ArcelorMittal

Summary annual financial statements 2022

Report contents

Independent auditor's report on summary consolidated financial statements

To the Shareholders of ArcelorMittal South Africa Limited

Report on the Summary Consolidated Financial Statements

Opinion

The summary consolidated financial statements of ArcelorMittal South Africa Limited, which comprise the summary consolidated statement of financial position as at 31 December 2022, the summary consolidated statement of comprehensive income, the summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the year then ended, and related notes, are derived from the complete audited consolidated financial statements of ArcelorMittal South Africa Limited for the year ended 31 December 2022.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of ArcelorMittal South Africa Limited, in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in note 2 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary Consolidated Financial Statements

The summary consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The Audited Consolidated Financial Statements and our Report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 30 March 2023. That audit report also includes:

- The communication of the key audit matters related to the valuation of property, plant and equipment and environmental rehabilitation and asset retirement obligations.

The audited consolidated financial statements and the summary consolidated financial statements do not reflect the effects of events that occurred subsequent to the date our report on the audited consolidated financial statements.

Directors' Responsibility for the Summary Consolidated Financial Statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in note 2 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards, and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Other matter

The summary consolidated financial statements of ArcelorMittal South Africa Limited for the year ended 31 December 2021, were audited by another auditor who expressed an unmodified audit opinion on those summary consolidated financial statements on 12 April 2022.

Ernst & Young Inc.

Ernst & Young Inc.
Director – Michiel (Mike) Christoffel Herbst
Registered Auditor
Chartered Accountant (SA)

19 April 2023

102 Rivonia Road, Sandton
Johannesburg
South Africa
2146

Summary consolidated statement of comprehensive income

for the year ended 31 December 2022

	Notes	2022 Rm	2021 Rm
Revenue		**40 771**	39 708
Raw materials and consumables used		**(22 054)**	(19 634)
Employee costs		**(3 828)**	(3 786)
Energy		**(4 536)**	(4 476)
Movement in inventories of finished goods and work-in-progress		**(260)**	2 955
Depreciation		**(760)**	(589)
Amortisation of intangible assets		**(11)**	(12)
Impairment reversal/(loss) of trade and other receivables		**6**	(14)
Net impairment reversal on financial assets		**–**	3
Other operating expenses		**(5 829)**	(6 179)
Profit from operations	6	**3 499**	7 976
Finance and investment income	7	**283**	165
Finance costs	8	**(1 235)**	(1 328)
Income after tax from equity-accounted investments		**30**	40
Fair value adjustment on investment properties	12	**57**	(228)
Profit before taxation		**2 634**	6 625
Income taxation expense	9	**–**	–
Profit for the year		**2 634**	6 625
Other comprehensive income/(loss)			
Items that will not be reclassified to income or loss (net of tax):			
Fair value adjustment on equity instruments		**17**	(5)
Items that may be reclassified subsequently to income or loss (net of tax):			
Exchange differences on translation of foreign operations		**6**	(1)
Share of other comprehensive (loss)/income of equity-accounted investments		**(2)**	1
Total comprehensive income for the year		**2 655**	6 620
Profit attributable to:			
Owners of the company		**2 634**	6 625
Total comprehensive income attributable to:			
Owners of the company		**2 655**	6 620
Earnings per share (cents) attributable to owners of the company:			
- Basic	10	**236**	594
- Diluted	10	**236**	594

Summary consolidated statement of financial position

as at 31 December 2022

	Notes	2022 Rm	2021 Rm
ASSETS			
Non-current assets			
Property, plant and equipment		**9 570**	8 065
Investment properties	12	**737**	754
Intangible assets		**71**	67
Equity-accounted investments		**251**	227
Investments held by environmental trust		**408**	412
Other receivables		**10**	21
Other financial assets		**23**	6
Total non-current assets		**11 070**	9 552
Current assets			
Inventories		**11 973**	12 175
Trade and other receivables		**3 486**	2 712
Other financial assets		**–**	2
Cash, bank balances and restricted cash	13	**3 392**	4 652
Total current assets		**18 851**	19 541
Asset held-for-sale	14	**80**	–
Total assets		**30 001**	29 093
EQUITY AND LIABILITIES			
Equity			
Stated capital		**4 537**	4 537
Reserves		**(3 576)**	(3 594)
Retained income		**10 714**	8 110
Total equity		**11 675**	9 053
Non-current liabilities			
Borrowings	15	**2 700**	3 700
Lease obligations		**176**	60
Provisions		**1 784**	1 716
Trade and other payables		**262**	279
Other financial liabilities	16	**625**	–
Total non-current liabilities		**5 547**	5 755
Current liabilities			
Borrowings	15	**3 500**	2 210
Lease obligations		**26**	29
Provisions		**862**	820
Trade and other payables		**8 184**	10 059
Other financial liabilities	16	**95**	1 055
Taxation		**112**	112
Total current liabilities		**12 779**	14 285
Total equity and liabilities		**30 001**	29 093

Summary consolidated statement of cash flows

for the year ended 31 December 2022

	Notes	2022 Rm	2021 Rm
Cash flows from operating activities			
Cash generated from operations	17	**1 174**	3 024
Interest income		**65**	66
Finance cost		**(823)**	(327)
Net cash generated by operating activities		**416**	2 763
Cash flows from investing activities			
Investment to maintain operations and expand operations		**(1 912)**	(860)
Proceeds on disposal of assets		**1**	17
Proceeds from equity-accounted investments		**2**	17
Dividend from equity-accounted investments		**–**	3
Proceeds from assets held-for-sale		**–**	135
Net cash utilised by investing activities		**(1 909)**	(688)
Cash flows from financing activities			
Borrowings: Borrowing-based facility raised/(repaid)		**700**	(650)
Borrowings: Loan from holding company repaid		**(410)**	–
Lease obligation repaid		**(33)**	(36)
Settlement of long-term incentive plan		**(74)**	(78)
Net cash generated from/(utilised by) financing activities		**183**	(764)
Net (decrease)/increase in cash, cash equivalents and restricted cash		**(1 310)**	1 311
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash		**50**	1
Cash, cash equivalents and restricted cash at the beginning of the year		**4 652**	3 340
Cash, cash equivalents and restricted cash at the end of the year		**3 392**	4 652

Summary consolidated statement of changes in equity

for the year ended 31 December 2022

	Stated capital Rm	Retained income Rm	Treasury share equity reserve Rm	Other reserves Rm	Total equity Rm
Year ended 31 December 2021					
Balance at 1 January 2021	4 537	1 522	(2 065)	(1 650)	2 344
Total comprehensive income for the year	–	6 625	–	(5)	6 620
Profit	–	6 625	–	–	6 625
Other comprehensive loss	–	–	–	(5)	(5)
Share-based payment expense	–	–	–	30	30
Settlement of long-term incentive plan	–	–	–	(78)	(78)
Deemed equity contribution	–	–	–	137	137
Transfer between reserves	–	(37)	–	37	–
Balance at 31 December 2021	4 537	8 110	(2 065)	(1 529)	9 053
Year ended 31 December 2022					
Balance at 1 January 2022	**4 537**	**8 110**	**(2 065)**	**(1 529)**	**9 053**
Total comprehensive income for the year	**–**	**2 634**	**–**	**21**	**2 655**
Profit	**–**	**2 634**	**–**	**–**	**2 634**
Other comprehensive income	**–**	**–**	**–**	**21**	**21**
Share-based payment expense	**–**	**–**	**–**	**41**	**41**
Settlement of long-term incentive plan	**–**	**–**	**–**	**(74)**	**(74)**
Transfer between reserves	**–**	**(30)**	**–**	**30**	**–**
Balance at 31 December 2022	**4 537**	**10 714**	**(2 065)**	**(1 511)**	**11 675**

Notes to the summary consolidated financial statements

for the year ended 31 December 2022

1. Corporate information

ArcelorMittal South Africa Limited is a public company incorporated and domiciled in the Republic of South Africa and listed on the JSE Limited. These summary consolidated financial statements for the year ended 31 December 2022 comprise the company and its subsidiaries (together referred to as the "group"). The group is one of the largest steel producers on the African continent.

2. Basis of preparation

The summary consolidated financial statements were prepared in accordance with the requirements of the Companies Act of South Africa as applicable to summary financial statements. The summary consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and Financial Pronouncements as issued by the Financial Reporting Standards Council relevant to its operations. It also contains, at a minimum, the information required by IAS 34 *Interim Financial Reporting*.

The summary consolidated financial statements were prepared under the supervision of SM van Wyk CA(SA), the interim chief financial officer.

The auditor's conclusion does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should read the auditor's conclusion, together with the accompanying financial information contained in this announcement.

3. Accounting policies

The accounting policies and methods of computation applied in the preparation of the summary consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous summary consolidated financial statements.

4. Significant judgement, estimates and assumptions

The preparation of the financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect amounts reported in the financial statements. Actual results may differ from these estimates. Judgements, estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which they were revised and in any further periods affected.

Key judgements, estimates and assumptions which have the most significant effect on the financial statements include:

- Valuation of investment properties – a level 3 fair value utilising significant unobservable inputs, specifically the capitalisation rate, vacancy provision and expense ratio – refer to note 12, investment properties note
- Expected credit loss assessment on trade receivables

The exposure to credit risk is insured and mainly underwritten by the Credit Guarantee Insurance Corporation of South Africa under five different policies with a maximum liability of R1.4 billion on the largest policy. The insurance excess ranges from 0% to 10%. Hollard was added as an additional credit insurer, the excess in relation to this policy is 15%. The credit limits of customers were monitored and adjusted where applicable throughout the year. Goods were dispatched to customers in line with the approved credit limits. The assessment of expected credit losses was reperformed as at 31 December 2022 and the impairment loss on trade and other receivables decreased by R6 million (2021: R14 million increase) compared to 31 December 2021

- Going concern basis – refer to note 20, the going concern note

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

4. Significant judgement, estimates and assumptions continued

- Environmental remediation provision and asset retirement obligation – specifically the expectation of future cost and the discount rate
- The residual value and useful life of property, plant and equipment were re-assessed as required by IAS 16 *Property, plant and equipment*
- Impairment assessment of property, plant and equipment

An impairment assessment was done as at 30 September 2022 using a discounted cash flow model with an explicit forecast period for five years. These cash flows are USD-based. To determine the terminal value, the Gordon growth model was used, and year five free cash flow was taken into perpetuity. The value in use for all the cash-generating units (CGUs) was higher than the carrying amounts. Based on the assumptions illustrated below, it was concluded that none of the CGUs carrying amount exceeded its recoverable amount, and no impairment loss was recognised in the current financial year. Management does not consider that any reasonably possible changes to the key assumptions would reduce the recoverable amount to its carrying value.

Since the establishment of the OneOrg operating model, the executive committee of ArcelorMittal South Africa (CODMs) has been in charge of monitoring and managing the Newcastle and Vereeniging operations. The Electric Arc Furnace at Vereeniging was placed under care and maintenance at the end of October 2022 and, as a result, Vereeniging is now receiving material from Newcastle's steel production. The cash flow for sale of products by Newcastle and Vereeniging operations are contingent on the steel production at Newcastle.

The other major assumptions in arriving at the present value of future cash flows are:

	Vanderbijlpark		Long Products (previously Newcastle)[4]		Vereeniging[4]		Coke and Chemicals	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
Major assumptions								
Total pre-tax WACC/discount rate (% USD-based)[2]	**21.13**	19.43	**20.88**	20.56		16.55	**17.66**	16.08
Company specific premium (% USD-based)[2]	**3.05**	2.75	**3.45**	3.85		1.05	**0.85**	0.95
Growth rate (% USD-based)	**2.00**	2.00	**2.00**	2.00		2.00	**2.00**	2.00
Exchange rate range (R/USD)[1]	**17.00 – 20.18**	15.00 – 17.27	**17.00 – 20.18**	15.00 – 17.27		15.00 – 17.27	**17.00 – 20.18**	15.00 – 17.27
Steel sales price range (average USD/t)[1]	**714 – 853**	625 – 922	**612 – 717**	564 – 663		819 – 1 029	**31 – 40[3]**	31 – 33[3]
Sales volume range (kt)[1]	**1 884 – 2 521**	2 103 – 2 624	**1 304 – 1 377**	1 076 – 1 220		185 – 207	**1 127 – 1 471**	1 352 – 1 394

[1] *Lowest to highest range over period of 2023 to 2027 (2021: 2022 to 2026).*
[2] *Decarbonisation risk is incorporated in company-specific premium.*
[3] *Commercial coke sales price range (average USD/t).*
[4] *From 2022, Long Products consists of Newcastle and Vereeniging. Previously Long Products consisted of Newcastle only.*

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

5. Segment report

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the CODM, in order to allocate resources to the segment and to assess its performance.

The group's reportable segments are:

- Steel Operations consisting of Vanderbijlpark plant, Newcastle plant, Vereeniging plant and Highveld plant
- Non-Steel Operations consisting of Coke and Chemicals undertaking the processing and marketing of by-products and the production and marketing of commercial grade coal, decommissioned Saldanha plant, decommissioned Maputo plant, Pretoria Works and Thabazimbi Iron Ore Mine
- Corporate and other, consisting of commercial functions, procurement and logistics activities, shared services, investments and the results of the non-trading consolidated subsidiaries and consolidated structured entities

Earnings before interest, tax, depreciation and amortisation represents the earnings by each segment without the allocation of depreciation, amortisation, net impairments and exceptional items, such as retrenchment packages.

Segment profit/(loss) from operations represents the profit/(loss) earned/(incurred) by each segment without the allocation of after-tax profits of equity-accounted investments.

All assets and liabilities are allocated to the operating segments, other than for the following items that are allocated exclusively to the corporate and other segment, reflecting the manner in which resource allocation is measured.

Assets not allocated to operating segments:

- Investments in equity-accounted entities
- Financial investments
- Cash and cash equivalents
- Income tax, capital gains tax and value added tax related assets, as applicable

Liabilities not allocated to operating segments are income tax and value added tax-related liabilities, as applicable.

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

5. Segment report continued

	Steel operations Rm	Non-steel operations Rm	Corporate and other Rm	Adjustments and eliminations Rm	Total reconciling to the consolidated amounts Rm
For the year ended 31 December 2022					
Revenue					
External customers	38 765	2 006	–	–	40 771
Internal customers	–	43	–	(43)	–
Total revenue	38 765	2 049	–	(43)	40 771
Revenue to external customers distributed as:					
Local	33 051	2 006	–	–	35 057
Export	5 714	–	–	–	5 714
Africa	3 429	–	–	–	3 429
Asia	471	–	–	–	471
Europe	1 043	–	–	–	1 043
America	761	–	–	–	761
Other	10	–	–	–	10
Total	38 765	2 006	–	–	40 771
Results					
Raw materials and consumables used*	(21 750)	(281)	(24)	1	(22 054)
Employee costs*	(3 073)	(73)	(682)	–	(3 828)
Energy*	(4 371)	(164)	(1)	–	(4 536)
Movement in inventories of finished goods and work-in-progress*	515	(815)	–	40	(260)
Impairment reversal/(loss) of trade and other receivables*	9	(7)	4	–	6
Other operating expenses*	(6 347)	(95)	617	–	(5 825)
Earnings before interest, tax, depreciation, amortisation and exceptional items	3 748	614	(86)	(2)	4 274
Retrenchment packages	(3)	–	(1)	–	(4)
Depreciation and amortisation	(686)	(60)	(25)	–	(771)
Net (impairment)/impairment reversal on financial assets	–	–	(97)	97	–

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

5. Segment report continued

	Steel operations Rm	Non-steel operations Rm	Corporate and other Rm	Adjustments and eliminations Rm	Total reconciling to the consolidated amounts Rm
Profit/(loss) from operations	3 059	554	(209)	95	3 499
Finance and investment income	28	9	248	(2)	283
Finance costs	(462)	(163)	(612)	2	(1 235)
Income after tax from equity-accounted investments	–	–	30	–	30
Fair value adjustment on investment properties	2	52	3	–	57
Profit/(loss) before taxation	2 627	452	(540)	95	2 634
Income taxation expense	–	–	–	–	–
Profit/(loss) for the year	2 627	452	(540)	95	2 634
Additions to non-current assets	(2 086)	(34)	(26)	–	(2 146)
Segment assets (excluding investments in equity-accounted entities)	23 018	2 982	4 446	(696)	29 750
Investments in equity-accounted entities	–	–	251	–	251
Segment liabilities	8 413	2 067	8 508	(662)	18 326
Cash generated from/(utilised in) operations	2 707	660	(2 289)	96	1 174
Capital expenditure	1 889	9	14	–	1 912
Number of employees at the end of the year	5 634	174	746	–	6 554

** Material expense items have been provided per segment in order to provide more useful information.*

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

5. Segment report continued

	Steel operations Rm	Non-steel operations Rm	Corporate and other Rm	Adjustments and eliminations Rm	Total reconciling to the consolidated amounts Rm
For the year ended 31 December 2021					
Revenue					
External	37 250	2 458	–	–	39 708
Internal customers	–	50	–	(50)	–
Total revenue	37 250	2 508	–	(50)	39 708
Revenue to external customers distributed as:					
Local	32 859	2 458	–	–	35 317
Export	4 391	–	–	–	4 391
Africa	3 561	–	–	–	3 561
Asia	315	–	–	–	315
Europe	342	–	–	–	342
America	161	–	–	–	161
Other	12	–	–	–	12
Total	37 250	2 458	–	–	39 708
Results					
Raw materials and consumables used*	(19 312)	(296)	(26)	–	(19 634)
Employee costs*	(3 007)	(85)	(694)	–	(3 786)
Energy*	(4 321)	(155)	–	–	(4 476)
Movement in inventories of finished goods and work-in-progress*	3 947	(1 041)	–	49	2 955
Impairment loss of trade and other receivables*	(14)	–	–	–	(14)
Other operating expenses*	(6 396)	(111)	323	–	(6 184)
Earnings before interest, tax, depreciation, amortisation and exceptional items	8 147	820	(397)	(1)	8 569
Retrenchment packages	7	(6)	4	–	5
Depreciation and amortisation	(518)	(56)	(27)	–	(601)
Net impairment reversal/(impairment) on financial assets	–	–	385	(382)	3

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

5. Segment report continued

	Steel operations Rm	Non-steel operations Rm	Corporate and other Rm	Adjustments and eliminations Rm	Total reconciling to the consolidated amounts Rm
Profit/(loss) from operations	7 636	758	(35)	(383)	7 976
Finance and investment income	70	43	52	–	165
Finance costs	(337)	(102)	(889)	–	(1 328)
Income after tax from equity-accounted investments	–	–	40	–	40
Fair value adjustment on investment properties	–	(228)	–	–	(228)
Profit/(loss) before taxation	7 369	471	(832)	(383)	6 625
Income taxation expense	–	–	–	–	–
Profit/(loss) for the year	7 369	471	(832)	(383)	6 625
Additions to non-current assets	912	31	22	–	965
Segment assets (excluding investments in equity-accounted entities)	20 597	2 918	5 901	(550)	28 866
Investments in equity-accounted entities	–	–	227	–	227
Segment liabilities	7 972	1 862	10 593	(387)	2 040
Cash generated from/(utilised in) operations	4 889	206	(2 044)	(27)	3 024
Capital expenditure	810	34	15	–	860
Number of employees at the end of the year	–	–	–	–	7 013

** Material expense items have been provided per segment in order to provide more useful information. Comparative figures have been updated accordingly.*

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

5. Segment report continued

5.1 Revenue from major products

The group's revenue from its major products sold to external customers was:

	2022 Rm	2021 Rm
Steel operations	**38 766**	37 250
Hot rolled	**11 735**	12 581
Uncoated	**6 558**	5 139
Coated	**7 564**	7 500
Merchant bars	**7 508**	8 108
Wire rod	**3 587**	3 343
Seamless tubular products	**1 814**	579
Non steel operations	**2 005**	2 458
Coke and tar	**1 750**	2 188
Other	**255**	270
Total consolidated revenue	**40 771**	39 708

5.2 Geographical information

The group operates primarily in South Africa. Export sales are primarily sold into sub-Saharan Africa, Asia, Europe and America.

5.3 Information about major customers

	Steel operations Rm	% of group revenue
2022		
Revenue of major customers		
Customer 1	**5 192**	**12.73**
Total	**5 192**	**12.73**
2021		
Revenue of major customers		
Customer 1	5 374	13.53
Total	5 374	13.53

5.4 Information about recognition

All revenue is recognised at a point in time.

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

6. Profit from operations

	2022 Rm	2021 Rm
Profit from operations has been arrived at after charging:		
Amortisation	(11)	(12)
Depreciation	(760)	(589)
Employee costs		
Salaries and wages	(3 365)	(3 361)
Termination benefits	(4)	–
Pension and medical costs	(418)	(395)
Share-based payment expense	(41)	(30)
Loss on disposal or scrapping of property, plant and equipment	(30)	(7)
Railage and transport	(1 086)	(982)
Repairs and maintenance	(2 556)	(2 642)
Research and development	(187)	(294)
Write-down of inventory to net realisable value	(139)	(283)
Auditor's remuneration		
Audit fees	(20)	(17)
Other services and expenses	(1)	(4)
Allowance for impairment recognised on trade receivables	11	(14)
Other allowances on trade receivables	(76)	(156)
Allowance for impairment on other receivables	(5)	–

7. Finance and investment income

	2022 Rm	2021 Rm
Finance income		
Bank deposits and other interest income	65	66
Discount rate adjustment of provisions and financial instruments	–	99
Net foreign exchange profit and net gains from foreign exchange contracts	218	–
Total	283	165

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

8. Finance cost

	2022 Rm	2021 Rm
Interest expense on loans	**(724)**	(620)
Interest expense on lease obligations	**(10)**	(7)
Net foreign exchange and foreign exchange contracts losses	**–**	(109)
Discount rate adjustment of provisions and financial liabilities	**(94)**	–
Unwinding of discounting effect on borrowings and provisions:	**(407)**	(592)
Provisions	**(294)**	(219)
Other financial liabilities	**(78)**	(57)
Borrowings – loan from holding company	**(35)**	(316)
Total	**(1 235)**	(1 328)

9. Taxation

In February 2022, the Minister of Finance announced a change in the corporate tax rate in South Africa from 28% to 27%. The change in tax rate is effective for the group for the 2023 financial year. Deferred tax assets and liabilities have been remeasured based on the change in the substantively enacted rate.

Although the corporate tax rate is 28%, the actual average tax rate for the group was 0% (2021: 0%).

Management believes that the turnaround initiatives will result in the group returning to profitability but also considers the timing and uncertainty of these initiatives. With the difficulty of accurately measuring the possible future effects, management believes it is premature to conclude at this stage that it is more likely than not for sufficient future taxable profits to be available against which the full proposed deferred tax asset can be utilised. Therefore, no deferred tax asset has been recognised.

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

10. Earnings per share attributable to owners of the company

Earnings per share is calculated by dividing profit attributable to the owners of the company by the weighted average number of ordinary shares, after taking the effects of the vesting of the treasury shares to the employee share ownership plan into account. Where appropriate, adjustments are made in calculating diluted loss, headline and diluted headline loss per share.

	2022	2021
Weighted average number of shares	**1 114 612 789**	1 114 612 789
Weighted average number of diluted shares	**1 114 612 789**	1 114 612 789
Weighted average number of diluted shares is calculated by adjusting the weighted average number of ordinary shares with additional ordinary shares held by third parties that would have been outstanding assuming the conversion of all outstanding share options representing dilutive potential ordinary shares. Based on the current share price of ArcelorMittal South Africa, the B-BBEE transaction does not have a dilutive impact on the shareholding. No other outstanding shares had a dilutive impact.		
Profit attributable to the owners of the company per share		
Basic		
Profit attributable to owners of the company (Rm)	**2 634**	6 625
Weighted average number of shares	**1 114 612 789**	1 114 612 789
Earnings per share (cents)	**236**	594
Diluted		
Profit attributable to owners of the company (Rm)	**2 634**	6 625
Weighted average number of diluted shares	**1 114 612 789**	1 114 612 789
Diluted earnings per share (cents)	**236**	594
Headline profit per share		
The calculation for headline profit per share is based on the earnings per share calculation, reconciled as follows:		
Gross		
Profit before tax (Rm)	**2 634**	6 625
Add: Loss on disposal or scrapping of plant, property and equipment (Rm)	**30**	7
(Less)/add: Fair value adjustment on investment properties (Rm)	**(57)**	228
Headline profit before tax (Rm)	**2 607**	6 860

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

10. Earnings per share attributable to owners of the company continued

	2022	2021
Net of tax		
Profit attributable to owners of the company (Rm)	**2 634**	6 625
Add: Loss on disposal or scrapping of property, plant and equipment (Rm)	**30**	7
(Less)/add: Fair value adjustment on investment properties (Rm)	**(57)**	228
Headline profit net of tax (Rm)	**2 607**	6 860
Basic		
Headline profit (Rm)	**2 607**	6 860
Weighted average number of shares	**1 114 612 789**	1 114 612 789
Basic headline earnings per share (cents)	**234**	615
Diluted		
Headline profit (Rm)	**2 607**	6 860
Weighted average number of diluted shares	**1 114 612 789**	1 114 612 789
Diluted headline earnings per share (cents)	**234**	615

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

11. Fair value measurements

	2022			2021			
	FVTPL Rm	**FVTOCI Rm**	**Total Rm**	FVTPL Rm	FVTOCI Rm	Total Rm	Fair value hierarchy
Options and financial assets measured at fair value							
Other forward exchange contracts	**–**	**–**	**–**	2	–	2	Level 2
Equity securities	**408**	**23**	**431**	412	6	418	Level 1
Non-financial assets measured at fair value							
Investment properties	**737**	**–**	**737**	754	–	754	Level 3
Total	**1 145**	**23**	**1 168**	1 168	6	1 174	

FVTPL – Fair value through profit or loss.
FVTOCI – Fair value through other comprehensive income.

Measurement of fair values – valuation techniques

When measuring the fair value of an asset or a liability, the group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.	Other financial assets valued at closing share price of R3.75 (2021: R1.06).
Level 2: Fair value measurements are those derived from inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).	Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

Level 3: Inputs for the assets or liability are not based on observable market data (unobservable inputs).	The valuation policy adopted by management is to revalue investment property externally at financial year-end and for interim reporting purposes. The investment properties can be divided between industrial sector valued at R724 million (2021: R745 million), residential vacant land sector valued at R2 million (2021: R2 million) and farm land valued at R11 million (2021: R7 million). The fair value of the property in the industrial sector was determined by adopting the income capitalisation method or the depreciable replacement cost approach or market value approach. The income capitalisation method requires a market-derived projection of economic net annual income for the property, which is then capitalised into perpetuity using a market-related capitalisation rate to determine the market value estimate. Gross market rentals have been applied to the accommodation elements and then normal landlord outgoings were deducted and a management fee to arrive at a net annual income figure. The following key assumptions were applied: • Expense ratio 17.4% – 19.9% (2021: 17.5% – 19.7%) • Vacancy provision 7.5% (2021: 5% – 7.5%) • Capitalisation rate 12.8% – 13.5% (2021: 12.5% – 13.5%) A 2.5% increase or decrease in the vacancy provision will impact the fair value by R2 million (2021: R2 million). A 1% increase or decrease in the capitalisation rate will impact the fair value by R39 million (2021: R37 million). A 2.5% increase or decrease in the expense ratio will impact the fair value by R3 million (2021: R2 million). The depreciable replacement cost approach is based on the economic theory of substitution and it involves comparing the asset being valued with another. This approach was applied to the conference facilities on the farm land. The fair value of properties in the residential vacant land sector has been determined by applying the market approach, which is based on comparing the subject assets with identical or similar assets for which price information is available, such as a comparison with market sales transactions in the same, or closely similar, type of asset within an appropriate time horizon. In assessing the value of the farm land, the sales comparison approach was followed, whereby comparable sales were researched together with current asking prices in the surrounding areas. The market value for the improvements on the land was determined by using the depreciated replacement cost method of valuation.

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

12. Investment properties

	Notes	2022 Rm	2021 Rm
Carrying amount at the beginning of the year		**754**	983
Investment property held-for-sale	14	**(76)**	–
Change in fair value		**57**	(228)
Exchange rate movement		**2**	(1)
Carrying amount at the end of the year		**737**	754
Amounts recognised in profit or loss for investment properties			
Rental income		**55**	62
Direct operating expenses from rental property		**(14)**	(13)
Fair value gain/(loss)		**57**	(228)

The fair value hierarchy used to value these properties is a level 3. Refer to note 11 for detail on the fair value measurements.

13. Cash, bank balances and restricted cash

The group held cash and cash equivalents of R3 392 million as at 31 December 2022 (2021: R4 652 million). The group also entered into various derivatives with banks and financial institutions. The cash and cash equivalents are held with, and derivatives are entered into with banks and financial institutions that are rated A+ to BB based on ratings from Fitch.

The group considers that its cash and cash equivalents have a low credit risk based on the external ratings of the counterparties. Based on this and the short-term maturities of these exposures, there is no expected credit loss and hence no provision for impairments has been raised against these positions and balances.

Included in cash and bank is restricted cash of R737 million (2021: R1 419 million) relating to the TSR facility of R433 million (2021: R767 million), the environmental rehabilitation obligations of R302 million (2021: R302 million), Rnil (2021: R350 million) in respect of cash collateral for standby letter of credit issued to foreign suppliers and R2 million in respect of litigation.

The restricted cash amounts relating to the TSR facility are amounts collected on behalf of the TSR provider after the financing of the debtors. These amounts are required to be paid over to the TSR provider.

The restricted cash is held in bank accounts of ArcelorMittal South Africa.

Bank accounts of R1 091 million (2021: R1 277 million) were ceded in favour of the lenders of the BBF and TSR facility.

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

14. Asset held-for-sale

Investment property held-for-sale

	Notes	2022 Rm	2021 Rm
Carrying amount at the beginning of the year		–	–
Transfer from investment properties	12	76	–
Exchange rate movement		4	–
Carrying amount at the end of the year		**80**	–

During the six months ended 30 June 2022, the decision was taken to sell one of the investment properties in Maputo (level 3 in the fair value hierarchy) as this property forms part of the group's non-core property disposal strategy. A promissory sale and purchase agreement to the value of USD5 200 000 was signed. The price is subject to conditions, with a possible reduction of USD500 000. The value of USD4 700 000 was used as fair value for this property.

The sale of the property is expected to be concluded by June 2023. The investment property was part of the non-steel operations segment.

15. Borrowings

	2022 Rm	2021 Rm
Secured – at amortised cost		
Bank	2 500	1 800
Loan from holding company	3 700	4 110
Total	**6 200**	5 910
Non-current	2 700	3 700
Current	3 500	2 210

The bank loan relates to the borrowing base facility (BBF) with various financial institutions. The BBF loan available to the group is subject to financial covenants. The consolidated tangible net worth of the group is R14 304 million at year-end (2021: R11 685 million), which is determined as the sum of equity of the group, the subordinated loan from the holding company of R2 700 million (2021: R2 700 million) and excluding intangible assets, in accordance with the BBF agreement. The borrowings of the group are R1 203 million at year-end (2021: R1 500 million), determined as the unsubordinated portion of the loan from the holding company and the group's finance lease obligations. Therefore, the group is in compliance with all covenants as at 31 December 2022.

The loan from the holding company was decreased by R410 million during 2022 as a result of the repayment. The subordinated loan of R2 700 million (2021: R2 700 million) matures on 31 August 2024, and as at 31 December 2022 the remaining balance of R1 000 million was to mature on 31 January 2023. Subsequent to year-end an agreement was reached with the holding company to extend the date of maturity on the R1 000 million balance to 1 April 2024, refer note 19. Interest is payable on a quarterly basis.

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

16. Other financial liabilities

	2022 Rm	2021 Rm
Financial liabilities carried at amortised cost		
Competition Commission administrative penalty	720	1 055
Total	720	1 055
Non-current	625	–
Current	95	1 055

A payment plan was agreed with the Competition Commission in the current period.

17. Cash generated from operations

	2022 Rm	2021 Rm
Profit before tax*	2 634	7 976
Adjusted for:		
Finance and investment income	(283)	(165)
Finance cost	1 235	1 328
Fair value adjustment on investment property	(57)	228
Income after tax from equity-accounted investments	(30)	(40)
Depreciation and amortisation	771	601
Net impairment reversal on financial assets	–	(3)
Unrealised profit on sales to joint ventures	2	1
Share-based payment expense	41	30
Non-cash movement in provisions and financial liabilities	118	17
Write-down of inventory to net realisable value	139	283
Movements in trade and other receivable allowances	(2)	36
Reconditionable spares usage	–	1
Loss on disposal of property, plant and equipment	30	7
Fair value adjustment on environmental trust	4	(34)
Realised foreign exchange movements	44	60
Changes in:		
Decrease/(increase) in inventories	61	(5 110)
Increase in trade and other receivables	(870)	(1 126)
(Decrease)/increase in trade and other payables	(1 933)	381
Utilisation of provisions	(344)	(150)
Changes in financial liabilities or assets	(414)	–
Other payables raised, released and utilised relating to employee benefit	28	54
Cash generated from operations	1 174	3 024

* *In terms of IAS 7, the reconciliation of the cash generated from operations should start either with profit or loss before tax or after tax. The reconciliation has been restructured to comply with this requirement, previously the reconciliation was started from profit from operations. The update had no impact on any reported totals, or on any amounts presented in the statement of cash flows.*

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

18. Related party transactions

The group is controlled by ArcelorMittal Holdings AG, which effectively owns 69% (December 2021: 69%) of the group's shares. At 31 December 2022, the outstanding ArcelorMittal Holdings AG loan amounted to R3 700 million (2021: R4 110 million). The loan from the holding company decreased by R410 million during the current year as a result of the repayment (2021: Rnil). The interest expense for the year was R353 million (2021: R231 million).

The group purchased products and services to the value of R950 million (2021: R3 385 million) from and sold goods to the value of R17 million (2021: R55 million) to other companies in the greater ArcelorMittal Group. The payment terms are 30 days.

The group entered into sale and purchase transactions with joint ventures in the ordinary course of business. These transactions were concluded at arm's length.

19. Subsequent events

On 31 January 2023, the settlement date of the unsubordinated portion of the loan from the holding company, amounting to R1 000 million, was extended from 31 January 2023 to 1 April 2024. This portion of the loan was classified as a current borrowing as at 31 December 2022.

The directors are not aware of any material matters or circumstances arising since 31 December 2022 to the date of this report that would significantly affect the operations, the results or financial position of the group.

Notes to the summary consolidated financial statements continued

for the year ended 31 December 2022

20. Going Concern

A strong start was enjoyed by ArcelorMittal South Africa in the first half of 2022, however, the impact of the conflict between Russia and Ukraine, coupled with economic slowdown in China and other global economic factors, had a significant impact from the second half of the year with demand and sales prices declining and the cost of material increasing, resulting in the group recognising a net profit after tax of R2 634 million for the 2022 financial year. This is R3 991 million lower than the profit after tax of R6 625 million reported in 2021.

The group's solvency and liquidity saw an improvement and as at 31 December 2022 current assets exceed current liabilities by R6 072 million (2021: current assets exceed current liabilities by R5 256 million). The group generated negative cash flow of R1 310 million with cash, bank balances and restricted cash at year-end being R3 392 million (2021: R4 652 million), and net debt increased to R2 808 million at year-end 2022 (2021: R1 258 million).

The group was in compliance with all covenants as it pertains to the BBF, and continues to work closely with all lenders to ensure the required facility remains in place. The balance of the BBF was R2 500 million as at 31 December 2022 (2021: R1 800 million).

ArcelorMittal Holdings AG continues to demonstrate its support through its subordinated group loan of R2 700 million as at 31 December 2022 (2021: R2 700 million) in favour of the lenders of the BBF.

As required, the directors have prepared cash flow forecasts for a period of 12 months from the end of the reporting period, based on the most recent forecast and all available information. The forecast takes into account, among other initiatives, the company's value plan, which realised improvements of R1 561 million (2021: R2 085 million) composed of commercial-related initiatives of R839 million and cost-based initiatives of R722 million.

Shareholders are advised that the group's financial performance is dependent upon the wider economic environment in which the group operates. Factors beyond the control of management, such as volatility of the rand/US dollar exchange rate, steel demand and commodity and steel prices, can all have an impact on the business. The directors and management continue to evaluate, develop and improve business plans and liquidity models in order to effectively deal with the effects of these factors.

The directors are not aware of any other matters or circumstances that the group faces and concluded that there are no other matters that may impact the group's ability to continue as a going concern.

Based on group's 12-month funding plan and taking banking facilities into consideration, together with the ongoing support from the holding company, ArcelorMittal Holdings AG, the directors believe that the group has sufficient funds to pay debts as they become due over the next 12 months and therefore will remain a going concern.

Analysis of ordinary shareholders

Analysis of ordinary shareholders as at 31 December 2022

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	43 822	88.40	4 921 925	0.43
1 001 – 10 000	4 155	8.38	14 425 011	1.27
10 001 – 100 000	1 308	2.64	39 884 519	3.51
100 001 – 1 000 000	247	0.50	64 235 086	5.64
Over 1 000 000	42	0.08	1 014 593 284	89.15
Total	**49 574**	**100.00**	**1 138 059 825**	**100.00**

Distribution of shareholders	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Assurance and insurance companies	11	0.02	13 078 964	1.15
Collective investment schemes and hedge funds	37	0.08	25 222 861	2.22
Corporate holdings	4	0.01	771 571 447	67.80
Custodians, brokers and nominees	46	0.09	35 451 087	3.11
Other managed funds	27	0.05	105 711 288	9.29
Retail shareholders, trusts and private companies	1 619	3.27	151 050 149	13.27
Retirement benefit funds	29	0.06	18 387 093	1.62
Unclassified holders (less than 10 000 shares)	47 801	96.42	17 586 936	1.54
Total	**49 574**	**100.00**	**1 138 059 825**	**100.00**

Shareholder type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-public shareholders	6	0.01	771 636 240	67.80
Directors and associates	2	0.00	100 292	0.01
GS Gouws	1	0.00	292	0.00
NF Nicolau	1	0.00	100 000	0.01
ArcelorMittal SA Ltd	2	0.00	46 548	0.00
ArcelorMittal Holdings AG	2	0.00	771 489 400	67.79
Public shareholders	49 568	99.99	366 423 585	32.20
Total	**49 574**	**100.00**	**1 138 059 825**	**100.00**

Fund managers with a holding in 5% or more of the issued shares	Number of shares	% of issued capital
None		

Analysis of ordinary shareholders continued

Beneficial shareholders with a holding in 5% or more of ordinary shares issued	Number of shares	% of issued capital
ArcelorMittal Holdings AG	771 489 400	67.79
Industrial Development Corporation	93 044 068	8.18
Total	**864 533 468**	**75.97**
Beneficial shareholders in the A1 and A2 register	**A1 shares**	**A2 shares**
Amandla We Nsimbe (Pty) Ltd	243 240 276	–
The Isabelo Employee Share Trust	–	72 972 083
Total	**243 240 276**	**72 972 083**

Geographical holding by owner	Number of shareholdings	% of total shareholdings	Number of shares	% of shares in Issue
Switzerland	7	0.01	775 692 089	68.16
South Africa	49 236	99.32	332 583 944	29.22
United States	31	0.06	13 933 428	1.23
United Kingdom	23	0.05	12 171 414	1.07
Namibia	134	0.27	2 536 102	0.22
Luxembourg	1	0.00	739 166	0.07
Swaziland	30	0.06	125 541	0.01
Balance	112	0.23	278 141	0.02
Total	**49 574**	**100.00**	**1 138 059 825**	**100.00**

Share price performance

Opening Price 3 January 2022	R8.87
Closing Price 30 December 2022	R4.74
Closing high for period	R10.54
Closing low for period	R4.23

Number of shares in issue	1 138 059 825
Volume traded during period	428 286 693
Ratio of volume traded to shares issued (%)	37.63
Rand value traded during the period	3 433 715 233
Price/earnings ratio as at 31 December 2022	0.71
Earnings yield as at 31 December 2022 (%)	139.87
Dividend yield as at 31 December 2022 (%)	–
Market capitalisation at 31 December 2022	R5 394 403 571

Corporate information

Company registration
ArcelorMittal South Africa Ltd
Registration number: 1989/002164/06
Share code: ACL
ISIN: ZAE000134961

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Transfer secretaries
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United States ADR depositary
(This programme was terminated effectively 15 March 2023)
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ADR Department
101 Barclay Street, 22nd Floor, New York, NY 10286
United States of America
Internet: www.bnymellon.com

A printed copy of the ArcelorMittal South Africa integrated report can be requested by sending an email to: Veronique.Fernandes@arcelormittal.com

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