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For immediate release

news release

ArcelorMittal South Africa financial results for the half-year ended 30 June 2020

Salient features

- Extraordinary cash management and cost control measures implemented
- 54% lower liquid steel production at 1.1 million tonnes and 47% lower sales volumes at 1.1 million tonnes
- Overall plant utilisation reduced to 35%
- Average international steel prices fell by 13%
- Raw material basket (RMB) down 6% in rand terms
- Volume-affected cash cost per tonne of liquid steel increased by 21% despite R663 million savings achieved through BTP
- R1 601 million reduction (38%) in total fixed costs
- Headline loss of R2 613 million (2019: R638 million loss)
- 2020 strategic asset footprint review results in temporary idling of Vanderbijlpark Blast Furnace C and Vereeniging Electric Arc Furnace until demand recovers

The analysis below relates to the six months ended 30 June 2020 (current period) compared to the six months ended 30 June 2019 (prior or comparable period) except where otherwise indicated.

Johannesburg, 30 July 2020: ArcelorMittal South Africa reported a headline loss of R2 613 million for the first six months of the year, compared to a loss of R638 million in the previous year. This amounts to a 239 cents loss per share against a 58 cents loss in the first half of 2019. ArcelorMittal South Africa's EBITDA decreased from a profit of R167 million to a loss of R1 256 million.

"On the back of a demanding 2019, the first half of 2020 proved to be incredibly difficult with the widespread health, social and business impact brought about by the global Covid-19 pandemic," explains Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa. "The global threat of the fast-spreading virus had already started reducing demand before Covid-19 hit our shores, while at the same time we anticipated another sovereign downgrade."

The impact of the pandemic on economic activity was abrupt and the business response needed to be sharp and decisive. The unprecedented and rapid shutdown of ArcelorMittal South Africa's assets was done safely and in a manner that would enable a swift but well-controlled restart.

"Taking lessons from other parts of the ArcelorMittal group allowed us to rapidly implement a response plan to protect our people, assets and financial lifelines," says Verster.

In addition to the substantial cost improvements over the past 24 months, extraordinary cash management and further cost control measures were immediately put in place to ensure sufficient liquidity in response to the disrupted supply chains.

With all but small volumes of commercial market coke sales to ferro-alloy producers possible in the first month of the lockdown, reducing the fixed cost structure of the company became critical to rescale cash outflows to the dramatically reduced cash inflows.

After reassessing its strategic asset footprint, ArcelorMittal South Africa has modified its operational capacity with some parts of the business remaining idle until demand recovers.

Anticipating that steel demand will, for the foreseeable future, remain at between 70% to 75% of levels planned before the lockdown, ArcelorMittal South Africa announced a large-scale labour reorganisation in terms of Section 189(3) of the Labour Relations Act 66 of 1995 on 18 June 2020.
Although the number of positions affected is subject to a formal consultation process, the company aims to negotiate a multi-faceted, flexible solution in response to the temporary idling of some operations.

"While we are extremely conscious of the serious unemployment situation facing the country, we must find ways to secure significant cost savings if the business is going to survive," adds Verster.

The company will also look to accelerate its single operating model initiative, *OneOrganisation*, in those areas where it is feasible. *OneOrganisation* aims to simplify and de-clutter management mechanisms; adopt a common information technology infrastructure for planning, scheduling and production; and improve the customer service experience through a more flexible sales and marketing organisation.

In the first half of the year, the Business Transformation Programme (BTP) added R663 million in earning improvements to the R2.1 billion of improvements realised since the programme started.

The company's capacity utilisation reduced from 76% in 2019 to 35% in H1 2020. Liquid steel production fell by 54% or 1.4 million tonnes, from 2.5 million tonnes in 2019 to 1.1 million tonnes in 2020. Flat steel products' liquid steel production decreased by 849 000 tonnes, reflecting lower plant utilisation of 37% against 78% in the comparative period (includes placing Saldanha Works under care and maintenance). Long steel products' liquid steel production was lower by 488 000 tonnes. Similarly, its utilisation fell to 31%.

Liquid steel production during Q2 2020 was limited to 153 000 tonnes with the idling of the blast furnaces for April and May 2020.

Commercial market coke production was 75% higher at 117 000 tonnes, though sales volumes were 142% higher at 120 000 tonnes as lower internal demand could be routed to ferro-chrome producers that operated during the initial lockdown.

The raw material basket (iron ore, coking coal, and scrap), which represented 47% (2019: 53%) of total production costs, was 6% down in rand terms.

In Q1, significant production interruptions resulted from (i) electricity load shedding, and (ii) raw material train cancellations and delays due to a major increase in cable thefts. The combined negative impact of these uncontrollable events on earnings amounted to R272 million. These events and the consequential stop-start shocks are beginning to materially affect the reliability of plant and equipment and are diluting the improved underlying performance of the business.

Further, continued increases in electricity, port and rail tariffs, off an already inflated base, resulted in R138 million of additional costs against the comparable period and an extraordinary cost of R328 million was incurred as the result of an increase in the consumption of gases due to the idling of the blast furnaces and hot idling of some coke batteries. Collectively, these additional uncontrollable costs of R738 million, which were not present in 2019, had a very severe impact on the earnings of the first half of 2020.

The operating loss amounted to R1 528 million, increasing from R222 million in the first half of 2019.

Despite significant saving from BTP initiatives, the company's cash cost per tonne of liquid steel increased by 21%, driven largely by lower liquid steel production of 54% because of Covid-19 and unreliable service delivery from Transnet and Eskom.

Cash generated from operations of R78 million was R355 million higher than the same period in 2019, and capital expenditure was R248 million against R862 million in 2019, reflecting the interruption in projects to preserve cash.

After slower than expected growth in 2019, mainly due to the deep manufacturing recession in developed economies, a further decline in global steel demand occurred in the second quarter of 2020 as global lockdowns were enforced to contain the spread of Covid-19. South Africa entered a technical recession at the beginning of 2020, and this continued through Q1 as GDP contracted by a further 2% quarter-on-quarter.

Apparent steel consumption (ASC) for the first half of 2020 decreased by 26% to 1.8 million tonnes as the pandemic negatively impacted all key steel-consuming sectors. Customer survey results suggest a domestic market reduction of 27% in 2020. Agriculture, packaging, DIY and infrastructure development are expected to be less affected, while construction, automotive, and machinery and equipment sectors expect a more severe impact.

Total steel imports for the six months to 30 June 2020 were approximately 340 000 tonnes, remaining constant against the comparable period at 19% of South Africa's ASC. Disruptions to global supply chains, combined with domestic production closures and logistical restrictions were contributing factors. The company has applied to the International Trade Administration Commission (ITAC) for an extension of the safeguards on hot rolled products and has submitted a new application for heavy beams manufactured at Highveld Structural Mill.

The company's total sales volumes fell by 47% (1.0 million tonnes) to 1.1 million tonnes for the period, driven mainly by a 40% reduction in domestic sales (640 000 tonnes). Flat steel products decreased by 426 000 tonnes (38%), while long steel products decreased by 214 000 tonnes (45%). Export sales comprising Africa Overland and seaborne, were down by 375 000 tonnes (65%).

Total steel sales volumes for Q2 2020 fell by 54% (425 000 tonnes) to 361 000 tonnes compared to Q1, confirming the significant impact of the lockdown on the company's sales volumes.

Revenue decreased by 45% to R12 014 million due to a 47% reduction in total sales volumes. Net realised steel prices in rand terms remained flat against the comparative period, aided by rand weakness.

The company provided R56 million in value-added export assistance to the downstream industry despite the harsh operating environment (2019: R134 million).

During the period, exchange rates between the South African rand and the US dollar weakened significantly. Ordinarily, a weakening exchange rate has a positive impact on the company's financial results. However, with the severe erosion of revenue during the lockdown and given the large foreign-denominated payables position, the company reported a substantial unrealised exchange rate loss of R977 million for the period (2019: R 96 million profit).

ArcelorMittal South Africa continues to make good progress with its intended acquisition of the Highveld Structural Mill. The business also continues to look for opportunities to improve the cost structure of certain strategic raw materials and to monetise its by-products streams through joint venture arrangements. Although taking longer than intended due to the pandemic, the project to seek a co-investor for the commercial market coke business continues. ArcelorMittal South Africa has also shortlisted potential partners for a joint venture to establish a logistics hub using the available land and infrastructure of the Saldanha Works.

"Our best practice response to the Covid-19 pandemic emphasised that the wellbeing and safety of our employees remains our number one priority," says Verster. The business provides first-line care internally and refers more severe suspected cases of infection to external healthcare providers.

Although the company's lost-time injury frequency rate (LTIFR) increased to 0.55 from 0.38, the total injury frequency rate (TIFR) of 6.56 reflected an improvement from 7.31 in the comparable period.

In support of surrounding communities, the ArcelorMittal Foundation, through Thusong Projects, is providing 800 litres of soup and 445 loaves of bread each day to local communities. ArcelorMittal South Africa provided 600 food parcels to vulnerable farm communities in Overvaal. The company's requirement of 15 000 face masks was awarded to a B-BBEE SMME using local skills and 1 000 masks were donated to local NGO workers who care for vulnerable members of the community.

Outlook

The health and wellbeing of employees will continue to receive significant attention. Given the high infection rates across the country, the company is carefully balancing the need to meet real, demonstrable and sustainable demand levels against the need to responsibly restore production levels.

To ensure the company's cost structures are adjusted for the current economic realities, there will be a vigorous focus on the BTP, implementation of *OneOrganisation*, and finalisation of the large-scale labour reorganisation.

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

Within the current risk-adjusted approach, it is anticipated that sales volumes should improve against a very weak first half but, even so, these levels will be notably below historic levels.

"We have heard repeatedly that infrastructure investment and development will be a key enabler of economic recovery and this must be addressed with urgency if businesses are to deliver inclusive economic growth," concludes Verster. "We are ensuring that our business is well-positioned to take advantage of the post-Covid-19 economic recovery."

ENDS

***** Please refer to the detailed SENS announcement (available on the company's website*** https://arcelormittalsa.com/***) for further financial information***

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