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**")

VOLUNTARY BUSINESS UPDATE INCLUDING PROGRESS ON LONGS BUSINESS

Salient features

- Global Steel Market:
  - Global steel demand expected to contract in 2024 by 0.9% driven by declining household purchasing power, aggressive monetary tightening, and escalating geopolitical uncertainties.
  - Significant impact from China's overcapacity and low international and export prices resulted in lower earnings across the global steel sector.
  - Countries urgently implementing trade measures and localisation of manufacturing to protect local industries from the Asian steel export surge.
  - Global crude steel production decreased by 4.7% in July and 6.5% in August 2024 compared to the same months in 2023. China's production fell by 9% in July and 10% in August.
- Business Update (quarter three (Q3) 2024):
  - Deterioration in global and local steel markets, with South African demand weaker and high energy/logistics costs impacting on the Company's financial results.
  - Imports continue to threaten the local market.
  - Deep cost-cutting interventions have been implemented by the Company, but national and market constraints remain.
  - Long steel products business ("Longs Business") continues to operate at a loss despite business improvement initiatives implemented by the Company.
  - Support from government and stakeholders, but urgent action needed on issues such as scrap export tax reduction and Preferential Price System reset.
  - Company posted an EBITDA loss of R466 million(1) for Q3, compared to a profit of R52 million in Q3 2023.
  - EBITDA loss primarily driven by the Longs Business, which posted a R512 million loss.
  - Due to intensive cash management actions, the net borrowing position remained stable compared to June 2024.

(1) Anticipated EBITDA loss for Q3 2024

Background: Recap of the first half of the financial year (H1 2024)

Shareholders will recall that the financial results for the first half of the financial year as reported in the announcement released on the Stock Exchange News Service of the JSE Limited on 1 August 2024, were negatively impacted by difficult local and regional trading conditions, and by the negative volume and direct cost impacts of operational interruptions of the two blast furnaces at Vanderbijlpark.

At the time of releasing our interim results, the evaluation of the outlook for the second half of the 2024 financial year (H2 2024) included anticipation of an improved environment for demand and pricing sentiment, boding well for a gradual recovery.

Accordingly, despite the instability during H1 2024, overall, we expected that the financial performance for H2 2024 would be more reflective of the underlying business performance, as the Company anticipated returning to profitability despite demand and price pressure.

Business Update: Q3 2024

Having concluded Q3 2024, the Company is able to update shareholders regarding current business conditions relative to the outlook provided on 1 August 2024.

The global and local steel market deteriorated further since we released our June 2024 interim results.

Despite the recent optimism in South Africa, the domestic steel industry has been facing a particularly difficult period. Demand remains weak, logistics and energy costs continue to be excessive, imports persist, and the market distortions that contributed to the 2023 decision to wind down the Longs Business continue to provide an unsustainable and unfair advantage to scrap based producers.

This is despite the Company having implemented substantial cost cutting interventions to ensure its sustainability, as the national and market constraints present a significant hurdle to overcome.

Steel Market Overview

The World Steel Association has forecasted that steel demand in 2024 will contract by 0.9% year-on-year (compared to a +1.7% previously forecast), and forecasts 2025 demand growth of +1.2% (unchanged against previous forecast). The 2024 demand outlook has been lowered due to weaker demand in China (forecasted to be -3% year-on-year) and most major developed economies. Steel demand from China is expected to contract by 1% in 2025.

The global steel market continues to be weighed down by the economic woes in China, which have resulted in high export volumes with 81 million tonnes exported from January to September 2024 representing a 21% increase. With this surge in exports, international prices have fallen to multi-year lows, last seen temporarily during 2020 at the peak of the Covid pandemic and, prior to that, in 2015/16. The recent Chinese stimulus measures have offered some relief in price uplift, though the overcapacity and overproduction resulting in significant exports from China, remains.

Internationally, a barrage of urgent trade measures continue to be enacted by all manufacturing countries to protect their own manufacturing capacities. Global crude steel production for January to August 2024 was -1.5% lower year-on-year. However, the slowdown has been notable in recent months where world crude steel production was 153 million tonnes (Mt) in July 2024, a 5% decrease compared to July 2023, and 145 million tonnes (Mt) in August 2024, a 6.5% decrease compared to August 2023. China produced 83Mt and 78Mt in July and August 2024 down 9% and 10% respectively against the comparable periods in 2023.

In Africa, crude steel production for January to August 2024 was 1.9% higher year-on-year. South African crude steel production was 0,46Mt in both July and August 2024. Year-to-date August 2024 saw South Africa's primary steel imports increase by 5% of which imported long steel products increased by 92% from approximately 61 400 tonnes in the corresponding nine months of 2023 to approximately 117 900 tonnes for 2024.

During Q3 2024, international prices continued to fall as China Free on Board (FOB) export hot rolled coil prices reached a low of $445 per tonne, and rebar at $473 per tonne within September 2024. These levels were approximately $70 per tonne and $40 per tonne respectively below 30 June 2024 levels.

The average China FOB export price for hot rolled coil was $481 per tonne for Q3 2024 versus $552 per tonne for the corresponding period in 2023. The average China FOB export price for rebar was $489 per tonne for Q3 2024 versus $563 per tonne for Q3 2023.

Longs Business

On 2 July 2024, it was also announced that the Longs Business would continue to operate. As explained, *"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".*

The key outstanding issues that needed to be addressed included the removal of export tax on scrap, resetting the Price Preference System(2) (PPS) mechanism at an appropriate level, implementing trade measures, and addressing the logistics and energy costs.

We acknowledge that there has been support by Government and stakeholders to progress the issues. The process to implement trade measures is progressing, although slower than anticipated. There has also been extensive engagement with Transnet in this regard. Government has also engaged with the steel industry associations, notably the Steel and Engineering Industries Federation of South Africa (SEIFSA), regarding these issues, and the steps needed to revive the steel industry and the economy.

The Minister of Trade, Industry and Competition, has acknowledged the need for effective collaboration and urgent intervention to revive the economy and the steel industry as a strategic sector to enable the national priority of industrialisation.

Government has therefore been supportive and there is no lack of commitment. However, this is not sufficient as urgent action is needed. There is a need to act expeditiously and as a result the Company has once again approached Government and has requested urgent intervention on, amongst other matters, the following issues to ensure a level playing field and allow for the Longs Business to continue operating:

- Reduction of the export tax on scrap to zero.
- Resetting the PPS mechanism.
- Implementing trade measures.
- Addressing circumvention.
- Reduction in electricity prices to address the current over-charge relative to global competitors.
- Reduction in rail and port prices on the same motivation as detailed for electricity.

The Company has taken steps to avoid the closure of the Longs Business thus far as it will have far-reaching effects, including: a negative impact on the downstream, direct and indirect job losses, an increase in imports and a loss of critical local manufacturing and opportunities for localisation and beneficiation, having a profound impact on the national and local economies within our footprint areas.

However, if these issues are not addressed as a matter of urgency, it will only be a matter of time before the viability of the entire business will be at risk and the Company will need to take steps to ensure that this does not happen.

A viable and sustainable primary steel industry has the potential to make a significant contribution to national priorities, including employment and the 3% economic growth target, infrastructure development, export led growth with innovative (greener steel) opportunities and significant contribution to Government's decarbonisation objectives.

(2) PPS: Price Preference System is the export control guideline applicable to pricing of the export of scrap, effectively applying a 30% discount to international scrap prices.

Commercial and Operational Overview

Crude steel production for Q3 2024 at 798,000 tonnes was stable as compared to the 795,000 tonnes of the comparative quarter in 2023, having successfully overcome the instability which characterised operations at Vanderbijlpark earlier in the year. Production within the Longs Business was reduced to cater for the poor market conditions.

In one of the toughest international and local markets that has been seen for some time, significant efforts were directed towards the restoration of market and customer confidence in supply from the Company. The inventory position in the face of reduced demand and falling prices, saw destocking by customers in Q3, with some recovery anticipated in Q4, heading into 2025. There is currently a high level of activity around project work streams in energy, logistics, and infrastructure, however, the projects are not coming to market at the required pace. At 598,000 tonnes, total sales volumes were 51,000 tonnes down against Q3 2023. Domestic sales were 80,000 tonnes lower at 439,000 tonnes, while export sales were up 29,000 tonnes at 159,000 tonnes.

Financial Overview

With a 4% stronger exchange rate in Q3 2024 compared to the comparative period in 2023, net realised selling prices in rand terms were down 4%. Good progress was made in addressing raw material and variable conversion costs, which collectively were 5% lower against the comparable period. However, the severity of market weakness did not allow sufficient time to make the needed progress on the right-sizing of fixed costs. This will be a critical focus for quarter four.

The anticipated return to profitability on an *earnings before interest, tax and* depreciation (EBITDA) level did not materialise for quarter three. The Longs Business posted a R512 million(1) EBITDA loss for the quarter, sharply weaker than its marginally loss-making performance for the first six months of this financial year. Non-steel EBITDA was down 83% at R34 million(1).

The Company's EBITDA loss of R466 million(1) compares to the R52 million profit in the third quarter of 2023. The headline loss for the quarter amounted to R1 066 million(3).

Due to highly prudent and intensive cash management actions, net borrowings of R3,793 million(4) as at 30 September 2024 were stable as compared to June 2024.

(3) Anticipated headline loss for Q3 2024

(4) Anticipated net borrowing for Q3 2024

Progress on our Strategy: optimisation for innovation and growth

The next stage of the Company's strategy will focus on "Investing for Innovation and Growth".

Over the coming years, the Company's strategy will focus on securing its core business and substantially improving the quality of the Company's earnings while also ensuring a reduction in CO_2 emissions by approximately 25% by 2030. This will allow the Company to reduce costs, increase volumes from select products and invest in capital projects that have the potential to transform the Company and ensure future stability and sustainability. It will entail three pillars: strengthening the core business, delivering on high payback projects in support of the Green Transition and executing longer term initiatives and strategic partnerships.

Shareholders were previously informed that *"the high-payback investment portfolio, which* forms *part of the greater sustainability and growth initiative, had moved closer to bankability, where investment in these projects will achieve incremental earnings and cash flow benefits from sales volume growth, cost savings, net capital expenditure savings, and progression of the decarbonisation initiatives. Work on a funding solution for these investments, which would also address balance sheet resilience, was continuing".*

To execute on the strategy, various options are being considered to address balance sheet resilience, and funding of these projects, including through potential recapitalisation.

Conclusion and outlook for Q4 2024

Of utmost importance will be the response by Government to the requested urgent interventions on, amongst others matters, ensuring a level playing field which will allow for the continued operation of the Longs Business to be assessed.

The international steel price lows experienced in September 2024 have shown recovery with the announced Chinese stimulus measures.

Assertive cash management actions will continue along with initiatives to right-size fixed costs.

The Board and Management will continue to assess the viability of the Longs Business. Whatever that decision may be, it is unlikely that the earnings trends evident in Q3 2024 will change dramatically for the remainder of this financial year.

The financial information on which this voluntary business update is based has not been reviewed nor reported on by the Company's external auditors.

Vanderbijlpark
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