11 February 2021
For immediate release

news release

ArcelorMittal South Africa financial results for the year ended 31 December 2020

- Successful implementation of Covid-19 response plan to protect people, assets and financial lifelines
- Transformation and strategic initiatives yield substantial benefits
- R1 022 million profit in H2 2020, resulting in a full year EBITDA profit of R37 million (2019: R632 million loss)
- R1 467 million improvement in free cash flow to an inflow of R117 million (2019: R1 350 million outflow)
- R2 531 million (33%) reduction in total fixed costs to R5 066 million (2019: R7 597 million)
- 10% reduction in rand terms in raw material basket
- 4% reduction in average international dollar steel prices, with 6% increase in realised rand prices
- 48% lower liquid steel production of 2,3 million tonnes and 47% lower sales volumes of 2,2 million tonnes
- R1 222 million reduction in headline loss to R2 043 million (2019: R3 265 million loss)

"Despite a difficult year in which businesses had to adjust to the impact of Covid-19 in an already weak economy, ArcelorMittal South Africa was able to return to profitability in the second half of the year, as the benefits of substantial cost reduction initiatives and the implementation of an optimised asset footprint review over the past two years are showing positive results. I believe the business is now well-positioned to participate in the improvements in manufacturing activity and the anticipated positive demand spin-offs from the economic recovery plans of both Government and South African business." *Kobus Verster, ArcelorMittal South Africa, CEO*

The analysis below relates to the year ended 31 December 2020 (current period) compared to the year ended 31 December 2019 (previous or comparable period), except where otherwise indicated.

Johannesburg, 11 February 2021: Despite an exceptionally difficult year in 2020, ArcelorMittal South Africa's EBITDA turned around from a loss of R632 million in 2019 to a profit of R37 million for the year. While the company recorded a loss in the first half of the year, when almost all its operations were stopped for the first time in the company's history, a R1 022 million profit was recorded in the second half of the year. Pandemic-impacted revenue decreased by 40% to R24 643 million due to a 47% reduction in total sales volumes. This was partly mitigated by a 6% improvement in net realised global steel prices in rand terms against the comparative period.

At an operating level, the operating loss decreased from R2 359 million to R924 million, while the headline loss decreased from R3 265 million to R2 043 million, amounting to a 186 cents per share loss against 297 cents loss for 2019. This improvement has been a direct result of a structured multi-year cost reduction programme and adjustments to the company's asset configuration.

ArcelorMittal South Africa crafted a rapid response plan to protect its people, assets and financial facilities during the hard lockdown and, pleasingly, was able to successfully remobilise for the subsequent restart of operations.

"Although marked by unprecedented challenges, the year also proved to be highly transformative with constructive learnings," said Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa. "The work done to minimise the impact of Covid-19 on the business was invaluable in at least two respects: firstly, adapting our operations to ensure employees and service providers remain healthy and safe; and secondly, fundamentally resizing the cost structure of the company in response to lower production and sales volumes."

Emerging from a first half broadly characterised by lockdowns, the second half of 2020 saw an unexpected bounce in near-term steel demand internationally. Virtually without exception, major steelmaking economies around the globe struggled to meet this demand in good time. Regions with integrated primary steelmaking operations were especially affected as the complex supply chain components took time to re-establish and, internationally, this restoration continues.

Rising international steel prices, particularly in the fourth quarter of 2020, were the consequence of global supply steel shortages due to a sharper than expected recovery in virtually all markets, nine-year-high iron ore prices, and increasing scrap and other raw material prices. By late December 2020 and into early January 2021, international steel prices reached levels last seen in 2008.

ArcelorMittal South Africa's total sales volumes fell by 47% or 1,9 million tonnes to 2,2 million tonnes compared to 2019, mainly due to a 37% or 1,1 million tonne reduction in domestic sales and a 72% or 827 000 tonne reduction in seaborne export sales. Flat steel products decreased by 46% or 1,2 million tonnes (excluding Saldanha 27%), while long steel products decreased by 47% or 690 000 tonnes.

South Africa's apparent steel consumption for 2020 decreased by 20% to 3,7 million tonnes. Expectedly, total steel imports of mainly hot rolled coil, galvanised sheet and tinplate increased by 4% to 937 000 tonnes[1] in response to the supply chain shortages in the local market. This constituted some 26% of South Africa's apparent steel consumption (2019: 20%), which is likely to reduce in the coming year as the supply chain normalises.

In South Africa, multiple customer surveys throughout the year reflected changing estimates of steel demand as time progressed. In many instances, views on the sustainability of the higher-than-expected demand were mixed, especially as the second wave of Covid-19 took hold in the country.

Against the backdrop of an arduous 2019 which led to downstream steel market inventories being at diminished levels, the second blast furnace at Vanderbijlpark Works was restarted earlier than planned, in December 2020, followed by the third basic oxygen furnace and the direct reduced iron plant to support flat steel supply. The electric arc furnace at Vereeniging, which was scheduled to be placed under care and maintenance in the third quarter of 2020, will continue to operate for the foreseeable future in support of long steel supply.

Verster commented: "The invaluable lessons learnt during this period are being incorporated into the customer centricity and sales and operational planning elements of our new *OneOrganisation* operating model. More than ever, it is clear from our numerous engagements that customers are eager for closer collaboration to integrate value chains and pursue value-adding product development."

The company continued to implement its strategic initiatives in 2020 to achieve long-term sustainability. A key element was the finalisation of the asset footprint review.

[1] Source: December 2020: ArcelorMittal South Africa projection based on import statistics from Customs

The wind-down of Saldanha Works was timeously completed to ensure that the significant historical losses do not reoccur. The Saldanha plant will remain under care and maintenance until a sustainable input cost solution can be developed, however, alternative value-adding and job creation options are being pursued at the West Coast plant. This includes the establishment of a back-of-port logistics hub using the ancillary land and infrastructure at Saldanha Works and enabling an aspirant South African independent power producer to use suitably permitted land should the party be successful in the current emergency power bidding process.

Needing to act with decisiveness and agility in response to the sharp fall in production and sales volumes, ArcelorMittal South Africa's fixed costs were reduced by 33% or R2.5 billion, which includes R1-billion of BTP-related fix cost improvements, just less in R600 million to variabilise these costs and the remainder being the fixed cost of placing Saldanha Works in care and maintenance.

The Business Transformation Programme (BTP) contributed a further R1,5 billion (2019: R1,5 billion) in improvements, adding to the R2,1 billion achieved since the programme started in 2018. In 2021, the programme will focus on customer centricity, maintenance and reliability, as well as the energy and logistics transformation programmes.

Despite significant cost savings from the BTP initiatives, the company's cash cost per tonne of steel sold increased by 8%, largely driven by lower volumes.

The company's raw material basket (iron ore, coking coal, and scrap), representing 41% (2019: 51%) of total production cost, was 10% lower in rand terms, which is exceptional given the 11% increase in the international raw material basket. This reflects the work done to diversify the sources of raw material supply. Electricity costs increased by 10%.

The potential monetisation of ArcelorMittal South Africa's blast furnace slag is rapidly advancing, and similar partnering opportunities are being investigated for steel slag.

Although delayed as a result the pandemic, the disposal of key non-core properties is expected to gain traction in the first half of 2021. The search for a co-investor for the commercial market coke business has been postponed due to the funding challenges of interested investors.

Impacted by the lower number of work hours, the lost-time injury frequency rate (LTIFR) increased from 0.44 to 0.58 and the total injury frequency rate (TIFR) increased from 6.57 to 7.21. Notwithstanding the intention to achieve zero fatalities and injuries, ArcelorMittal South Africa regrettably had one fatal incident at its Newcastle plant on 13 November 2020. The board and management extend their deepest condolences to family and colleagues of the deceased.

Safety remains the company's number one priority, as demonstrated by ArcelorMittal South Africa's proactive response to the Covid-19 pandemic. The health and wellbeing of employees during these unprecedented and difficult times will continue to receive significant attention, especially considering Covid-19 infection rates remain a risk.

Barring a return to more restrictive lockdown regulations, it is anticipated that both sales volumes and prices should improve. Strong international steel prices are expected to remain in the near-term.

"We are hopeful that the improved price and volume environment, together with the sustained benefits of our fixed cost reduction programme, the strategic asset footprint review and our *OneOrganisation* operating model footprint benefit, will ensure that the improved performance from the second half of 2020 will continue into the first half of the new year," concludes Verster.

***** Please refer to the detailed SENS announcement (available on the company's website*** https://arcelormittalsa.com/***) for further financial information***

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