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For immediate release

news release

ArcelorMittal South Africa financial results for the year ended 31 December 2022

- Considerable resources invested in infrastructure to improve safety and environmental performance
- International price corrections and soft local demand significantly impacted second half performance
- Business is more resilient than during other crisis or near-crisis environments of the past
- Value Plan delivered R1 561 million (2021: R2 085 million) and fixed costs reduced by R784 million
- EBITDA down 50% at R4 274 million (2021: R8 569 million) as negative price-cost effect impacted margins
- Headline earnings down 62% at R2 607 million (2021: R6 860 million)
- Net borrowings position of R2 808 million (2021: R1 258 million) due to capital expenditure outflows of R1 912 million and a R3 086 million increase (2021: R6 005 million) in working capital
- 13% decrease in sales volumes and 20% drop in crude steel production
- 6% increase in realised dollar steel prices
- Raw material basket (RMB) increased by 38% (rand terms) (international RMB up 14% in rand terms)
- Decarbonisation Roadmap announced in January 2023 targeting 25% reduction in carbon emissions by 2030 and 86% by 2050

The analysis below relates to the year ended 31 December 2022 (current period) compared to the 12-months ended 31 December 2021 (prior or comparable period), except where otherwise indicated. The immediately preceding six months refers to the first six months of 2022.

"The trading environment for steel has been significantly impacted by recent economic headwinds, both globally and locally. However, our business has responding effectively as a consequence of our evolving Value Plan, together with the support of our committed employees, customers, and suppliers. Despite the sharp weakness which characterised the second half of last year, our financial results are significantly stronger than they would otherwise have been."

Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa

Johannesburg, 09 February 2023: ArcelorMittal South Africa's headline earnings of R2 607 million were down 62% (2021: R6 860 million) as EBITDA of R4 274 million fell by 50% (2021: R8 569 million).

The Value Plan and the associated improvements the business has made in recent years were firmly tested in 2022. As anticipated, the international price correction in a soft local demand environment severely impacted the company's financial results. Globally, steel prices declined at a faster rate than that of raw materials; this was particularly evident in the second half of the year. The resulting negative price-cost effects placed spreads (i.e., the difference between steel prices and raw material costs) under significant pressure.

The company could not escape the impact of last year's energy crunch, which is evident in the large increase in imported coking coal prices (up 117% year-on-year in rand terms). Domestically, market conditions proved to be especially challenging as customers destocked, particularly in the last quarter of the year when market activity dropped dramatically in certain sectors (being somewhat reminiscent of late-2008).

The net borrowings position came under significantly more pressure than initially anticipated. Having successfully improved average asset capacity utilisation in the second half, to 54% from 42% in the first six months, the sudden slowdown in market activity in the fourth quarter was aggravated by a shortage of readily available road trucks for sales deliveries. The well-publicised rail logistic failures in the country's coal export rail corridors, and the very attractive prices offered for coal, resulted in a dramatic shortage of trucks for domestic and Africa overland deliveries. Furthermore, apart from a conscious decision to restore steel inventory levels after the Newcastle blast furnace's mid-life campaign restoration, and to hold additional raw material inventory to counter the impact of further rail disruptions, the impact of the events in the last quarter of the year resulted in lower sales levels and more finished steel on hand, leading to a considerably higher investment in working capital than forecast.

Subject to market conditions, peak working capital investment is likely to begin to unwind towards the end of the first half of 2023 as the business adopts a highly flexible approach to its asset utilisation in response to uncertain market dynamics. The company's agility has enabled it to adjust its production to addressable demand, by idling plants, consolidating production at the most productive facilities, and reducing fixed costs. One blast furnace at Vanderbijlpark was idled in November and only restarted in early February 2023 once commercially supported by the order book. In the Long Steel business, following the restart of the Newcastle blast furnace, the Vereeniging electric arc furnace was idled in October as the combined production of Newcastle and Vereeniging is way more than current demand. Further strategic asset footprint optimisation will take place in 2023 within the Long Steel business as certain operations in Pretoria and Vereeniging are idled and consolidated, with products from these mills moved to rolling operations in Newcastle to improve mill capacity utilisation and productivity.

Fixed costs reduced by R784 million (11%) to R6 644 million in response to lower addressable demand and the winding down of restorative maintenance activity which started in 2021.

The notable increase in capital expenditure of 115% to R2 073 million (2021: R965 million) consisted of R1 077 million (2021: R658 million) on sustainability (including safety and structures), R338 million on environment (2021: R64 million) and R658 million (2021: R243 million) on strategic investments. A consequence of effective maintenance is equipment reliability, and of the 22 priority plants, eight have exceeded the reliability baseline measure and eight have improved on the previous year's performance. The remaining plants, with higher priority given to coke-making and the sinter plants, will be subject to an initiative to add skills, leveraging off plant twinning with ArcelorMittal group benchmark operations.

The company's total sales volumes decreased by 13%, or 313 000 tonnes, to 2,2 million tonnes compared to 2021, due to a 14% fall in domestic sales to 1,9 million while exports decreased by 14 000 tonnes.

ArcelorMittal South Africa's overall realised steel price increased by 6% in dollar terms. In rand terms this represented a 17% increase as the average exchange rate weakened by 11%. The raw material basket price increased by 38%, with imported coking coal increasing by 117% while iron ore and scrap decreased by 4% and 2% respectively. After accounting for conversion cost, the variable cost of steel increased by 30%.

ArcelorMittal South Africa's Value Plan realised improvements of R1 561 million (2021: R2 085 million) consisting of commercial-related initiatives of R839 million and cost-based initiatives of R722 million. Good progress has been made in reducing and resetting fixed costs for the current year, however, more is needed. Included in the Value Plan for the next five years is an initiative to reach a more competitive fixed cost per tonne level. The own, hired and sub-contractor labour mix, pay rate levels, and productivity will be key focus areas, along with ensuring maintenance effectiveness for every rand invested.

RESPONDING TO INPUT CHALLENGES

Energy

A reliable electricity supply is vital to the sustainability of the steel value chain. The company has made progress on operational planning and scheduling to better accommodate electricity disruptions. However, load curtailment (the form of loadshedding faced by ArcelorMittal South Africa) may still interrupt production of rolling and finishing mills, which in turn can affect production and delivery to customers, especially of high-demand products. Through careful inventory management, the company aims to minimise the impact on its customers.

Several notable Eskom and municipal equipment failure events were experienced in the second half of the year. While the business was fortunate to have avoided significant damage to its equipment, the risk associated with regular fluctuations in electricity supply remains high.

Actions to optimise energy consumption added some R126 million to 2022’s Value Plan. More needs to be done, with a focus on combustion efficiency and improved utilisation of the company’s own electricity generation capacity.

The unreliable electricity supply necessitates the development of alternative energy supplies. The feasibility study into a 200MW renewable energy solution is nearing completion. Early construction work is scheduled to start in the fourth quarter of 2023, with the objective of yielding meaningful cost reduction benefits by 2024/5. The decision has been made to construct one large 200MW plant at Vanderbijlpark as this will yield the greatest operational and commercial benefit. Work is progressing on closing power purchase agreements with third party renewable energy providers.

Rail
Rail disruptions, which have led to plant closures and affected sales deliveries, have been a feature for the entire financial year. Daily briefings to the CEOs of ArcelorMittal South Africa and Transnet Freight Rail (TFR) have been beneficial, but overall performance remains well below service design. At the same time as offering support to TFR and Transnet Port Terminals (TPT), the company has completed the pre-feasibility study with its specialist rail operator advisor into the commercial viability of third-party rail access. It has been agreed to progress to the definitive feasibility study stage, which includes funding solutions. The October 2022 launch of the rebranded ArcelorMittal Rail and Structures (AMRAS) business was well received, and with its 48kg and 57kg per metre mainline rail products, it should contribute meaningfully to the localisation aspirations expressed in the country’s Rail Policy.

Raw materials
A common theme on all global steel cost curve benchmarking is the importance of backward integration into raw material supply. The company is working hard to secure further raw material opportunities, including a supportive, competitively priced logistics solution. Until its Decarbonisation Roadmap is fully implemented, the business will need to import premium hard coking coal. However, by enabling Zimbabwe-based supplies of lower quality hard coking coal, the company can remove some of the impact of the steep increases of international coking coal prices. More work remains on sourcing, development and logistics but, following a meeting between ArcelorMittal South Africa and leadership of the Republic of Zimbabwe late last year, there is strong commitment to identifying and executing these opportunities.

MARKETS

After increasing by 4% in 2021, global crude steel production decreased by 4% or 82 million tonnes in 2022 to 1,9 billion tonnes. Africa’s output decreased by 5% to 16 million tonnes due to lower production in South Africa and Egypt. South Africa’s crude steel production decreased by 12% to 4 million tonnes.

In South Africa, apparent steel consumption (ASC) for 2022 decreased by 12% to 4,0 million tonnes, reflecting low market activity in key steel-consuming sectors, high market inventory levels necessitating destocking, project delays due to rising interest rates, and overall weaker business confidence.

Total steel imports of primarily hot rolled coil, galvanised sheet and plates decreased by 13% to 1,2 million tonnes but this volume still made up some 30% of South Africa’s ASC (2021: 30%). Imports increased significantly in the second half of the year by 55% to 720 000 tonnes compared to the first six months, aligned with slower global market conditions and thus a higher propensity to offset surplus production through exports to countries such as South Africa. In the past seven years, the country’s ASC has reduced by 20%. South Africa’s available steelmaking capacity far outstrips demand, yet it has lost just less than a third of its ASC to imported steel in 2022 alone. Imported steel products from countries subsidising their steel production continue to affect the viability of the South African steel industry and this is why protection measures aligned with World Trade Organisation (WTO) rules are essential. However, a concerning trend - according to data from SARS - is the increasing number of contraventions of import duties, since this is eroding future growth potential of the industry and the country in the interest of short-term gains for a few.

Fair competition is good for business. Localisation of value-added steel production opportunities, collaborative value chains, and improved customer centricity are prospects which ArcelorMittal South Africa will leverage off to increase its assets utilisation, which is low in the current environment. It is broadly accepted by parties with which the company is collaborating that ArcelorMittal South Africa is best placed to advance these opportunities given its existing installed asset base. Improved building activity, higher demand for material for truck-trailers, and increased enquires for material stretching from pipelines to wind towers should add impetus to the rebound once the current destocking cycle ends. However, a Government growth agenda is sorely needed to add the necessary momentum.

ArcelorMittal South Africa is the only primary producer in South Africa which supports the downstream industry through a formal export support programme. This industry support totalled R149 million in value-added export and strategic rebate assistance during 2022.

ESG

It is with deep regret that ArcelorMittal South Africa had two fatalities in the second half of 2022 and the board and management have expressed heartfelt condolences to the families, friends and colleagues of the deceased. The company remains strongly committed to its Zero Harm goal and aims to build on the overall improved safety performance in 2022 by focusing on process risk management and cultivating a culture of care for its people. Stamping out fatalities and serious injuries starts with behavioural changes throughout the business. Also, considerable resources and time were spent on accident-proofing infrastructure – buildings and machinery – to improve safety which is visible in the additional capital expenditure in 2022. Benchmarking interactions with leading South African companies will take place this year as safety remains a top priority for the business.

The company's lost-time injury frequency rate (LTIFR) improved from 0,98 to 0,87 and the total injury frequency rate (TIFR) improved from 7,80 to 5,74. The total number of injuries reduced from 215 to 171.

In January this year, ArcelorMittal South Africa released its inaugural Decarbonisation Roadmap. The global steel industry has signalled its determination to transition away from carbon-intensive production methods. That said, the company operates in a Sub-Saharan Africa context with challenges relating to poverty alleviation, economic development needs, constrained (electrical) infrastructure, and others. However, the deployment of carbon capture and usage (CCU) technologies and the conversion of that captured carbon into sustainable synthetic fuels promise much greater opportunities in Africa.

No steelmaker will be able to achieve net zero in isolation; the business will need collaboration and ArcelorMittal South Africa is already able to point to solid progress in cementing partnerships with Government, development finance institutions and other corporates. However, a great deal of work still needs to be done on securing the funding for the steel industry reinvention.

In certain other jurisdictions, governments have shown state support for decarbonisation while in South Africa, the sentiments regarding support are positive but coordinated meaningful traction (policy certainty, funding opportunity, commercialisation support etc.) still needs to be demonstrated.

Decarbonisation offers substantial opportunities to reindustrialise and create jobs – by producing and exporting green direct reduced iron, steel and manufactured goods, and by potentially re-employing hundreds in the areas which need it most, including the Vaal region, KwaZulu-Natal midlands, and the West Coast.

The company's environmental commitments are not confined only to decarbonising its operations. Substantial strides have been made in recent years in curbing emissions like sulphur dioxide and dust, on recycling and on rehabilitation of hundreds of hectares of land. In 2022, R338 million was allocated to environmental capital expenditure - 428% more than the previous year and the highest allocation since 2013.

OUTLOOK

Internationally, the World Steel Association expects a recovery in steel demand in 2023. The pressure on price-cost spreads is proving to be unsustainable and consequently there have been some positive movements in international pricing in early 2023, the sustainability of which remains untested.

Domestically, the trading environment for the first half of 2023 is expected to be better than the last six months of 2022.

Exchange rates will continue to have an impact on the business as will rail service and electricity reliability.

"ArcelorMittal South Africa will continue to react swiftly and decisively to the difficult market conditions. We will increase volumes through targeting import replacements and Africa overland volumes, following an assertive cash management process, and adopting a flexible approach to operating plants in reaction to the available order book, while adjusting fixed cost levels accordingly," said Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa.

"The business is positioned to navigate the immediate and near-term challenging market conditions while remaining focused on our longer-term objectives, namely, to leverage off the long-term investment case for steel, as well as the vital role it will play in the re-industrialisation of the South African economy and the transition to a low carbon, circular economy," concluded Verster.

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

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