ArcelorMittal

ArcelorMittal South Africa Limited (ArcelorMittal South Africa, the company or the group)
Registration number: 1989/002164/06 **Share code:** ACL **ISIN:** ZAE 000134961

SHORT-FORM ANNOUNCEMENT:
group financial results for the year ended 31 December 2016

Salient features

- Loss from operations decreased from R4 736 million to R1 092 million;
- Headline loss reduced from R5 370 million to R2 589 million;
- Rights issue decreased net debt and resulted in savings on finance costs;
- Three fatalities and a higher lost time injury frequency rate, deteriorating from 0.48 to 0.62;
- Low GDP growth and lack of infrastructure spend resulted in domestic demand at a seven-year low;
- Apparent steel consumption down from 5.0mt to 4.9mt;
- Imports of 1.2mt entered the country;
- Raw material basket volatility resulted in improved net realised prices towards the end of the year;
- Import duties and localisation implemented – final decisions on safeguard duties pending;
- Black ownership increased to 25% and employee ownership to 6.6% following B-BBEE transaction and the employee share schemes;
- Competition Commission settlement approved by Competition Tribunal;
- Footprint optimisation initiative at Vanderbijlpark Works resulted in reduced cost per tonne;
- Saldanha Corex campaign extension and N2 battery refurbishment at Newcastle Works improved sustainability;
- Tolling agreement reached with Evraz Highveld for the production and supply of heavy structural products subject to the gazetting of duties on structural steel (already approved by ITAC);
- Newcastle and Vanderbijlpark Works ZED compliant;
- Significant procurement savings achieved;
- Higher transport costs as a result of the performance of rail transporter deteriorating from 86% to 78%; and
- Boiler installed at Vanderbijlpark – capacity to co-generate additional power of 10MW.

Overview

In 2016 ArcelorMittal South Africa succeeded in reducing both operating and headline losses by R3 644 million and R2 781 million respectively, performances that were achieved through an 8% increase in average net realised steel sales prices, sustainable cost improvements and a reduction in once-off items.

The domestic and export markets in which the company operates continued to be extremely constrained with minimal growth as a result of import substitution and minimal local investment and infrastructural spend. Added to this extremely challenging environment, South Africa and key African markets continued to import large quantities of steel, especially from China. This year, in South Africa, all 10% import tariffs applied for were gazetted and became effective. Despite this, 1.2 million tonnes of steel were imported into the country, which reflects the need for safeguard measures for primary steel manufacturers to address the surge in imports. Apparent steel consumption decreased by 3.4% as a result of subdued economic growth. Encouragingly, post year-end the authorities approved the designation of South African steel for the use in state infrastructural projects.

The fair pricing model for flat steel products has been finalised and was implemented by the company but remains subject to final government approval. In terms thereof, the company may not charge more than an agreed basket price for various flat steel products.

Safety remains our number one priority and it is with great regret that we report three fatalities at our plants this year, all contractor employees. This is completely unacceptable and we remain committed to achieving zero harm in 2017. In 2016 the lost time injury frequency rate deteriorated from 0.48 to 0.62. More positively, Saldanha and Vanderbijlpark Works achieved 644 and 200 lost time injury-free days respectively.

Corporate actions taken considerably strengthened the financial position, resulting in substantially reduced debt and savings on financing costs. The company was successful in concluding a B-BBEE transaction, settling the outstanding Competition Commission matters, obtaining 10% duties on 10 products and finalising fair pricing, milestones that cemented the company's legal and social licences to operate.

Designation for minimum local steel content for state infrastructural projects was approved for certain products mid-year while the designation relating to steel products and components for construction was approved in January 2017.

The company remains firmly of the view that safeguards are of vital importance for the reduction of imports that continue to plague the sustainability of the primary steel sector. Safeguards will need to be implemented to ensure that any impact on the primary and downstream steel sectors are sufficiently mitigated and management continues to work with the downstream to ensure a sustainable solution for all concerned.

Outlook for the first half of 2017

In 2017 domestic steel demand is expected to remain subdued due to low economic growth and lack of infrastructure spend which will be mitigated by import substitution and new products, namely heavy structural products from Evraz Highveld. Export markets are likely to be more resilient, however, authoritative projections being that Africa will experience demand growth in the order of 4%.

The achievement of tangible progress on safeguards is of vital importance for the reduction of imports that continue to plague the sustainability of the primary steel sector in South Africa and the impact on tens of thousands of jobs that depend on it.

Volatility in the rand/US dollar exchange rate will continue to have a material impact on our financial results.

On behalf of the board of directors

WA de Klerk
Chief executive officer

D Subramanian
Chief financial officer

3 February 2017

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. Any investment decisions by investors and/or shareholders should be made after taking into consideration the full announcement. The full announcement has been released on the JSE Stock Exchange News Service (SENS) and is available for viewing on the group's website (www.arcelormittal.com/southafrica). The full announcement is available for inspection, at no charge, at the registered office of ArcelorMittal South Africa Limited (Room N3-5, Main Building, Delfos Boulevard, Vanderbijlpark) and the offices of the sponsor (J.P. Morgan Equities South Africa Proprietary Limited, 1 Fricker Road, Illovo), from 09:00 to 16:00 on business days. Copies of the full announcement can be requested from the registered office by contacting +27 16 889 9111.

Key statistics

	Year ended		
	31 December 2016	31 December 2015	% change
Financials (R million)			
Revenue	**32 737**	31 141	5.1
Ebitda	**190**	(809)	123.5
Loss from operations	**(1 092)**	(4 736)	76.9
Net loss	**(4 706)**	(8 635)	58.4
Headline loss	**(2 589)**	(5 370)	51.8
Net borrowings	**(290)**	(2 865)	89.9
Net asset value	**13 543**	13 472	8.8
Financial ratios (%)			
Ebitda margin	**0.6**	(2.6)	
Return on ordinary shareholders' equity	**(19.2)**	(31.4)	
Net borrowings to equity	**(2.1)**	(21.3)	
Share statistics (cents)			
Loss per share	**(443)**	(2 152)	84.3
Headline loss per share	**(244)**	(1 338)	81.8
Dividends per share	**–**	–	
Net asset value per share	**1 239**	3 358	(60.1)
Safety			
Lost time injury frequency rate	**0.62**	0.48	(29.2)
Operational statistics (000 tonnes)			
Liquid steel production	**4 771**	4 839	(1.4)
Steel sales	**4 087**	4 131	(1.1)
– Local	**3 275**	3 039	7.8
– Export	**812**	1 092	(25.6)
Commercial coke sales	**324**	415	(21.9)
Segmental performance (R million)			
Flat steel products			
– Revenue	**21 641**	19 907	8.7
– Ebitda	**(392)**	(1 269)	69.1
Long steel products			
– Revenue	**10 609**	10 872	(2.4)
– Ebitda	**286**	(348)	182.7
Coke and Chemicals			
– Revenue	**1 374**	1 799	(23.6)
– Ebitda	**172**	427	(59.7)
Corporate and other			
– Ebitda	**124**	381	(67.5)