1 August 2014

ARCELMITTAL SOUTH AFRICA

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

- Two fatalities in May and June 2014
- Lost time injury frequency rate improved to 0.54 from 0.66 for H1 2013
- Headline loss of R6 million compared to a loss of R123 million last year
- EBITDA of R810 million - a R167 million decline on H1 last year
- Reline of the Newcastle blast furnace progressing

Johannesburg, 1 August 2014: Notwithstanding the quest to achieve zero fatalities and injuries, two fatal incidents occurred at the Vanderbijlpark plant during the second quarter of this year. A Lost Time Injury Frequency Rate of 0.54 was achieved for the half-year period, which is an improvement on the 0.66 for the six months ended 30 June 2013.

ArcelorMittal South Africa recorded a headline loss of R6 million for the six months ended 30 June 2014, compared to a headline loss of R123 million in the corresponding period last year. EBITDA was R167 million lower at R810 million, and operating profit was down R74 million to a profit of R159 million.

Domestic steel demand was negatively affected by the strikes in the platinum mining sector, and while patterns in the construction sector have registered improvements in building plans, the completion or implementation of this remains low. The much anticipated positive story for the steel market will depend on Government’s infrastructure investment implementation, together with an increase in demand from the local customer base.

Despite a favourable currency environment, the overall high transformation costs in the manufacturing sector are limiting the export potential for domestic steel producers.

Liquid steel production was 2.4 million tonnes for the six months, which is a decrease of 95 000 tonnes compared to the same period last year. This is largely due to the planned shutdown for the reline of the Newcastle blast furnace that commenced in May 2014. The effect of the reline was partly offset by higher production volumes at Vanderbijlpark. Capacity utilisation for flat steel improved from 68% to 83%. Long steel capacity utilisation decreased from 82% to 58%.

The reline project, which will provide additional capacity and better efficiency once completed, was originally planned for 125 days and is currently delayed by approximately one month due to the unsatisfactory performance of a contractor on the critical path. Various steps have been initiated to minimise the impact of the delay.
Sales volumes increased 3% to 2.2 million tonnes due to a rise in exports of 59%, and local sales volumes were down 10% compared to the six months ended June 2013. Revenue increased 13% to R17.9 billion primarily due to an 8% increase in average net realised prices. Domestic prices were 12% higher, while exports rose 2%, reflecting a less favourable regional mix of exports. Revenue from the Coke and Chemicals business of R1 billion was 23% higher following an 8% increase in commercial coke sales prices, but this was offset by a 1% drop in sales volumes.

Outlook for the next quarter

ArcelorMittal South Africa’s results are expected to remain under pressure over the next quarter due to the reline of the blast furnace in Newcastle, high electricity tariffs during winter months, as well as the weak economy in our domestic market. The quarter has also been affected by the four week strike in the metal industry during July.

Conclusion

Recently appointed Chief Executive Officer, Mr Paul O’Flaherty, said “Trading conditions remain tough. In addition, the month long metal and engineering strike that ended this week has been of major concern to us as we are already seeing the negative effects on sales. Looking forward, we have to focus on driving profitability, meeting our customers’ expectations as well as driving supplier and operational efficiency.”

Infrastructural development projects in the SADC region could generate demand for almost 10-million tonnes of steel, according to ArcelorMittal South Africa estimates. Of the 10-million tonnes about 60% is for the South African market, which is over and above any increases in demand related to GDP growth. ArcelorMittal South Africa has secured almost 40% of the new project demand for 2014 and remains well positioned to participate in the various projects. The South African infrastructural projects could provide an additional 10% volume growth a year.

Furthermore, Government recently announced that steel is included in the next designation of products for South African procurement, which will now be included in the localisation definition. Steel was not previously classified as a designated product and was excluded when determining local content for large infrastructure and other projects.

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