ArcelorMittal South Africa Limited
Registration number: 1989/002164/06
Share code: ACL
ISIN: ZAE000134961
(**ArcelorMittal South Africa**, the **Company** or the **Group**)

ArcelorMittal

Short-Form Announcement - Reviewed Condensed Group financial results for the year ended 31 December 2023

SALIENT FEATURES

- Deferral of wind down of Longs steel product operations (Longs Business) enabling it to continue to operate for up to six months, to allow time to (i) progress, conclude and secure benefits arising from identified short-term interventions, while (ii) progressing the development of additional medium- and longer-term interventions focused on business sustainability
- Sales volumes up 12% to 2,4 million tonnes (crude steel production up 15% to 2,8 million tonnes)
- Realised Rand steel prices down 9% (down 20% in dollar terms)
- Raw material basket (RMB) remained flat (Rand terms) (international RMB increased 2% in Rand terms)
- Value Plan increased from 2022 (R1 561 million) to R2 093 million in 2023
- Fixed costs of R6 619 million remained flat despite inflationary pressures (2022: R6 644 million) and decreased by R481 million (14%) against H1 2023 (H1 2023: R3 550 million; H2 2023: R3 069 million)
- EBITDA profit before impairment of R56 million (2022: R4 270 million)
- Loss per share of 352 cents after impairment charges of R2 115 million (2022: earnings of 236 cents per share)
- Headline loss of R1 890 million (2022: R2 607 million profit)
- Net borrowings of R3 215 million (2022: R2 808 million)
- Continuing to grow the business as the champion of innovative, export driven, steel-based industrialisation through continued growth and competitiveness of core downstream industries such as automotive, renewable energy, mining, and key construction and infrastructure projects

KEY STATISTICS

	Year ended		
	31 December 2023	31 December 2022	% Change
Financials (R millions)			
Revenue	**41 637**	40 771	2.1
EBITDA before impairment	**56**	4 270	(98.7)
(Loss)/profit from operations	**(2 937)**	3 499	
Net (loss)/profit	**(3 920)**	2 634	
Headline (loss)/earnings	**(1 890)**	2 607	
Net borrowings	**(3 215)**	(2 808)	(14.5)
Net asset value	**7 799**	11 675	(33.2)
Financial ratios (%)			
EBITDA margin	**0.1**	10.5	
Return on ordinary shareholders' equity	**(19.4)**	25.2	
Net borrowings to equity	**(41.2)**	(24.1)	
Share statistics (cents)			
(Loss)/earnings per share	**(352)**	236	
Headline (loss)/earnings per share	**(170)**	234	
Dividends per share	**-**	-	
Net asset value per share (Rand)	**7.00**	10.47	(33.1)
Safety			
Lost time injury frequency rate	**0.77**	0.87	11.5
Operational statistics ('000 tonnes)			
Crude steel production	**2 767**	2 408	14.9
Steel sales	**2 412**	2 160	11.7
- Local	**1 898**	1 872	1.4
- Export	**514**	288	78.5
Commercial Coke sales	**33**	176	81.1
Segmental performance (R millions)			
Steel operations			
- Revenue	**40 885**	38 765	5.5
- EBITDA before impairment	**(373)**	3 745	
Non-steel operations			
- Revenue	**907**	2 049	(55.7)
- EBITDA before impairment	**534**	614	(13.0)
Corporate and other (including eliminations and adjustments)			
- EBITDA before impairment	**(105)**	(89)	(18.0)

ArcelorMittal South Africa Limited: Short-Form Announcement
Reviewed Condensed Group financial results for the year ended 31 December 2023

The analysis below relates to the year ended 31 December 2023 (current period) compared to the 12-months ended 31 December 2022 (prior or comparable period), except where otherwise indicated. The immediately preceding six months refers to the first six months of 2023.

Overview

The international steel environment in 2023 was characterised by low demand in almost all markets and prices were under pressure, especially in the second half. Slow growth in China resulted in a substantial increase in Chinese steel exports.

Locally, steel demand remained relatively flat at historically low levels, and prices followed international downward trends. All these factors resulted in an extremely difficult trading environment.

Longs Business Wind Down

The second half of the financial year was dominated by the announcement of the contemplation of the wind down of the broader Longs Business. Despite best efforts, the initiatives implemented prior to the announcement had not been able to counter the combined effect of:

- Low market demand in key steel consuming sectors, limited infrastructure spend and project delays, resulting in overcapacity in the market and overall weaker business confidence.

- High logistics, energy and security costs, exacerbated by the well-publicised logistics failures and their resultant cost impact, and the prevailing electricity challenges which the country faces.

- Introduction of a preferential pricing system (PPS) for steel scrap, a 20% export duty, and more recently, a ban on scrap exports allowed steel production through the electric arc furnaces which use scrap as input, an 'artificial' competitive advantage when compared with steel manufacturers beneficiating iron ore to produce steel.

On 28 November 2023, it was indicated that the Longs Business wind down would be subject to a due diligence and a consultative, and iterative process involving key customers, suppliers, organised labour, and other stakeholders.

Since making the announcement, ArcelorMittal South Africa has engaged with various stakeholders, including Government, represented especially by the Minister of Trade, Industry and Competition, Transnet, numerous industry associations, organised labour, affected suppliers, and community forums, and most importantly customers.

These stakeholders have expressed widespread concern regarding the negative, and in many cases, detrimental impact of the closure. The Company, along with interested stakeholders, embarked on an intensive process to explore options to reverse the decision regarding the Longs Business. ArcelorMittal South Africa explained that it did not need any preferential treatment or subsidies, rather it required Government to ensure that a level playing field exists for South Africa's primary steel producers, by addressing the structural constraints affecting the steel industry.

As a result of the various engagements, specific short-, medium- and longer-term interventions were identified, some of which are set out in the Steel Masterplan, to address the above constraints.

Deferring the wind down decision holds substantial risks and requires the commitment of, at a minimum, the Company, its customers and suppliers, the Government, state-owned enterprises, and our employees. In particular, the short-term initiatives under discussion are required to provide time to progress the medium- and longer-term interventions which are focused on achieving business sustainability.

Though not without risk, given the constructive progress with various stakeholders on advancing the short-term initiatives, and their commitment to developing and implementing the medium- and longer-term interventions, along with the early-realisation of certain of the benefits afforded by these short-term initiatives, ArcelorMittal South Africa is able to announce the deferral of the wind down of the Longs Business to allow for its continued operation for up to six months. During this time, the objective is to further progress and conclude the short-term initiatives, followed by their implementation to secure the targeted benefits.

The short-term initiatives that are being progressed include:

- Port and rail service efficiency improvements with a Transnet leadership who have demonstrated firm intent to cooperate with the Company to narrow the current cost gap, with an undertaking to work together towards addressing further cost optimisation opportunities;

The export ban on steel scrap was not extended in December 2023 as a first step in addressing those policy measures which gave an artificial cost advantage to lower quality scrap-based steel makers, to the disadvantage of integrated steel

Overview continue

- making facilities that beneficiate mined raw materials (specifically iron ore). The Company will continue to engage with Government on continuing concerns regarding steel scrap metal, which amongst other matters, threaten the existence of small- and medium-sized scrap entrepreneurs and traders, many of whom are members of the Metal Recyclers Association (MRA);
- Expediting demand-side opportunities to improve capacity utilisation in the absence of economic growth, and as envisaged in the Steel Masterplan, to replace imports and facilitate exports. This includes anticipated projects which require investment to increase the local application of high-quality steel profiles;
- Agreement with key customers to a longer-term volume commitment and localisation efforts to create sustainable local supply and enlarge the downstream manufacturing capability to the benefit of both local manufacturers and the Longs Business; and
- Working with key suppliers, service providers and organised labour to reduce the cost structure of the Longs Business.

The timing of the deferral is subject to these in principle agreements being commercially and contractually concluded.

ArcelorMittal South Africa will continue to monitor its working capital requirements over the deferral period which will extend for a period of up to six months, to ensure that there is sufficient access to liquidity. In this regard, in the interest of prudent liquidity management, the Company is in the process of applying for an additional working capital facility up to R1 billion which may be called upon to support continued operations.

Although the short-term initiatives do not fully address the structural shortcomings highlighted before, ArcelorMittal South Africa has confidence that the deferral of the wind down decision enabling the Longs Business to continue to operate for a period of up to six months, combined with the commitment from many of the Company’s affected partners, will provide enough time to cement and implement the agreed medium- and longer-term interventions. These interventions focus on longer term iron ore pricing, value chain efficiencies to improve customer service and value offerings, targeted investments to improve cost competitiveness, enable value added exports and aid the transition to greener steel, amongst others.

ArcelorMittal South Africa has indicated that if the Longs Business, in its previous model prior to the announcement of possible closure, were to be wound down, that the Company would be on a more sustainable financial footing. However, should the anticipated benefits from the short-term interventions noted above be realised, the entire Company, including the Longs Business, will be more sustainable. This will also prevent job losses and the occurrence of a significant negative impact on the entire steel value chain and the South African economy.

Taken together, these interventions allow for the time and opportunity to defer the wind down decision without prejudicing the sustainability of the Company. It allows for the operation of the Longs Business for up to six months, while work with Government, customers, suppliers, organised labour and other stakeholders continues to consider and implement the medium- and longer-term structural changes necessary to ensure a level playing field and the sustainability of the steel industry.

The trajectory of the Longs Business after the expiry of extended operations period (for up to six months) may result in either its continued operation; the introduction of a partner/partners to pursue joint venture opportunities or the resumption of an orderly and commercial wind down.

2023 Results

Given these pressures, the Company posted a headline loss of R1 890 million against earnings of R2 607 million in 2022. EBITDA before impairment of R56 million fell substantially (2022: R4 270 million). Depreciation and amortisation expense increased by 14% to R878 million (2022: R771 million) and net finance charges increased by 11% to R1 057 million (2022: R952 million).

Excluded from the headline loss, are impairment charges for the year that amounted to R2 115 million. This included R2 096 million for the impairment of the property plant and equipment and other intangible assets relating to the Longs Business. Despite these major earnings challenges, the intense focus on cash management yielded notable benefits, enabling the Company to maintain net borrowing levels within tolerable levels. Consequently, the net borrowings position of R3 215 million compared to R2 990 million and R2 808 million at June 2023 and December 2022 respectively.

The Company’s average capacity utilisation increased from 47% for 2022 to 54% in 2023.

Overview continue

Sales volumes rose 12%, with crude steel production 15% higher against the comparable period. Compared to the immediately preceding six months, sales volumes improved by 2% to 1,2 million tonnes, while crude steel production was 4% higher at 1,4 million tonnes.

ArcelorMittal South Africa's realised average steel prices decreased by 9% in Rand terms. Its raw material basket was flat (being in absolute terms and on a delivered basis).

The components in the basket moved as follows: imported coking coal decreased by 2%, scrap decreased by 21%, while iron ore increased by 28%. After accounting for conversion cost, the variable cash cost of steel increased by 10%(1).

Fixed costs marginally decreased by R25 million to R6 619 million despite inflationary pressures. Pleasingly, these costs decreased by R481 million (14%) compared to the immediately preceding six months.

The Value Plan realised improvements of R2 093 million (2022: R1 561 million) consisting of commercial-related initiatives of R909 million (2022: R839 million) and cost-based initiatives of R1 184 million (2022: R722 million).

Free cash outflow of R431 million (2022: R1 600 million cash outflow) was after capital expenditure cash outflow of R1 489 million (2022: R1 912 million), which consisted of R865 million (2022: R989 million) sustaining (including safety and structures), R300 million environmental (2022: R259 million) and R324 million (2022: R664 million) of strategic investments.

(1) Based on crude steel production

Safety, Environmental, Social and Governance (ESG)

Safety is the Company's highest priority as it remains committed to Zero Harm.

The Company's lost-time injury frequency rate (LTIFR) decreased from 0.87 to 0.77 and the total injury frequency rate (TIFR) increased from 5.69 to 7.69. Total number of injuries increased from 171 to 199.

Markets

Global crude steel production(2) remained flat for 2023, at 1 888 million tonnes. Global crude steel production decreased by 6% in H2 2023, compared to the preceding six months.

China's crude steel production remained flat at 1 020 million tonnes, retaining its market share at 54% (2022: 54%). Europe's crude steel output decreased by 7% to 168 million tonnes. North America decreased by 2% to 110 million tonnes, and Turkey decreased by 3%. Russia increased its output by 6%, and India increased by 12% to 140 million tonnes.

Africa's output increased by 5% to 22 million tonnes mainly due to increased production in South Africa, Libya and Egypt. South Africa's crude steel production increased by 11% to 4,9 million tonnes.

The South African steel market is experiencing real demand weakness with low to negative growth in construction (+1,6%), manufacturing (+0,8%), machinery and equipment (+2,9%), mining (+0,2%), agriculture (-3%) and electricity, gas & water (-4.6%)

(2) Source: World Steel Association

Outlook for the first half of 2024

Safety remains ArcelorMittal South Africa's highest priority. In addition to various safety initiatives implemented over the past few years, ArcelorMittal South Africa will actively participate in additional Group safety initiatives, which include independent external audits of safety standards with an increased focus on process safety.

Internationally, the World Steel Association expects a 1,9% increase in steel demand, with China continuing to play a directional role in international steel demand and pricing trends.

Prices are unlikely to remain at current low levels based on international spreads being under extreme pressure.

Outlook continue

For the Longs Business, the key focus for the first half of 2024 will be to progress and conclude the short-term initiatives, while work with Government, customers, suppliers, labour and other stakeholders continues to consider and implement the medium- and longer-term structural changes necessary to ensure a level playing field and the sustainability of the South African steel industry.

Within the Flats Business, the focus will be to increase volumes and optimise operational efficiency, while further improving reliability and quality for the benefit of our customers.

Exchange rates will continue to have an impact as will rail service and electricity reliability.

HJ Verster	**GA Griffiths**
Chief Executive Officer	Interim Chief Financial Officer

8 February 2024

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. This short-form announcement is itself not reviewed but extracted from the reviewed condensed consolidated financial statements which were reviewed by Ernst & Young Inc who issued an unmodified review conclusion on the reviewed consolidated financial statements for the year ended 31 December 2023.

There review conclusion report can be obtained from the Company's registered office and on the Group's website at https://southafrica.arcelormittal.com/InvestorRelations/AnnualResults.aspx. Any investment decisions by investors and or shareholders should be made after taking into consideration the full announcement. The full results announcement is available for viewing at https://senspdf.jse.co.za/documents/2024/JSE/ISSE/ACL/AMSA-FYE23.pdf and on the group's website at https://southafrica.arcelormittal.com/InvestorRelations/AnnualResults.aspx. The full announcement is available for inspection, at no charge, at the registered office of (ArcelorMittal South Africa Limited, Room N3-7, Main Building, Delfos Boulevard, Vanderbijlpark) and the offices of the sponsor (Absa Bank Limited (acting through its Corporate and Investment Banking Division), 15 Alice Lane, Sandton), from 09:00 to 16:00 on business days.

Copies of a full announcement can be requested from the registered office by contacting (016) 889 2352. The short-form announcement has not been audited or reviewed by the company's auditors.

FORWARD-LOOKING STATEMENTS

Statements in this announcement that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to risks and uncertainties which could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Any reference to future financial performance included in this announcement has not been reviewed or reported on by the group's auditors.

This report is available on the ArcelorMittal South Africa's Web site at: http://www.arcelormittal.com/southafrica/.
Share queries: Please call the ArcelorMittal South Africa Share care toll free on 0800 006 960 or +27 11 370 7850.