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For immediate release

news release

ArcelorMittal South Africa financial results for the year ended 31 December 2019

- Best annual injury frequency safety metrics ever reported
- 13% lower liquid steel production of 4,4 million tonnes and 8% lower sales volumes of 4,1 million tonnes
- Average international steel prices fell by 15%
- 9% reduction in revenue to R41 353 million
- 12% increase in the raw material basket (RMB) and cash cost per tonne of liquid steel
- Business Transformation Programme (BTP) delivered improvements of R1 450 million (USD24 per tonne) on EBITDA (cumulatively R2 130 million or USD36 per tonne)
- R999 million (12%) reduction in total fixed costs (includes R458 million from BTP)
- R632 million EBITDA loss (2018: R3 608 million profit)
- Exceptional (once-off) and impairment charges of R2 298 million
- Headline loss of R3 265 million (2018: R968 million profit)
- Large-scale labour reorganisation resulted in reduction of more than 1 000 own employees
- Strategic asset footprint review:
  - Phase 1: Orderly and commercial wind-down of Saldanha Works to be completed by end of Q1 2020
  - Phase 2: Long steel products:
    - plants to remain operational - targeting mainly domestic and Africa Overland markets
    - reconfiguration of company-wide operating model while strengthening balance sheet through corporate actions

The analysis below relates to the year ended 31 December 2019 (current period) compared to the year ended 31 December 2018 (previous or comparable period), except where otherwise indicated.

Johannesburg, 06 February 2020: ArcelorMittal South Africa's EBITDA decreased from a profit of R3 608 million in 2018 to a loss of R632 million in 2019, while operating profit/loss decreased from a R2 777 million profit to a loss of R2 359 million. The headline loss of R3 265 million in 2019 compares to headline earnings of R968 million for the previous year.

"The 2019 financial year represented the most challenging year for the world steel industry since the global financial crisis, and an exceptionally difficult year for the South African economy and, thus, for ArcelorMittal South Africa," says Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa.

"The downturn in the world steel industry has been faster and deeper than could have ever been anticipated. The correlation between steel prices and raw material costs has broken down. The size of the dislocation between steel prices and raw material cost is very unusual and although, recently, raw material prices have moderated slightly, the dislocation continues," explains Verster.

Globally, average international steel prices fell by 15%, while the company's overall realised steel price in dollars fell by 9%. In rand terms, realised steel prices remained stable as the average dollar/rand exchange rates weakened 9% year-on-year.

In South Africa, against a backdrop of low growth, apparent steel consumption decreased by 6% to 4.5 million tonnes for the year. Muted or negative growth in key steel consuming sectors, a limited number of infrastructure projects, electricity supply constraints, and low business confidence were some of the contributing factors. This situation was compounded by reduced credit availability with some credit line insurers exiting the steel market.

Total steel imports for the year were 918 000 tonnes which constitutes some 20% of South Africa's apparent steel consumption, compared to 16% in 2018. The increase was largely a consequence of hot rolled coil imports which were diverted from countries with high trade protection measures to those with lower trade protection.

ArcelorMittal South Africa's total sales volumes fell by 8% to 4.1 million tonnes, mainly due to an 11% reduction in domestic sales.

Despite contending with extremely difficult operating conditions with lower volumes and prices, the company provided R233 million in value-added export assistance to the downstream industry (2018: R249 million).

Group revenue decreased by 9% to R41 353 million, largely due to the 8% reduction in sales volumes.

The company's raw material basket (iron ore, coking coal, and scrap), which represented 51% (2018: 50%) of costs, increased by 12% in rand terms, driven by sharp increases in iron ore prices. Increases in electricity, port and rail tariffs continue to have a detrimental impact on the company's international competitiveness. These unaffordable increases, off an already inflated base, resulted in additional costs of R439 million against the comparable period.

ArcelorMittal South Africa's Business Transformation Programme (BTP) initiatives yielded EBITDA improvements of R1 450 million during the year, or R2 130 million (USD36 per tonne) cumulatively since its launch in August 2018. The programme is targeting at least a USD50 per tonne improvement to address the controllable elements of the cost gap between the company's production costs relative to that of subsidised China-sourced steel.

Total fixed cost for the company decreased by a substantial R999 million or 12%.

The loss for the year amounted to R4 676 million compared to a profit of R1 370 million in the comparative period. The 2018 profit included the profit on the disposal of the investment in Macsteel of R415 million.

Total net impairment charges for the year were R1 401 million, which included R1 087 million for the impairment of property, plant and equipment at Newcastle Works, R294 million for Saldanha Works and R99 million towards the closure of the tinplate plant at the Vanderbijlpark Works.

After adjusting for the net impairment and loss on disposal of assets, headline earnings decreased from a profit of R968 million to a loss of R3 265 million, amounting to a 299 cents per share loss against an 89 cents per share profit.

Cash generated from operations of R423 million was R1 859 million lower than 2018. Critically, R1 940 million of cash was released by the reduction in working capital levels (against R1 123 million cash absorption in the comparative period). This reflects the intensity of cash management initiatives to operate the business at levels not seen since the global financial crisis.

Despite the challenging financial environment, the company continued to demonstrate its commitment to appropriately maintaining and modernising its asset base, unlike some international peers that avoid capex outlays when EBITDA turns negative. Notable projects for the year included the blast furnace D interim repair of R215 million at Vanderbijlpark Works which extended the life of the furnace by 10 years and the coke oven battery repair of R56 million at Vanderbijlpark. The net capex outflow was R1 491 million against R1 256 million in 2018.

Transformation for Sustainability and Growth

The large-scale labour reorganisation announced in July 2019 has been finalised. Through natural attrition and not filling vacant positions, it has been possible to reduce the number of directly affected own employees while still achieving the required cost savings.

The strategic asset footprint review announced last year is aimed at establishing an affordable asset footprint with an enduring competitive advantage that will ensure the long-term sustainability of the company.

As part of the first phase, and despite the technical advantages of the plant, the company took the particularly difficult decision to wind-down operations at Saldanha Works in an orderly and commercial manner to a state of care and maintenance. According to plan, this process is expected to be completed by the end of the first quarter 0f 2020.

The second phase of the strategic asset footprint review focused on the long steel products business. Although the benefit of a more concentrated operating footprint remains fundamentally important to the longer-term sustainability of the company, phase two of the review reached the following conclusions and prioritised these actions:

- The closure of significant long steel product plants is not anticipated in the foreseeable future.
- Primary steelmaking operations will continue at Newcastle Works, although now focused primarily on servicing the domestic and Africa Overland markets.
- The company-wide operating model will be reconfigured into a single platform.
- The balance sheet is to be strengthened through targeted corporate actions.

Significant organisational configuration opportunities exist to improve both operational effectiveness and controllable cost competitiveness of the long steel product business and of the business overall. Development of this "*One Organisation*" initiative has begun, with implementation envisaged in 2020.

"Importantly, ArcelorMittal South Africa will continue to engage with key stakeholders regarding the structural disadvantages faced by the business due to unaffordable regulated tariffs for electricity, port and rail services, and the lack of developmental prices for raw materials," adds Verster.

Verster commented: "In 2020, cash, cost, customers, collaboration, climate and communication – our 6Cs - will be vital enablers for our now familiar strategy of *Transformation for Sustainability and Growth*."

"In addition to these key initiatives, we hope to advance certain key corporate actions that include the disposal of non-core properties, the conclusion of commercial market coke co-investment opportunities, and by-product monetising joint venture arrangements, all aimed at improving cash generation within the business to improve our net debt position."

Outlook

Internationally margins have been tightly squeezed though elements of normalisation are becoming evident. Expected low domestic growth will require continued intervention and in 2020, ArcelorMittal South Africa will continue to vigorously focus on its BTP, the implementation of its "*One Organisation*" initiative as well as other key strategic cost reduction initiatives. Engagement with stakeholders regarding unaffordable regulated tariffs and developmentally priced raw materials will also continue.

"Through these targeted and strategic measures, we will be better prepared for any upturn in the market," concludes Verster.

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

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