 030 temporary job opportunities were created, supported by 28 contractor companies.

Financial results

ArcelorMittal South Africa reported an EBITDA of R3 591 million against R3 218 million in the comparative period, while its operating profit increased from R2 945 million to R3 235 million. The headline earnings of R3 025 million rose from R2 482 million, amounting to a 271 cents per share profit against 223 cents for the 2021 comparative period.

EBITDA decreased by 33% to R3 591 million compared to R5 351 million in the immediately preceding six months.

Revenue increased by 19% to R22 176 million due to a 30% rise in net realised steel sales prices, despite an 8% decrease in total steel sales volumes. Revenue increased by 5% to R22 176 million in the first half of 2022 compared to R21 112 million in the immediately preceding six months.

The company's raw material basket (iron ore, coking coal and scrap), representing 43% (2021: 43%) of cash cost per tonne, was 41% higher in rand terms, against a 39% increase in the international raw material basket in rand terms. This reflects a fly-up in imported coal prices along with lower, more stable local iron ore prices against higher but falling international prices.

Consumables and auxiliaries, representing approximately 31% of cash cost per tonne (2021: 31%), increased by 46%. Electricity tariffs increased by 12%. Dollar-denominated commodity-indexed consumables increased by 61%.

Fixed costs increased from R3 376 million in the 2021 comparative period to R3 448 million in 2022, an increase of 2%. Fixed costs decreased by R604 million (-15%) compared to R4 052 million in the immediately preceding six months in response to lower maintenance activity.

Net financing charges were substantially down at R250 million (2021: R445 million) mainly due to higher foreign exchange profit of R140 million and a decrease in net interest charges on bank overdrafts and loans of R96 million.

Cash flow and borrowing position

Cash generated from operations of R1 102 million decreased by R406 million in 2022, due to a temporary investment of R1 951 million (2021: R1 721 million) in working capital, and the final settlement of a dollar-denominated trade payable with extended credit terms of R628 million.

Net finance cost outflows increased by 78% or R102 million to R232 million. A net foreign exchange loss of R9 million was realised compared to R46 million in the 2021 comparative period.

The net capital expenditure cash outflow was R693 million against R350 million in the 2021 comparative period, reflecting activities related to the Newcastle blast furnace mid-life campaign restoration of R173 million.

The net borrowing position of R1 087 million at 30 June 2022 decreased by R1 695 million from R2 782 million at 30 June 2021. At 31 December 2021, the net borrowing position was R1 258 million.

Outlook for the second half of 2022

Building on the current year's improved safety performance remains a priority.

With economic headwinds having intensified both internationally and domestically, it will significantly affect the trading environment.

International price correction in a soft local demand environment will impact results. Managing through a cyclical business environment is all-too familiar territory for ArcelorMittal South Africa, its employees, customers and suppliers.

The company's focus areas are

- The preservation of the hard-won gains of the last few years
- An essential intensification of Value Plan initiatives
- Agile management of the asset and cost base
- Cash preservation in a downward price cycle

Barring any further rail services challenges, it is anticipated that production levels should improve as capacity utilisation levels recover.

As ever, the ZAR/USD exchange will continue to have an impact on the results.

Finally, it remains worthwhile to re-emphasise that despite the current challenges and the short-term weaker trading environment, the long-term investment case for steel remains intact given steel's inherently vital role in the transition to a low-carbon, circular economy.

The company will publish its Carbon Footprint Roadmap later in the third quarter of this year.

HJ Verster
Chief Executive Officer
28 July 2022

SM van Wyk
Interim Chief Financial Officer

Key statistics

Six months ended			Year ended	
30 June 2022	30 June 2021	% Change	31 December 2021	
Financials (R millions)				
22 176	18 596	19.3	Revenue	39 708
3 591	3 218	11.6	EBITDA	8 569
3 235	2 945	9.9	Profit from operations	7 976
3 072	2 253	36.4	Net profit	6 625
3 025	2 482	21.9	Headline earnings	6 860
(1 087)	(2 782)	60.9	Net borrowing	(1 258)
12 143	4 602	163.9	Net asset value	9 053
Financial ratios (%)				
16.2	17.3		EBITDA margin	21.6
57.1	142.9		Return on ordinary shareholders' equity	120.3
(9.0)	(60.5)		Net borrowing to equity	(13.9)
Share statistics (cents)				
276	202	36.6	Profit per share	594
271	223	21.5	Headline earnings per share	615
-	-	-	Dividends per share	-
10.89	4.13	163.7	Net asset value per share	8.12
Safety				
0.71	1.13	37.2	Lost-time injury frequency rate	0.98
Operational statistics ('000 tonnes)				
1 051	1 492	(29.6)	Crude steel production	3 026
1 159	1 263	(8.2)	Steel sales	2 473
1 022	1 141	(10.4)	- Local	2 171
137	122	12.3	- Export	302
120	193	(37.8)	Commercial coke	308
Segmental performance (R millions)				
Steel operations				
20 864	17 325	20.4	- Revenue	37 250
3 460	3 120	10.9	- EBITDA	8 147
Non-steel operations				
1 324	1 295	2.2	- Revenue	2 508
443	351	26.2	- EBITDA	820
(312)	(253)	(23.3)	Corporate	(398)

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. This short-form announcement is itself not reviewed but extracted from the reviewed condensed consolidated financial statements which was reviewed by Ernst & Young who issued an unmodified review conclusion on the reviewed consolidated interim financial statements. Their review conclusion report can be obtained from the company's registered office and on the group's website at <https://southafrica.arcelormittal.com/InvestorRelations/InterimResults.aspx>.

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/2022/JSE/ISSE/ACL/AMSAnt22.pdf> and on the group's website at <https://southafrica.arcelormittal.com/InvestorRelations/InterimResults.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.

ArcelorMittal South Africa Limited

(ArcelorMittal South Africa, the company or the group)
Registration number: 1989/002164/06 Share code: ACL ISIN: ZAE000134961

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

Share queries: Please call the ArcelorMittal South Africa Share care number toll free on 0800 006 960 or +27 11 370 7850.

¹ Source: Worldsteel Association and Statistics.

² Year-on-year % sectoral growth forecast change: Manufacturing (-12%), Mining (-13%), Automotive (-30%), Construction (+1%).