ARCELORMITTAL SOUTH AFRICA

FULL YEAR RESULTS PRESENTATION

10 FEBRUARY 2017

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ANNUAL FINANCIAL RESULTS FOR YEAR ENDED 31 DECEMBER 2016

SALIENT FEATURES

The analysis below relates to the 12 months ended 31 December 2016 (current year) compared to 12 months ended 31 December 2015 (prior year)

- 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, deteriorated 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 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 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 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 performance of rail transporter deteriorating from 86% to 78%
- Boiler installed at Vanderbijlpark – capacity to co-generate additional power of 10MW.

Johannesburg, 10 February 2017: ArcelorMittal South Africa has successfully reduced both operating losses and headline losses in 2016, by R3 644 million and R2 781 million respectively, when compared to the year ended December 2015. This was achieved through an 8% increase in average net realised steel sales prices, sustainable cost improvements and a sharp reduction in once-off items.

"Despite these overall improvements, the domestic and export markets in which ArcelorMittal South Africa operates continued to be extremely constrained with minimal growth as a result of import substitution, and minimal local investment and infrastructural spend in 2016," said Wim De Klerk, Chief Executive Officer of ArcelorMittal South Africa.

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 tariff applications were gazetted and implemented. 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 use in state infrastructure projects. At the time of this announcement, final decisions on safeguard duties were yet to be determined and concern around the downstream impact was still a reality.

“ArcelorMittal South Africa remains firmly of the view that safeguards are essential to the reduction of cheap imports that continue to plague the sustainability of the primary steel sector in the country,” added De Klerk. “Safeguards need to be implemented to ensure any impact on the downstream sector is adequately mitigated and we will continue to work with government, regulators and the downstream industry to ensure a sustainable solution for all concerned.”

The fair pricing model for flat steel products has been finalised and, while it remains subject to final government approval, it has already been implemented by the company and will ensure that ArcelorMittal South Africa charges according to an agreed basket price for various flat steel products.

In the second half of 2016, world steel prices rallied. HRC and rebar gained 93% and 75% respectively by 31 December 2016 compared to 31 December 2015. These increases were driven primarily by steel producers being forced to increase prices in the face of sharp rises in key input costs, notably iron ore and coal which saw price increases of 100% and 247% respectively by the end of the year. Hard coking coal made up 41% of the raw material basket at the end of the year compared to 32% in 2015. In several large markets, there was a marginal growth in real steel consumption.

A 5% increase in revenue to R32 737 million is attributed mainly to the 8% increase in average net realised steel prices, from R6 727 to R7 282 per tonne. In line with expectations, revenue from the Coke and Chemicals business decreased by 24% to R1 374 million due to scheduled but lengthy and necessary repairs to coke batteries at Vanderbijlpark and Newcastle Works. Furthermore, commercial coke and tar prices declined by 5%.

Cash cost per tonne of liquid steel produced increased from R6 264 to R6 544, which is less than 5%. Raw materials – iron ore, coal and scrap which accounted for 44% of total costs – increased by 3% with the effect of lower ore iron prices being negated by higher coal prices.

“During the year, the rail contractor’s performance deteriorated from 86% to 78%. This meant that ArcelorMittal South Africa was compelled to resort to more expensive road transport which resulted in higher transport costs and sub optimal input material into the blast furnace in the year. Electricity costs also increased due to high annual electricity price increases,” De Klerk explained.

The loss from operations decreased by R3 644 million to R1 092 million, primarily due to improved revenue from higher selling prices fewer once-off items and depreciation declining as a result of the substantial impairment of the Saldanha cash-generating unit in 2015.

“In 2015, once-off items amounted to R2 558 million compared to R227 million in 2016, mostly due to a number of outstanding matters in 2015, including recognition of the Competition Commission penalty provision, release of payments in advance and Thabazimbi closure costs,” explained De Klerk.

An additional R380 million was recognised in the current year for ArcelorMittal South Africa’s obligation to rehabilitate the Thabazimbi mine. Meanwhile, ArcelorMittal South Africa has entered into an interim agreement with Sishen Iron Ore Company (SIOC) to take over the Thabazimbi mine, subject to certain conditions and a due diligence review.

The total volume of steel sales in 2016 decreased by 44 000 tonnes, with export sales declining by 26% due to the oversupply of steel in the global market and the Corex Campaign Extension at Saldanha Works. This was partially offset by local sales, which improved by 8% as a result of improved market share following the closure of Evraz Highveld Steel and Vanadium. Commercial coke and tar sales volumes fell by 22%.

Capacity utilisation was 78% compared to 74% previous year. Liquid steel production for the year was 4.8 million tonnes, a decrease of 68 000 tonnes (1%) caused by the Corex Campaign extension at Saldanha Works, which resulted in a loss of 110 000 tonnes, and reduced production of 163 000 tonnes because of the closure of the Vaal Meltshop. The latter impact was partly addressed by the restart of one blast furnace at Vanderbijlpark Works which had been closed in the previous year due to poor market conditions.

ArcelorMittal South Africa introduced several initiatives to further improve operational efficiencies, increase volumes and/or reduce costs.

- The company concluded an agreement with Highveld Structural Mill Proprietary Limited (“HSM”), a subsidiary of Evraz Highveld, which will see ArcelorMittal South Africa deliver 21 000 tonnes of input material per month for processing into heavy steel products at Highveld’s heavy structural mill. The agreement is expected to have a positive impact on revenue, sales volumes, job creation, the sustainability of the long products segment and the strength of the local industry.

- It is expected that the Corex Campaign extension completed in quarter three will improve and prolong the reliability of the Saldanha plant by six years.
- The N2 battery refurbishment at Newcastle Works, which is progressing as planned and will be completed in the first half of 2017, is expected to improve the sustainability of the coke batteries and the batteries' coke-making capability (traditionally a significant EBITDA contributor) will be restored to 381 000 tonnes per year.
- A new boiler at Vanderbijlpark Works will enable optimal use of the power station in generating approximately 10MW additional power per annum - a R60 million benefit.
- The company will consider reopening the Vaal Meltshop, depending on market conditions and steel demand.
- The company will aggressively pursue the Africa Overland (AOL) market and intends to secure more than 40% market share having identified potential strategic customers who will serve as distribution points to mitigate the current logistical difficulties of trade in the AOL.

Corporate actions taken during the year strengthened the statement of financial position, resulting in substantially reduced debt and savings on financing cost savings, and are likely to have a profound impact on ArcelorMittal South Africa's sustainability and licence to operate.

Safety remains our number one priority and it is with great regret that we report three fatalities at our plants in 2016, all contractor employees. The lost time injury frequency rate (LTIFR) in 2016 also declined from 0.48 to 0.62. De Klerk commented: "This is completely unacceptable and we remain committed to achieving zero harm at all our operations through an unwavering focus on improved safety performance year on year."

On a more positive note, however, Saldanha and Vanderbijlpark Works achieved 644 and 200 lost time injury free days respectively during the year.

Despite severe financial constraints, ArcelorMittal South Africa recorded important progress this year on mitigating its environmental impacts. At considerable expense, Vanderbijlpark and Newcastle Works achieved and maintained zero effluent discharge (ZED) status. Air emissions were a key focus area and significant challenges regarding sinter emissions at Vanderbijlpark and Corex cast house emissions at Saldanha Works were overcome. The company also made substantial progress on reducing its water abstraction rates. Future capital expenditure will be focused on air related issues at our coke and iron making facilities.

In 2016, shareholders approved a transaction in terms of which Likamva Resources, a broad-based black-owned consortium, acquired 17% of the companies issued share capital. Within two years of the transaction, Likamva is obliged to transfer 5% of company shares to broad-based parties representing the interests of communities in which ArcelorMittal South Africa operates. Through the transaction, employees and management were also granted an additional 5.1% equity interest in the company resulting in employees holding 6.6% of total issued share capital, and moving employees and management to the company's fourth largest shareholder.

ArcelorMittal South Africa increased its socio-economic investment from R12,6 million in 2015 to R17 million in 2016, of which R12.6 million was spent on its three flagship science centres, R2,4 million on re-roofing 201 homes in the Emfuleni municipal area, the training and employment of 70 local community members who gained skills in civil construction and asbestos handling. The company also spent an additional R20 million on the development of affordable housing for low-to-medium income employees in Vanderbijlpark.

Fourteen vendors benefited from ArcelorMittal South Africa's supplier development programme during 2016, a number of which are now in their second year of incubation. The collective spend on these vendors increased by R49 million (155%) year on year. An investment of R30 million over three years in an incubation hub was approved in 2016 and, in collaboration with the dti, the programme will roll out in 2017. The first two phases of an industrial business park have been concluded in Vanderbijlpark and will provide direct job opportunities for more than 90 people.

Outlook

For the remainder of 2017, domestic steel demand is expected to remain subdued due to low economic growth and a lack of infrastructure spend. Export markets are likely to be more resilient, however, authoritative projections are that Africa will experience demand growth in the region of 4%.

"Increased sales will dependent heavily on a stable market, a marked reduction in imports as well as new products, such as the heavy structural products that will be produced in collaboration with Evraz Highveld," said De Klerk.

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

“Tangible progress on the applications for safeguard duties will be imperative to the survival of the primary steel sector in South Africa and the tens of thousands of jobs that depend on it,” concluded De Klerk.

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