ArcelorMittal South Africa Limited
(Incorporated in the Republic of South Africa)
(Registration Number 1989/002164/06)
Share Code: ACL ISIN: ZAE000134961
("**ArcelorMittal South Africa**" or the "**Company**")

BUSINESS UPDATE, UPDATE ON THE DEFERRAL OF THE WIND DOWN OF THE LONGS BUSINESS, AND TRADING STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

BUSINESS UPDATE

Markets

The World Bank expects global growth to stablise at 2.6% in 2024, holding steady for the first time in three years. Notwithstanding this, the Worldsteel Association (**WSA**) forecasts that apparent steel use in 2024 will increase by 1.7% to 1.8 billion tonnes. WSA also reported that global steel production was flat for the first five months of 2024 compared to 2023.

China's domestic steel consumption is expected to remain weak in 2024 due to the ongoing property crisis and weaker infrastructure demand. The high levels of steel exports from China seen in 2023 continue to pressurise international steel markets. At 94 million tonnes in 2023, China's steel exports were at the highest level since 2015/16. China's steel exports for the first five months of 2024 increased by 15% compared to the comparable period in 2023, and 2024 exports are anticipated to exceed 100 million tonnes.

Within this environment, most steel producing countries and regions have moved swiftly to implement trade remedies and non-tariff barriers. Mexico announced a near-80% tariff on imports from China. Brazil imposed a 25% tariff which equaled that imposed by the USA on China. These countries followed the lead of Europe, while India, Vietnam and Thailand, amongst others, are also taking similar action.

The first half of the year ("**H1 2024**") saw Chinese export hot rolled coil and rebar prices fall by some 10% in US dollar terms compared to the comparable period in 2023. Over that period, the Raw Material Basket (RMB) only decreased by around 4%. The spread between China hot rolled coil and the international RMB reached a low of $64 per tonne in the last quarter of 2023 ("**Q4 2023**"). Although it showed improvements in H1 2024, recovering to above $100 per tonne, the spread remained at low and unsustainable levels.

South African economic activity continued to be largely stagnant in Q1 2024 influenced by the uncertainty of the national elections. In this period, South Africa's primary steel exports increased by 13%, reflective of the 14% increase in crude steel production, all of which could not be consumed domestically given the weak demand conditions.

From a price perspective, the continued lower profitability of international steel exporters is likely to provide a floor to prices. An anticipated softening of interest rates in the second half of this year ("**H2 2024**"), coupled with various trade remedies are likely to provide an improved environment for pricing sentiment, boding well for a gradual recovery in prices.

Sustainability and growth

Despite the overall weak market and difficult trading conditions, it has been pleasing to see some 'green shoots' within the manufacturing sector. By example, manufacturing production increased by 5.3% year-on-year in April, and by 5.2% month-on-month in April compared with March. This marks the largest monthly increase since August 2021. The absence of load-shedding, depending on its sustainability, should further contribute to the improvement. The latest manufacturing growth forecast for 2024 is +1.1% year-on-year.

The increase in power generation in recent months, coupled with the renewable energy projects scheduled to come on stream over the next two years, suggests that the drag on economic growth caused by the electricity shortage should gradually diminish, facilitating structurally higher production levels.

A key focus for ArcelorMittal South Africa is the upgrade and expansion of the national logistics infrastructure and the electrical supply grid (including new renewable energy capacity) as evidenced by the following positive trends:

- Energy
  - The country brings opportunities for investors. This can be evidenced by it being the third-largest recipient of cleantech foreign direct investment ("**FDI**") funds into Africa, trailing only Egypt and Morocco. Evidence suggests that solar rooftop photovoltaic (**PV**) rose from 985MW in March 2022 to 4,400MW by June 2023. The shift from the national grid escalates the need for alternatives.
  - 6,000MW of large-scale projects worth R100 billion have been registered with the National Energy Regulator.
- Logistics
  - The National Logistics Crisis Committee was established, and the Freight Logistics Roadmap was developed with immediate steps to improve equipment and locomotive availability, network security, and broader logistics systems reforms. The immediate priority of the roadmap is to stabilise the operational performance of freight rail, currently a severe constraint, most notably for commodity exports. In addition, the Economic Regulation of Transport Bill is expected to be passed this year, promoting competition in the logistics industry, and establishing the first transport regulator.
- Infrastructure
  - Transnet plans to invest R160 billion to address national infrastructure requirements. Transnet also aims to deepen and lengthen two berths at its Durban Container Terminal Pier 2.
- Rail
  - The Draft Rail Private Sector Participation Framework targets to provide an interim approach to enable private sector participation, including third-party access to the freight rail network. This will encourage the likes of Transnet, private rail operators, automotive original equipment manufacturers ("**OEMs**"), mining companies and freight operators to work together to rejuvenate the rail network. The establishment of public private partnerships in logistics should also introduce efficiency and cost savings.

The regional market which the Company serves, reports amongst the lowest steel consumption per capita in the world and provides ArcelorMittal South Africa with a unique opportunity for growth. The Africa Continental Free Trade Agreement ("**AfCFTA**") will enable easier trade in markets of East Africa and West Africa with reduced levels of import duty for imports from AfCFTA countries. This will enable relevant preferential access of South African goods compared to non-African countries with lower and liberalised tariffs for regional trade. Good progress has been made to ensure that the Company fully participates in this important trade initiative.

The advancement of ArcelorMittal South Africa's high-payback investment portfolio closer to bankability, is well on track. Investment in these projects will achieve incremental earnings and cash flow benefits from sales volume growth, cost savings, net capital expenditure savings, and the progression of key decarbonisation initiatives. Work on the funding solution which will also seek to address balance sheet resilience continues.

<u>Operations</u>

The Longs steel product operations ("**Longs Business**") have been operationally stable for H1 2024, which is particularly praise-worthy of the operating teams given the natural anxieties about the future of the business.

Unfortunately, the Flats steel product operations ("**Flats Business**") in Vanderbijlpark experienced notable levels of instability at its blast furnaces in April and May 2024, due to chilled hearth conditions. Blast Furnace C returned to operation on 1 May following a three-week outage, and Blast Furnace D returned on 29 May after a five-week outage. As the business was preparing for a Q2 2024 shotcrete repair for Blast Furnace C, steel inventory levels had been increased. This increase enabled the continued supply of inventory to customers, while surplus inventory destined for export jurisdictions were mainly re-routed to the domestic market. Overall, some two weeks of sales volumes were lost, which, markets permitting, will be recovered in the second half of the year ("**H2 2024**"). Procurement supply chains were sharply contracted, and short working hours were applied at those plants that were semi-idled, to manage fixed cost levels. The already intensive cash management actions were further bolstered to preserve liquidity. Recovery actions for H2 2024 have been devised, and include a well-considered, responsible, and risk-aware rescheduling of the Blast Furnace C shotcrete and hearth repair to later in the year, to aid the normalisation of the supply chain.

With the Longs Business broadly performing within expectations, the financial results for the six months ended 30 June 2024 will be negatively impacted by the difficult domestic and regional trading conditions, and by the two-week sales volume impact and high direct cost of the operational interruptions of the two blast furnaces at Vanderbijlpark.

Due to the intensive cash management actions, the net borrowings position is anticipated to remain within tolerable levels.

It is expected that the second half’s performance should be more reflective of the underlying business performance.

UPDATE ON THE DEFERRAL OF THE WIND DOWN OF THE LONGS BUSINESS

During February 2024 shareholders were advised that the Board and Management had decided to defer the wind-down of the Longs Business enabling it to continue to operate for up to six months, to allow time to (i) progress, conclude and secure identified short-term interventions, while (ii) progressing the development of additional medium- and longer-term interventions focused on business sustainability.

The Longs Business remains fully operational with all its facilities continuing to operate and ably servicing its markets and customers.

Progress on the short-term initiatives is summarised as follows:

- Scrap advantage over iron ore: As previously reported, the export ban on steel scrap was not extended in December 2023 and has started a process in bring greater fairness and equity into the respective input cost structures found between integrated (such as ArcelorMittal South Africa) and scrap-based primary steel producers.
- Port and rail efficiency: Transnet performance to ArcelorMittal South Africa has improved. Negotiations with Transnet to guarantee port and rail service efficiency have progressed well and are at an advanced stage. The additional time invested in reaching a solution pertains to certain key matters that have not yet been agreed.
- Trade normalisation: With the oversupply in the global steel markets and commensurate trade actions taken by almost all major steel producing countries, it is pleasing to see a renewed determination by South Africa to respond appropriately to ensure a level playing field for South African manufacturers. The benefits of this action were reports that a provisional safeguard duty of 9% is to be implemented on certain hot rolled steel products by the International Trade Administration Commission (“**ITAC**”). Applications for appropriate action on other steel products, including long products, are also being pursued.
- Working capital: The Company has successfully obtained an additional 12-month, secured working capital facility of R1 billion to support ongoing initiatives and which may be called upon to support continued operations.
- Discussions with organised labour: Disappointingly, discussions with organised labour to reduce the costs structure of the Longs Business were unsuccessful, as the trade unions rejected all reasonable efforts to find a solution which would have assisted the competitiveness of the Company and especially that of the Longs Business. This does not diminish the need to find structural solutions to address the cost competitiveness of that business, which would include a resolution of the high labour cost.

The short-term initiatives detailed above only partially address the structural sustainability of the Longs Business. However, progress is being made on the medium- and longer-term interventions. Work is advancing through various workstreams regarding local mineral beneficiation policies enabling iron ore beneficiation to supply regional demand; and advancing local supply for local demand in both key economic sectors and by State-owned Enterprises (“SoEs”).

The Board and Management are acutely mindful of the impact that the closure of the Longs Business would have on the beneficiation and manufacturing value chain, and the overall industrialisation in the country, notwithstanding the impact on jobs and the local economy, especially in KwaZulu Natal. The immediate impact on the Unemployment Insurance Fund alone could run into the billions.

Consequently, despite progress being slower than anticipated and with some instances of disappointment, the Board and Management have decided that the Longs Business will continue to operate to allow an opportunity for the short, medium- and longer-term initiatives aimed at securing its sustainability, to be fully explored. Management is committed to working closely with all customers, suppliers, and stakeholders to ensure the sustainability of Long steel products supply in the Southern African region.

TRADING STATEMENT

In terms of paragraph 3.4(b) of the JSE Limited Listings Requirements ("JSE Listing Requirements"), the Company is required to publish a trading statement as soon as there is a reasonable degree of certainty that the financial results for the six months ended 30 June 2024 ("the period") are expected to differ by at least 20% or more from the financial results for the previous corresponding reporting period ("the comparable period").

Based on information currently available, shareholders are advised that the Company expects:

- Earnings per share to decline from a R0,32 loss per share (comparable period) to a loss within a range of R1,04 and R1,10 loss per share for the period.
- Headline earnings per share to decline from a R0,40 loss per share (comparable period) to a loss within a range of R0,96 and R1,04 loss per share for the period.

The financial information on which this trading statement is based has not been reviewed and reported on by the Company's external auditors.

ArcelorMittal South Africa's reviewed condensed consolidated financial statements for the six months ended 30 June 2024 are expected to be released on SENS on Thursday, 1 August 2024, with a virtual presentation on the same day. The presentation will be made available to all stakeholders on the Company's website at www.arcelormittalsa.com.

Vanderbijlpark
2 July 2024

For further information please contact:
Tami Didiza: Manager: Corporate Communications
Tel: (016) 889 2549

Company Secretary
FluidRock Co Sec (Pty) Ltd
Tel: (016) 889 4077

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