ArcelorMittal

Salient features

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

Short-form announcement

Reviewed condensed consolidated financial results for the six months ended 30 June 2023 and proposed modification of 2016 existing B-BBEE transaction

Overview and sustainability

In February 2023, at the announcement of the company's 2022 financial results, it was indicated that, barring the impacts of loadshedding and rail service unreliability, the six-month outlook for the trading environment appeared to be improving compared to the difficult close to 2022. Unsustainable price-cost pressures and positive movements in early 2023's international steel prices offered reasons for some optimism.

Despite the buoyance of 2021 and the first half of 2022 having passed (remembering that the latter is the comparable period for this interim 2023 report), the international trading environment in the first half of 2023 benefitted 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 loadshedding, high inflation, high interest rates and mixed growth (only automotive reflected noteworthy growth of 8,3%) 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 amid the unprecedented severity of the electricity loadshedding 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.

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. This resulted in additional cash being utilised in operations for the period under review.

Consequently, the net borrowings position of R2 990 million was R1 903 million and R182 million higher compared to June 2022 and December 2022 respectively. 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.

Sales volumes were 3% up, with crude steel production 29% higher against the comparable period. Against 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% (based on crude steel production).

Fixed costs increased by R101 million (3%) to R3 549 million. 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.

Markets

Global crude steel production (source: World Steel Association) decreased by 1% or 11 million tonnes in the first half of 2023 to 946 million tonnes. This reflected disappointing demand with insufficient end-user consumption levels, thin margins and low profitability levels, along with notable pressure to reduce costs, as upstream steel making raw material prices remained at relatively elevated levels. Global crude steel production increased by 8% in H1 2023, compared to the immediately preceding six months.

Africa's output increased by 4% to 8 million tonnes due to higher production in South Africa, Tunisia and Libya. South Africa's crude steel production increased by 14% to 2.4 million tonnes.

Turning to South Africa and the regional economy, the GDP growth rate forecast for South Africa is 0.4% for 2023, with those for near and sub-Saharan African markets forecasted to be between 3.4% and 3.6%.

In South Africa, apparent steel consumption (ASC) for the first half of 2023 increased by 2% to 2.1 million tonnes, while ASC increased by 4% compared to 2.0 million in the immediately preceding six months.

Steel imports of primarily HRC, galvanised sheet and plates decreased to 596 000 tonnes (June: AMSA estimate) after a surge in the immediately preceding six months of 720 000 tonnes. This volume constituted some 29% of South Africa's ASC (H2 2022: 36%).

The company's total sales volumes increased by 3%, or 34 000 tonnes, to 1.2 million tonnes compared to the comparable volumes in 2022. This was composed of a 6% fall in domestic sales to 1.0 million tonnes while exports increased by 68% to 230 000 tonnes. Africa overland sales rose by 47% to 119 000 tonnes. Total sales volumes increased by 19% compared to the immediately preceding six months, with domestic sales increasing by 13%, and Africa overland sales increasing by 133%. Africa overland sales as percentage of total exports, improved to 52% (H2 2022: 34%).

Operations

The company's average capacity utilisation increased from 42% in H1 2022 to 53% in 2023.

Crude steel production increased by 29%, or 305 000 tonnes, from 1.05 million to 1.36 million tonnes for the first six months of 2023. Crude steel production was unchanged against the immediately preceding six months.

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 hot blast stove restoration programme is currently underway on the second blast furnace. The blast furnace in Newcastle is performing well, however, extreme rain conditions (resulting in flooding) disrupted production on several occasions.

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.

Financial results

ArcelorMittal South Africa reported EBITDA of R499 million against R3 591 million in H1 2022, while its operating profit decreased from R3 235 million to R94 million. The headline loss of R448 million (H1 2022: R3 025 million profit), amounted to a 40 cents per share loss (H1 2022: 271 cents profit). EBITDA decreased by 27% compared to R683 million in the immediately preceding six months.

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 (based on crude steel production) (H1 2022: 31%). Electricity tariffs increased by 14%, while dollar-denominated commodity-indexed consumables decreased by 12%.

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) in the immediately preceding six months.

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.

Cash flow and borrowing position

Cash generated from operations of R891 million was R211 million lower against the comparable period (H1 2022: R1 102 million cash generated) mainly due to lower profit from operations after adjusting for non-cash flow items, of R2 855 million, and lower operating working capital requirements of R2 644 million.

Net finance charge outflows of R234 million (H1 2022: R232 million) was in line with comparative period.

The net capital expenditure cash outflow was R818 million against R693 million in H2 2022, an increase of R125 million.

The net borrowing position of R2 990 million at 30 June 2023 increased by R182 million from R2 808 million at 31 December 2022 mainly due to cash generated from operations of R891 million offset by capital expenditure of R818 million, finance cost of R234 million and tax of R43 million. At 30 June 2022, the net borrowings position was R1 087 million.

Legal and regulatory matters

Proposed modification of the 2016 Existing B-BBEE Transaction

In 2016 ArcelorMittal South Africa implemented a Broad-Based Black Economic Empowerment ("B-BBEE") ownership transaction ("Existing B-BBEE Transaction") introducing black ownership through:

- a commercial strategic component, by issuing a new class of notionally funded shares ("A1 Ordinary Shares") to Amandla We Nsimbi (RF) Proprietary Limited ("Amandla"), a special purpose vehicle, the ordinary shares of which are held by Likamva Resources Proprietary Limited ("Likamva");
- a community component (the "Existing Communities Trust") which acquired the A1 Ordinary Shares in Amandla; and
- an employee component through the issue of a new class of notionally funded shares ("A2 Ordinary Shares") to the Isabelo Employee Share Trust (the "Existing Employee Trust") for the benefit of employees, which constitutes approximately 21.75% of the total issued share capital held by and for the benefit of black people.

The Existing B-BBEE Transaction has not yielded the envisaged value for empowerment partners, employees and the company. This is largely as a result of a lack in adequate growth in the share price in relation to the funding terms of the Existing B-BBEE Transaction.

Current projections reflect that the materialisation of any meaningful future value based on the current terms and structure of the 2016 B-BBEE Transaction is unlikely.

Accordingly, the company is embarking on a process to modify the Existing B-BBEE Transaction in order to improve the prospects of sustainable value creation and realisation, and B-BBEE ownership for the strategic empowerment partners, employees and communities ("Modified B-BBEE Transaction"), in line with its commitment to promote transformation and economic empowerment.

Outlook for the second half of 2023

Safety remains ArcelorMittal South Africa's highest priority.

Internationally, the World Steel Association expects a 2.2% increase in steel demand.

Chinese GDP growth will continue to play a role in international steel demand and pricing trends.

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.

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

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.

On behalf of the board of directors

HJ Verster
Chief Executive Officer

GA Griffiths
Interim Chief Financial Officer

27 July 2023

Key statistics

Six months ended 30 June 2023	Six months ended 30 June 2022	% Change		Year-ended 31 December 2022
			Financials (R millions)	
21 045	22 176	(5.1)	Revenue	40 771
499	3 591	(86.1)	EBITDA	4 274
94	3 235	(97.1)	Profit from operations	3 499
(359)	3 072	(111.7)	Net (loss)/profit	2 634
(448)	3 025	(114.8)	Headline (loss)/earnings	2 607
(2 990)	(1 087)	175.1	Net borrowing	(2 808)
11 341	12 143	(6.6)	Net asset value	11 675
			Financial ratios (%)	
2.4	16.2		EBITDA margin	10.5
(7.8)	57.1		Return on ordinary shareholders' equity	25.2
(26.4)	(9.0)		Net borrowing to equity	(24.1)
			Share statistics (cents)	
(32)	276	(111.6)	(Loss)/profit per share	236
(40)	271	(114.8)	Headline (loss)/earnings per share	234
–	–		Dividends per share	–
10.16	10.89	(6.7)	Net asset value per share	10.47
			Safety	
0.72	0.71		Lost-time injury frequency rate	0.87
			Operational statistics ('000 tonnes)	
1 356	1 051	(29.0)	Crude steel production	2 408
1 193	1 159	2.9	Steel sales	2 160
963	1 022	(5.8)	– Local	1 872
230	137	67.9	– Export	288
20	120	(83.3)	Commercial coke	176
			Segmental performance (R millions)	
			Steel operations	
20 619	20 864	(1.2)	– Revenue	38 765
460	3 460	(86.7)	– EBITDA	3 748
			Non-steel operations	
460	1 324	(65.3)	– Revenue	2 049
75	443	(83.1)	– EBITDA	614
			Corporate	
(36)	(312)	88.5	– EBITDA	(88)

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 was reviewed by Ernst & Young who issued an unmodified review conclusion on the reviewed consolidated interim financial statements. Their review conclusion report can be obtained from the company's registered office and on the group's website at https://southafrica.arcelormittal.com/InvestorRelations/InterimResults.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/2023/JSE/ISSE/ACL/AMSAInt23.pdf** and on the group's website at **https://southafrica.arcelormittal.com/InvestorRelations/InterimResults.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.

ArcelorMittal South Africa Limited

(ArcelorMittal South Africa, the company or the group)
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This report is available on the ArcelorMittal South Africa's website at: http://www.arcelormittal.com/southafrica/.

Share queries: Please call the ArcelorMittal South Africa Share care number toll free on 0800 006 960 or +27 11 370 7850.