



ArcelorMittal

ArcelorMittal South Africa

Parliament colloquium on beneficiation

27 August 2014



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Setting the scene

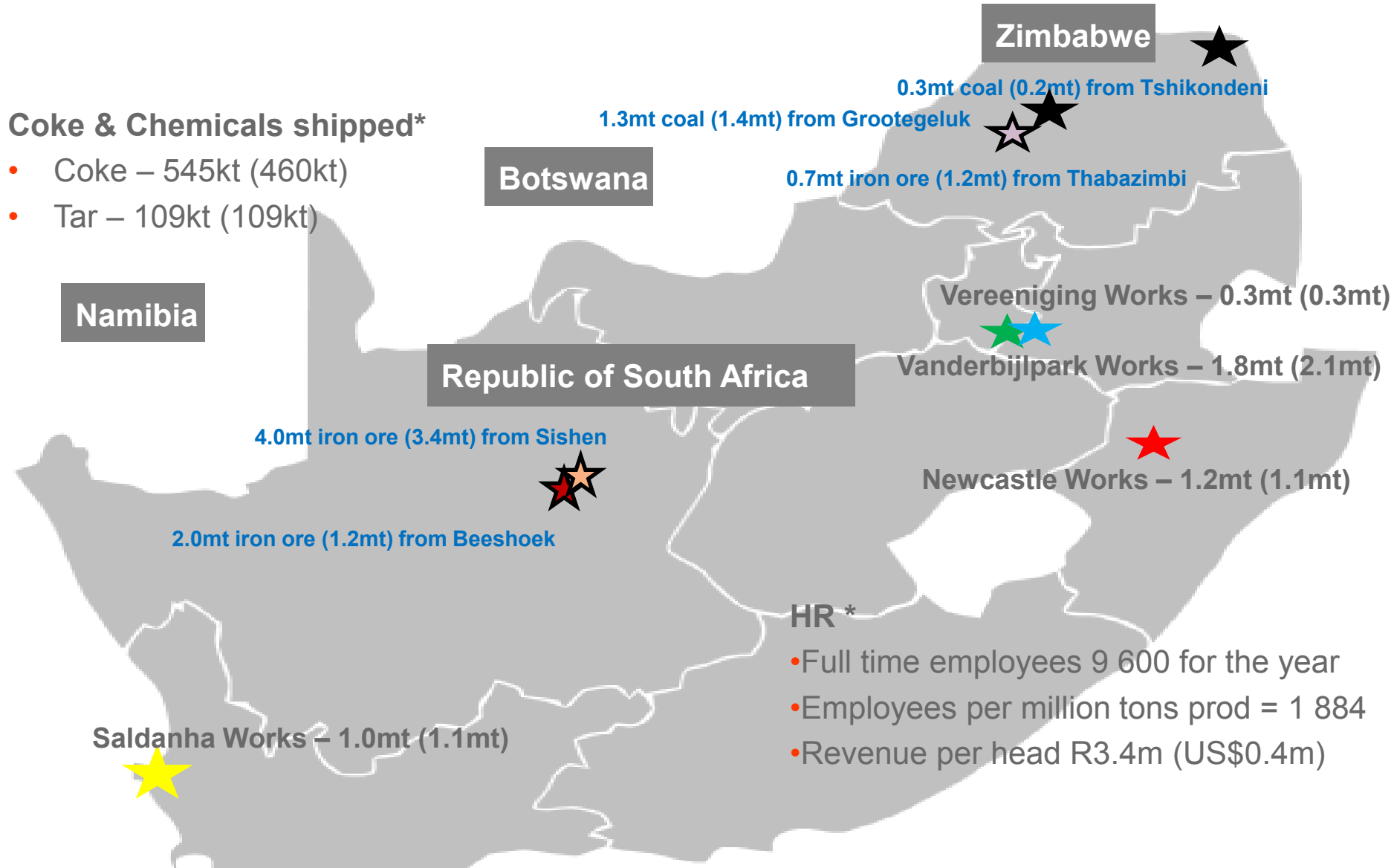
ArcelorMittal South Africa overview



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Coke & Chemicals shipped*

- Coke – 545kt (460kt)
- Tar – 109kt (109kt)

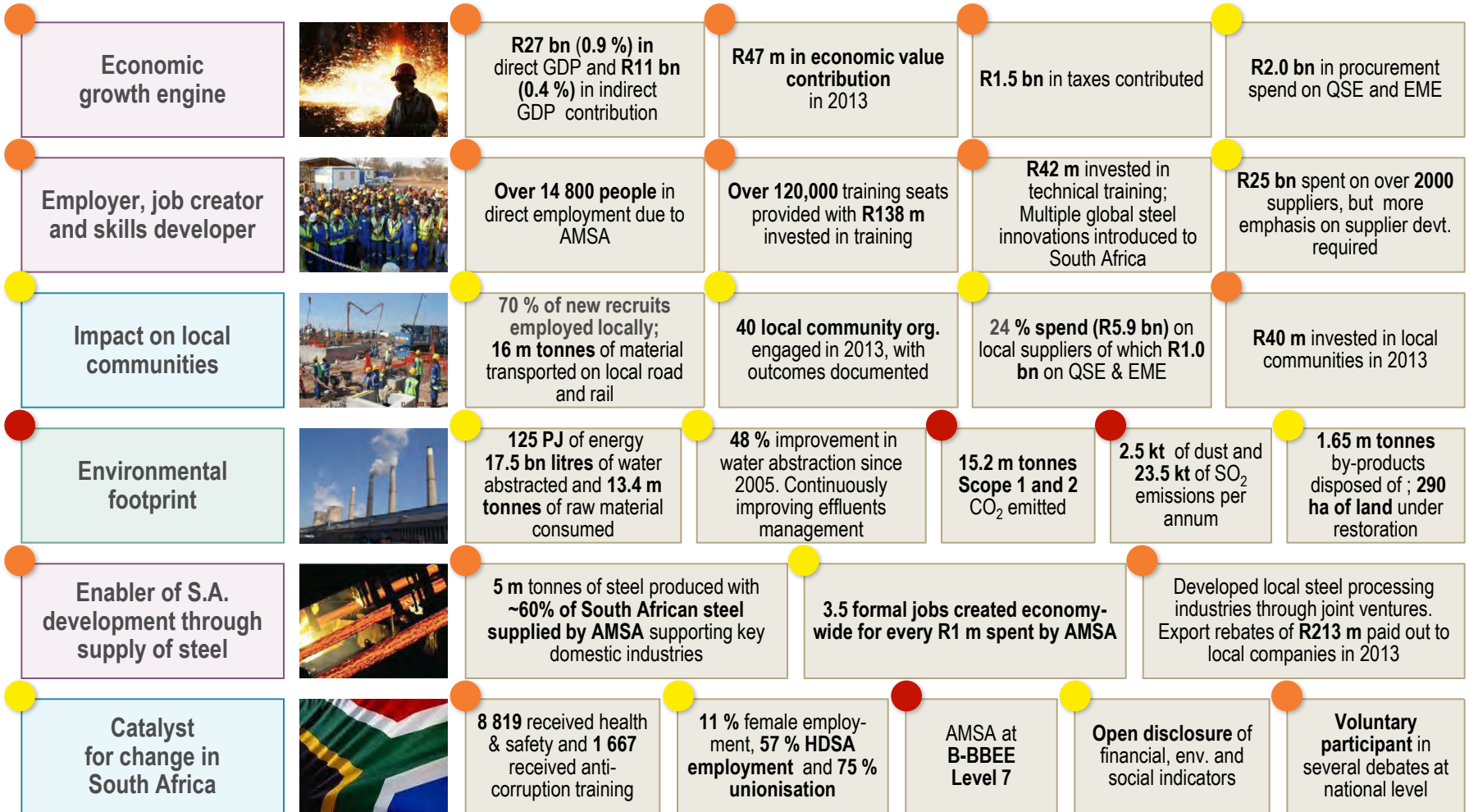


HR *

- Full time employees 9 600 for the year
- Employees per million tons prod = 1 884
- Revenue per head R3.4m (US\$0.4m)

*12 months to December 2013 (2012)

Our Footprint



● Mostly positive
 ● Positive and negative
 ● Mostly negative

Note: All figures as of 2013
Source: AMSA, internal data, BCG analysis

Economic

Social

Environmental



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Basic stages of production

Our value creation model

Inputs

Input materials consumed

	2012	2013	% change
Iron ore	6 535kt	6 607kt	+1%
Coal	4 510kt	4 461kt	-1%
Scrap	162kt	237kt	+46%
Fluxes (dolomite /lime)	1 548kt	1 403kt	-9%

Energy

	2012	2013	% change
Electricity purch (TWh)	3.91	3.67	-6%

Water intake

	2012	2013	% change
Water intake (ML)	19 800	17 515	-12%

Human resources

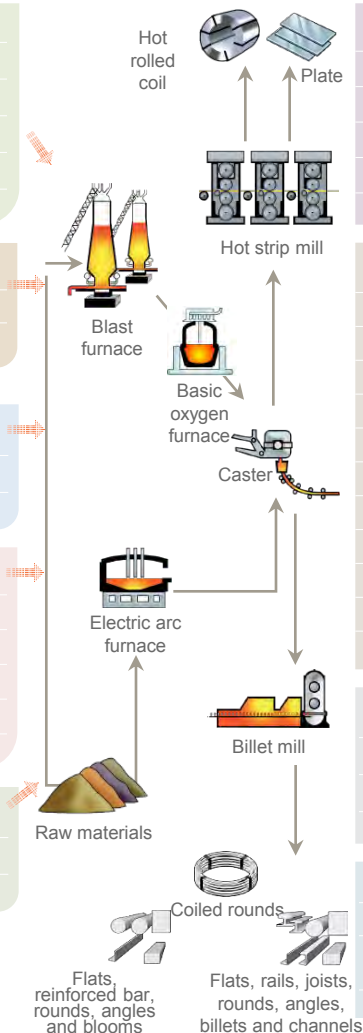
	2012	2013	% change
Employees	9 645	9 016	-7%
Hired labour	1 739	1 869	+7%
Service contractors	4 153	3 918	-6%
Training spend	R137.0m	R138.1m	+1%

Investments

	2012	2013	% change
Capex	R875m	R1 569m	+79%

Key:
 t = Tonnes
 kt = Kilotonnes
 TWh = Terrawatt hour
 ML = Megalitres

Steelmaking process



Value outputs

Financial outputs

	2012	2013	% change
Revenue	R32 291m	R32 421m	+0%
EBITDA	R1 121m	R1 768m	+57%
Profit from operations	(R477m)	R47m	+110%
EBITDA margin	3.5%	5.5%	+57%

Product outputs

	2012	2013	% change
Flat steel	3 138kt	2 771kt	-12%
Domestic market	2 223kt	2 003kt	-10%
Export market	915kt	768kt	-16%
Long steel	1 484kt	1 459kt	-2%
Domestic market	1 113kt	1 123kt	+1%
Export market	371kt	336kt	-9%
Coke & chemicals	1 477kt	1 648kt	+12%
Mkt coke	460kt	545kt	+18%
Tar	109kt	109kt	0%
Other	908kt	994kt	+9%

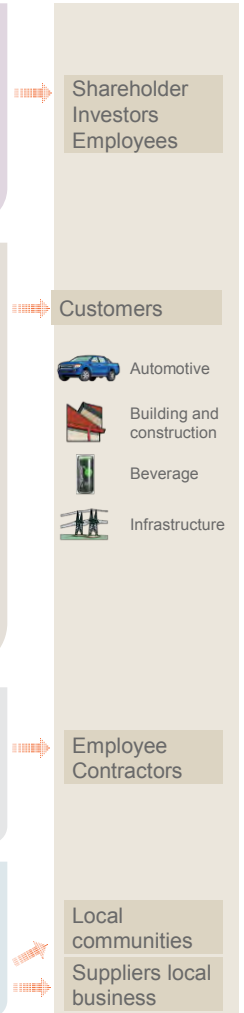
Safety

	2012	2013	% change
LTIFR	0.61	0.56	+9%
Fatalities	0	0	n/c

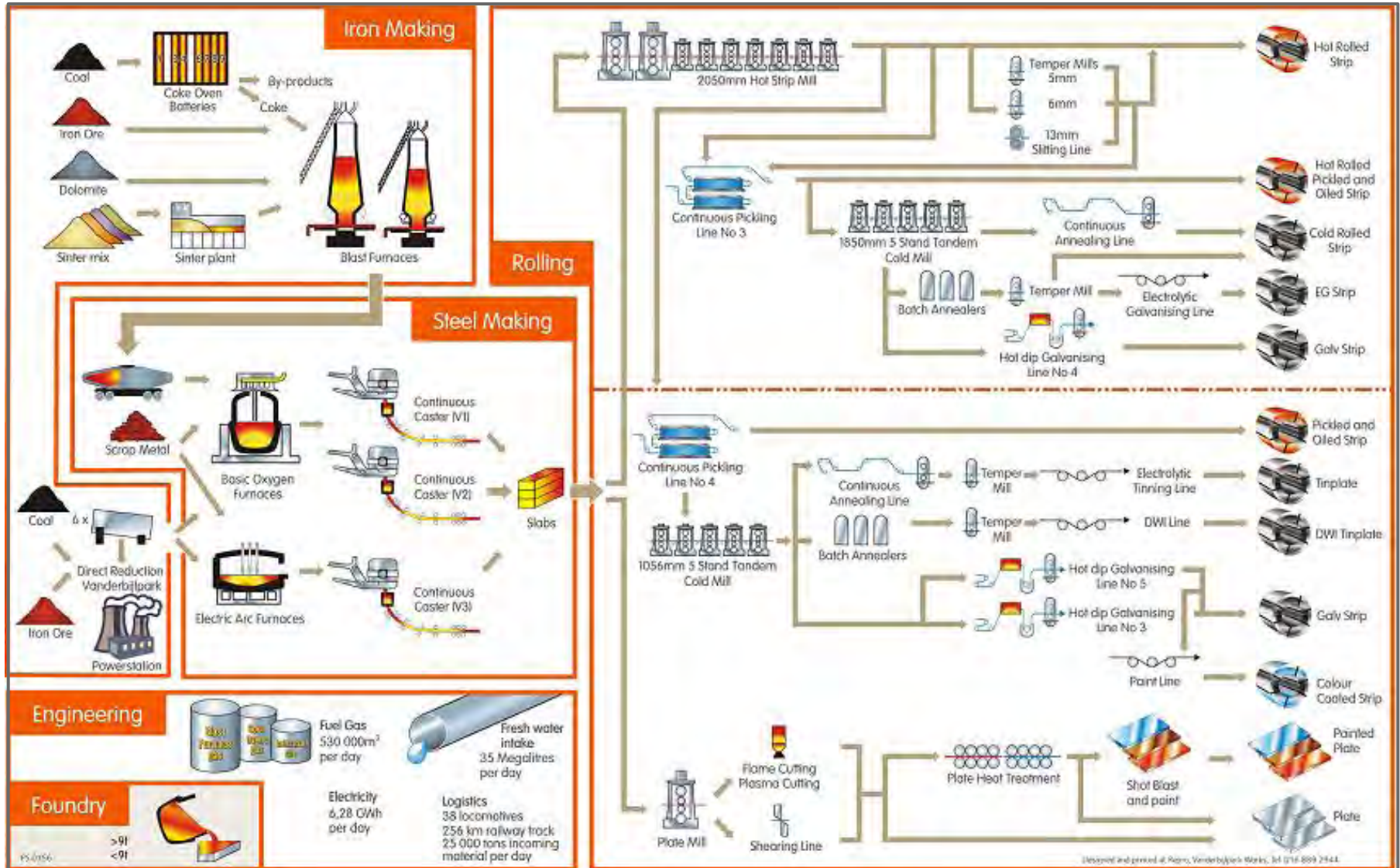
Socio economic outputs

	2012	2013	% change
Socio economic dev	R40.0m	R37.4m	-7%
Procurement spend	R23 617m	R24 989m	+6%

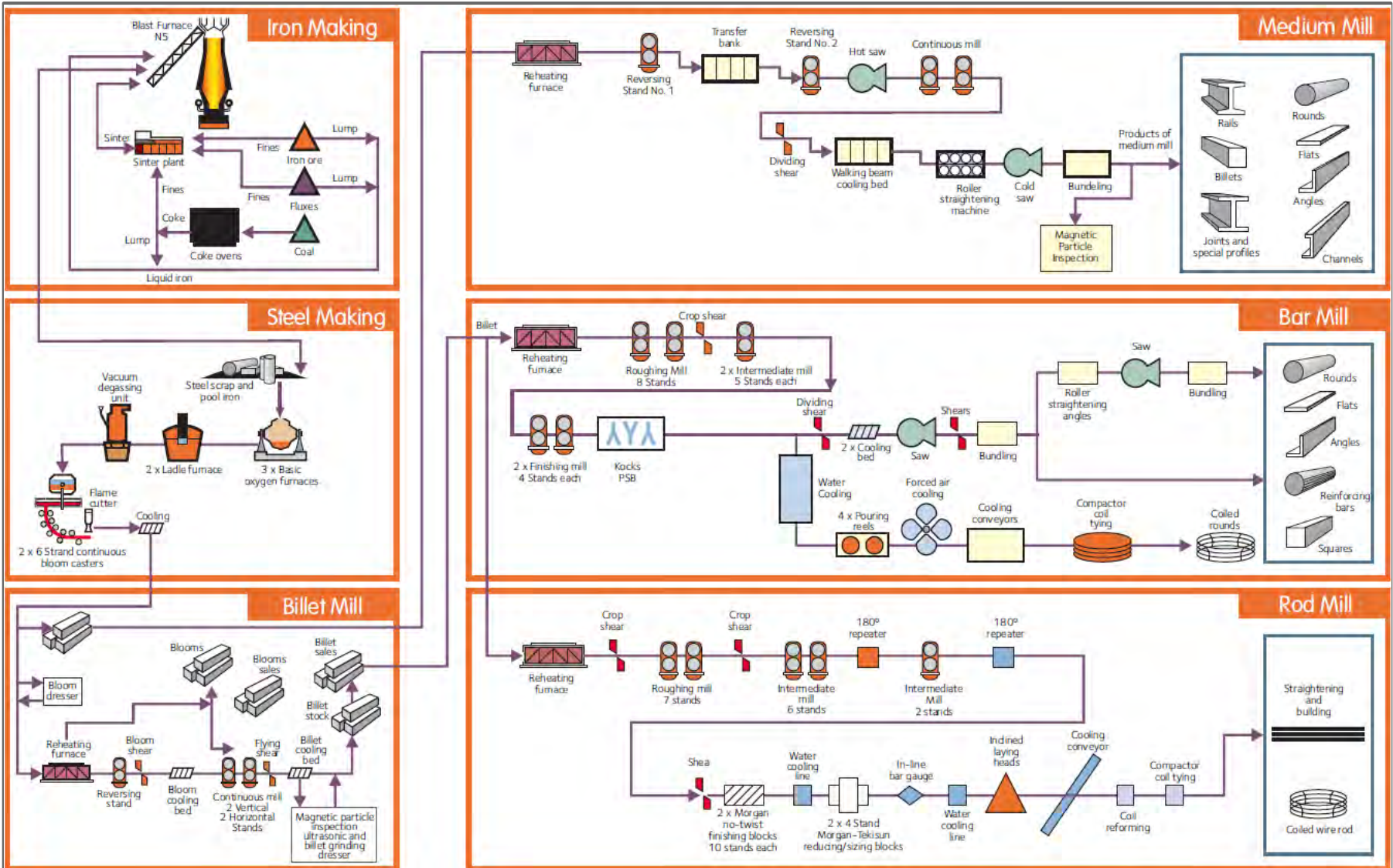
Stakeholders impacted



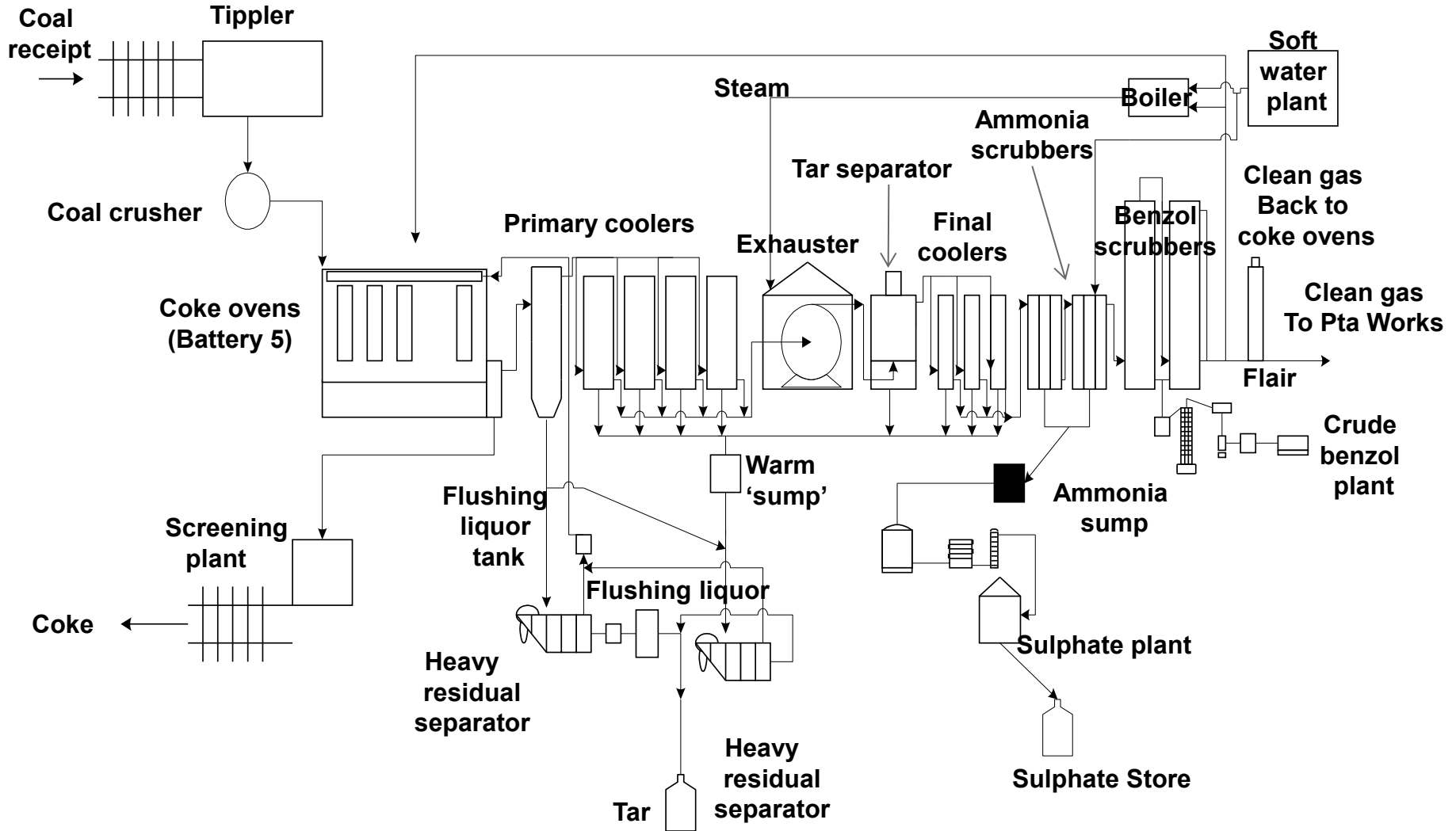
Production flow – flat steel



Production flow – long steel



Production flow – coke & chemicals





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Product overview

Product overview – total shipments



	<u>2012</u>	<u>Weight</u>	<u>2013</u>	<u>Weight</u>	<u>H1 2014</u>	<u>Weight</u>
Total primary steel products (000t)	4 623	100%	4 227	100%	2 199	100%
Flat steel products (000t)	3 141	68%	2 771	66%	1 507	69%
Hot rolled coil	2 084	66%	1 810	65%	1 001	66%
Hot dipped galvanised	290	9%	303	11%	132	9%
Cold rolled coils	266	8%	232	8%	125	8%
Tin plate	203	6%	163	6%	87	6%
Plate	120	4%	115	4%	67	4%
Colour plate	80	3%	82	3%	52	3%
Electro galvanised	83	3%	57	2%	33	2%
Slabs	15	0%	9	0%	10	1%
Long steel products (000t)	1 482	32%	1 456	34%	692	31%
Wire rod	465	31%	553	38%	249	36%
Sections	420	28%	406	28%	193	28%
Bars	208	14%	184	13%	91	13%
Rebar	213	14%	198	14%	95	14%
Forge	43	3%	31	2%	13	2%
Billets & blooms	45	3%	10	1%	4	1%
Tubular	79	5%	66	5%	46	7%
Rails	9	1%	8	1%	1	0%
Total coke & chemical (000t)	1 477	100%	1 648	100%	920	100%
Commercial coke	460	31%	545	33%	208	23%
Tar	109	7%	109	7%	52	6%
Other	908	62%	994	60%	660	71%



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Cost breakdown

Main steel cost drivers (R/t liquid steel)

	2012	2013	H1 2014	% change H1 2013	H1 2014 Weight
Iron ore and pellets	1 110	1 370	1 413	2.1%	21.1%
Scrap / DRI / HBI	193	242	301	28.5%	4.5%
Coking coal and other fuels	1 565	1 307	1 578	13.6%	23.5%
Electricity	413	434	457	7.3%	6.8%
Other energy & utilities	199	206	232	11.3%	3.5%
Alloys, fluxes and coating materials	541	559	660	20.5%	9.8%
Refractories, electrodes and consumables	390	347	400	20.0%	6.0%
Manpower	513	577	667	18.2%	9.9%
Maintenance	332	342	380	18.5%	5.7%
General expenses, outside services, expert fees, IS/IT & insurance premiums	573	544	624	7.9%	9.3%
Total	5 829	5 929	6 710	12.1%	
Liquid steel (000t)	5 090	5 097	2 385	-3.9%	100%
Average exchange rate (ZAR)	8.21	9.65	10.70	9.2%	

Input cost positioning

2013	000t	Backward integrated	Domestic supply	Imported
Iron ore	6 716	0%	100%	0%
Pellets	432	0%	0%	100%
Scrap	239	100%*	0%	0%
Coking coal	2 610	12%	23%	65%
Other coal	732	0%	100%	0%
Total	10 729	5%	75%	20%



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Downstream development

R1,5bn contributed over the last 5 years



ArcelorMittal South Africa has designed and implemented a number of direct and indirect initiatives to support and develop the downstream manufacturing industry over a period of time

Initiative	2009	2010	2011	2012	2013	Comments
Value Added Export Rebates	189	258	293	237	229	ArcelorMittal-specific additional Value Added Export incentive.
Strategic Rebates	22	1	2	26	34	Projects in process or as required by industry like, for instance, transport, energy / power transmission, water, oil & gas, etc.
COSM levy	36	46	55	28	66	National Value Added Export Rebate administered by SAISI - ArcelorMittal contribution to national fund.
Total	247	305	350	291	329	Total contribution to RSA Domestic downstream manufacturing.

Excluding Steel Association contributions to the value of R5.0m pa.

Support has revitalised local manufacturing



Nails & Staples

- Abracon has increased production about 350tpm to 800tpm (aiming for 1 000tpm)
- CWI transferred nail production to BBEE enterprise (3 nail and 1 staple machine)
- Fournel installed new staple machine and doubled their capacity
- Hendok acquired new roof screw machine and running their nail machines at full capacity
- Wireforce were able to prevent shutting down its nail manufacturing operation
- AMSA has received enquiries from AFCOM and Bolt-Ahead (traditionally used imports)
- Abracon started to supply to the two largest importers of nails

Barbed wire industry

- Barnes Fencing purchased and commissioned 10 new Moto Machines
- Hendok purchased and commissioned 2 new Moto Machines

Galv wire industry

- Allens Meshco installed a wire galvanising plant in Cape Town

Rewearable energy

- AMSA supplied 60kt of steel to and support the development of local industry (solar/wind energy)
- AMSA to upgrade plate mill to be able to supply the local wind tower manufacturing



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Beneficiation

Major customers (2013)



Customer	Macsteel	Aveng	Robor	BSI	Nampak	Allied Steelrode	Clotan
Steel activity							
Steel distribution	X	X	X	X	Packaging and beverage can industry only	X	X
Bulk trading	X	X		X		X	X
General merchandising	X			X		X	X
Steel processing such as Coil slitting, Cut to length, Blanking, Shear cutting, Plate cutting, Pressing/Roll forming	X	X	X	X		X	X
Typical products Bright bar, Reinforcing bar, Flanges, Roof sheeting, Tubes & pipes	X	X	X	X		X	X
Target industry							
Automotive	X	X		X			
Building & construction	X	X	X			X	X
Water	X		X				
Energy	X						
Transport	X						
Mining	X			X		X	X

Critical factors for beneficiation

Cost

- Labour cost vs productivity
- High electricity cost
- High transport cost
- High port costs
- Inflated electricity cost to finance inefficiencies of local municipalities

Other

- No trade protection for primary steel products (limited support for finished products)
- Limited co-operation between big business, Government and Labour
- Unreliable electricity supply and major skills shortages
- High cost of doing business in SA (security, controls vs crime, safety etc)
- Non co-operation of collective industry forums to promote steel consumption, investment etc. in fear of the Competition Commission
- Lack of proper incentives to support local beneficiation of raw materials (current infrastructure investments favour exports of raw materials)
- Limited value added export incentives
- High cost of capital – industry doesn't keep up with latest international technology

Designation and localisation



Designation - products used by Government (eg locomotives, roofs) which are specified and must contain a specified minimum local content such as buses 80%

Localisation - used, *et al*, when assessing tenders for Government Projects (5 main areas of conformance of which local content is one)

The concept works well - however, problems encountered include the following;

- Irregular awarding of contracts/projects by SOE's lead to unsustainable downstream capacity which could not handle surges (two power stations in one go) while there were periods of no orders (ie transmission lines, railway axles)
- Use of incorrect tariff codes to circumvent import duties
- World bank funding does not make provision for designation & localisation (Eskom, for example, has applied for exemption from designation & localisation)
- Lack of transparency regarding SOE targets and local content definitions.

The recent announcement to include steel and other downstream products in the designated list is definitely positive, however much would depend on implementation of the localisation program.

Steel manufacturing supports the NDP and Government industry policy on beneficiation



National Development Plan (NDP) include GDP growth, new jobs and skills development

SA's NDP targets by 2013

- Grow GDP by 2.7 times at rate of 5.4% pa
 - Increase capital expenditure to 30% of GDP from current 17%
 - Increase public infrastructure spend from 8% to 10% of GDP
- Create 11m new jobs
 - Encourage training and skills development
 - Expand innovation output through research and development

AMSA will be a key enabler of NDP targets by creating value add through conversion of raw material to steel

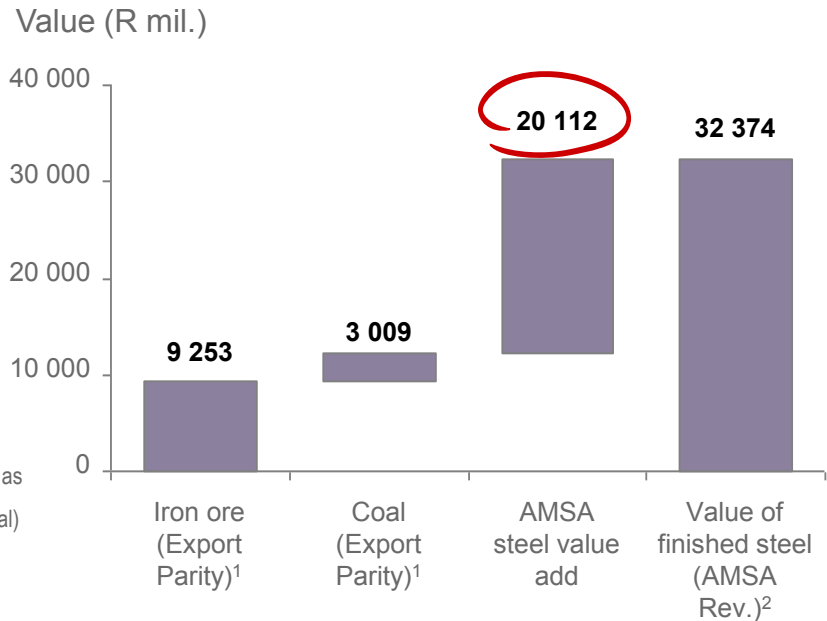
1. Raw materials considered are iron ore and coking coal (excl limestone/dolomite), export parity price as per 2013 average estimates as reported by IMF (Iron Ore) and World Bank (South African export coal)

2. AMSA Annual Report

Source: Steel Index at IMF, World Bank, AMSA, BCG analysis

AMSA will enable NDP by creating value through converting raw material to steel

- AMSA inputs of iron ore & coal, if exported, would be worth R13bn at EPP
- By converting it to steel, AMSA adds a further R20bn of value by creating direct & indirect local jobs; operating expenditure on electricity, logistics, capital expenditure & profit

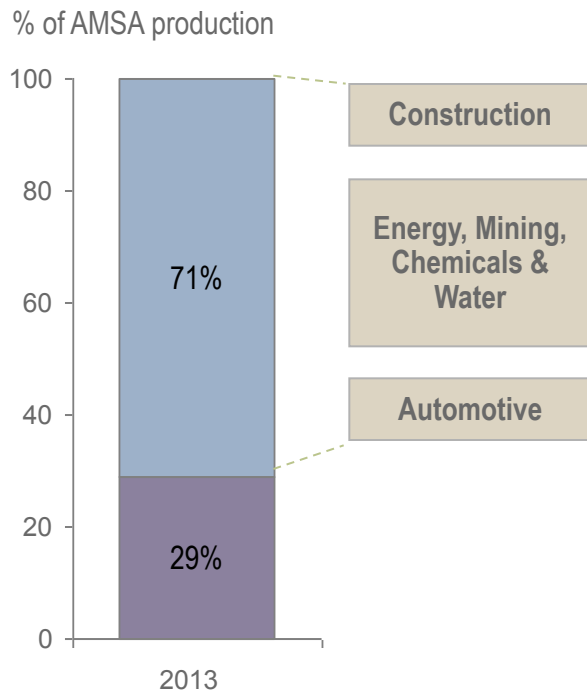


AMSA supports 10% of SA GDP and 1m jobs



71% of AMSA steel used in 3 key industrial sectors...

...which together account for 17% of GDP and 1.6m jobs



57%¹

AMSA share of domestic steel market

...meaning AMSA indirectly accounts for nearly 10% of SA GDP and 900 000 jobs

1. Estimated at average 57% of domestic market share using estimated consumption data from World Steel Association Year Book 2013

2. Estimated by the Automotive Industry Export Council, figures for 2012

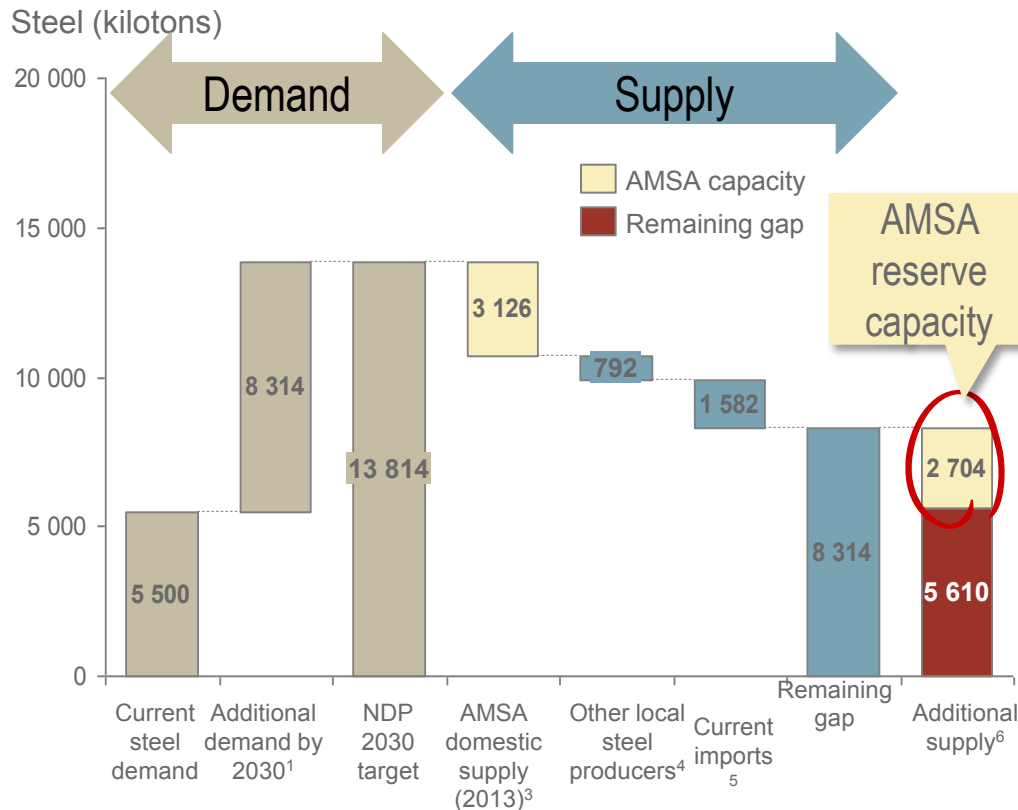
Source: StatsSA, Automotive Industry Export Council, World Steel Association Year Book 2013, AMSA, BCG analysis

9.7% of GDP

~900 000 formal jobs

AMSA could provide additional steel required

Potential 2030 South African steel supply-demand scenario



AMSA and other local steel companies could help meet added demand

- Additional 8.3mtpa¹ required by 2030 to support NDP could be supplied locally led by AMSA
- AMSA with capacity to supply 33% or 2.7mtpa of added demand
- Current production below full capacity due to low domestic demand and competition from cheap imports e.g. India, China
- 5.6mt could be supplied by imports or increased local production resulting in local jobs and skills

- Eventual supply scenario will depend on choices made by the SA government

1. Based on NDP target of fixed capital formation at 30% of GDP, BCG Steel Demand model

2. Quantec Research multipliers for Iron and steel industry

3. 2013 Annual Financial report

4. Calculated by subtracting AMSA production and imports from current steel demand

5. Current imports from SA Customs and Excise (Jan – Nov 2013) extrapolated for 12 months

6. Reserve capacity estimated based on current capacity utilisation of 76%

Source: National Development plan, AMSA, SA Customs and Excise data on primary steel imports, Quantec, BCG analysis



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Thank you