ArcelorMittal South Africa Limited

8 February 2024
For immediate release

news release

ArcelorMittal South Africa financial results for the year ending 31 December 2023

Key features

- A difficult international and local trading environment significantly impacted ArcelorMittal South Africa's results.
- The deferral of the wind down of Longs steel product operations ("Longs Business") enabling it to continue to operate for up to six months, to allow time to (i) progress, conclude and secure benefits arising from identified short-term interventions, while (ii) progressing the development of additional medium- and longer-term interventions focused on business sustainability.
- Sales volumes up 12% to 2,4 million (crude steel production up 15% to 2,8 million).
- Realised rand steel prices down 9% (down 20% in dollar terms).
- Raw material basket (RMB) flat in rand terms (international RMB increased 2% in rand terms)
- Value Plan added EBITDA of R2 093 million (2022: R1 561 million).
- Fixed costs of R6 619 million flat despite inflationary pressures (2022: R6 644 million) - decreased by R481 million (14%) against H1 2023 (H1 2023: R3 550 million; H2 2023: R3 069 million)
- EBITDA profit before impairment of R56 million (2022: R4 270 million)
- Loss per share of 352 cents after impairment of R2 115 million (2022: earnings of 236 cents per share)
- Headline loss of R1 890 million (2022: R2 607 million profit).
- Net borrowings of R3 215 million (2022: R2 808 million.)
- Confirming the business as the champion of innovative, export driven, steel-based industrialisation by ensuring the continued growth and competitiveness of core downstream industries such as automotive, renewable energy, mining, and key construction and infrastructure projects.

The analysis below relates to the year ended 31 December 2023 (current period) compared to the year ended 31 December 2022 (prior or comparable period), except where otherwise indicated. The immediately preceding six months refers to the first six months of 2023.

> ***"The weak global economy, muted infrastructure investment and lower consumer demand internationally, combined with higher and longer inflation and interest rates resulted in a poor global market for the steel industry. The South African trading environment for steel has been particularly challenging throughout 2023 given the sluggish local economy and lack of infrastructure spend, compounded by rail, transport and electricity breakdowns and inefficiencies coupled with higher prices. Collectively, these factors have significantly impacted ArcelorMittal South Africa's results for 2023, but I have every confidence that the measures currently being implemented to reposition the Company for short, medium and long-term sustainability will be successful."***

Kobus Verster, Chief Executive Officer of Arcelor Mittal South Africa

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Overview

On 28 November 2023, it was indicated that the Longs Business wind down would be subject to a due diligence and a consultative and iterative process involving key customers, suppliers, organised labour, and other stakeholders.

Since making the announcement, ArcelorMittal South Africa has engaged with various stakeholders, including Government, represented especially by the Minister of Trade, Industry and Competition, Transnet, numerous industry associations, organised labour, affected suppliers, and community forums, but most importantly customers.

These stakeholders have expressed widespread concern regarding the negative, and in many cases, detrimental impact of the closure. The Company, along with the interested stakeholders, embarked on an intensive process to explore options to reverse the decision regarding the Longs Business. ArcelorMittal South Africa explained that it did not need any preferential treatment or subsidies, rather it required Government to ensure that a level playing field exists for South Africa's primary steel producers, by addressing the structural constraints affecting the steel industry.

As a result of ongoing intensive engagements with all key stakeholders, ArcelorMittal South Africa is able to announce the deferral of the wind down of the Longs Business to allow for its continued operation for up to six months. During this time, the objective is to further progress and conclude the short-term initiatives, followed by their implementation to secure the targeted benefits.

The short-term initiatives that are being progressed include:

- Port and rail service efficiency improvements in engagement with a Transnet leadership who have demonstrated firm intent to cooperate with the Company to narrow the current cost gap, and an undertaking to work together towards addressing further cost optimisation opportunities;
- The export ban on steel scrap was not extended in December 2023 as a first step in addressing those policy measures which gave an artificial cost advantage to lower quality scrap-based steel makers, to the disadvantage of integrated steel making facilities that beneficiate mined raw materials (specifically, iron ore). The Company will continue to engage with Government on continuing concerns regarding steel scrap metal, which amongst other matters, threaten the existence of small- and medium-sized scrap entrepreneurs and traders;
- Expediting demand-side opportunities to improve capacity utilisation in the absence of economic growth, and, as envisaged in the Steel Masterplan, to replace imports and facilitate exports. This includes anticipated projects which require investment to increase the local application of high-quality steel profiles;
- Ensuring that trade protection measures, which are low in international terms, are enforced and companies illegally contravening the rules do not continue to do so;
- Agreement with key customers to a longer-term volume commitment and localisation efforts to create sustainable local supply and enlarge the downstream manufacturing capability to the benefit of both local manufacturers and the Longs Business;
- Working with key suppliers, service providers and organised labour to reduce the cost structure of the Longs Business.

The timing of the deferral is subject to these in principle agreements being commercially and contractually concluded.

Understandably, certain initiatives and interventions are commercially sensitive and confidential, and therefore the Company cannot elaborate on the specific details at this time.

Although the short-term initiatives do not fully address the structural shortcomings highlighted before, taken together, these interventions allow for the time and opportunity to defer the wind down decision without prejudicing the sustainability of the Company. It allows for the operation of the Longs Business to continue for up to six months, while work with Government, customers, suppliers, labour and other stakeholders progresses on the consideration and implementation of the medium- and longer-term structural changes necessary to ensure a level playing field and the sustainability of the steel industry.

ArcelorMittal South Africa will continue to monitor its working capital requirements over the deferral period which will extend for a period of up to six months, to ensure that there is sufficient access to liquidity. In this regard, in the interest of prudent liquidity management, the Company is in the process of applying for an additional working capital facility up to R1 billion which may be called upon to support continued operations.

FINANCIAL KEYPOINTS

Given the extreme operational pressures, the Company posted a headline loss of R1 890 million against earnings of R2 607 million in 2022. EBITDA before impairment fell substantially to R56 million (2022: R4 270 million). Depreciation and amortisation expenses increased by 14% to R878 million (2022: R771 million) and net finance charges increased by 11% to R1 057 million (2022: R952 million).

Excluded from the headline loss are impairment charges for the year that amounted to R2 115 million. This included R2 096 million for the impairment of the property plant and equipment and other intangible assets relating to the Longs Business.

Despite the major earnings challenges, the intense focus on cash management yielded notable benefits, enabling the Company to maintain debt levels within tolerable levels. Consequently, the net borrowings position of R3 215 million compared to R2 990 million and R2 808 million at June 2023 and December 2022 respectively.

Additionally:

- The Company's average capacity utilisation increased from 47% for 2022 to 54% in 2023;
- Revenue increased by 2% to R41 637 million (2022: 40 771 million), due to a 12% increase in total steel sales volumes, despite a 9% fall in net realised steel sales prices. Revenue decreased by 2% (H1 2023: R21 045 million) compared to the preceding six months;
- Sales volumes were up by 12%, with crude steel production 15% higher against the comparable period. Compared to the immediately preceding six months, sales volumes improved by 2% to 1,2 million tonnes, while crude steel production 4% higher at 1,4 million tonnes;
- ArcelorMittal South Africa's realised average steel prices decreased by 9% in Rand terms. Its raw material basket was flat (being in absolute terms and on a delivered basis). The components in the basket moved as follows: imported coking coal decreased by 2%, iron ore increased by 28% and scrap decreased by 21%. After accounting for conversion cost, the variable cash cost of steel increased by 10%[1]; and
- Fixed costs marginally decreased by R25 million (0,4%) to R6 619 million despite inflationary pressures. Pleasingly, these costs decreased by R481 million (14%) compared to the immediately preceding six months.

Sustainability

ArcelorMittal South Africa is a member of the world's leading steel company. The Company's business going forward will be focused on ensuring that ArcelorMittal South Africa remains the champion of innovative, export driven, steel-based industrialisation in South Africa, sub-Saharan Africa and other key geographies, by building on the existing competitive supply chain and ensuring the continued growth and competitiveness of core downstream industries such as automotive, renewable energy, mining, and key construction and infrastructure projects.

A strong balance sheet is needed for strategic continuity. In the longer-term, the reducing the net borrowings position to a more comfortable level remains a key focus area.

Good progress continues to be made regarding the finalisation of the funding for the 200MW Solar Energy Plant at Vanderbijlpark.

The definitive feasibility study for the construction of a 1,7 million tonne electric arc furnace at Vanderbijlpark progresses on schedule, along with commercial studies into the construction of new flat rolling plants that will enable the next generation of coated products. The Company is securing a suitable funding structure to target growth opportunities and improve the quality of earnings. Discussions with interested parties on these matters are continuing.

Safety, Environmental, Social and Governance (ESG)

Safety is the Company's highest priority as it remains committed to Zero Harm. The Company's lost-time injury frequency rate (LTIFR) decreased from 0.87 to 0.77 and the total injury frequency rate (TIFR) increased from 5.69 to 7.69. Although this is substantially better than the South African Steel Industry average, we are striving to improve our performance on an ongoing basis.

In 2024, the Company will be participating in an ArcelorMittal group-wide comprehensive audit of all safety-related topics. This will be undertaken by an external independent consultancy. In addition to assessing the suitability and implementation level of standards and policies, risk management and governance procedures, it will also highlight the level of shop-floor implementation and improvements required. This audit will support ArcelorMittal South Africa in becoming the better, safer company which it aspires to be. While awaiting the results of the audit, the Company will redouble efforts already underway to improve safety.

Given the focus on the wind down of the Longs Business, the process to modify the 2016 B-BBEE Transaction as announced in July 2023, has been delayed. Further announcements will be made in due course.

Outlook for the first half of 2024

Internationally, the World Steel Association expects a 1,9% increase in steel demand, with China continuing to play a directional role in international steel demand and pricing trends. Prices are unlikely to remain at low levels based on international spreads being under extreme pressure.

The key focus for the first half of 2024 will be to progress and conclude the short-term initiatives, while work with Government, customers, suppliers, labour and other stakeholders continues, to consider and implement the medium- and longer-term structural changes necessary to ensure a level playing field and the sustainability of the steel industry.

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[1] Based on crude steel production.

Our objective in this regard is for the Longs Business to be in a position to contribute positively to the financial performance and growth of the company.

The medium- and longer-term prospects of our flat steel business remain strong, leveraging from the anticipated infrastructure spend and acceleration in the rollout of the renewable build program.

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

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