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news release

ARCELORMITTAL SOUTH AFRICA CONCLUDES FIRST PHASE OF ITS STRATEGIC ASSET FOOTPRINT REVIEW

As an outcome of the first phase of ArcelorMittal South Africa's strategic asset footprint review, a decision has been made to undertake an orderly and commercial wind-down of its Saldanha Works, ultimately placing the operation on care and maintenance.

Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa, explains: "The Saldanha operations were founded and built on the premise of low input costs, which gave the operation a competitive cost advantage in export markets. Unfortunately, over the years, that structural cost advantage has been eroded and Saldanha can no longer sustainably and effectively compete in these markets, mainly due to raw material and regulated prices. Saldanha has incurred substantial losses in the past and the short- to medium-term outlook remains bleak."

The global steel market continues to face significant headwinds. The 2019 downturn in the world steel market has been far worse than could have been anticipated. International steel prices have fallen much faster and steeper than raw material prices, resulting in substantial margin erosion. The global steel industry is experiencing the most challenging time since the global financial crisis. Locally, the situation is exacerbated by continued weak economic growth, especially in steel and steel consuming sectors, with apparent steel consumption at a 10-year low.

Despite the various initiatives that have been successfully implemented by the company to manage costs and optimise efficiencies, ArcelorMittal South Africa's Saldanha Steel operation remains under extreme pressure. The board and management, which for some time have been considering various options to ensure the longer-term sustainability of the company, formally announced a strategic asset footprint review in September 2019. The outcome of the first phase of the review is to immediately begin the process of winding down Saldanha's steel operations to curb any further losses. The process is expected to be completed during the first quarter of 2020.

"As part of this process, we have continued to constructively engage all key stakeholders around measures that could effectively address the dire situation in the South African steel industry," adds Verster.

Realising the importance of Saldanha to the West Coast region, ArcelorMittal South Africa will make every effort to minimise the impact of this decision on its stakeholders, including the

approximately 900 own and contractor employees who work at the operation. Contractual domestic sales orders from Saldanha will now be fulfilled from the Vanderbijlpark Works. The company will also assess its social commitments in the local communities in a responsible manner.

“While this has been a very difficult decision, particularly at a time when the country is struggling with unemployment and low growth, we believe that it is an absolutely necessary step to ensure the sustainability of our broader business,” says Verster. “As the country’s largest primary steelmaker, we have an obligation to ensure we play our part in ensuring the sustainability of the South African steel industry, and that means that we have to make tough decisions.”

Progress is being made with the next phase of the strategic asset footprint review, focusing on the Newcastle operations and certain of the long steel products rolling facilities with the objective of sustainably improving their structural cost position and service offering. Exploring the benefits of a concentrated operating footprint will be important during this phase of the review.

In a separate process, ArcelorMittal South Africa announced a Section 189(3) consultation in July 2019 in relation to the anticipated large-scale restructuring of the business. The company has now concluded the CCMA-facilitated consultation process, and the required steps will now be taken to implement the outcomes of the Section 189 to strengthen the sustainability of the business in the longer term.

“We will continue to constructively engage with all key stakeholders, and we remain committed to working collaboratively with all role players to ensure the sustainability and success of the South African steel industry going forward,” concludes Verster.

Contacts:

ArcelorMittal South Africa:

Tami Didiza

Group Manager: Stakeholder Management and Communication
083 298 1608

Vuyo Mtawa

Head of Corporate Communications
(016) 889 4100

Aprio Strategic Communications (on behalf of ArcelorMittal SA):

Tracey Peterson
083 408 7173