ArcelorMittal

# news release

15 November 2016

## ArcelorMittal South Africa announces steel price adjustment

**Johannesburg, 15 November 2016:** ArcelorMittal South Africa today announced price increases of its steel products with effect from 1 December 2016 in line with international market movements.

The continued downturn in the global economy and the sustainability of the steel industry are among the factors which led the company to increase prices following its monthly price review. Last year was challenging for steelmakers worldwide, with companies registering record losses.

Significant increases have been experienced since June 2016 in the international prices of raw materials. The prices of iron ore and coking coal have increased by 54% and 243% respectively, which has led to an international raw material basket increase of 98%, exerting upward pressure on international steel prices. Chinese Hot Rolled Coil (HRC) has increased by 38% over the same period and Rebar by 35%. The spread between the raw material basket and that of the steel price (the gap available for conversion costs and margin), has come down to unsustainable levels from $158/t to $102/t internationally in the case of HRC. This reflects a continuation of dumping of steel by China as these are below EBITDA costs and therefore the need for safeguards.

Alph Ngapo, Chief Marketing Officer at ArcelorMittal South Africa, said the monthly price reviews and increases are in line with normal market practice and are aligned with the fair pricing principles applicable to flat products and which are being finalised with the South Africa government.

ArcelorMittal South Africa appreciates progress made with government on a number of key initiatives which are intended to protect the local steel sector. However, the company's Vanderbijlpark Works continues to face sustainability pressure despite a turnaround strategy which is being implemented at the operations.

"The price increases are essential to address the current losses at the Vanderbijlpark Works, while considering the fair pricing principles and progress on the application for safeguard duties and designation of steel for the building and construction industry," said Ngapo.

**Average base price increases per product are as follows:**

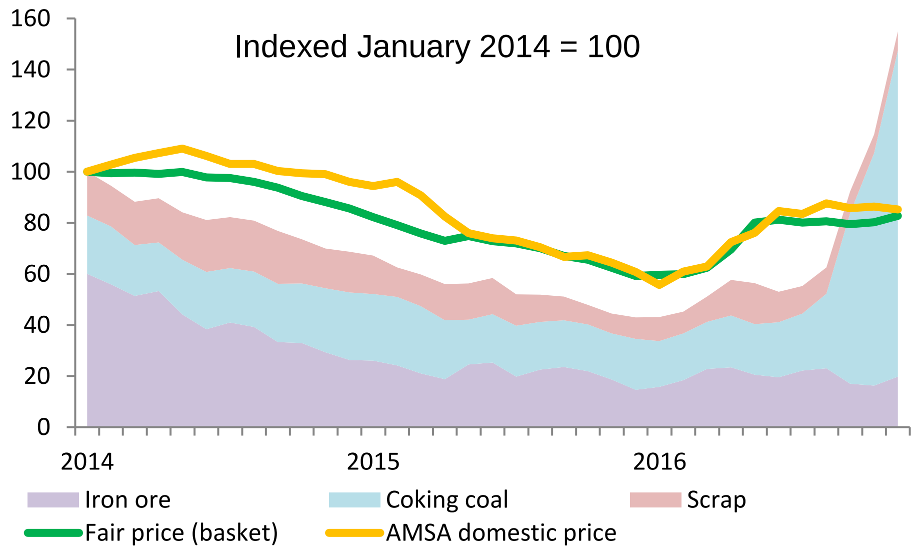
**Flat Steel products:**

- Hot Rolled Coil 10.2%
- Plate 7.0%
- Cold Rolled Coil 9.8%
- Galvanised Coil 9.3%
- Colour Coated Coil 4.3%

**Long Steel products:**

- Reinforcing Bar (includes Smooth and Mining Bar) 6.9%
- Wire Rod: Mesh Bar, Bolt, Nut, Grinding Media & Rounds 40 mm 6.9%
- Rails 4.7%
- Medium Sections (including windows and fencing) 5.0%

The graph below depicts the fair pricing basket and ArcelorMittal South Africa domestic values, against the raw material basket (RMB) which is made up of coking coal, scrap metal and iron ore. Clearly, the reason for the recent upward move in steel prices stemmed from the run-away price in coking coal. While coking coal made up around 27% of the RMB, it started to increase its composition to around 55% in October 2016, purely because of price increases. It also therefore implies that the RMB as a percentage of the HRC price is sitting at almost 70%, indicating the small gap that exists for conversion costs and profit compared to the average of 55% in the preceding 30 months.




In the spirit of our discussions with government relating to duties as well as the proposed Fair Price Basket pricing model, we are careful to ensure that our increases remain within the boundaries of the committed pricing principles and the sustainability of our business, particularly on Flat Steel products.

“The challenges faced by ArcelorMittal South Africa and the local steel industry persist and are placing the company and the steel sector in a tenuous position,” added Ngapo. “Creating a sustainable and profitable business is critical to ensuring that the steel industry can continue to play its part in the future growth and development of the country.”

As is evident from the increasing costs and market circumstances, the decision to increase prices is not based on the duties that have been imposed. More importantly, the impact of this decision has been considered but ArcelorMittal South Africa has no option but to respond to the market circumstances and rising costs to ensure the sustainability of the organisation. In its pricing decision, ArcelorMittal South Africa continues to honour its commitments in terms of the pricing principles as well as the conditions related to the imposition of duties.

“We still await government’s approval of safeguards on HRC and CRC. Designation of steel for the building and construction industry is also still awaited and is critical to assist downstream manufacturers,” said Ngapo.

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