MEDIA RELEASE

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news release

ArcelorMittal South Africa Financial Results for the half year ended 30 June 2019

- 2% reduction in South Africa's apparent steel consumption
- 4% decrease in liquid steel production with a 9% reduction in steel sales volumes
- 13% lower international steel prices
- 15% increase in the cost per tonne of liquid steel driven by sharp rises in the iron ore price and increases in electricity, rail and port tariffs
- Business Transformation Programme - to improve international cost competitiveness - is gaining momentum
- Aggressive focus on cash generation containing cash outflow to R1 266 million resulting in higher net debt of R1 741 million
- EBITDA decreased by R1 420 million to R167 million
- Successfully completed the interim stave repair at the blast furnace at Vanderbijlpark Works, and restarted the Vereeniging electric arc furnace
- Improved health and safety record with LTIFR decreasing from 0.83 to 0.38
- R4 500 million borrowing-based facility renewed
- Acquiring of the Highveld Structural Mill

The analysis below relates to the six months ended 30 June 2019 (current period) compared to the six months ended 30 June 2018 (prior period), except where otherwise indicated.

Johannesburg, 01 August 2019: ArcelorMittal South Africa's operating profit decreased from a profit of R1 224 million in June 2018, the first half-year profit in almost a decade, to a loss of R222 million. This was largely as a result of lower sales prices and volumes, higher electricity, rail and port tariffs, and sharp increases in primary raw material prices, notably iron ore. This resulted in a headline loss of R638 million compared to headline earnings of R54 million for the same period last year.

"After a positive 2018, the global steel industry is again facing extremely challenging market conditions in the current year as a result of weaker international steel prices, lower demand and significant increases in primary raw materials costs," says Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa.

In South Africa, this has been compounded by a domestic economy that remains close to recessionary levels, with subdued spending on infrastructure development in the country.

"In the first quarter of the year, the South African economy saw the largest contraction in a decade, mainly due to the decline in the mining and manufacturing sectors. Our results for the first half of the year reflect this challenging operating environment," adds Verster.

Apparent steel consumption decreased by a further 2% for the period and is now at 70% of 2008 levels - a 10-year low. Total steel imports for the six months are 18% higher, with flat product imports increasing by 23%. Imports once again make up 20% of South Africa's apparent steel consumption, compared to 17% in the first six months of 2018. To assist the downstream steel fabrication industry to effectively compete against the import of semi-finished and finished fabricated steel goods, additional import tariff protection is urgently required.

“Cash preservation and generation remain our primary focus in these difficult times,” adds Verster. “However, the strategic imperative of improving our cost competitiveness against China-sourced steel and that of domestic competitors, is being severely hampered by structural disadvantages associated with unaffordable electricity, port and rail tariffs and higher raw materials costs.”

International iron ore prices have increased sharply by 28% while steel prices have decreased by 13%.

Internationally uncompetitive electricity, port and rail tariffs have been made more unaffordable following further recent increases. ArcelorMittal South Africa has submitted its applications for short-term electricity tariff relief to Eskom and the Emfuleni Municipality.

Cash cost per tonne of liquid steel produced increased by 15% to R8 519 per tonne. Primary raw materials, namely iron ore, coal and scrap, which accounted for 51% of total costs, increased by 21%. Consumables and auxiliaries, which represented approximately 27% of costs, increased by 11%. Fixed costs increased by 4% however fixed costs per tonne increased by 8% due to liquid steel production reducing by 4%.

Total fixed costs for the group decreased by 3%.

Capacity utilisation across ArcelorMittal South Africa was 76% compared to 85% the previous year. Liquid steel production for the first half of the year was 2.5 million tonnes, a decrease of 99 000 tonnes (4%).

Production of Flat products decreased by 201 000 tonnes and plant utilisation dropped to 78% from 87% in the comparable period. This was due to lower production at Vanderbijlpark Works as a result of the planned repairs at Blast Furnace D.

Long products saw a production increase of 102 000 tonnes as a result of the restart of the Vereeniging electric arc furnace and higher production at Newcastle Works due to improved plant efficiencies. Long products utilisation was 74% compared to 79% in 2018 while Newcastle Works was up 7% at 86%.

Export sales declined due to a decrease in international demand, and, in the case of flat products, the build-up of slab inventory to compensate for the planned repair outage of the blast furnace at Vanderbijlpark Works, enabling the uninterrupted supply to domestic customers.

Revenue decreased by 5% to R21 743 million primarily as a result of lower sales volumes of 9%. The decrease of 8% and 12% in domestic and export volumes respectively was partly offset by a 6% increase in average net realised steel prices, from R8 827 per tonne to R9 337 per tonne. Although the international steel prices decreased, the realised price was higher due to the weaker exchange rate compared to the previous period.

The R958 million improvement in the loss for the period was largely attributable to the non-recurring negative fair-value adjustment charge on assets-held-for-sale of R1 652 million which was recognised in the comparable period.

ArcelorMittal South Africa has embarked on several initiatives to improve efficiencies and address expenditure within its control. The Business Transformation Programme initiated to address cost competitiveness, improve efficiencies, debottleneck steel production at all sites and optimise procurement contracts, is yielding results.

The company is also re-evaluating steel and raw material inventory levels considering the lower market demand. This should further aid the improvement of cash generation.

ArcelorMittal South Africa recently announced that the company has begun a consultation process in terms of Section 189(3) of the Labour Relations Act which will potentially impact about 2 000 positions (full time equivalents).

ArcelorMittal South Africa's concerted efforts to improve its health and safety performance resulted in an improvement in its lost time injury frequency rate (LTIFR) from 0.83 to 0.38 while the company's total injury frequency rate (TIFR) declined to 7.41 from 6.33.

Reduction of its carbon footprint is a key imperative for ArcelorMittal South Africa. However, the timing of the introduction of the country's carbon tax - from which imported steel is exempted - will place added financial pressure on the company.

On 26 July, the company successfully negotiated the refinancing of the borrowing-based facility valued at R4 500 million for three years, on substantially the same terms and conditions as the 2017 facility agreement.

Further to this, ArcelorMittal South Africa has entered into an agreement to purchase the Highveld Structural Mill (HSM) for an initial cash amount of R150 million and an additional R150 million conditional upon the conclusion of a commercial arrangement for the long-term supply of sizable mainline rail volumes.

"The HSM is the only facility of its kind in Africa with the ability to produce heavy structural steel, including material for railway lines," says Verster. "The localisation of mainline rails will support jobs, strengthen industrial capability and enable export opportunities, while allowing for the transfer of specialised intellectual property and skills associated with rail production."

Outlook

International steel prices are expected to improve while the raw material basket is likely to be lower. Domestic steel demand will remain under pressure until there is improvement in real infrastructure spending and economic growth. Regulated tariffs will continue to impact the company's cost competitiveness and the volatility of ZAR/USD exchange rate is also likely to continue to impact the company's results.

"We will continue to drive interventions as part of our turnaround strategy to ensure the sustainability of the business," concludes Verster.

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