ArcelorMittal

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For immediate release

# news release

## ArcelorMittal South Africa Interim financial results for the period ended 30 June 2023

- Weaker trading environment with substantially lower international market prices and stagnant economic growth
- Sales volumes up 3% to 1,2 million (crude steel production up 29% to 1,4 million)
- Realised rand steel prices down 8% (down 22% in dollar terms)
- Raw material basket (RMB) up 2% (rand terms) (international RMB down 13% in rand terms)
- Value Plan added R1 007 million (2022 H1: R577 million)
- Fixed costs up 3% to R3 549 million (2022 H1: R3 448 million)
- EBITDA down 86% at R499 million (2022 H1: R3 591 million)
- Headline loss of R448 million (2022 H1: R3 025 million profit)
- Net borrowings of R2 990 million (2022 H2: R2 808 million)
- Renewables and regional infrastructure projects expected to support steel demand
- Medium- and longer-term investment case remains intact
- Modified 2016 B-BBEE Transaction to improve the prospect of meaningful future value creation

*The analysis below relates to the six months ended 30 June 2023 (current period) compared to the six-months ended 30 June 2022 (prior or comparable period), except where otherwise indicated. The immediately preceding six months refers to the last six months of 2022.*

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***"Despite a very difficult first half of 2023, ArcelorMittal South Africa is positioned to navigate the immediate and near-term challenging market conditions while remaining focused on its medium- to longer- term objectives".***

Kobus Verster, Chief Executive Officer of ArcelorMittal South Africa

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***Johannesburg, 27 July 2023:*** ArcelorMittal South Africa today announced its first half results for the period ending 30 June 2023. "The first half of the year reflects the challenging operating environment the industry has faced in the first half of this year. Profitability was impacted by, amongst other things, the weaker economic activity, loadshedding, productivity, rising raw materials, and decrease in steel prices and increased security cost", commented Kobus Verster, ArcelorMittal South Africa CEO.

ArcelorMittal South Africa posted a **headline loss** of R448 million against earnings of R3 025 million in H1 2022. **EBITDA** of R499 million fell by 86% (H1 2022: R3 591 million). Net finance charges increased by 114% to R536 million (H1 2022: R250 million) mainly due to the higher net interest charge on bank overdrafts and loans of R163 million and a lower net foreign exchange profit of R113 million.

**Revenue** decreased by 5% to R21 045 million (H1 2022: R22 176 million) due to an 8% fall in net realised steel sales prices, despite a 3% increase in total steel sales volumes. Revenue increased by 13% (H2 2022: R18 596 million) compared to the immediately preceding six months.

**The Company's raw material basket** (iron ore, coking coal, and scrap), representing 48% (H1 2022: 43%) of cash cost per tonne, was 2% up in rand terms, compared to a 13% decrease in the international basket. The local basket was flat in rand terms compared to the immediately preceding six months.

**Consumables and auxiliaries** represent 31% of cash cost per tonne (H1 2022: 31%). **Electricity tariffs** increased by 14%, **while dollar-denominated** commodity-indexed consumables decreased by 12%. The Company's average capacity utilisation increased from 42% for H1 2022 to 53% in 2023. **Sales volumes** were 3% up, with **crude steel production** 29% higher against the comparable period. Compared to the immediately preceding six months, **sales volumes** improved by 19%, while crude steel production was on par.

ArcelorMittal South Africa's realised **average steel prices** decreased by 8% in rand terms. Its raw material basket increased by 2% with, in absolute terms, imported coking coal having increased by 1%, while iron ore increased by 4% and scrap decreased by 5%. After accounting for conversion cost, the variable cash cost of steel decreased by 5%. **Fixed costs** increased from R3 448 million in H1 2022 to R3 549 million for the period under review, an increase of 3%. Fixed costs increased by 11% (H2 2022: R3 196 million) against the immediately preceding six months.

"The outcome of the 2023 wage negotiations, which yielded a three-year agreement, was beneficial for both the Company and its employees. The agreement provides the certainty and stability required to allow for a focus on performance, productivity and value-add. Importantly, however, although it was agreed to exclude some matters from the agreement, these will be pursued through the internal corporate labour forum. Also, of relevance to fixed costs, is the troubling trend which has seen a significant increase in security cost necessary to safeguard the Company's facilities and logistics routes"' explained Verster.

**Net financing charges** were higher at R536 million (H1 2022: R250 million) mainly due to higher net interest charges on bank overdrafts and loans of R163 million and lower net foreign exchange gains of R113 million.

**The Value Plan** realised improvements of R1 007 million (H1 2022: R577 million) consisting of commercial-related initiatives of R378 million (H1 2022: R343 million) and cost-based initiatives of R629 million (H1 2022: R234 million). "In order to preserve the hard-won gains, extra attention is being given to the dilutive impact which operational inefficiencies have on the Value Plan", said Verster.

**Free cash outflow** of R204 million (H1 2022: R177 million cash inflow) was after capital expenditure cash outflow of R818 million (H1 2022: R693 million).

**The capital expenditure** of R582 million (H1 2022: R855 million) consisted of R308 million (H1 2022: R332 million) sustaining (including safety and structures), R171 million environmental (H1 2022: R179 million) and R103 million (H1 2022: R344 million) of strategic investments. The potential annual incremental EBITDA impacts of the strategic investment is estimated at R233 million (H1 2022: R270 million).

The challenging trading environment not only made the anticipated unwind of the higher net working capital position which had built up in last quarter of 2022, very difficult, it resulted in additional cash being utilised in operations for the period under review. Consequently, **the net borrowings position** of R2 990 million at 30 June 2023 increased by R182 million from R2 808 million at 31 December 2022. At 30 June 2022, the net borrowings position was R1 087 million.

"Actions are underway to improve the Company's net borrowing position in the wake of the weaker-for-longer steel trading environment in the region", said Verster.

For H1 2023, **commercial coke production** was 85% lower at 9 000 tonnes, with sales volumes down by 83% at 20 000 tonnes due to the previously communicated continuing restoration of the coke batteries. A meaningful recovery is expected from 2025 onwards.

“Despite a very difficult first half of 2023, ArcelorMittal South Africa is positioned to navigate the immediate and near-term challenging market conditions while remaining focused on its medium- to longer-term objectives”, commented Verster’

“Despite the buoyance of 2021 and the first half of 2022 having past (remembering that the latter is the comparable period for this interim 2023 report), the international trading environment in the first half of 2023 benefited from the end to de-stocking and less painful energy prices. However, locally, the trading environment caught no such tail-winds, as the burden of electricity load shedding, high inflation, high interest rates, and mixed growth in key steel consuming sectors such as manufacturing (+1.0%), machinery and equipment (+1.0%), mining (-1.1%), and construction (0%), pummelled already fragile consumer confidence.

Falling international commodity demand affected most sectors. Understandably, steel demand remained muted, which put significant pressure on local prices. The Company committed to 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. By and large these actions were implemented; mostly by design, but in some instances due to unplanned internal and external interruptions.

However, the softness of the market amidst the unprecedented severity of the electricity load shedding in the last six months, was very much underestimated, which in turn affected the response time with which production could be adjusted in a responsible and well-considered manner. Building and maintaining any semblance of operating rhythm, which is an absolute necessity in running a continuous, integrated steel making process in a cost-aware manner, proved especially problematic, explained Verster.

“In line with our commitment to promote transformation and economic empowerment, we’re embarking on a process to modify the 2016 Transaction, which has not delivered the hoped-for value for our empowerment partners, employees, communities and the Company. This is mainly due to a lack in adequate growth in the share price in relation to the funding terms. The current projections are that the realisation of any meaningful future value is unlikely. The modification is aimed at improving the prospects of sustainable value creation and realisation, and B-BBEE ownership for the strategic empowerment partners, employees and communities,” said Verster.

ArcelorMittal South Africa is positioned to navigate the immediate and near-term challenging market conditions while remaining focused on its medium- to longer term objectives. Good progress continues to be made regarding the finalisation of the funding for the 200MW Solar Energy Plant at Vanderbijlpark. The definitive feasibility study for the construction of a 1,7 million tonne electric arc furnace at Vanderbijlpark successfully progressed through some key milestones. Amongst other things, it is an important component of ArcelorMittal South Africa’s Decarbonisation Roadmap published in January 2023.

In further support of the Steel Masterplan’s steel import replacement and localisation initiatives, is the fast-tracking of investment in steels suitable for renewable energy projects and extended automotive applications. Downstream integration to enable the fabrication of such steel into end-products is being investigated with various parties.

Significant effort has been invested in challenging the soundness of the long-term viability of Newcastle Works. The conclusion reached was that it does have a business case, and indeed an investment case. Investment, however, will follow once certain aspects within the business that are performing sub-optimally, are addressed. At the beginning of 2023, an optimisation programme commenced, which is specifically focused on asset footprint optimisation, mill capacity utilisation and efficiencies, logistics and energy. This extends beyond Newcastle, and includes operations in Vereeniging, Pretoria and Emalahleni. Having invested just less than R500 million in the interim campaign refurbishment of the Newcastle blast furnace in 2022, attention has now turned to the progressive refurbishment of its coke making capabilities, which were more badly affected than initially thought as a result of the enforced turn-down actions due to the Covid lockdowns. Future investments contemplated in Newcastle and Vereeniging focus on cost, volume and mix improvements. The production of the Pretoria small section mill was transferred to Newcastle during reporting period.

As previously reported, the fourth quarter of 2022 saw the start-up of one of the blast furnaces at Vanderbijlpark being delayed due to weak domestic demand. The blast furnace in Newcastle is performing well, however, extreme rain conditions (resulting in flooding) disrupted production on several occasions.

Unplanned outages at the steel plants in Vanderbijlpark and Newcastle, along with below-target production performances at the billet and plate mills, have resulted in these plants being placed into "high care" in order to assertively address nagging reliability issues. Electricity load curtailment necessitated the need to follow a highly disruptive stop-start operating practice. Positively, the planned iron ore rail line maintenance in the Northern Cape was well managed in collaboration with Transnet Freight Rail.

According to the South African Reserve Bank, 2023 GDP is expected at 0,4%. Steel demand is expected to improve as economic indicators strengthen. Inflation is moving back towards the target range of between 3-6% which should lessen the pressure on interest rates and assist with lifting consumer confidence. Renewables and regional infrastructure projects are expected to support steel demand whilst exchange rates will continue to have an impact as will rail service and electricity reliability.

"We remain focused on our initiatives to improve performance through delivery of our Value Plan. We must generate cash, strengthen our balance sheet and improve shareholder value", concluded Verster.

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


**Contact:**

**Tami Didiza**
**016 889 4523**
**0661328858**
**Email:Tami.didiza@arcelormittal.com**