

ArcelorMittal South Africa Limited

Registration number: 1989/002164/06

Share code: ACL

ISIN: ZAE000134961

(ArcelorMittal South Africa, the Company or the group)



ArcelorMittal

Short-Form Announcement - Group financial results for the year ended 31 December 2022

SALIENT FEATURES

<ul style="list-style-type: none"> • Considerable resources invested 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 were reduced by R784 million • EBITDA down 50% at R4 274 million (2021: R8 569 million) as the negative price-cost effect affected margins • Headline earnings down 62% at R2 607 million (2021: R6 860 million) 	<ul style="list-style-type: none"> • Net borrowings position of R2 808 million (2021: R1 258 million) due to capital expenditure cash outflows of R1 912 million and 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% in rand terms (international RMB up 14% in rand terms) • Decarbonisation roadmap announced targeting 25% reduction in carbon emissions by 2030 and 86% by 2050
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KEY STATISTICS

	Year ended		
	31 December 2022	31 December 2021	% Change
Financials (R millions)			
Revenue	40 771	39 708	2.7
EBITDA	4 274	8 569	-50.1
Profit from operations**	3 499	7 976	-56.1
Net profit	2 634	6 625	-60.2
Headline earnings	2 607	6 860	-62.0
Net borrowings	(2 808)	(1 258)	-123.2
Net asset value	11 675	9 053	29.0
Financial ratios (%)			
EBITDA margin	10.5	21.6	
Return on ordinary shareholders' equity	25.2	120.3	
Net borrowings to equity	(24.1)	(13.9)	
Share statistics (cents)			
Earnings per share	236	594	-60.2
Headline earnings per share	234	615	-62.0
Dividends per share	-	-	
Net asset value per share (Rand)	10.47	8.12	28.9
Safety			
Lost time injury frequency rate	0.87	0.98	11.2
Operational statistics ('000 tonnes)			
Crude steel production*	2 408	3 026	-20.4
Steel sales	2 160	2 473	-12.7
- Local	1 872	2 171	-13.8
- Export	288	302	-4.6
Commercial Coke sales	176	308	-42.9
Segmental performance (R millions)			
Steel operations			
- Revenue	38 765	37 250	4.1
- EBITDA	3 748	8 147	-54.0
Non-steel operations			
- Revenue	2 049	2 508	-18.3
- EBITDA	614	820	-25.1
Corporate and other (including eliminations and adjustments)			
- EBITDA	(88)	(398)	77.9

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* Key statistics changed from liquid steel to crude steel

** Profit/(loss) from operations has been restated to include net impairment reversal/(impairment loss)

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.

Overview and sustainability

On 28 July 2022, at the announcement of the Company's interim financial results, it was indicated that the outlook for the second half of the year would be strongly influenced by intensified economic headwinds which threatened to significantly affect the trading environment for steel. As anticipated, the international price correction in a soft local demand environment did severely impact the financial results of the business. At that time, however, it was also indicated that the Company knows how to manage through a challenging cyclical business environment, and thus ArcelorMittal South Africa, with the support of its loyal staff, customers, and suppliers, has successfully delivered against its predicted outlook.

Globally, steel prices declined at a faster rate than raw materials as particularly evident in the second half of the year. This has led to negative price-cost effects with spreads (i.e., the difference between steel prices and raw material costs) under significant pressure. The Company could not escape the impact of the year's energy crunch, as seen in the extreme increase in the international price of coking coal (up 62% year-on-year in dollar terms). Domestically, market conditions proved to be especially challenging as customers destocked. This was particularly notable in the last quarter of the year, where market activity dissipated dramatically in certain sectors (being somewhat reminiscent of late-2008). The Value Plan and the associated improvements the business has made in recent years were firmly tested. The business is responding effectively, and thus despite the sharp weakness which characterised the second half of the year, the financial results are significantly stronger than during other crisis or near-crisis environments of the past.

Sustainability

Customers are destocking in response to lower market prices and adjusting inventory holding levels to the weaker trading conditions. Destocking is ultimately unsustainable and will end. Until then, the Company is adjusting 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 early November 2022 and was 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 2022 as the combined production of Newcastle and Vereeniging is well in excess of 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 their production consolidated with the rolling operations in Newcastle to improve mill capacity utilisation and productivity.

The year started with plant closures due to the primary impact of rail disruptions, and the year ended with the secondary impact of such disruptions affecting sales deliveries. Daily briefings to the CEOs of ArcelorMittal South Africa and Transnet Freight Rail (TFR) have seen notable benefits, however, overall performance remains well below service design. While doing its best to support TFR and Transnet Port Terminals (TPT), the Company has completed a 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 announcement in June 2022 of the country's draft Rail Policy should remain the "north star" by which South Africa's rail infrastructure is managed. On an adjacent note, the market launch on 20 October 2022 of the rebranded ArcelorMittal Rail and Structures (AMRAS) business (previously the Highveld structural mill) with its 48kg and 57kg per metre mainline rail product, was well received and supported by partners and customers alike. It is believed that this asset can meaningfully contribute to the Rail Policy's localisation aspirations.

Safety, Environmental, Social and Governance (ESG)

It is with deep regret that ArcelorMittal South Africa had two fatalities which occurred in the second half of 2022. The board and management express heartfelt condolences to the families, friends, and colleagues of Sabatha Petros Nkosi and Chris Swanepoel. Significant work is being put into understanding the root causes of the less than satisfying safety performance.

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. Total number of injuries reduced from 215 to 171.

Marketing

After increasing by 4% in 2021, global crude steel production⁽¹⁾ decreased by 4% or 82 million tonnes in 2022 to 1,9 billion tonnes. This reflects the slower global economic conditions prevailing in 2022 emanating from monetary tightening in response to aggressive inflation, weak demand in China and Asia due to Covid-19 outbreaks/restrictions, low

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consumer confidence, and the spill-over effects of the Russian invasion of Ukraine. Global crude steel production decreased by 8% in the second half of the year, compared to the immediately preceding six months.

China's crude steel production decreased by 2,0% to 1,0 billion tonnes, with its market share at 54% (2021: 53%). Europe's⁽²⁾ crude steel output decreased by 9% to 217 million tonnes. North America was down by 6% to 112 million tonnes. Both Russia and Turkey continued the downward trend as production fell by 7% and 13% respectively while India succeeded in increasing production by 6% to 125 million 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 4,4 million tonnes.

In November 2022 China's hot rolled coil (HRC) prices reached the lowest level since June 2020. (Subsequently, prices have recovered by USD150 per tonne). International HRC prices decreased by 21% in dollar terms year-on-year, while rebar prices decreased by 3%. These HRC prices decreased by 31% compared to the immediately preceding six months, with rebar prices decreasing by 20% for the same period. The international raw material basket (iron ore, coking coal, and scrap) was 3% higher in dollar terms. In absolute terms, coking coal increased by 62%, while iron ore and scrap decreased by 26% and 7% respectively.

Turning to South Africa and the regional economy, the GDP growth rate for South Africa fell from 4,9% (actual) to 2,5% (forecast) for 2022, and those for near and Sub-Saharan African markets are forecasted to be between 3,6% and 4,7%.

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⁽⁴⁾, high market inventory levels necessitating destocking, project delays due to rising interest rates, and overall weaker business confidence. ASC decreased by 2% compared to 2,0 million in the immediately preceding six months.

The Company's overall realised steel price in dollar terms increased by 6%. In rand terms, this represented a 17% increase as the average dollar/rand exchange rate weakened by 11%. Realised dollar steel prices decreased by 15% compared to the immediately preceding six months, with rand prices down by 4% for the same period. This trend reflects the lag-effect of steel price movements which characterise the Company's order intake.

The Company is the only primary producer in South Africa which supports the downstream industry through a formal export support programme. This industry support totaled R149 million (2021: R196 million) in value-added export and strategic rebate assistance during 2022.

⁽¹⁾Source: World Steel Association

⁽²⁾Europe including Turkey

⁽⁴⁾Year on year % sectoral growth forecast change.: Mining (-1,3%), Construction (-1,2%), Manufacturing (0%)

Operations

The Company's average capacity utilisation decreased from 60% in 2021 to 47% in 2022. The reduction in capacity utilisation reflects, in addition to the 12% reduction in apparent steel demand, the impact of the delivery complexities associated with rail service unavailability, labour disruptions and electricity loadshedding, which characterised the South African operating environment in 2022. Current capacity utilisation is 79%.

Crude steel production decreased by 20%, or 618 000 tonnes, from 3,0 million in 2021 tonnes to 2,4 million tonnes in 2022. Crude steel production increased by 29% to 1,35 million tonnes compared to 1,05 million tonnes in the immediately preceding six months.

Strong focus remains on reliability and the restoration programmes. Other priorities include improvement of efficiencies and operating costs, reducing energy and other conversion costs and the debottlenecking of key rolling mills to target import replacement.

For 2022, commercial coke production was 51% lower at 78 000 tonnes, with sales volumes down by 43% at 176 000 tonnes due to the continuing restoration of the coke batteries, and the use of more coke internally due to intermittent production interruptions arising out of the rail service unavailability and labour disruptions. Sales decreased by 53% to 56 000 tonnes compared to 120 000 tonnes in the immediately preceding six months. Plans are progressing to enable ArcelorMittal South Africa to improve its servicing of the important commercial coke market. An improvement is expected in 2023, with a meaningful impact from 2024 onwards.

Financial results

ArcelorMittal South Africa reported an EBITDA of R4 274 million against R8 569 million in 2021, while its operating profit decreased from R7 976 million to R3 499 million. The headline earnings of R2 607 million fell from R6 860 million,

amounting to a 234 cents per share profit against 615 cents for prior year. EBITDA decreased by 81% to R683 million compared to R3 591 million in the immediately preceding six months.

Revenue increased by 3% to R40 771 million due to a 17% rise in net realised steel sales prices, despite a 13% decrease in total steel sales volumes. Revenue decreased by 16% to R18 596 million compared to R22 175 million in the immediately preceding six months.

The Company's raw material basket (iron ore, coking coal, and scrap), representing 44% (2021: 43%) of cash cost per tonne, was 38% higher in rand terms, compared to a 14% increase in the international basket. The local basket was 20% lower (2021: 34% lower) in rand terms against the international basket. The increase in price of the local basket's imported coal prices exceeded that of the international basket, reflecting a temporary delay in the consumption of the more expensive coal inventory due to a slower steel market, especially in the fourth quarter.

Consumables and auxiliaries, represents 31% of cash cost per tonne⁽³⁾ (2021: 31%). Electricity tariffs increased by 11%, while dollar-denominated commodity-indexed consumables increased by 51%.

Fixed costs decreased from R7 428 million in 2021 to R6 644 million in 2022, a decrease of 11%. Fixed costs decreased to R3 196 million (7%) compared to R3 448 million in the immediately preceding six months.

Net financing charges were substantially down at R952 million (2021: R1 163 million) mainly due to a net foreign exchange profit of R218 million (compared to a net foreign exchange loss of R109 million) partly offset by higher net interest charge on bank overdrafts and loans of R104 million.

⁽³⁾Based on crude steel production

Cash flow and borrowing position

Cash generated from operations of R1 174 million decreased by R1 850 million in 2022, due to lower profit from operations of R4 477 million, the final settlement of an overdue dollar-denominated payable of R628 million in the first half of the year, deferred related party fees of R618 million in the second half of the year, remeasurement of the Competition Commission penalty payable added back R314 million and payment to the Competition Commission of R100 million partly offset by lower operating working capital requirements of R4 165 million.

Net finance charge outflows increased by 190% or R497 million to R758 million due to deferred interest of R234 million and current interest of R255 million on group borrowings.

The net capital expenditure cash outflow was R1 912 million against R860 million in 2021, reflecting activities related to the Newcastle blast furnace mid-life campaign restoration of R334 million, the Coke making by-product plant project of R159 million and the structures and infrastructure programme of R120 million.

The net borrowing position of R2 808 million at 31 December 2022 increased by R1 550 million from R1 258 million at 31 December 2021, mainly due to a free cash outflow of R1 600 (2021: R1 961 inflow). At 30 June 2022, the net borrowing position was R1 087 million.

Legal and regulatory matters: Competition Commission (the Commission)

As announced during September 2022, a payment plan was agreed with the Commission, on the terms and conditions set out therein. Aside from the above, the remaining provisions of the Settlement Agreement and ArcelorMittal South Africa's compliance obligations under the agreement, relating, amongst others, to capital expenditure and the EBIT Margin Percentage Cap, concluded in November 2021. ArcelorMittal South Africa has provided the Commission with all requested information and supporting documents throughout the settlement period, and submitted the final annual compliance report in March 2022, including information on the EBIT margin percentage. The Commission has not raised any objection to the information, methodology and calculations submitted.

Outlook

Safety remains ArcelorMittal South Africa's priority.

Internationally, the World Steel Association expects a recovery in steel demand.

The pressure on price-cost spreads is proving to be unsustainable and consequently there has been some positive movements on international pricing in early 2023, the sustainability of which remains untested.

According to the South African Reserve Bank, 2023 GDP is expected at 0,3%.

A better local trading environment is expected in the first half of 2023.

As it did in 2022, the Company will react swiftly and decisively to the difficult market conditions. ArcelorMittal South Africa will increase volumes through targeting import replacement and Africa overland volumes, adopt a flexible approach to operating plants in reaction to the available order book, adjusting fixed cost levels accordingly, and following an assertive cash management process.

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

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

HJ Verster
Chief Executive Officer

SM van Wyk
Interim Chief Financial Officer

9 February 2023

Sponsor to ArcelorMittal South Africa Limited

Absa Bank Limited (acting through its Corporate and Investment Banking division)



SHORT-FORM ANNOUNCEMENT

This short-form announcement is the responsibility of the board of directors of ArcelorMittal South Africa and is a summarised version of the group's full announcement and as such, it does not contain full or complete details pertaining to the group's results. This short-form announcement is itself not reviewed but extracted from the reviewed condensed consolidated financial statements which was reviewed by Ernst & Young Inc who issued an unmodified review conclusion on the reviewed condensed consolidated financial statements for the year ended 31 December 2022.

There review conclusion report can be obtained from the company's registered office and on the group's website at <https://southafrica.arcelormittal.com/InvestorRelations/AnnualResults.aspx>. Any investment decisions by investors and or shareholders should be made after taking into consideration the full announcement. The full results announcement is available for viewing at <https://senspdf.jse.co.za/documents/2023/JSE/ISSE/ACL/AMSA-FYE22.pdf> and on the group's website at <https://southafrica.arcelormittal.com/InvestorRelations/AnnualResults.aspx>. The full announcement is available for inspection, at no charge, at the registered office of ArcelorMittal South Africa Limited, (Room N3-7, Main Building, Delfos Boulevard, Vanderbijlpark) and the offices of the sponsor (Absa Bank Limited (acting through its Corporate and Investment Banking Division), 15 Alice Lane, Sandton), from 09:00 to 16:00 on business days.

This report is available on the ArcelorMittal South Africa's Web site at: <http://www.arcelormittal.com/southafrica/>.

Share queries: Please call the ArcelorMittal South Africa Share care toll free on 0800 006 960 or +27 11 370 7850.

Copies of a full announcement can be requested from the registered office by contacting (016) 889 2352. The short-form announcement has not been audited or reviewed by the company's auditors.

FORWARD-LOOKING STATEMENTS

Statements in this announcement that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to risks and uncertainties which could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Any reference to future financial performance included in this announcement has not been reviewed or reported on by the group's auditors.