

## **Third Quarter and Nine-months 2020**

### **Questions and Answers**

## Forward-Looking Statements

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## **COVID-19 update**

### **1. How has COVID-19 impacted the business in the current quarter?**

Protecting the health and wellbeing of employees remains the Company's overarching priority with ongoing strict adherence to the World Health Organisation guidelines and specific government guidelines have been followed and implemented. We continue to ensure extensive monitoring, introduced very strict sanitation practices, continue to enforce social distancing measures at all operations, have implemented remote working wherever possible and provided essential personal protective equipment to our people.

Economic activity has shown improvement since the lockdown measures were eased; nevertheless, demand remains below normal levels and the pace and profile of recovery is uncertain. The Company has begun to restart hot idled capacity as market demand improves on a region by region basis. Nevertheless, as concerns around second wave impacts persist, the Company maintains its flexibility to quickly adapt production as demand conditions evolve.

### **2. To what extent is demand recovering in your markets? What are the differences across regions and end markets?**

Total steel shipments in 3Q 2020 increased by +17.5% to 17.5Mt, as compared with 14.8Mt in 2Q 2020. Economic activity is recovering across all regions following the severe impacts of the COVID-19 pandemic on 2Q 2020, with all segments experiencing quarter-on-quarter shipment growth (Europe +20.1%, Brazil +17.8%, NAFTA +16.8% and ACIS +4.3%). Despite the sequential improvement, steel demand remains well below pre-crisis levels, with 3Q 2020 total steel shipments 13.5% lower as compared with 20.2Mt in 3Q 2019 (Europe -15.6%, Brazil -13.7%, NAFTA -13.6% and ACIS -8.0%).

### **3. To what extent are the temporary measures taken in response to the COVID-19 crisis now beginning to reverse?**

The Company responded swiftly to reduce all costs in response to the impact of COVID-19 on demand. This included temporary reductions in fixed costs (including savings on repairs and maintenance, SG&A and labour cost savings). As economic activity recovers, the Company has responded by increasing production, leading to reversal of these temporary measures. But fixed costs per tonne have remained broadly similar in 3Q 2020 as compared to 2Q 2020 and 1Q 2020 levels.

### **4. To what extent, if any, has the COVID-19 pandemic had an impact on the long-term outlook for the business?**

We do not believe that COVID-19 pandemic has structurally altered the long-term outlook of the business. We believe the current demand impacts are temporary and over the long term we expect demand to return to normalised levels.

However, our success to date in protecting our people, assets, profitability and cashflow throughout the crisis puts us in a good position to take advantage of further economic recovery. We have also learned valuable lessons in how to work smarter and we are determined to continue these efforts to continuously improve our productivity and profitability on an ongoing basis. Furthermore, the Company has identified options for further structural cost improvements, to appropriately position the fixed cost base for the post-COVID-19 operating environment.

#### **5. Can you provide some context for the magnitude of the structural cost saving opportunity?**

The Company has started to take some actions during 3Q 2020, including the announced permanent closure of the blast furnace and steel plant in Krakow, Poland and will provide further details of the program with full year 2020 results in February 2021.

#### **Highlights**

#### **6. What were the main highlights of the current quarter?**

The key highlights from 3Q 2020 are as follows:

- EBITDA improved 27.4% quarter-on-quarter primarily driven by the gradual recovery in steel demand resulting in higher steel shipments and improved sales mix (proportionally more sales to automotive customers) as well as improved mining performance;
- The Company has achieved its \$7 billion net debt target and will now prioritize cash returns to shareholders; commenced a \$500 million share buyback program (now completed on October 30, 2020);
- Completion of the \$2 billion asset portfolio optimisation program with the agreed sale of 100% of the shares of ArcelorMittal USA (which is expected to close within 4Q 2020);
- Set a net zero group carbon emissions target by 2050; and
- The Company will offer its customers green steel tonnes<sup>22</sup> by way of a certification system linked to CO<sub>2</sub> savings, achieved through investment in decarbonization technologies, starting in 2020, with plans to scale up this offer to 600kt by 2022

#### **7. Were there any notable accounting impacts this quarter that investors should be aware of when interpreting the results?**

The key notable accounting impacts in the statement of operations this quarter relate to the agreed sale of ArcelorMittal USA.

- Net impairment gain in 3Q 2020 amounted to \$556 million, consisting of the partial reversal of impairment charges recorded following the announced sale of ArcelorMittal USA (\$660 million), and an impairment charge of \$104 million related to the permanent closure of a blast furnace and steel plant in Krakow (Poland).

- The tax expense for 3Q 2020 includes \$624 million deferred tax expense (derecognition of deferred tax assets) in Luxembourg due to anticipated lower intra-group income from ArcelorMittal USA (primarily lower branding, R&D fees and interest income) following the announced sale of ArcelorMittal USA.

The net effect on net result of these two impacts is broadly neutral.

#### **8. What is the accounting treatment of the agreed sale of ArcelorMittal USA assets?**

The 3Q 2020 impacts are as follows:

In the balance sheet, all assets and liabilities of the disposal group were classified as held-for-sale (“HFS”) as of September 30, 2020. The statement of operations includes \$660 million reversal of previously recorded fixed asset impairments which is reversed, offset by -\$624 million of deferred tax assets derecognized in Luxembourg due to lower intra-group income from ArcelorMittal USA (primarily lower branding, R&D fees and interest income).

#### **Guidance:**

#### **9. What are your cash needs expectations for FY 2020?**

The Company expects certain cash needs of the business (including capex, interest, cash taxes, pensions and certain other cash costs but excluding working capital movements) to total \$3.7 billion in 2020 (versus the \$3.5 billion previous guidance). This includes cash taxes, pensions and other cash costs of \$0.8 billion (versus previous guidance of \$0.6 billion); largely due to increased cash tax payments. FY 2020 capex and net interest costs are expected to be \$2.4 billion and \$0.5 billion, respectively.

#### **10. Please provide an update on the capex?**

Capex in 3Q 2020 increased to \$520 million as compared to \$401 million in 2Q 2020. As described previously, the Company responded to the COVID-19 impact with actions taken to reduce production and adapt its costs to the operating environment. All non-essential capex was suspended, while the Mexico hot strip mill project, the agreed Italian projects and certain projects to reduce CO<sub>2</sub> emissions continue. Maintenance capex is still expected to match reduced operating rates and the FY 2020 capex guidance of approximately of \$2.4 billion is maintained.

#### **11. What were the working capital movements for 3Q 2020 and expectations for FY 2020?**

During 3Q 2020, ArcelorMittal released working capital of \$1,072 million, bringing the 9M 2020 release to \$571 million. The Company’s guidance for full year 2020 working capital release is ~\$0.6 to \$1.0 billion.

## **Balance sheet and capital allocation:**

### **12. How has net debt changed this quarter?**

Net debt decreased by \$0.9 billion to \$7.0 billion as of September 30, 2020 as compared to \$7.8 billion as of June 30, 2020 driven by working capital release offset in part by foreign exchange impacts on debt (following 4.6% depreciation of USD vs. EUR). The net debt as of September 30, 2020 was \$3.7 billion lower as compared to \$10.7 billion in September 30, 2019. As of September 30, 2020, the average debt maturity was 4.8 years.

### **13. Can you provide an update on your liquidity position?**

As of September 30, 2020, the Company had liquidity of \$12.2 billion, consisting of cash and cash equivalents of \$6.7 billion (including \$0.1 billion of cash and cash equivalent held as part of assets held for sale) and \$5.5 billion of available credit lines. It should be noted that the \$5.5 billion credit facility contains a financial covenant not to exceed 4.25x Net debt / LTM EBITDA.

### **14. Can you provide an update on your capital allocation policy and balance sheet targets?**

The Company has now reached its \$7 billion net debt target, and deleveraging has been completed. The Company's capital allocation priority will now shift to returning cash to shareholders. The process has begun with a \$500 million share buyback program that was initiated following the announced sale of ArcelorMittal USA.

Following consultation with shareholders, the Board expects to recommend an updated distribution policy alongside full year 2020 results.

### **15. Can you provide details of the share buyback program?**

On September 28, 2020, ArcelorMittal announced a share buyback program, in connection with the announced sale of 100% of the shares of ArcelorMittal USA. The shares acquired under the program are intended i) to meet ArcelorMittal's obligations under debt obligations exchangeable into equity securities, and/or ii) to reduce its share capital. ArcelorMittal intends to repurchase, between September 28, 2020 and March 31, 2021, shares for an aggregate maximum amount of \$500 million.

On November 2, 2020, ArcelorMittal announced it had completed the share buyback program. By market close on October 30, 2020, ArcelorMittal had repurchased 35,636,253 million shares for a total value of approximately €424,927,793 (equivalent to \$499,999,991) at an approximate average price per share of €11.92. All details are available on the Company's website at:

<https://corporate.arcelormittal.com/investors/equity-investors/share-buyback-program>.

### **16. Why is \$7 billion the right net debt level for ArcelorMittal?**

ArcelorMittal believes that a net debt of \$7 billion is the right level for the Company considering the cyclicity of its business, supporting appropriately conservative leverage ratios and interest coverage, and investment credit metrics through the cycle.

### **17. Can you provide an update for your plans to expand capacity in Liberia?**

ArcelorMittal Liberia has been operating a 5Mt direct shipping ore (DSO) since 2011 (Phase 1). The Company had previously started construction of a Phase 2 project that envisaged the construction of 15 million tonnes of concentrate sinter fines capacity and associated infrastructure which was delayed due to the declaration of force majeure by contractors in August 2014 due to the Ebola virus outbreak in West Africa. ArcelorMittal Liberia has now completed the revised detailed feasibility study (which was updated in 2019 to apply best available technology and replace wet with dry stack tailings treatment) for the modular build of a 15 million tonne concentrator (Phase 2), with aligned mine, rail and port infrastructure. The plan is now to recommence the project in 2021, with first concentrate production expected in 4Q 2023.

The capex required to complete the project is approximately \$0.8 billion as the project is effectively a brownfield opportunity given that 85% of the procurement has already been done (with the equipment on site) and 60% of the civil construction complete.

### **18. Can you provide an update on your plans to build an EAF in Calvert (USA)?**

On August 12, 2020, ArcelorMittal announced its intention to build an Electric Arc Furnace (EAF) steel making facility at AMNS Calvert. Once completed the planned facility will be capable of producing 1.5Mt of steel slabs for the Hot Strip Mill and producing a broad spectrum of steel grades required for Calvert's end user markets. Construction is expected to take 24 months and the new facility is anticipated to create 300 additional jobs in the community. The EAF will optimise Calvert's slab supply, and provides short-lead-time flexibility and reduces the requirement to maintain slab inventory (significantly reduces working capital needs). The finished steel capacity at Calvert remains unchanged at 5.2Mt.

## **Carbon / ESG**

### **19. What CO<sub>2</sub> emissions targets does the group have in place?**

On September 30, 2020, ArcelorMittal announced a group-wide target of being net zero by 2050, building on the commitment made in 2019 by its European business to reduce emissions by 30% by 2030, and be carbon neutral by 2050. The transition to net zero for steel is a significant challenge that will require not only extensive technology innovation, but new forms of policy and financial support.

ArcelorMittal has identified two low-emissions steelmaking routes, both of which have the potential to lead to carbon-neutral steelmaking:

- I. The Hydrogen-DRI route, which essentially uses hydrogen as a reducing agent instead of fossil fuels. A demonstration plant in Hamburg, where ArcelorMittal owns Europe's only operational DRI-EAF plant, is currently planned with a targeted start-up in 2023-2025 (depending on funding).

- II. The Smart Carbon route is focused on modifying the blast furnace route to create carbon neutral steelmaking through a combination of circular carbon - in the form of sustainable biomass or carbon containing waste streams - carbon capture and use (CCU) and storage (CCS). It will also utilize hydrogen gas injection.

ArcelorMittal will set out a new groupwide 2030 target and further details in support of its 2050 net zero target in its second climate action report, which is anticipated to be published before the end of 2020.

Given the new low emissions technologies required cost much more than the technology used in steelmaking today, extensive new policy will be required to make the transition to lower emission and ultimately net zero steel-making possible.

## **20. What policy response is required to enable the progress on decarbonisation?**

The Company has previously outlined the policy framework environment it believes is required for net zero steelmaking to become a reality, which includes:

- a global level playing field which avoids the risk of carbon leakage through mechanisms such as green border adjustments;
- access to abundant and affordable clean energy policies which support the development of the necessary clean energy infrastructure;
- access to finance for low-emissions steelmaking, including innovation funding as well as fair criteria for new forms of sustainable finance;
- the introduction of instruments such as contracts for difference to cover the significant additional cost of low-carbon technologies until they become commercially viable; and
- policies which accelerate the transition to a circular economy.

## **21. What low carbon solutions are you offering to your customers?**

A significant portion of the steel sector's CO<sub>2</sub> reductions by 2050 will come from circular economy innovations where more can be done with less since materials are reused and recycled, and 'waste' is converted into valuable co-products. ArcelorMittal is at the forefront of innovations that enable its customers to enhance their contribution to such a world. For example:

- **Stelignce** enables architects and engineers to design building solutions that minimise material use while maximising space, flexibility and end of life recyclability
- The Company's new **S-in motion**<sup>®</sup> customizable chassis steel solutions enable carmakers to extend range and enhance safety at the most affordable cost.
- **Magnelis**<sup>®</sup> offers enhanced corrosion resistance for solar projects in harsh conditions, even in deserts and on water



- The Company partners with **EcoCem** to produce low-emissions cement from blast furnace slag
- The Company also has an extensive CO<sub>2</sub> technology strategy in Europe, and will offer its customers green steel<sup>22</sup> by way of a certification system linked to CO<sub>2</sub> savings, achieved through investment in decarbonization technologies, starting in 2020, with plans to scale up this offer to 600kt by 2022

## **22. How will the green tonnes you are offering your customers work?**

It is clear to drive the transition to net zero steelmaking, a market pull towards lower emissions steels is needed. Customers increasingly understand that they need to reduce the embodied emissions in the materials they buy, and many are asking for tonnes of low-carbon steel today. With its new offer to customers, ArcelorMittal is leading the innovation in this field.

ArcelorMittal Europe - Flat Products will offer its customers green steel by way of a certification system linked to CO<sub>2</sub> savings achieved through investment in decarbonization technologies. The certificates, issued by an independent assurance provider, will reflect the tonnes of CO<sub>2</sub> savings made via its investments in decarbonization projects at the Company's European plants and can be expressed as the equivalent tonnes of green steel, based on the CO<sub>2</sub> emitted in the production of a tonne of steel in 2018 as a reference. The certificates will relate to the tonnes of CO<sub>2</sub> saved in total, as a direct result of the decarbonization projects being implemented across a number of its European sites. The Company will offer its first green steel to customers in 2020 (30,000 tonnes), scaling up this offering to 120,000 tonnes in 2021 and 600,000 tonnes by 2022.

## **23. What investments are currently being made to enable this transition?**

The Company currently has a €300 million low emissions innovation programme in Europe that covers its Carbalyst, Torero, IGAR and 3D projects. Additional to this, a number of further projects are planned, including a range of gas injection projects enabling greater use of hydrogen, and an ongoing pilot study of hydrogen use at its DRI plant in Hamburg.

### **Other topics:**

## **24. Could you please provide us with an update on AMNS India, including its operating performance and any strategic developments?**

On December 16, 2019, ArcelorMittal completed the acquisition of Essar Steel India Limited ("ESIL"), and simultaneously established a joint venture with Nippon Steel, called ArcelorMittal Nippon Steel India Limited ("AMNS India"), which will own and operate ESIL. ArcelorMittal holds 60 per cent of AMNS India, with Nippon Steel holding the balance. The results of AMNS India are now accounted for as equity from joint ventures on the profit and loss account.

During 3Q 2020, as lockdown measures eased and domestic demand improved, AMNS India has performed well with 3Q 2020 crude steel production back up to 1.8Mt (vs 1.2Mt in 2Q 2020). 3Q 2020 EBITDA was \$176 million (with EBITDA for 9M 2020 at \$423 million).

The cash needs for the business (maintenance capital expenditures, interest expenses and cash tax expense) remain at less than \$250 million per annum for the FY 2020 supporting a strong EBITDA to cashflow conversion rate.

**25. What is the update on the current situation at ArcelorMittal Italia?**

On March 4, 2020, ArcelorMittal announced that AM InvestCo and the Ilva Commissioners had signed an amendment (the 'Amendment Agreement') to the original lease and purchase agreement for Ilva. The Amendment Agreement outlines the terms for a significant equity investment by Italian state-sponsored entities into AM InvestCo, thereby forming the basis for an important new partnership between ArcelorMittal and the Italian Government. This equity investment, to be captured in an agreement (the 'Investment Agreement') to be executed by November 30, 2020, will be at least equal to AM InvestCo's remaining liabilities against the original purchase price for Ilva. The Amendment Agreement is structured around a new industrial plan for Ilva, which involves investment in lower-carbon steelmaking technologies. The Italian government has recently designated Invitalia to negotiate with AM InvestCo. In the event that the Investment Agreement is not executed by November 30, 2020, AM InvestCo has a withdrawal right, subject to an agreed payment. Final closing of the lease and purchase agreement is now scheduled by May 2022, subject to various conditions precedent.