ArcelorMittal

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For immediate release

news release

ArcelorMittal South Africa annual results for year ended 31 December 2021

- Exceptional annual EBITDA of R8 569 million: best performance in nearly 15 years
- 13% year-on-year increase in sales volumes and 34% increase in crude steel production
- Raw material basket (RMB) increased only 10% against 42% rise in international RMB (rand terms)
- Business Transformation Programme savings of R2 085 million
- 91% increase in average international dollar steel prices, with 47% increase in realised rand prices
- Unreliable rail and electricity supply limits volume growth
- Free cash flow of R1 961 million results in R2 366 million reduction in net borrowings to R1 258 million
- Headline earnings of R6 860 million (2020: R2 033 million loss)
- Increased capital allocated to improve reliability and quality, enhance environmental compliance and target growth opportunities
- Significant progress on development of decarbonisation plan

"A continuing strong price environment, higher sales volumes, the continued strategic repositioning of the company as well as the benefit of robust price-cost effects all contributed to an exceptionally profitable year for ArcelorMittal South Africa."
Kobus Verster, CEO, ArcelorMittal South Africa.

The analysis below relates to year ended 31 December 2021 (current period) compared to the 12 months ended 31 December 2020 (prior or comparable period), except where otherwise indicated

Johannesburg, 10 February 2022: Despite the volatility from the ongoing repercussions of Covid-19 and its variants, ArcelorMittal South Africa recorded its highest annual EBITDA (R8 569 million) and headline earnings (R6 860 million) since 2008.

Operating profit increased substantially from a loss of R963 million in 2020 to a profit of R7 976 million. The headline earnings of R6 860 million recovered strongly from a loss of R2 033 million, amounting to a 615 cents per share profit against a 185 cents loss for 2020.

An acceleration of free cash flow generation, from the first half's R985 million to the full year's R1 961 million, resulted in a reduction of net borrowings by R2 366 million to R1 258 million against the previous year's R3 624 million. This performance was after the R2 724 million reduction in a significant payable with extended credit terms. "This represents meaningful progress against one of our key strategic pillars, which is to improve the financial resilience of the business by operating on a net cash funding basis," said Verster.

These results were far from effortless and were achieved through the significant efforts of employees and service providers to overcome several obstacles throughout the year, which included:

- ramping-up production and restoring stability after the restart of operations in late 2020 and early 2021 and after interruptions due to disappointing and unacceptable safety incidents
- adverse impact of the civil unrest and the spill-over effects of the paralysing labour strike in the downstream industry, necessitating rapid rebalancing of dispatches to export markets
- unreliable electricity supply at both generator and local municipal distribution levels, and worsening rail logistics services aggravated by significant fire damage at Transnet's Richards Bay facility
- extreme volatility in international coking coal prices in the second half of 2021.

The global steel environment for 2021 was characterised by overall positive yet differing dynamics in the two halves of the year. The first half saw strong demand recovery due to low supply chain inventories and a strong recovery in steel spreads (the difference between steel prices and raw material costs). It was in the first half that China reduced the incentive to export steel by cancelling the export rebates on VAT. Given the scale of China's steel industry and the size of its exports, this represented a material change to the medium-term prospects of the global non-China steel industry. There was continued positive demand in the second half, though with steel prices off record highs. The half also saw falling iron ore prices and volatile coking coal prices in response to easing supply constraints among exporters and notable economic interventions in China.

Average international dollar steel prices increased by 91%, iron ore by 48%, coking coal by 82% and scrap by 68%.

Global crude steel production increased to 1 910 million tonnes for 2021, returning to pre-pandemic levels earlier than anticipated (except in China). This performance is 68 million tonnes (or 4%) higher than 2020, and reflects the pent-up demand by mining, construction and manufacturing activity, as well as the notable recovery within the automotive industry and increased fixed capital formation levels.

Africa's output increased by 27% to 16 million tonnes due to higher production in South Africa and Egypt. South Africa's crude steel production increased by 28% to 5 million tonnes.

ArcelorMittal South Africa's average capacity utilisation increased from 42% in 2020 to 60% in 2021 and is currently at 79%. The company's crude steel production increased by 34%, or 769 000 tonnes, from 2,2 million tonnes to 3,0 million tonnes in 2021.

In South Africa, apparent steel consumption (ASC) for 2021 increased by 25% to 4,5 million tonnes, driven by the recovery of construction, mining and manufacturing.

ArcelorMittal South Africa's total sales volumes increased by 13%, or 284 000 tonnes, to 2,5 million tonnes compared to 2020, due to a 16% rise in domestic sales to 2,2 million while exports decreased by 5% to 302 000 tonnes. The regional mix of exports improved significantly with Africa Overland customers at 218 000 tonnes, representing a 47% increase.

The company's overall realised steel price in dollars increased by 62%. In rand terms, these realised steel prices increased by 47% as the average dollar/rand exchange rates strengthened by 10%.

Total steel imports of primarily hot rolled coil, galvanised sheet and tinplate increased by 47% to 1,4 million tonnes in response to inventory rebuilding in the local market. This volume constituted some 30% of South Africa's ASC (2020: 25%).

ArcelorMittal South Africa continues to support actions which target unfair trade practices in the jurisdictions where it operates and trades. Last year proved to be a particularly active year and globally, the unfair practices which initially led to protection being implemented, remained prevalent with risks intensifying as supply constraints ease and markets normalise.

As demand and supply trends normalise, steel inventory levels have also largely returned to normal. Business conditions in South Africa, particularly in the second half of 2021, proved to be more challenging than initially anticipated. This was due to the negative impact of such events as the civil unrest in July, labour disputes in the downstream sector, continuing electricity load-shedding and municipal distribution network failures, and lockdown uncertainty. In contrast, the anticipation of impactful progress on the renewable electricity build programme, private sector's potential involvement in rail and port logistics, advancing the next tranche of "shovel ready" projects within the Infrastructure Investment Programme, and positive spin-offs for growth from the upcoming band spectrum auction, serve as a basis for some optimism.

ArcelorMittal South Africa is the only primary producer in South Africa which supports the downstream industry through a formal support programme. This support saw a 67% year-on-year increase in value added export assistance and rebates to R308 million.

Diversifying the sourcing of strategic raw materials continued to yield significant benefits. The company's raw material basket (iron ore, coking coal, and scrap), representing 43% (2020: 41%) of cash cost per tonne, was 10% higher in rand terms, which is satisfying given the 42% increase in the international raw material basket in rand terms. Consumables and auxiliaries, which represented approximately 30% of cash cost per tonne (2020: 32%), increased by 5%. Electricity tariffs increased by 14%. Fixed costs increased from R5 066 million in 2020 to R7 428 million in 2021, an increase of 47%. This was largely because the company has taken a very conscious, responsible and well-considered decision to invest in certain key fixed cost areas to improve reliability and quality.

In addition to the significant maintenance programme undertaken, in November and December 2021 the Vanderbijlpark and Newcastle operations completed successful maintenance programmes on their blast furnaces.

"A return to stable, reliable production is key to our commitment to improving our customers' service experience after a difficult 2020 and early-2021," adds Verster.

Aggravated by the high electricity and logistics cost in South Africa, improving ArcelorMittal South Africa's position on the global cost curve while bettering its product offering to customers will be critical to the next phase of its *Transforming for Sustainable Growth* strategy.

The company's Business Transformation Programme (BTP) contributed a further R2 085 million (2020: R1 543 million) in improvements, bringing the cumulative benefit achieved since the programme started in the second half of 2018, to R5,6 billion.

Safety, Environmental, Social and Governance (ESG)

The company's financial performance was sadly overshadowed by its safety results.

"We are saddened by the six fatalities in 2021 and improving our safety performance is our highest priority," commented Verster. "With the assistance of various parts of the ArcelorMittal group and external advisors, we have intensified our efforts by rigorously applying the necessary safety tools and accelerating in-person training. We are doing all we can to ensure fatalities and injuries are eliminated in our business."

With the assistance of external specialists, front-line managers and supervisors are being upskilled in areas such as safety engagements, observations and interactions, as well as risk awareness and analysis.

The company's lost-time injury frequency rate (LTIFR) increased from 0,58 to 0,98 and the total injury frequency rate (TIFR) from 7,21 to 7,80.

Beyond ongoing vigilance against Covid-19, early in the second half of 2021, ArcelorMittal South Africa launched its own vaccination programme and by early February 2022, over 2 500 doses had been administered on-site.

ArcelorMittal South Africa has made significant progress from the second half of 2021 to develop various options to achieve a material reduction in carbon intensity by 2030 and net zero by 2050. Numerous opportunities have been identified, central of which is energy efficiency improvement, both of a non-capital and capital-intensive nature. Of critical importance is the establishment and adoption of an international carbon price, supportive policies and enabling funding solutions. Securing the benefits of early-mover advantages are being explored with various private and public sector entities. "This represents an unprecedent opportunity to redefine South Africa's industrial footprint," says Verster.

The outlook for global steel demand remains generally positive heading into 2022. In South Africa and neighbouring countries, it is likely that demand will ease back to more moderate growth levels.

Due to a combination of supply side constraints and interventions, along with the sporadic demand momentum (especially in developing economies), international steel prices are off the 2021 highs, although prices continue to receive support from robust raw material prices.

Overall, this view is conditional upon central banks' responses to rising inflation, the extent to which growth slows in China and the progress with vaccination coverage, especially in developing countries.

The company is targeting improved production reliability and greater customer focus into 2022, though volume recovery will depend on the reliability of the rail service.

After safety, securing the first benefits of the Value Plan Programme (VPP) - the successor to the company's successful Business Transformation Programme - will be the key focus area for ArcelorMittal South Africa.

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

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