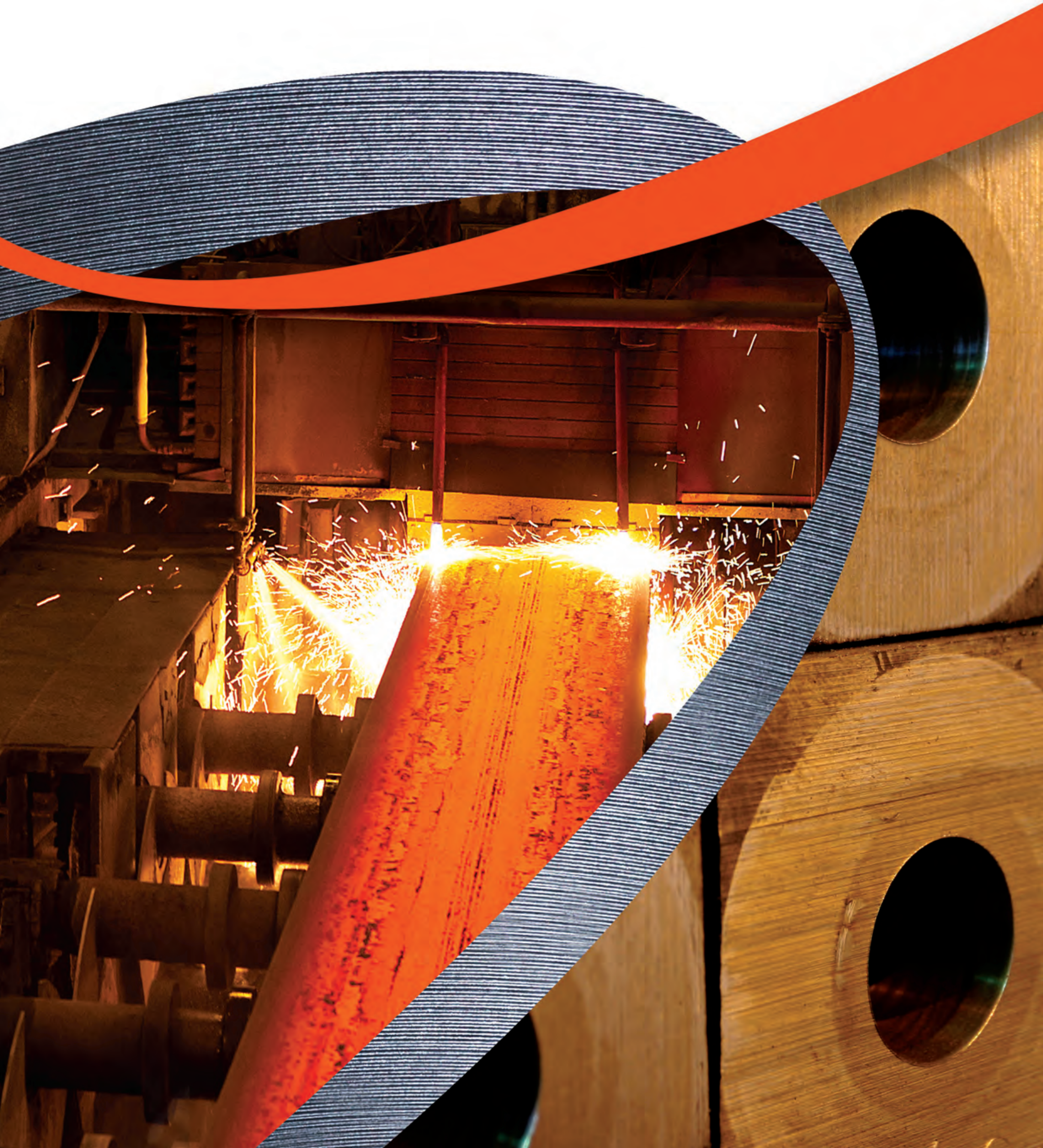
ArcelorMittal

Annual value creation report 2018



Why you should read this report

ArcelorMittal South Africa is one of this country's most fascinating companies, a big business with a massive economic and social impact.

How effectively our leadership executes strategy to create value while managing risks and opportunities affects shareholders, employees, suppliers, customers and whole communities comprising many tens of thousands of individuals. Whatever your relationship with our company, we believe you will find reading our report both interesting and informative.

About this report

This annual value creation report contains all the information included within our integrated annual report plus additional information. This additional information pertains to how our strategic formulation and execution, and our leadership, sought to create value. Readers will find greater disclosure on, especially, risk management and our use and creation of natural , social and human capital.

Our 2018 report

In 2018 the leadership of ArcelorMittal South Africa began rolling out a Transformation for Sustainability and Growth strategy, a drive to fundamentally change our business model, to ensure our sustainable ability to generate profits despite the vagaries of the steel cycle. This strategy – its context, components, progress to date and outlook – is described in some detail and with considerable candour. For an overview of our new strategy, see, particularly, pages 36 and 37.

Our 2018 report builds on our recent improvements in how we provide annual disclosure on matters which we believe are material to our stakeholders. In our 2018 reporting suite we have boosted the level of detailed disclosure we make, especially that which will be of value to particular stakeholder groups. Much of this detail is contained in this report. (For instance, those with an interest in our environmental performance and strategy will find greater environmental disclosure in this report than is contained in the integrated report.)

This year, as in the past, we report on the activities, strategy and value creation of ArcelorMittal South Africa, its operating context and its relationships with many stakeholder groups and the natural environment. For the first time, we also report on the social impacts of Thusong Projects (which operates under the auspices of the Vesco Group, over which ArcelorMittal South Africa exercises significant influence and which it utilises as an empowerment vehicle). Also, for the first time, our reporting includes the Thabazimbi iron ore mine, which the company acquired in 2018.

The report covers the period from 1 January 2018 to 31 December 2018.

Enhancements to our 2018 report include:

- Changing the presentation of information by making greater use of more digestible charts, graphs and 'fact boxes'
- Greater disclosure on targets and – while remaining consistent – improving the comparability of information
- A stronger emphasis on trade-offs in our strategic efforts to achieve desired outcomes.

Forward-looking statements

All forward-looking statements involve a number of risks, uncertainties and other factors not within our control. This reality could cause actual outcomes and developments to differ materially from those projected or implied in this report. Forward-looking statements reflect information available at the time of preparing this report and have not been reviewed by the company's auditors. Readers should not place reliance on such forward- looking statements.

Board responsibility

The board is satisfied that this report addresses our approach to managing our significant, economic, social and environmental impacts.

It details our strategy and demonstrates how our company creates value for all its stakeholders through its business model and activities.

Mpho Makwana
Chairman

Kobus Verster
Chief executive officer

Desmond Maharaj
Chief financial officer

Brian Aranha

Zee Cele

Noluthando Gosa

Gert Gouws

Raman Karol

Nomavuso Mnxasana

Jacob Modise

Monica Musonda

Neville Nicolau

In 2018 our most material issues were:

- Workplace safety
- Solvency and liquidity
- Input and fixed costs
- Maintaining – and enhancing – our social licences to operate
- Customer focus and market development
- Developing the skills and aptitude of our employees
- Environmental performance
- Optimising our production processes

In 2018 our key strategic objectives were:

page 38 Towards zero harm
page 40 Delivering sustainable profits throughout the steel cycle
page 44 Being a valued, responsible corporate citizen
page 50 Transforming our culture

Our values

These underpin our strategic objectives and impact our stakeholders:

Safety

Caring

Customer focus

Commitment

In addition to our value creation report, our full suite of reports online include:
– The integrated annual report
– Full annual financial statements
– Leadership report, including our King IV™* application statement, full governance overview and full remuneration report.

Access our full annual financial statements
The full 2018 financial statements, which are available at https://southafrica.arcelormittal.com/InvestorRelations/AnnualFinancialStatements.aspx, provide comprehensive insight into the financial position and performance of the company for the year under review. Copies of the full financial statements may also be requested from the company secretary through our registered offices.

Our Vision

To add value to all our stakeholders through our market leadership position in sub-Saharan Africa by producing quality steel products safely, being an employer and supplier of choice while striving to be among the lowest-cost steel producers in the world.

Our Mission

We aim to achieve our vision by:

- **Keeping our people safe**
- **Pursuing operational excellence in all business processes**
- **Producing innovative high-quality steel solutions for our customers on time**
- **Protecting our environment and caring for the communities in which we operate**
- **Being a fair employer as well as a career and skills developer**

Who we are

Headquartered in Vanderbijlpark, Gauteng, ArcelorMittal South Africa is Africa's largest steel producer with an annual production capacity of 6.1 million tonnes of liquid steel; approximately 5.1 million tonnes of saleable steel products. In 2018 we produced 5.1 million tonnes of liquid steel, an increase of 182 000 tonnes over 2017. A proudly South African company, we are part of the world's leading steel producer with industrial sites in over 20 countries and a presence in more than 60.

Flat steel products

Produced at Vanderbijlpark and Saldanha Works. Products include slabs and heavy plates as well as hot rolled coil, cold rolled and coated products. Major consumers are the construction, piping, packaging and automotive industries.

Vanderbijlpark Works

One of the world's largest inland steel mills and sub-Saharan Africa's biggest supplier of flat steel products. An integrated process produces liquid iron which is refined to produce, ultimately, heavy plate and coils.

For more information on Vanderbijlpark Works – see page 43

Saldanha Works

Largely export focused, Saldanha Works produces high-quality ultra-thin hot rolled coil using a world-first merger of the Corex and Midrex technologies to replace the need for blast furnaces and coke ovens.

For more information on Saldanha Works – see page 43

Long steel products

Produced at Newcastle and Vereeniging Works. Products include bars, billets, blooms, hot-finished and cold-drawn seamless tubes, window and fencing profiles, light, medium and heavy sections, rod and forged products. Long steel products are used primarily in the construction industry.

The foremost South African producer of profile products including low- and medium-carbon commercial grades, sulphur-containing free-cutting steels, micro-alloyed steels and high-carbon wire-rod steels as well as alloy steels, specialty steel, seamless tube and forge products.

Since 2015 billets produced at the Newcastle furnace have been transported to Vereeniging for milling. Tubular Products Vereeniging is the sole producer of hot rolled and cold drawn seamless tube products in South Africa. The facility produces 100 000 tonnes of final product per annum, of which some 80% is exported.

In 2018 Evraz Highveld Steel's mill in Mpumalanga produced between 8 000 and 10 000 tonnes of heavy structural steel per month using input material produced at Newcastle.

In January 2019 we restarted the Vaal Melt shop in Vereeniging to produce smaller-batch items, in the process debottlenecking Newcastle.

For more information on long steel products – see page 43

Coke and Chemicals

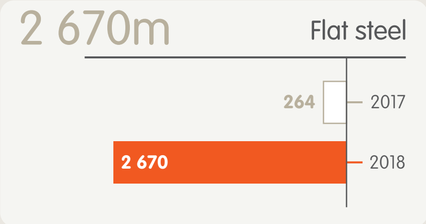
From batteries in Vanderbijlpark, Newcastle and Pretoria, Coke and Chemicals Works produces metallurgical coke for our furnaces in Vanderbijlpark and Newcastle, and commercial coke for sale to, especially, the ferro-alloy industry. The business also processes and beneficiates metallurgical and steel by-products, including coal tar. These are sold as raw materials for a wide variety of uses.

Almost two-thirds of revenue derives from the ferrochrome industry with significant quantities of commercial coke also being consumed by the aluminium, alloys, petrochemicals and other sectors.

For more information on Coke and Chemicals – see page 43

Our steel is produced in flat and long steel products that are further processed by downstream manufacturers. Our Coke and Chemicals operation produces commercial grade coke for use by the ferro-alloy industry, and processes steelmaking by-products. We supply approximately 74% of the steel used in South Africa while exporting the balance to sub-Saharan Africa and elsewhere. In 2018 we employed 8 837 people (2017: 8 917) with an estimated economy-wide employment-creating impact of over 100 000 jobs.

EBITDA contribution (Rm)



Capacity

Vanderbijlpark Works:
2.9 million tonnes of liquid steel per annum

Saldanha Works:
1.3 million tonnes of liquid steel per annum

Vanderbijlpark Works

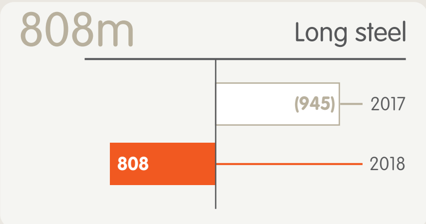
Capacity utilisation	LTIFR	Revenue	Liquid steel production
85%+	**0.31+**	**R25.5 billion+**	**2.475 million tonnes+**
2017: 81%	**2017:** 0.38	**2017:** R22.5 billion	**2017:** 2.340 million tonnes
2016: 82%	**2016:** 0.39	**2016:** R18.3 billion	**2016:** 2.389 million tonnes

Saldanha Works

Capacity utilisation	LTIFR	Revenue	Liquid steel production
84%+	**1.81+**	**R8.7 billion+**	**1.086 million tonnes+**
2017: 86%	**2017:** 0.62	**2017:** R7.9 billion	**2017:** 1 118 million tonnes
2016: 64%	**2016:** 0.30	**2016:** R5.2 billion	**2016:** 832 000 million tonnes

+ *Externally assured.*

EBITDA contribution (Rm)



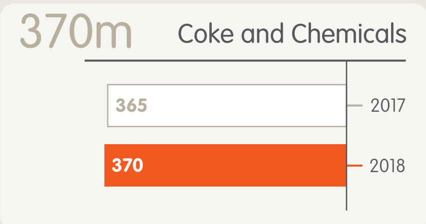
Capacity

Newcastle Works:
1.9 million tonnes of liquid steel per annum

Capacity utilisation	LTIFR	Revenue	Liquid steel production
81%+	**0.55+**	**R14.9 billion+**	**1.531 million tonnes+**
2017: 76%	**2017:** 0.40	**2017:** R11.8 billion	**2017:** 1.452 million tonnes
2016: 81%	**2016:** 0.92	**2016:** R10.6 billion	**2016:** 1.550 million tonnes

+ *Externally assured.*

EBITDA contribution (Rm)



Capacity

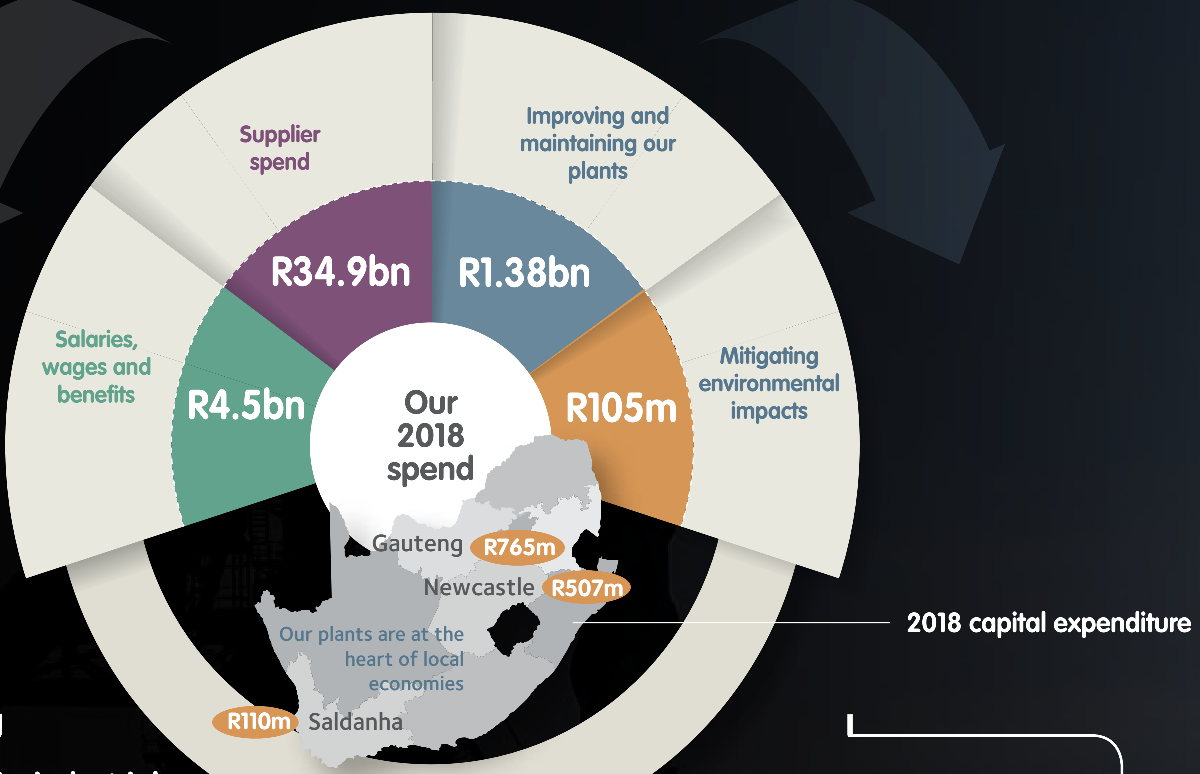
220 000 tonnes of coke

LTIFR	Revenue	Commercial coke production
0.71+	**R1.4 billion+**	**184 000 tonnes**
2017: 0.00	**2017:** R1.4 billion	**2017:** 190 000 tonnes
2016: 1.25	**2016:** R1.4 billion	**2016:** 195 000 tonnes

+ *Externally assured.*

How we create social and human value

Local economic and social impact



National economic, industrial and employment impact

More than 70% of our South African sales go to four key industrial sectors:

	Construction	Utilities	Mining	Automotive
2018 sales (000 tonnes)	1 792	157	308	301

Between them, these sectors account for more than 15% of South Africa's GDP and 2 million jobs.

Employer, job creator and skills developer

Almost 9 000
Directly employed, of whom 67% were ACI (African, coloured and Indian)

4 000 entrepreneurs
Supported by the company-sponsored West Coast Business Development Centre

3 jobs
Created for every 1 000 tonnes of steel produced

313 000 hours
Of training conducted at a cost of R140 million

559 production learners
Up from 414 in 2017

Catalyst for change

R138m
– value of business placed with 27 supplier-development beneficiaries, based at our incubation hub in Vanderbijlpark

19%
– increase in procurement from emerging micro-enterprises

92%
– percentage of those in our technical training pipeline who were black. Of 752 learner apprentices, 96% were black, as were 100% of technician bursars

Level 5*
– B-BBEE contributor status – down from Level 3

** Self-assessed*

Our products, production facilities and supply chains are at the very heart of the South African economy. We sustain tens of thousands of jobs and are essential to the wellbeing of several large communities.

Despite formidable financial challenges, we invest in thousands of employees, contractors and suppliers and work with communities, government and other businesses to transform and grow our economy.

In 2018 ArcelorMittal South Africa:

- Sustained 2 890 full-time equivalent jobs provided by contractors
- Grew its technical training pipeline by 11% to 1 687 individuals
- Invested R14 million in local communities through socio-economic development
- Had a freshwater intake of 2.9 kilolitres per tonne of liquid steel – one-ninth of the world average
- Directly reached 19 000 learners through our three sponsored science centres
- Grew supplier development by 22% to R21.7 million

Economic growth engine

R249m Value of rebates given to customers who used our products to achieve new export sales in 2018 – more than three times the 2016 value

7 390 Tonnes of iron ore which was beneficiated – and not exported without value add

R10bn Export revenue – up 37% over 2017

R45m Paid to the Committee of Secondary Manufacturers' Trust to support downstream exports

Employer, job creator and skills developer

Touching every part of the South African economy, steel is central to the achievement of the 2030 goals of the National Development Plan (NDP)

Enabling the NDP through beneficiation

Attainment of the NDP's key targets is supported by ArcelorMittal South Africa's activities. By beneficiating large amounts of raw materials and producing primary steel for further processing, the company facilitates manufacturing, job creation, investment in infrastructure and exports.

Steel

Major focus on NDP 2030. Source: NDP 2030

Steel products

- Structural steel
- Wire products
- Packaging → Food & beverage
- Machines
- Automotive
- Mining

- Agriculture
- Construction
- Energy
- Infrastructure
- Defence
- Oil and gas

- Rail
- Pipelines
- Logistics
- Communication
- Water supply

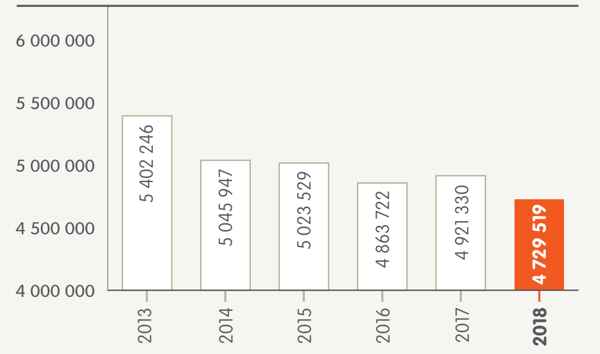
The NDP stresses how important exports are to job-creating sustainable growth. In 2018 we grew our own exports by a fifth while rebates amounting to R249m helped our customers sell outside South Africa. Major beneficiaries of these value-added rebates were:

	R million
Manufacturing	141
Merchants	60
Structural metal	28
Mining	10
Automotive	4

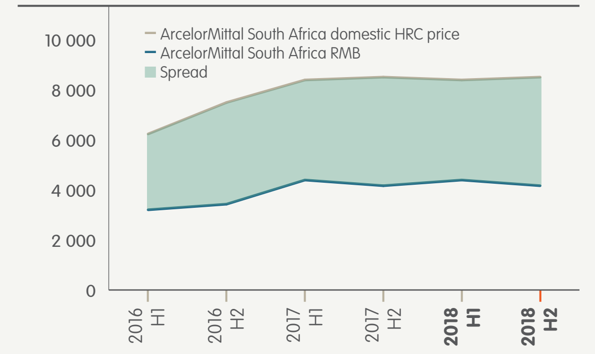
Our operating context

World steel demand remained strong in 2018, pricing gains mostly outpacing increases in those of the most important raw materials. International prices had a bearing on those realised in our domestic market – where consumption continued to decline.

South African apparent steel consumption (ASC)



Our raw material basket and HRC prices (rand per tonne)



Market overview

Global

In 2018 international steel markets maintained – and accelerated – the growth in demand witnessed in the previous year, total sales rising by some 6.6% to an estimated 1.8 billion tonnes.

This stronger performance was on the back of continuing worldwide recovery, the global economy growing in 2018 by an average 3.7% which, according to the International Monetary Fund, was the strongest growth since 2011.

Growth in both developed and emerging markets was mostly robust, despite some key emerging countries, notably Brazil, Argentina and Turkey, experiencing considerable economic challenges. Growth was also sustained despite rising oil prices, lingering concerns over Britain's impending exit from the European Union and the prospect of a 'no-deal' Brexit. Similarly, full-year growth largely withstood shocks and risks associated with a persistent and simmering 'trade war' between the United States and China. In May 2018 the former imposed 25% import duties on steel imports from the latter, a development which buttressed steel prices.

For the full year, international prices rose by an average of 12.5% for hot rolled coil (HRC) and 12% for rebar.

'Developing' Asia (which excludes China) continued to account for 11% of world steel demand with all of Asia-Pacific consuming 70% of total international sales. At 8% GDP growth, India was the world's fastest growing economy in 2018 and, while Chinese economic growth moderated for the first time since 2009, it ended the year recording a growth rate of over 6%.

Of particular significance for a primary steel producer such as ArcelorMittal South Africa – which sells its products mostly in emerging markets – was the reduction in Chinese output recorded in 2018. By the end of the year, China had reduced annual primary steel capacity by some 100 million tonnes (Mt), well in advance of its stated undertaking to eliminate annual production of 150 Mt by 2020. (The cuts were mandated by Beijing's drive to reduce emissions and a growing determination to cut back on state subsidies.)

This development was significant for our company as it meant that in 2018 China had only some 60Mt available for sale internationally – half the amount exported in 2017. This year the amount of 60Mt was largely consumed within China's Asian near neighbours, meaning that less Chinese steel was shipped to emerging markets, including Africa. The markets in which we sell our steel are so small in world terms, however, that cheap Chinese exports, even in reduced quantities, pose significant challenges to our company and other primary producers.

Africa

Towards the end of the year the World Steel Association predicted that, at 3.1%, the 2018 increase in African steel demand was among the highest in the world, substantially higher than those it projected for North America and Europe (1.7% and 2.2%). Although coming off a relatively low base, the association predicted growth of 3.9% for Africa in 2019, representing some 37.3Mt. (In 2018 ArcelorMittal South Africa shipped 4.492Mt, of which 26% was destined for African markets.) In the year our export volumes grew by 21% relative to 2017.

In 2018 Africa's two largest economies – South Africa and Nigeria – once again failed to achieve meaningful growth in fixed-capital investment, manufacturing or construction. For the past three years Nigeria's economic performance has been constrained by a shortage of foreign exchange, a situation that eased towards the end of 2018 on the back of strengthening oil prices. Our export performance in 2018 was especially strong in East Africa.

The slowdown in Chinese exports to Africa favoured our own export sales to the continent. With stagnant demand in South Africa, growing our presence and sales in Africa is a strategic imperative.

South Africa

In contrast to the stronger growth experienced by much of the world, in 2018 the performance of the South African economy continued to be, at best, lacklustre, the economy slipping into a technical recession after two consecutive quarters of negative growth. For the full year, at approximately 1%, GDP growth was disappointingly similar to that of 2017.

The key sectors on which ArcelorMittal South Africa depends all experienced extremely difficult conditions in 2018, machinery and equipment and construction contracting by 1.1% and 0.4% respectively, and mining by 0.7% One area of improved demand was the renewable-energy sector after government signed contracts worth almost R56 billion in April 2018. In 2019, urgent investment in the country's water infrastructure is similarly expected to boost domestic demand.

Throughout the year, investment in new productive capacity was restrained by ongoing political uncertainty combined with concerns regarding the country's persistent economic underperformance and exchange-rate volatility. At year-end, however, business sentiment improved with the new administration aggressively driving foreign direct investment, committing to vital infrastructural upgrades and a cleaned-up administration.

In the first half – and the latter part – of the year a strong rand/US dollar exchange rate limited increases in net realised prices for, especially, flat steel. This situation eased in H2 although the volatility of the local currency was reflected in ongoing, opportunistic, imports from a variety of sources. While state-subsidised imports from China reduced, exchange-rate volatility encouraged such short-term imports. For the full year imports represented an estimated 16.2% of domestic apparent steel consumption (2017: 19.4%).

For flat steel products, ArcelorMittal South Africa is committed to pricing by taking into account a 'fair pricing basket' which is independently derived through a process agreed to with government and which references prices prevailing internationally. This basket has a significant bearing on our flat steel prices.

Between December 2017 and December 2018, net realised prices (NRPs) for flat steel rose 10.9%, from R8 581/tonne to R9 514/tonne, similar to, but lower than, the average international increase (11.75%).

In line with policies adopted by almost all steel-producing countries, South African authorities recently granted steel producers, including ArcelorMittal South Africa, much-needed protection against unfair steel imports. These protections included flat steel safeguards for a period of three years. As envisaged, in August 2018, the 12% safeguard on HRC reduced to 10% (to reduce to 8% in 2019). At the time of reporting, the company was in the process of applying for tariff protection on tin-plate imports.

As a company, we fully appreciate that the viability of our business is intimately tied to the health of the steel downstream – our customers. Finished and semi-finished products continue to be threatened by product substitution and, especially, by imports and so, this year, we continued to assist the downstream in various ways. These interventions included assistance with preparing applications for trade remedies and granting customers rebates to ensure their viability and their ability to export and preserve jobs.

It is of the utmost importance to our licences to operate that ArcelorMittal South Africa is valued as a transformed contributor to South African society by a broad range of stakeholders. In three geographic regions our importance to local economies and local communities is profound. We need to add value to these communities, to our local workforce and suppliers and to minimise any adverse environmental impacts.

Long steel products (in 2018 31% of our sales volume and 29% of steel revenue) enjoy less protection against unfair imports. With lower barriers to entry, long steel producers, particularly those using induction and electric arc furnaces which consume large quantities of scrap, were increasingly active this year. Restrictions on the export of scrap dampened prices and favoured such producers while disadvantaging our long steel products division.

Costs

Predictably managing down our costs is essential to our survival – and a consideration which was key to our transformation strategy implemented from 2018 (see page 36).

The costs of our raw materials (48% of total expenditure in 2018) have a fundamental bearing on our ability to generate profits.

In 2018 coking coal represented 44% of our raw material basket (RMB), iron ore 42% and scrap 14%. Increases in, especially coking coal and iron ore, were modest compared to those of the previous year, our average hard coking coal price actually being 6% lower than that of 2017. (However, it should be noted that international coking coal prices have more than doubled since 2015.)

Currency impacts

Foreign-exchange movements, especially that of the rand/US dollar rate have considerable impact on our profitability. Whereas a weaker rand benefits our realised prices – at least at present – it also negatively impacts our RMB costs. The commodities on which we rely are generally priced in hard currencies and domestic producers seek to benchmark the prices we are charged against those prevailing internationally. With a limited number of such suppliers, our purchasing function is often hard pressed to negotiate the supply of quality raw materials at the most optimal prices.

Monopoly suppliers

Not only is the number of our raw-material suppliers limited, our profitability is further challenged by the reality that we are dependent on what are essentially monopoly suppliers for key variable costs including transport, electricity and gas. For some services, the rates charged put us at a measurable disadvantage relative to international benchmarks with excessive tariff escalations adding to an already onerous inflation burden.

The historical indebtedness of the company has been a significant factor hampering our ability to produce net profits; in 2018 our net interest bill stood at R883 million.

Our value creation model

Our business model requires the input of various capitals in the creation of steel, coke and chemicals. We operate our business model in a social, environmental and human context from which we derive our licence to operate. We create value for a broad range of stakeholders but our business model is unsustainable if we do not create meaningful value for investors,

Inputs

Natural capital

Raw materials consumed

	2016	2017	2018
Iron ore	6 604kt	7 234kt	**7 390kt**
Coal	4 104kt	4 056kt	**4 011kt**
Consumed scrap*	684kt	781kt	**779kt**
Fluxes	1 063kt	1 677kt	**1 795kt**

** Externally procured and internally generated and recycled.*

Energy

	2016	2017	2018
Electricity purchased (TWh)+	3.14	3.26	**3.07**

+ Externally assured.

Water intake

	2016	2017	2018
Water intake (Ml)	15 475	15 505	**14 754**

Human and intellectual capital

	2016	2017	2018
Employees*	9 056	8 913	**8 837**
Hired labour	320	77	**274**
Service contractors	2 997	2 890	**2 851**
Training spend	R184m	R154m	**R140m**

** Permanently employed (including fixed term contractors).*

Financial capital

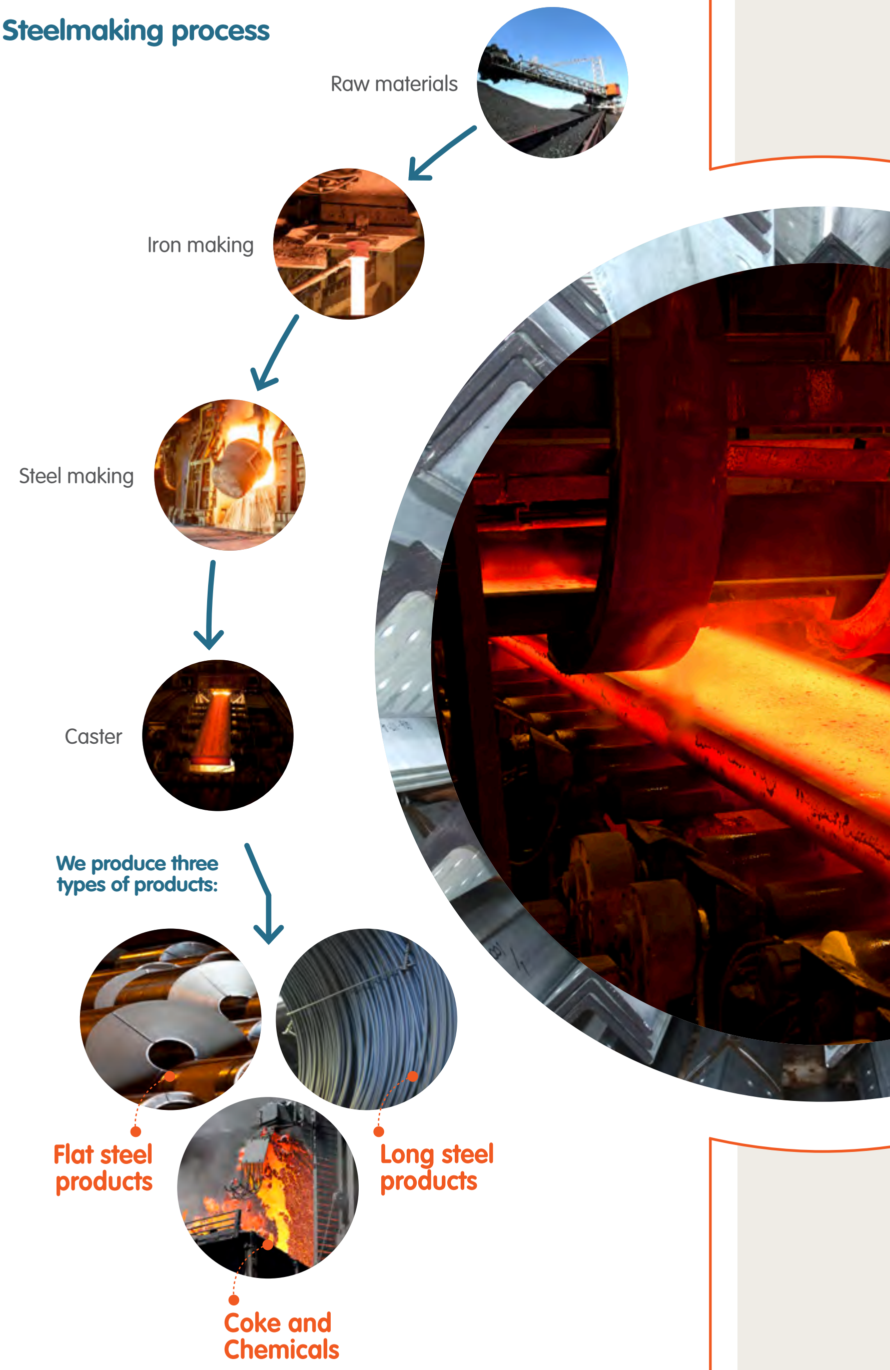
	2016	2017	2018
Equity+	R13 543m	R8 058m	**R7 961m**
Borrowings+	R1 950m	R6 400m	**R3 000m**

+ Externally assured.

Our working business model

We produce iron and steel, commercial coke and useful by-products in three provinces, in processes that sustain hundreds of thousands of jobs. This is our business model:

Steelmaking process



employees, government, suppliers, communities and customers – while proving that we are doing everything possible to minimise our environmental impact.

Outputs and outcomes

Financial capital

Sustainable profits throughout the steel cycle

Shareholders, investors, employees

In 2018 our company returned to profitability after several years of losses; without making sustainable profits we cannot create sustainable social and human value.

	2016	2017	2018
Revenue+	R32 737m	R39 022m	**R45 274m**
EBITDA+	R190m	(R315m)	**R3 608m**
Profit/(loss) from operations+	(R1 092m)	(R1 220m)	**R2 777m**
EBITDA margin	0.6%	(0.8%)	**8.0%**
Headline earnings/(loss) per share+	(244c)	(230c)	**89c**
Headline earnings/(loss)+	(R2 589m)	(R2 518m)	**R968m**

Human capital

Employees, contractors

We place the highest value on safety, all other values are subordinate to keeping our people safe.

In 2018 our total cost of employment per tonne rose by just 3.2%.

	2016	2017	2018
Safety: LTIFR+	0.62	0.66	**0.53**
Safety: Fatalities+	3	3	**1**
Salaries and wages+	R4 175m	R4 164m	**R4 493m**

Manufactured capital

Customers

Our flat steel prices are set taking into account a basket of prices prevailing in international markets.

	2016	2017	2018
Flat steel products sold	2 736kt	2 995kt	**3 098kt**
Domestic market	2 097kt	2 352kt	**2 242kt**
Export market	639kt	643kt	**856kt**
Long steel products sold	1 351kt	1 262kt	**1 393kt**
Domestic market	1 178kt	950kt	**1 095kt**
Export market	173kt	312kt	**298kt**
Coke and Chemicals			
Market coke	367kt	193kt	**158kt**
Tar	75kt	82kt	**81kt**
Other (mostly slag)	710kt	709kt	**650kt**

Social capital

Local communities, suppliers and HDSA businesses

We are committed to growing our socio-economic impact as we become sustainably profitable.

	2016	2017	2018
Socio-economic development+	R17.4m	R23.0m	**R14.0m**
Procurement spend	R27 789m	R29 058m	**R34 963m**
Taxes contributed	R837m	R968m	**R394m**
Procurement – QSE and EME	R2 750m	R2 170m	**R2 168m**

+ *Externally assured.*

Trade-offs

In 2018 our Transformation for sustainability and growth strategy prioritised our return to profitability and the generation of positive cash flows. However, as the discussion of our new turnaround drive on page 36 makes clear, this strategy is by no means about just growing our financial capital. Our people, our environment and our communities – and stakeholder interests – are integral to the new ArcelorMittal South Africa we are working to create. Inevitably, therefore, our strategic execution entailed a number of fundamental trade-offs. Here we highlight some of these most material trade-offs.

Manufactured, natural and financial capital

Our total capital expenditure was similar to that of 2017 but, at R105 million, spend on environmental controls (natural capital) was more than double that of the previous year. (This amount is likely to increase further in 2019.) Some 22% lower than that of 2017, our capital outlay (R860 million) on maintaining our manufactured capital was financial capital positive.

Social and financial capital

Selling our stake in Macsteel International Holdings (MIHBV) was cash positive to the value of R3.2 billion. Given our company's long association with Macsteel, we consider this investment to represent social and relationship capital. Largely using the proceeds from this transaction to pay down debt was financial capital positive in the short term (reducing our interest bill) but will mean that we forego possible dividend cash flows from our investment in this associate.

Human and financial capital

As our remuneration report makes clear – in 2018 we resumed most bonus payments. This negatively impacted financial capital but the board judged such payments to be essential to retaining critical technical and leadership skills and to improving employee morale – our stock of human and intellectual value.

Financial, human and intellectual capital

In the year reported, we again reduced spending on training, from R154 million to R140 million. Since 2015 our training and skills development expenditure has declined by over 30%. This was done to preserve, and grow, financial capital.

Social and financial capital

This year, to preserve financial capital, we cut socio-economic development spend from R23 million to R14 million. We did, however, grow enterprise and supplier development spend, by almost a third, to R30.4 million. Value-added export rebates declined 23%.

Financial and manufactured capital

The amount of capital we invested in expansion this year more than doubled, to R328 million. This sum included investments in re-opening the Vaal Melt shop, which will grow our manufactured capital.

Human and financial capital

In the 12 months since previously reported, our full-time employment positions declined by just 76 – virtually unchanged. (At Vanderbijlpark, however, the decline in full-time positions was over 6%.) Capping job creation translated into a total cost of employment which rose by only 3%.

Key sustainability indicators

Below we list some of our most important performance indicators, measurements we constantly monitor in order to evaluate our social, environmental and human impacts and value creation.

Key performance indicator	Unit	Year-on-year-change	2018
Making steel more sustainable			
Percentage of operations certified to the ISO 14001 standard	%	►	100
Greenhouse gases			
Direct carbon dioxide (CO_2) – Scope 1⁺	t/t liquid steel	▼	2.33
Indirect carbon dioxide (CO_2) – Scope 2⁺	t/t liquid steel	▼	0.58
Total greenhouse gas (CO_2 equivalent Scope 1 and Scope 2)⁺	t/t liquid steel	▼	2.91
Total greenhouse gas (CO_2 equivalent Scope 1 and Scope 2)⁺	mt	▲	14.84
Atmospheric emissions			
Sulphur dioxides (SO_2)	Tonnes	▲	26 833
Particulates from point sources	Tonnes	▼	2 895
By-products			
By-products generated	mt	▼	3.90
By-products disposed (% of total)	%	▼	34
Energy use			
Electricity (purchased)⁺	TWh	▼	3.07
Total energy consumption⁺	PJ	►	139
Electricity self-generated	MWh	▲	289 408
Material use			
Iron ore	Tonnes	▲	7 390 052
Coal	Tonnes	▼	4 011 047
Dolomite	Tonnes	▼	756 798
Limestone	Tonnes	▲	1 038 587
Scrap (consumed)	Tonnes	▼	779 427
Water			
Total fresh water intake	kℓ	▼	14 753 657
Fresh water intake per tonne of liquid steel	kℓ	▼	2.90
Investing in our people			
Employee numbers⁺ (permanent at year-end)	Number	▼	8 837
Employee and contractor fatalities⁺	Number	▼	1
Lost time injury frequency rate (LTIFR)⁺	per million hours worked	▼	0.53
Disabling injury frequency rate (DIFR)	per million hours worked	▼	0.85
Total injury frequency rate (TIFR)	per million hours worked	▼	6.91
Occupation disease frequency rate (ODFR)	per million hours worked	▼	0.16
Percentage of operations certified to the health and safety management system standard, OHSAS 18001	%	►	100
Number of hours of full-time package category employee training	Number	▲	80 285
Number of hours of full-time bargaining unit category employee training	Number	▼	233 032
Investment in employee training and development	Rm	▼	140
Proportion of above focused on black employees	%	▲	93
Investment in bursary scheme	Rm	▼	75
Graduates in training	Number	▼	26
Production learners	Number	▲	559
Apprentices	Number	▲	752

⁺ *Externally assured.*

2017	2016	Definitions	External assurance
100	100	ISO 14001 is an international standard for environmental management systems	
2.34	2.32	Direct CO_2 emissions	√
0.67	0.68	Indirect CO_2 emissions due to electricity consumption	√
3.01	3.00		√
14.71	14.30		√
21 623	22 881		
3 580	2 973		
4.23	4.13		
40	37		
3.26	3.14		√
139	131		√
237 154	209 632		
7 234 023	6 604 000		
4 055 568	4 104 000		
862 169	505 746		
814 589	556 957		
781 490	684 000	Externally procured and internally generated and recycled	
15 504 695	15 475 311		
3.16	3.24		
8 913	9 056		√
3	3		√
0.66	0.62	LTIFR is the number of fatalities and injuries that have resulted in an employee or contractor being away from work for at least one day after the day the accident occurred, per million hours worked	√
0.87	0.89	DIFR is the number of fatalities, lost time injuries and restricted workday case injuries per million hours worked. Restricted workday case injuries are recorded when the injured employee returns to work by their next shift and can complete meaningful tasks, but a restriction placed on them by a medical practitioner limits their ability to perform all of the tasks required of them	
7.66	9.50	All injuries (fatalities, DIFR, lost time injuries, medical aid and first aid injuries) per million hours worked	
0.18	0.02	Occupational diseases (work-related ailments) per million hours worked	
100	100	OHSAS 18001 is an international standard for health and safety management systems	
74 266	133 794	Number of hours of full-time package category employee training. This includes health and safety training	
308 888	378 778	Number of hours of full-time bargaining unit category employee training. This includes health and safety training and on-the-job training	
154	184		
71	67		
83	56		
32	30		
414	418		
743	546		

Materiality, strategy and risk

Under a new CEO, from February 2018 we began a concerted drive to fundamentally transform our company. As the strategic discussion in much of this report makes clear, our Transformation for sustainability and growth strategy was largely informed by the urgent need to address and mitigate the substantial risks to our company's sustainability. Therefore, as we have reported in recent years, this year materiality and risk were again inseparable and informed, at all times, our leaders' strategic thinking.

In executing our strategy to achieve the outcomes required of our ambitious transformation strategy, our most material issues this year were:

- Workplace safety
- Solvency and liquidity
- Input and fixed costs
- Maintaining – and enhancing – our social licences to operate
- Customer focus and market development
- Developing the skills and aptitude of our employees
- Environmental performance
- Optimising our production processes

Our new leadership identified achievement of five objectives as being most material to our transformation. These material objectives were:

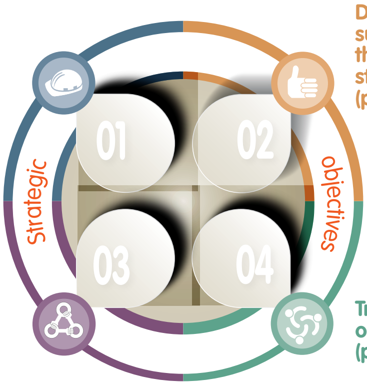
- Being a responsible, proudly South African company, and recognised as such
- Operational excellence
- Inculcating a culture of innovation and agility
- Customer-centricity
- High-performance people

Progress towards achieving each of these objectives will transform – and substantially de-risk – ArcelorMittal South Africa. These objectives formed the basis of our strategy and derived from the material issues affecting the business, including the key risks.

Determining materiality

This report seeks to explain how execution of our strategy and our governance practices created value in the year reported – and is likely to do so into the future.

To this end we report performance against our most material objectives in the following sections:



We formulate our key strategic objectives by answering the questions:

What are the most material issues we must address in order to create value into the future, and what issues matter most to our stakeholders?

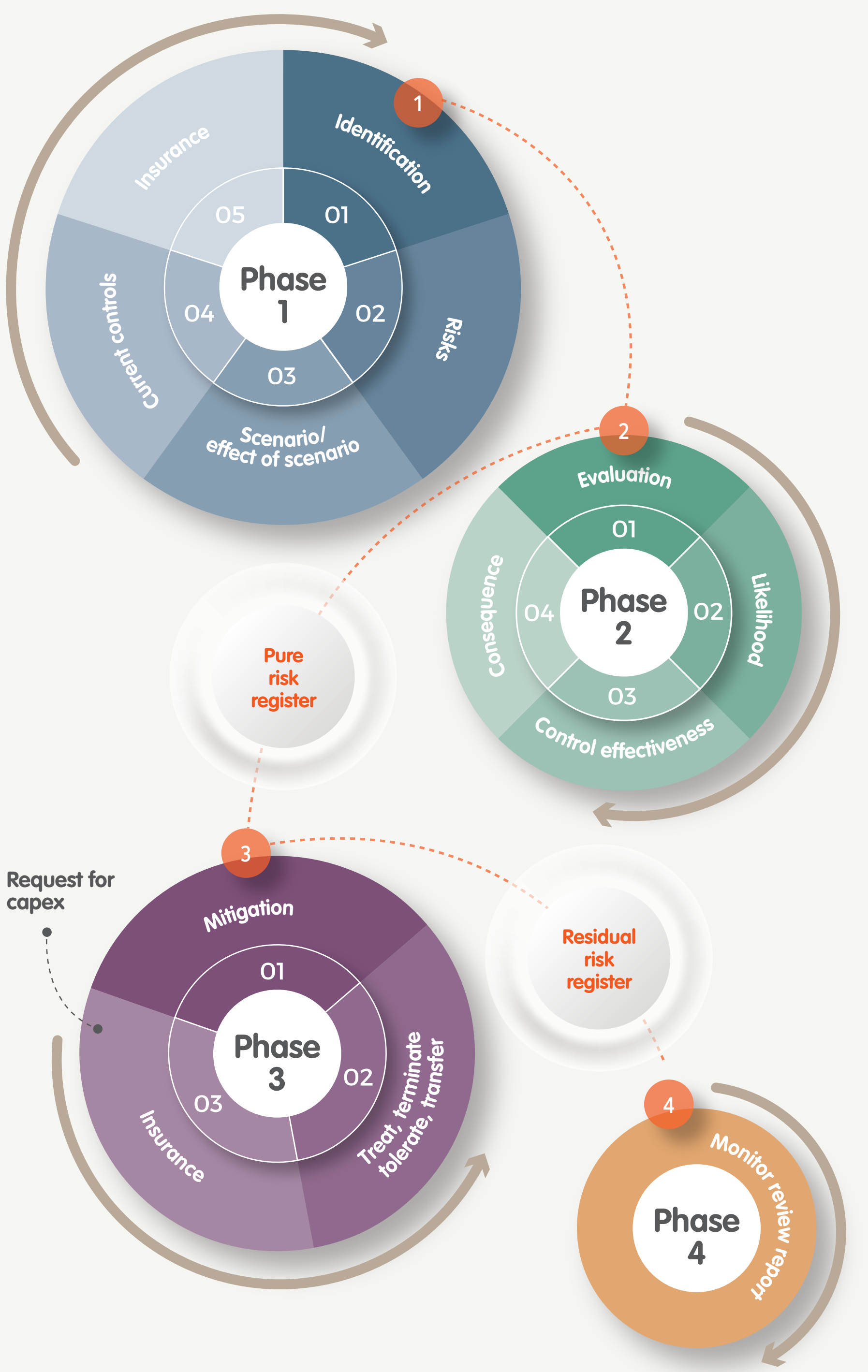
Our mission and values embed safety in our DNA. Safety is non-negotiable and is always placed above any other consideration or issue; any strategy or action that compromises our ability to keep our people safe compromises our values. As we report on page 39, in 2018 we took steps to empower employees at all levels, throughout the organisation, to assume greater responsibility for day-to-day workplace safety.

The board and transformation, social and ethics committee regularly review the quality of stakeholder engagements. Our licences to operate derive from multiple stakeholders. We have developed a stakeholder engagement matrix to prioritise engagements with key stakeholders and to monitor the effectiveness of these engagements.

In addition to the concerns of stakeholders, we consider the macro-economic, political, social, legislative and regulatory environments in which we operate and do business, as well as the risk register, which is informed by our ongoing enterprise risk management systems and is overseen by the audit and risk committee.

The board considers risk to be integral to its decision-making and to the formulation of policy. In 2017 we began to formally capture, quantify and manage 'upside risks' – significant opportunities. This process was further developed in 2018.

Risk management process, reporting framework and organisational structure



The top 10 risks facing our company in 2018 (compared to 2017) were:

Risk 1
Solvency and liquidity
2017: Risk 1

Risk 2
Operational stability
2017: Risk 3

Risk 3
Environmental performance
2017: Risk 10

Risk 4
Spread risk
2017: Risk 4

Risk 5
Foreign-exchange exposure
2017: Risk 2

Risk 6
Safety performance
2017: Risk 9

Risk 7
Decrease in market demand
2017: Risk 5

Risk 8
Increased imports
2017: Risk 6

Risk 9
Increased input costs
2017: Risk 8

Risk 10
Insufficient input material supply and quality of input material
2017: Risk 7

Materiality, strategy and risk continued

Enterprise risk management (ERM)

ArcelorMittal South Africa's ERM process is a formal response to corporate risk. It is a structured and systematic process that is interwoven into existing risk management structures and responsibilities. The term ERM refers to the process which responds to every conceivable type of risk in every part of the company. The concept of ERM proposes one consistent framework for responding to risk. ERM addresses the dilemma that risks do not fall neatly into conventional risk silos, and as such may go unmanaged with serious consequences. The integrated approach followed by ArcelorMittal South Africa allows management to compare risks on common scales and within a consistent framework.

Our ERM process is aligned with world best practices, the King IV code, the ISO 31000 and ISO 22301 standards and ArcelorMittal group risk management policies and practices. Our risk management policy was revised in 2018 and approved by the board. The objective of our ERM process is to enhance our ability to manage the uncertainties faced by our business, especially in a depressed South African economy. In the long run this will create greater confidence in the company's capacity to seize opportunities, alleviate risks and achieve sustainable successes.

Our board is ultimately responsible for risk management and has an audit and risk committee which oversees risk policies and strategies. Risk management reports, containing, *inter alia*, the top risks for the business in different categories, are provided to, and discussed by, the executive committee, audit and risk committee and the board. Top risks are also reported to the ArcelorMittal group risk committee via the group enterprise risk manager.

With the implementation of the business transformation programme in 2018, risk management is of utmost importance not only to identify and reduce/mitigate those risks which can have a negative impact on reaching business transformation targets but also to identify opportunities that will contribute towards reaching these targets.

The board bears responsibility for Information Technology (IT) governance while delegating to management implementation of the IT governance framework. An IT risk management report, containing the top IT-related risks in different categories, is provided to, and discussed at, the audit and risk committee. As with most other industries, concerns about increased cybersecurity threats (including the security of sensitive information) receive considerable attention.

To reduce concerns related to cybersecurity threats, work was done this year to introduce a security operations centre (SOC) for the monitoring and proactive alerting/addressing of cybersecurity-related incidents. Assessments and audits were also conducted on our current risk-management maturity level. Based on the result of these, a cybersecurity strategy was drafted and presented to the audit and risk committee.

Research has shown that operational technology (OT) systems are being targeted more frequently than the traditional information technology (IT) systems. Due to this fact, an investigation was conducted to, firstly, identify the most vulnerable OT systems, and, secondly, to identify what actions needed to be taken to reduce the vulnerability of the identified OT systems. The results of this research were presented to the audit and risk committee and to management teams to ensure commitment to addressing the issues.

Risk management is structured around the following functional risk areas: operations (including assets, health, safety and environment), information management, finance, procurement and logistics, sales and marketing, human resources and legal and compliance. The risk-management process is divided into four distinct phases as per the graphic on the previous page. The link between the risk database and the capital process, which allows for risk-based budgeting and capital allocation, as well as the combined assurance process, is built into the risk process so as to audit current control effectiveness.

We actively participate in risk and insurance webinars where lessons learned and best practices are shared with other facilities within the ArcelorMittal group. These programmes – sharing best practice with some of the world's best steel producers – contribute towards the ongoing improvement of our risk management process. The ArcelorMittal South Africa risk manager is part of the global risk steering committee which is driving improvement actions for the group by using local knowledge and skills.

To ensure that the risk management process remains current and in line with best practices, several initiatives are pursued by the company. The following highlights the main enterprise risk management focus areas including continuous risk improvement initiatives in each area.

Combined assurance

The combined assurance process was fully implemented and embedded in 2017 with further enhancements being made in 2018. Combined assurance audits were done throughout the year on the top risks with focused audits on the top risks being reported to the board in October.

Global assurance again conducted an audit on the combined assurance process in November. Improvements identified by the audit will be implemented.

This year control-effectiveness audits were done on top strategic, asset and IT risks. Supporting documentation was uploaded to the risk database with global assurance auditing the process and the effectiveness of controls in November.

Application of King IV code (risk and opportunity)

The company actively adheres to the principles set out in the King IV code. With the risk management process sufficiently embedded, from 2017 the company pursued the identification and evaluation of the upside (opportunities) as per the King IV code.

At ArcelorMittal South Africa, opportunities have been broadly defined as follows:

Strategic opportunities
The long-term survival of any company is not only dependent on maintaining the status quo but also requires that the company pursue different strategic opportunities. Examples of such opportunities in our case include:

- The opening of the Evraz Highveld Steel heavy structural mill to capture long steel market opportunities which could not be produced by our current operational facilities
- Thabazimbi iron ore mine re-opening with the potential to beneficiate run-of-mine material and to further explore iron-ore mining opportunities
- Vereeniging Vaal Melt shop re-opening, which will assist in debottlenecking our Newcastle operations by reallocating volumes to the Vaal Melt shop and aligning operations with market requirements, subject to certain assumptions about electricity costs
- Undertaking a feasibility study into the opportunities which a new large electric arc furnace (EAF) would present for our Vanderbijlpark operations.

Availability of capital, market assumptions and other factors may influence the decision-making processes, thus some opportunities may not be pursued based on any, or all, of these factors.

Strategic risks which present opportunities
The impact of the company's strategic risks is calculated on the basis of both 'most credible impact' and 'best-case impact'. In some instances, best-case impacts present opportunities. Examples are foreign-exchange exposure and market demand.

Project-related opportunities
Risks and opportunities on significant capital projects are identified. Opportunities are listed (and assessed). Examples are the use of local steel in project execution, or the use of local labour when placing contracts with international companies.

Operational risks which present opportunities
Operational risks (downside) are identified and assessed based on their likelihood and consequence.

The risk database has been adjusted to also indicate upside risks, thus allowing the company to identify opportunities which may be presented in downside risks. For example, when identifying a risk of obsolete systems, the opportunity exists to develop or implement new technology which can be used across ArcelorMittal South Africa.

OUR SOCIAL IMPACT

The fabulous Miss Fabulous

All across the West Coast of South Africa, schools know Siphosethu 'Dudu' Legoabe as 'Miss Fabulous'.

All the time, teachers and learners are clamouring to get this dynamic, bubbly 32-year-old to come to their schools, to share with them her infectious, sometimes riotous love of all things scientific.

Miss Fabulous is an outreach specialist based at the ArcelorMittal South Africa Science Centre in Saldanha. She's based there but most of the time she's on the road: travelling up and down the West Coast, reaching as many as 7 000 young people each year with shows that entertain, that amaze and, most importantly, that educate.

On almost any given school day, Legoabe performs in front of open-mouthed learners, using liquid nitrogen 'bombs' to scatter plastic balls all over the place and making glasses of water miraculously change colour.

'I don't like to call what I do magic shows,' Legoabe laughs, 'because there is good, solid science behind what I do and show the kids.'

As well as doing fun science shows, Legoabe presents curriculum-based workshops. 'After reading the textbooks and having lessons, I come in with my gadgets so that the learners can touch and feel the science.'

It was a similar science centre, in Cape Town, that hooked the then Khayelitsha schoolgirl back in 2006. She was so enthralled by what she saw at that science centre that she volunteered, day after day, to go back as an unpaid volunteer. 'I knew right away that I wanted to be in the field of science', Legoabe says. 'To this day, this is why I get up in the mornings: to see the smiles on those young faces – hopefully the faces of our future scientists and engineers.'

Proactive risk assessment

In 2017 we started to use bow-tie analysis (delineating proactive and reactive risk management actions) in high-risk exposure areas such as casters and coke batteries. Various sessions were held with identified improvement opportunities being prioritised and implemented.

Additional bow-tie risk identification sessions were held at areas with high probable maximum loss (PML) exposures. These include the hot strip mill hydraulic and cable basement at Vanderbijlpark and the blast furnace in Newcastle where we not only focused on the risk of a burn-through but also on structural risks at the cast-floor and tuyere belt. Current controls to prevent these risks from materialising were identified, tested and monitored with additional controls identified to address concerns.

Additional benefits of these exercises were the sharing of improvement initiatives within ArcelorMittal South Africa and the group to minimise or eliminate risks in similar areas.

Maintenance governance

One of the initiatives forming part of the first wave of the business transformation programme (see page 36) is to identify and implement improvement opportunities in the maintenance environment. Part of this initiative is a 'plant restoration programme'. This entails the restoration of equipment back to its original condition/design. A phased approach is taken, starting with high-risk plants/areas.

These initiatives will contribute towards operational stability and thus help to address one of the company's top risks – operational stability.

Project risk management

Project risk management, an ongoing focus area in 2018, has become part of the culture of the business. All major projects, or projects with significant risks attached, go through a structured project risk management process facilitated by risk specialists. Project risks and opportunities are identified for the different project stages and are updated at a frequency determined in conjunction with project teams during the project lifecycle.

Identifying opportunities as part of project risk management has received increased focus since 2017 – due to both a drive from internal risk specialists and the governance requirements of King IV – and will be a continued focus area going forward.

Risk management application database

The internally developed risk management database is used to register all risks identified at ArcelorMittal South Africa. The database is an established risk management tool with the following advantages:

- Uniformity in the application of the risk management process and risk assessment methodology
- An aligned, structured approach to risk management
- Alignment in reporting
- Tracking of changes
- Security of information
- Ease in collaboration of identified risks (reduction in administrative burden)
- Seamless integration with the capital expenditure database
- Integration with combined assurance principles.

Learnings from benchmarking exercises and the constantly evolving risk management discipline informed the implementation of changes to the risk management process and database. A phased approach was adopted with the following main changes:

- Implementation of an expanded (detailed) assessment process for ease of prioritisation
- Changes in the assessment parameters to align with international standards
- Inclusion of a 'hierarchy of controls' to align with international standards and assist in the identification of mitigation actions.

Insurance

Our insurance department, with the assistance of external consultants and using recognised international procedures and standards, undertakes regular loss-prevention audits of all plants and operations.

ArcelorMittal group changed its loss survey consultants in 2018. The decision to change the loss surveyor was mainly driven by the fact that the previous service provider was no longer independent as it had been bought by one of the group's asset insurance companies (Axa-Matrix). Paragon Risk Engineers was appointed to do loss surveys and visited our three main operational sites in 2018. HDI Global, our lead asset insurer, again joined the loss survey in Vanderbijlpark. With Paragon visiting our operational sites for the first time, the intent of the surveys was as follows:

- Learn and understand the intricacies of our operations
- Do a clean-up of the current recommendation report
- Identify new recommendations to assist in reducing our risk exposures and
- Update the current loss survey report as had been written by Axa-Matrix.

We have an insurance programme in place which is underpinned by an approved insurance policy which provides insurance cover for losses above agreed deductibles at competitive costs (measured and determined both locally and abroad). Insurance cover is, in principle, risk-based as is outlined in the policy. In 2018 our insurance policy was also revised and approved by the board.

The major change to our insurance programme in 2018 was the dissolving of our ring-fenced cell in the Ferrosure Isle of Man (FIOM) captive. The proceeds of the cell were received in H1 of 2018. Group also moved the captive from FIOM to Luxembourg. The new arrangement whereby ArcelorMittal South Africa does not have a ring-fenced cell but participates in the captive, did almost half its self-insured retention.

Good risk management practices and vigilance by operations have reduced insurable incidents to such an extent that the company has been claim free since February 2013. This improved the company's insurability, leading to an approximately 50% reduction in asset insurance premiums over the past five years.

OUR SOCIAL IMPACT

Abel and willing

Abel Radebe almost literally grew up on a rubbish dump, as a youngster he would daily scavenge a sprawling, smelly refuse site in Boipatong in the Vaal Triangle for salvageable, recyclable materials.

Living next door to the dump, his grandmother (in 2018 aged 101) showed young Abel the fundamentals of the scrap business. The old lady worked day and night sifting through the stuff discarded by richer individuals and businesses, stuff that she could rework to put food on the table.

Occasionally there was precious copper wire to be melted free of its plastic sheathing, more often there were aerosol deodorant cans to be melted down. One day one of those cans exploded in the face of the youngster. "I'm serious: I grew up on a rubbish dump. If you don't believe me, look at the scars I got that day," the now 42-year-old smiles, pointing to the scars on his face and arms.

Today Radebe is the biggest shareholder in a black-owned business that turns over almost R140 million a year, a business that employs 14 people full-time and often hires another 10.

Radebe got through school and he got off the rubbish dump. And then he went to study further. No sooner had he finished his studies than he returned to bitterly poor Boipatong.

On getting back to the township, Radebe's first undertaking was to set up a non-profit company called Business and Job-seekers Organisation (BJO), an NGO dedicated to fostering black economic emancipation – and getting black businesses to give back to their own communities. (Today his business, Boipatong Scrap Metal Consortium (BSMC) still contributes a percentage of its net profits to BJO.)

BSMC has premises at ArcelorMittal South Africa's new business park in Vanderbijlpark, premises that are equipped with a R750 000 weighbridge which the steelmaker paid for. Collecting, preparing and supplying scrap steel is a technical undertaking requiring investment and economies of scale. And skills.

At the end of 2018, Radebe was about to graduate from the Matlafatso business incubator where he had received two years' worth of business training, mentoring and development.

BSMC is part of the ArcelorMittal South Africa supply chain but counts other major local manufacturers among its clients. Radebe's company has grown its business model, and its job-creating and socio-economic development potential exponentially since being registered in 2015 and a great deal of that growth, he says, is thanks to ArcelorMittal South Africa.

"If it weren't for AMSA I would not be part of the South African steel industry," **Radebe says.** *"We came to them with nothing, with just an idea. Now we're delivering 2 000 tonnes of quality scrap steel a year. Thanks to AMSA we've created an asset of real value out of nothing more than an idea. I like to think my grandmother is proud of what we've achieved, thanks to ArcelorMittal South Africa."*

Business continuity management

The business continuity management (BCM) policy we have implemented is aligned with world best practices, the King IV code and the ISO 22301 standard.

Business continuity plans are implemented according to the risk profile of the company. This year the BCM policy was revised and approved by the board. We have also begun a gap analysis and a detailed revision of one operation's business continuity plans. The process followed – and lessons learnt – will be used to update operational business continuity plans at other sites.

Compliance risk management

In 2017 a compliance risk management framework and compliance operating procedures were adopted by the board, two years after the process for their development was first initiated. Also last year, a compliance officer and compliance champions were appointed, undergoing extensive training.

Areas of particular focus for the compliance function in 2018 included:

- Compliance training
- Contracting, including improving understanding and the legal obligations of those managing contracts
- Information management including the Protection of Personal Information Act and General Data Protection Regulations (GDPR).

As was the case in recent years, competition law continued to be a major compliance focus, and, from a business perspective, environmental and safety and health performance.

Asset risk management

A comprehensive risk management process is in place to assess, prioritise and address our asset risk exposures, this process being directly linked to the capital process to ensure that risk-based capital allocation is prioritised to address exposures that are threats to the business. The asset risk management process strongly supports the business transformation process as operational stability is key to reach, for example, debottlenecking targets.

In the past five years significant asset risk mitigation actions were undertaken. At Newcastle these included:

- Blast furnace reline
- Stove refurbishment
- Sinter plant reline
- BOF flare stack repair
- N2 coke oven battery refurbishment

In 2018 the most critical risks identified in the previous year were addressed:

Water supply

The restriction of water supply risk in Saldanha was mitigated by installing a sewage water cleaning plant to obviate the buying of water.

Stove failure

Installing a new stove at Vanderbijlpark's Blast Furnace C stove 9, at a total cost of R140 million.
With the stove 9 risk mitigated, all other stoves at Newcastle and Vanderbijlpark were assessed and action taken to address exposures.

Largest asset risk-mitigating items in 2018:

R117 million

R82 million

R84 million

R31 million

Outlook for 2019

In the year ahead we will focus on improving the robustness of risk management by, among others, implementing the top recommendations as per the loss survey reports from Paragon, using lessons learned from group and other companies to reduce our risk exposures (for example, fires on conveyor belts, fires in motor control rooms, structural failures), improving and testing our operational business continuity plans to mitigate the impact of a disaster. After acquiring Thabazimbi iron ore mine in 2018, we will also focus on the identification and mitigation of risks in this entity including risk-transfer options.

The implementation of the cybersecurity strategy will continue to improve the maturity of our cybersecurity controls.

Most significant risk exposures

The top strategic residual risks as identified through our ERM process, which could impact our sustainability, are detailed here.

Perceived likelihood		Perceived impact: Negligible (Below USD4 million)	Minor (USD4 to USD10 million)	Moderate (USD10 to USD50 million)	Major (USD50 to USD200 million)	Critical (More than USD200 million)
Rare: very unlikely to occur during the next 12 months	Below 15%					
Not impossible: to occur during the next 12 months	15% - 30%					
Possible: can be expected at least once in the next 12 months	30% - 50%			Risk 7, Risk 8, Risk 9		
Likely: to arise once during the next 12 months	50% - 90%			Risk 10	Risk 1, Risk 2, Risk 3, Risk 4, Risk 5, Risk 6	
Almost certain: will occur several times during the next 12 months	Above 90%					

Risks:

- Risk 1 – Solvency and liquidity
- Risk 2 – Operational stability
- Risk 3 – Environmental performance
- Risk 4 – Spread risk
- Risk 5 – Foreign-exchange exposure
- Risk 6 – Safety performance
- Risk 7 – Decrease in market demand
- Risk 8 – Increased imports
- Risk 9 – Increased input costs
- Risk 10 – Insufficient input material supply and quality

Measures taken to mitigate our top strategic risks

No	Risk name and context	Control details (Controls currently implemented)	Action details (Additional actions being considered or planned)	Transformation for sustainability and growth impacts
1	**Solvency and liquidity** A decline in markets due to minimal local infrastructure spend, growth in imports as well as a decline in steel prices could lead to severe cash pressure for the company. Sufficient cash/ facilities are crucial during the current trying times	Sale of Macsteel International Holdings BV (MIHBV) concluded Borrowing-based facility True sale of receivables (TSR) programme Subordinated loan facility with ArcelorMittal group Supplier financing programme Cash initiatives Import tariffs implemented Designation of steel in certain sectors Flat steel pricing model Safeguards on hot rolled coil Resetting of the tangible net worth covenant concluded in June 2018	Business transformation programme implemented to drive cost reduction Ongoing inventory (working capital) management Expansion of working capital facilities Ongoing sale of non-core assets	Strategy to reduce cash cost by USD50/t, commercial strategy (see pages 36 and 37)
2	**Operational stability** Incidents causing operational instability leading to a loss of production are a risk not only to the profitability of the company but will also impact customers, which may prompt them to seek alternative supply, increasing the risk of imports or loss of local market share	Tracking of plant KPIs Reliability programmes (including root cause analyses) Maintenance plans Skills development Operational procedures Quality control on input materials	Business transformation programme has a strong focus on maintenance practices Implementation of actions to reduce asset risks through prioritised capex plan Increased focus on process safety and passive plant protection Focus on current control effectiveness Adherence to company processes and procedures Plant restoration programme	Debottlenecking and improving maintenance (see pages 40 and 41)

No	Risk name and context	Control details (Controls currently implemented)	Action details (Additional actions being considered or planned)	Transformation for sustainability and growth impacts
3	**Environmental performance**			
	Poor environmental performance could have a significant impact on the company, leading to penalties, prosecution or even plant closures	Environmental projects implemented, eg waste disposal site (Vanderbijlpark), BOF slag disposal site, refurbishment of coke battery number 2 and blast furnace cast house baghouse (Newcastle) Sinter bag house optimisation (Vanderbijlpark) Sinter ambient project Ongoing air emissions, water quality and waste monitoring as required in licences Additional environmental-governance meetings Remediation to address groundwater pollution (Vanderbijlpark) Waste site (Newcastle).	Individual action plans to partially remediate with capital provision for air, water and waste Top projects – air: – Coke-making by-products plant (Vanderbijlpark) Top projects – water: – Storm-water treatment plant (Newcastle) – Further remediation to address groundwater pollution at Vanderbijlpark, Vereeniging, Newcastle and Pretoria Top projects – waste: – Phase 2 of metallurgical waste disposal site (Vanderbijlpark) – Solid waste disposal site and slag disposal site extension (Saldanha)	Human capital, environmental, citizenship (see pages 44 and 46)
4	**Spread risk**			
	An increase in the raw material basket without a concomitant increase in steel prices leads to margin squeeze, impacting profitability	Market intelligence on pricing parameters Fair pricing basket, as agreed with government, implemented for flat steel Contracts in place with key suppliers defining price and/or pricing mechanisms	Source cheaper input material Source better quality material with higher iron content to reduce costs and increase value in use Business transformation programme to reduce costs Optimisation programme to review goods and services agreements	Business transformation programme, procurement and logistics (see pages 36 and 41)

Measures taken to mitigate our top strategic risks continued

No	Risk name and context	Control details (Controls currently implemented)	Action details (Additional actions being considered or planned)	Transformation for sustainability and growth impacts
5	**Foreign-exchange exposure** With a significant portion of EBITDA costs being rand-based and revenue 100% dollar derived, the company is exposed to fluctuations in the exchange rate	EBITDA protected by hedging US dollar sales	Investigate alternative hedge positions	USD50/t reduction in cash cost (see page 41)
6	**Safety performance** Non-compliance and non-adherence to fatality prevention standards (FPS) and unsafe acts and conditions may potentially lead to lost time injuries and fatalities	Driving adherence to FPSs Shop-floor audits Management presence on the shop floor OHS Act compliance audits	Proactive management of number of serious occurrences and potential to cause serious injuries or fatalities. Driving FPS standards – level 3 at all sites at end 2018 Establish and implement a caring approach on the shop floor Drive adherence to statutory safety requirement	Human capital, environmental and citizenship (see pages 38 and 39)
7	**Decrease in market demand** Global oversupply of steel puts pressure on steel prices. This, together with lower domestic economic activity and local long steel competition, contributes to market demand declining	Entry into heavy sections (Evraz Highveld Steel) Import safeguards Designation of steel in certain sectors	Pursuing growth in the Africa Over Land market Pursue prescription of local steel to achieve localisation Engagement with key customers to improve service Actively pursuing downstream trade protection	Commercial strategy (see pages 42 and 48)
8	**Increased imports** Different competitive actions within the market are threatening our market share. Imports, particularly from China, are the main concern	Monitoring of market activities and review of strategies accordingly Improved customer service and reliability Feedback from customers and developing account plans accordingly (target market approach) General import tariffs on 10 products Safeguards on hot rolled coil	Sales team to improve customer service Supply stability by continued focus on improvements, maintenance and operational expenditure requirement	Human capital, environmental and citizenship Public-private partnerships (see pages 42 and 49)

No	Risk name and context	Control details (Controls currently implemented)	Action details (Additional actions being considered or planned)	Transformation for sustainability and growth impacts
9	**Increased input costs**			
	Higher and rising costs of material, services or transport not compensated by increases in steel prices could lead to margin squeeze with a resultant bottom-line impact	Contracts in place with key suppliers defining price and/or pricing mechanism Weekly stock-planning meetings Target stock days Optimise internally generated material (for example, scrap) Avoid take-or-pay contracts Strategic partnerships Increased Africa/alternative supply Leakage-prevention initiatives	Base volume to be negotiated on road – thus focusing on sustainable logistics performance Raw material price negotiations (eg iron ore)	Business transformation programme Commercial strategy (see pages 36 and 48)
10	**Insufficient input material supply and quality of input material**			
	Input material disruptions due to factors such as insufficient stockholding, Transnet Freight Rail (TFR) inefficiency, supplier disruptions or incidents or even the quality of input material could result in plant stoppages/disruptions with resultant production losses	Internal logistics improvement plan to address turnaround times Road transport as alternative to rail Monthly forum with TFR Inventory management Daily, weekly and monthly planning meetings Integrated transport plan Logistics operations centre Alternative supply of critical input material Maintain safety stock levels to serve as contingency	Joint optimisation project between management of ArcelorMittal South Africa and TFR to improve service delivery Investigation into potential technical solutions at each plant Potential re-activation of Thabazimbi iron ore mine to mitigate high alumina levels from Beeshoek and Sishen	Business transformation programme Public-private partnerships (see pages 36 and 49)

Our strategy, stakeholders and creation of value

Here we give an overview of how execution against our key strategic objectives addressed our most material issues and key risks, how our actions impacted stakeholders and against which key indicators we measure our performance.

	Towards zero harm	Delivering sustainable profits throughout the steel cycle		
Material issues	Workplace safety	Solvency and liquidity	Input and fixed costs	Customer focus and market development
Top risks	Risk 6	Risk 1, Risk 2, Risk 3, Risk 4, Risk 5, Risk 7, Risk 8, Risk 9	Risk 1, Risk 4, Risk 5, Risk 9	Risk 1, Risk 2, Risk 5, Risk 7, Risk 8
KPIs	KPI 1, KPI 2, KPI 3	KPI 4, KPI 6, KPI 8, KPI 9, KPI 14	KPI 4, KPI 5, KPI 7, KPI 8, KPI 14	KPI 4, KPI 5, KPI 6, KPI 7, KPI 8, KPI 10
Key 2018 strategic actions	Focused on identifying and reporting serious occurrences/potential to cause serious injury/fatalities (SOs/PSIFs) including 'closing the loop' on hazards Heightened safety communication Focus on contractor safety performance	Reset, with lenders, the level of the tangible net worth covenant on the borrowing-based facility Sale of Macsteel investment Unlike 2017, this year employees received bonuses and package-category employees increases	Focused on reducing industrial products, services and maintenance by renegotiating contracts Rebased and renegotiated service and supply contracts Dynamically switched logistics between rail and road	Developed new market niches and products and pricing methodologies Deployed additional human resources to growing export markets
Stakeholders impacted	– Employees – Contractors	– Shareholders – Lenders – Suppliers – Employees	– Shareholders – Suppliers – Employees	– Customers – Employees – Shareholders
Outcomes and impacts	**By most key measures and KPIs our people were safer in 2018. However, our performance on keeping contractor employees safe was mixed**	**The Macsteel transaction strengthened our balance sheet by reducing our debt, improving the company's sustainability. At year-end the balance on the borrowing-based facility was R300m (2017: R3.4bn)** **Better remuneration improved our prospects of retaining valuable and scarce human capital**	**Renegotiated contracts were strongly financial capital-positive but negative for some suppliers in the short term** **Hauliers benefited from greater road-freight volumes**	**Substantially increased export revenue** **Greater flexibility on volumes and pricing boosted customers' competitiveness** **While improving, on-time delivery rates remained mostly poor**

	Being a valued, responsible corporate citizen		Transforming our culture
Optimising our production processes	**Maintaining our social licences to operate**	**Environmental performance**	**Developing the skills and aptitude of our employees**
Risk 2, Risk 9, Risk 10		Risk 3	
KPI 7, KPI 8, KPI 14	KPI 11, KPI 12	KPI 13	
Scoped and launched a business transformation programme which included key debottlenecking initiatives and process improvements Vaal Melt shop restarted (January 2019) Began implementing measures to de-risk Newcastle	Actively grew procurement from EMEs and QSEs and black- and black women-owned suppliers Maintained ESD spend despite financial constraints Reported regularly to regulators and government on flat steel pricing and capital expenditure	More than doubled environmental capital expenditure Completed R71 million repairs to Newcastle's blast furnace cast house	Grew the training pipeline. Largely maintained personnel training despite budgetary constraints
– Employees – Shareholders – Suppliers	– Communities – Suppliers – Employees – Shareholders	– Communities – Regulators – Suppliers – Shareholders	– Employees – Shareholders – Government
Greater control and predictability over costs will positively impact business sustainability, improving prospects for employees, contractors, suppliers and communities **Newcastle recorded a significantly improved financial performance** **Vaal Melt shop re-opening will benefit customers through greater variety and availability of product**	**Our compliance score declined from Level 3 to Level 5 because of the effects of amended codes on certain suppliers. This will sharpen our focus on potential and existing suppliers' levels** **Our socio-economic development spend declined by almost 40%**	**Environmental capital spend will limit our environmental impacts but from 2019 is likely to be increasingly financial capital-negative** **Communities and suppliers of costly equipment will benefit**	**Employees better equipped to deliver on transformation objectives**

Message from the chairman

A year of optimism

I write this message at the conclusion of a year of upheavals, challenges and setbacks but one which I believe marked a significant, positive, turning point – for our country, economy and company.

I leave it to the chief executive officer and the chief financial officer to offer appropriate insights into our ongoing plans and strategy to transform the company as well as to reflect on achievements so far.

For several years I have espoused the view that ArcelorMittal South Africa is of cardinal importance not just to tens of thousands of individuals who depend on it for employment but also to our national economy. Since joining the board of directors in February 2013, I have stressed the fundamental value of a primary steel sector. This is a sector which underpins our country's economic ambitions and the hopes (which we all share) of South Africa's continued industrialisation which will enable us to create and sustain employment for, especially, our youth. (Only last year, in my chairman's message, I made the point that South Africa's top five steel-consuming industries accounted for no less than 15% of GDP.)

It was therefore gratifying to note what the official communiqué from the South African Investment Conference – led by HE President MC Ramaphosa in October – had to say about our iron and steel sector. That document, *The case for investing in South Africa*, laid out a compelling, 90-page argument for why local and international investors should find renewed belief in the economic opportunities that exist in South Africa.

The report noted that South Africa 'has the most established metals sector in Africa, hosting major international, vertically-integrated mining firms . . . as well as ArcelorMittal South Africa in the steel value chain'.

It went on to point out that the basic iron and steel sector had achieved average annual growth rates of 6.1% since the 2008 recession year and that 'the value-add of the metal products sector, which has a high export propensity, has now exceeded pre-GFC [global financial crisis] levels in real terms'.

Why iron and steel matter

An accompanying graph confirmed the stellar export performance which the basic iron and steel industry had achieved in recent years, eclipsing even those of basic non-ferrous metals and 'metal products excluding machinery'. (In reporting on our performance in 2018 we note, with some satisfaction, a growth of 37% in the value of our export sales.)

Being singled out (and even named) in this way reflects the importance which those entrusted with public office and with leading our country attach to our industry and to our company. This is both humbling and challenging. As much as our stakeholders in government and the public sector recognise our importance, they also recognise our potential to create tremendous economic and social value – and they expect us to use that potential to aid economic growth by adding substantial value.

In this message I therefore wish to express my appreciation to those who, in many fields and in many ways, have supported ArcelorMittal South Africa during some very trying times – and whose expectations of us we are increasingly hopeful of meeting.

The investment summit to which I refer was aimed at unlocking USD100 billion worth of investment in South Africa over the next five years (more than 25% of which amount has already been raised). This sends a strong signal about business confidence in the economy and in the leadership of HE President Ramaphosa (who we again congratulate on his appointment as president in the year under review). We declare our support for the new direction in which the president is leading our country; our company's commitment is demonstrated by our participation in the YES Programme and linking our growth plans to the outcomes envisaged by the National Development Plan.

Investing for common benefit

As the integrated report makes clear, we are committed to continuing to invest very large amounts in our own production capacity (specifically R1 366 million in the year reviewed) and in the capacity and viability of the domestic steel downstream. (At the same time, we acknowledge those officials whose timely interventions to protect our industry from unfairly subsidised imports and to foster local industrial activity were so vital to the good-news story we are able to tell today.)

The industry's downstream – our customers – are, first and foremost, the people on whom we depend for our survival and growth. Directors take detailed interest in the ways in which management are doing everything they can to help them survive and thrive, by developing and making as well as selling products and grades that they want, that help them to grow. We also (see page 49) have granted the extraordinary sum of R249 million in export rebates to our customers this year.

We are all in this together. I have no doubt we will share in the success of a growing, more prosperous South Africa.

2018 marked the centenary of the birth of the father of our democratic nation, Nelson Rolihlahla Mandela. Throughout his long and illustrious life, Tata taught us the importance of belief combined with action: 'Vision without action is just a dream; action without vision just passes the time. But vision with action can change the world.'

Appreciating stakeholder support

As much as our customers have stood by us, so have our investors. Once again we thank and salute our shareholders for their forbearance and for their faith in our ability to turn this company around. (I hope that our integrated reporting and our other recent communications will give many renewed, even greater, belief in the future of ArcelorMittal South Africa.) In particular, I thank our institutional and our many smaller shareholders, including our strategic B-BBEE partner, Likamva Resources, for the space they have given our excellent executive team to develop and implement a wide-ranging business transformation programme, to devise a new vision and to match that vision with determined action.

I also wish to record my deep appreciation for the ArcelorMittal group, the world's greatest iron and steel company whose unflagging support has taken many forms and made our transformation journey possible.

We would be remiss not to recognise the resilience and talents of our thousands of ArcelorMittal South Africa employees who, day in and day out, have kept this ship afloat and are now steering it towards our mutually beneficial desired destination. Many of them have made considerable sacrifices, not least financially; for instance there were occasions when increases and bonuses were forfeited during our most difficult financial times. It was therefore extremely pleasing for directors to be able, this year, to authorise improvements in remuneration which will begin to reward the sacrifices many have made in recent years. Our unions, Numsa and Solidarity, have once again identified their members' best interests with those of the company and our sector, for which understanding we as directors are most grateful.

As chairman of this outstanding company, I am mindful of the extremely onerous workload shouldered not just by colleagues

and senior management but also by executive and non-executive directors in 2018. As the Leadership section makes clear, directors responded with enthusiasm and devotion to the need for leadership, addressing the many challenges, risks and opportunities facing our company this year. I applaud them all for their willingness, throughout the year, to take on an extremely heavy workload.

In January this year we welcomed our new CEO, Kobus Verster (in fact, of course, we welcomed Kobus (a past CFO) *back* to ArcelorMittal South Africa). In almost no time at all, Kobus very visibly demonstrated his executive leadership capabilities in building on the progress achieved by his predecessor, Wim de Klerk. In bidding farewell to Wim and, later in 2018, our outgoing CFO, Dean Subramanian, I thank both gentlemen for their diligent devotion to our company and its stakeholders. At the time of writing, shortly after his appointment, our new CFO, Desmond Maharaj, had already made his abilities apparent.

This year we took leave of non-executive directors Ramesh Kothari and Henri Blaffart after three, and two years, of distinguished service, respectively. My board colleagues and I all look forward to the contributions we are sure our new directors, Brian Aranha and Raman Karol, will make to our leadership team.

Mpho Makwana
Chairman

Outlook

In 2019 our company will face many challenges, including the challenge of building on the very substantial gains of the year reported. These gains were, indeed, substantial and hard won and should not be underestimated.

We have begun to steady our ship, to weather the storms which our company and our national economy will, inevitably, face.

My board colleagues and I will remain as focused as ever on cementing our recent gains, on delivering shareholder and social value and, in particular, on ensuring that management retains its close, daily focus on keeping our people safe.

I have the utmost confidence that our new strategic focus will propel us towards a much brighter future, one in which all stakeholders will benefit. A future in which vision and action will meet to achieve great things for all.

Message from the chief executive officer

In 2018 our company achieved a great deal in ensuring its ability to sustainably, consistently create value. It was indeed a momentous year with our financial results being the best we have reported for several years, wide-ranging improvements being effected in our production facilities and the company finding and expanding new markets.

Most significantly, in 2018 we made ArcelorMittal South Africa a safer place to work. While there is still a lot of room for improvement, by some key metrics our safety performance was the best on record. Whereas we suffered three fatalities in 2017, this year we had one. Regrettably, the death of a young operator, Lusindiso Magoso in June, was one too many. We extend our condolences to Lusindiso's family.

A challenging context

Across the world, steel markets were robust with both demand and prices increasing. This global strength, which had a positive impact on our results, contrasted sharply with the situation in our own economy. In 2018 South Africa officially emerged from recession in the third quarter but meaningful growth remained elusive. Key steel-consuming sectors all contracted. Inevitably, this translated into poor steel consumption, apparent steel demand contracting by 4%.

Any manufacturer, in any sector, would be hard-pressed to achieve profitability in a context in which its customers were buying less and less of its product. As the table on page 6 makes clear, the state of the South African economy and poor investor sentiment have negatively impacted the steel industry for the better part of a decade.

Growing in a contracting market

On a positive note – for not just ArcelorMittal South Africa but for the economy as a whole – in 2018 imports of primary steel continued their downward trend. In the year reported, imports fell by 20% or 190 000 tonnes. This development (for which we salute the authorities whose safeguards have proven their effectiveness in protecting thousands of local jobs) was one of only a few positive external trends affecting our company.

While most factors in our operating environment conspired against us, we took decisive action in 2018 to ensure that our fortunes should not be hostage to factors over which we have little or no control – that increasingly we become masters of our own fate.

At 5.1 million tonnes, our production of liquid steel was almost 4% higher than that of 2017 and our capacity utilisation rose from 81% to 84%. But producing more steel only makes sense if we are able to sell it. Our improved revenue – up 16% – derived largely from higher net realised prices but also from our very concerted efforts to grow our market share. In South Africa our intention to get closer to our customers paid dividends as we increased sales of both our flat and long steel products, long steel, for example, developing 10 new product categories. Most pleasingly, we became better at serving our customers, our on-time delivery rate improving (albeit to nowhere near satisfactory levels) from 51% to 57%.

By providing a more reliable service, our customers are increasingly incentivised to reduce their stock levels. Since 2015, average inventory levels have declined from 8.8 weeks' consumption to seven weeks. This trend can only be good for primary steel sales going forward.

As much as we did everything within our power to win new customers, to satisfy our existing customers and to gain domestic market share, in 2018 we redoubled our export efforts. Here we also achieved some outstanding successes, our export sales to, especially East Africa, rising by some 21%.

Transforming for sustainability

Our cost of production rose in 2018 but only marginally. Limiting our cash cost of producing steel was aided by relatively modest overall increases in our raw materials – which in the year made up 48% of total costs. In fact, our overall cost increase was below inflation while we grew volumes.

In 2018 we finalised and began to implement our Transformation for sustainability and growth strategy. This new strategic direction aims to transform our business, to position us to more predictably weather the inevitable downturns in the steel cycle and to fully exploit any and all opportunities, including a much hoped-for upturn in economic growth and demand.

Our strategy (see page 36) was developed through in-depth research and planning based on best-of-breed cost competitiveness programmes and benefited from input from several of the world's leading steel experts, experts whose time, insights and expertise were made available by the ArcelorMittal group.

Our discussion of how we are working to deliver sustainable profits (page 40) gives some insight into the solid gains we began to make in 2018, despite Wave 1 of our strategy implementation only beginning in H2.

In particular, we started to record substantial and sustainable progress on debottlenecking our plants, and re-opening the Vaal Melt shop in Vereeniging in January this year will boost our ability to compete against scrap-based long steel producers. The Melt shop re-opening will allow us to produce various smaller-volume product lines and will reduce production complexity at Newcastle, the de-risking of which is a key pillar of our new strategy.

Obviously the Vaal Melt shop re-opening had no bearing on our long steel products' 2018 performance which recorded a remarkable turnaround – from a very substantial EBITDA loss in 2017 to a positive R808 million. Newcastle not only made – and sold – more steel, it also increased market share and boosted exports while recording a number of very significant process improvements. One of these was boosting blast furnace throughput from 3 816t/day to 4 035t/day.

Newcastle also made some important strides in reducing costs, including a record pulverised coal injection (PCI) rate of 130kg/tonne of hot metal.

We seek to use as much PCI in our blast furnaces as possible as it is considerably more cost-effective than other energy sources. A higher PCI rate is also an indicator of greater plant reliability and, on this score, Vanderbijlpark Works returned similarly pleasing results. At 146kg/tonne, its PCI rate was at a record level, some 24% higher than the level of the previous year. Despite some unforeseen setbacks in Q4, Vanderbijlpark notched up a large number of sustainable improvements. Output and capacity utilisation both rose, debottlenecking our steel plant showed pleasing results and our non-prime generation rate fell from 6.7% to 5.2%.

Cementing these gains, in production reliability and quality and cost control, are vital to realising our objective of lowering our production cost by USD50/tonne by 2021. Substantial strides towards achieving this objective were made not only at Newcastle and Vanderbijlpark but also at Saldanha and by our Coke and Chemicals operations. On page 40, for instance, you can read about how our efforts to debottleneck Saldanha's steel-making process had already, by year-end, achieved almost half the ambitious cost-saving target set in terms of our transformation strategy. Whereas sales of commercial coke sales declined in 2018, this was largely the result of necessary, planned upgrades at our Newcastle coke plant, capital investments which will underpin our sustainability and our ability to achieve our transformation goals.

Investing in sustainability

In 2018 we more than doubled the amount we spent on environmental controls, to R105 million. As we indicate elsewhere in this report (page 44) our leaders are closely focused on our responsibilities towards the environment and our communities. And we are under no illusions about the scale of environmental challenges we face.

We are pleased, however, to be able to report (see pages 44 to 46) that this year we significantly improved our environmental impacts, as measured by several of our key indicators. We remain committed to cooperating closely and openly with all stakeholders, including regulators and environmental authorities. In the new year this commitment will remain undiminished.

Kobus Verster
Chief executive officer

Outlook

The challenging environment of 2018 is unlikely to improve substantially in the new year. Indeed, most forecasters see some degree of weakening in world steel demand and pricing. Such a scenario will bring with it mounting challenges but I believe that the momentum and the gains reflected in our 2018 results will be maintained in the new year.

I have every confidence that in a year's time we will be able to report, in greater detail and with greater clarity, how ArcelorMittal South Africa is transforming itself for sustainability and growth.

We anticipate being able to report strong progress towards reaching our 2021 targets, reporting progress on managing those costs, risks and opportunities which are under our control. However, in looking forward I need to sound a note of caution. In 2019 it is absolutely essential that we de-risk our operations by bringing a much greater degree of realism to the regulated, uncontrollable and often unrealistic costs of electricity, rail and ports which threaten our prospects and, indeed, our existence. We stand ready to work with all stakeholders in building an iron and steel industry which is not only sustainable but that builds real and growing social and economic value.

Message from the chief financial officer

As a leadership team we are pleased to present a greatly improved financial result for 2018, our best for several years. There were multiple reasons for this better outcome, which represented five consecutive quarters of profitability. Not the least of the reasons for this improvement was the fact that in 2018 our operating context was mostly propitious: world steel demand and pricing remained buoyant and the costs of our major raw materials recorded modest increases, even declining in some instances.

However much external factors put wind in our sails, our 2018 performance also reflects a company which was well positioned and appropriately resourced with a robust strategy in place to fully exploit the global steel industry's improved fortunes.

In 2018 ArcelorMittal South Africa grew revenue by 16% as average realised prices rose by 12%. At the same time, our cash cost per tonne of liquid steel increased by just 2% for flat steel products and 1% for long steel products. Increases in our fixed and variable costs were similarly well contained; our capacity utilisation improved and we sold more products (shipments increased by 5%). In particular, the long steel products division produced an outstanding turnaround and grew market share. All of this was achieved in an economy which again failed to record any meaningful growth.

Results for the year

While international demand and pricing were both buoyant, in our main market (South Africa), apparent steel demand declined to a 10-year low. This made our achievement in selling 234 000 tonnes more than in 2017 all the more commendable, most of the increase in sales stemming from our concerted export drive.

Encouragingly, in 2018 all business units made solid contributions to the company's profitability, both flat and long steel products (LSP) returning much improved performances. In the case of flat steel products (FSP) – which accounts for almost 70% of company revenue – EBITDA rose from R264 million to R2 670 million and the EBITDA margin strengthened from 0.9% to 8.4%.

Sales of commercial coke were lower than those in 2017, mostly resulting from scheduled plant maintenance, and our own increased requirement. Improved prices, however, largely offset the shortfall in sales. At R1 376 million, revenue was similar to that of the previous year with Coke and Chemicals' EBITDA margin, in fact, improving slightly.

Most pronounced, however, was the change-around in the fortunes of LSP. In 2017, long steel's operating loss of R1 284 million was very largely responsible for the company's considerably poorer performance on EBITDA. This year LSP achieved an operating profit of R474 million and an EBITDA margin which improved from -8.0 to +5.4%. This turnaround was on the back of higher net realised prices, increased sales and market share, better plant capacity utilisation and strong control over both variable and fixed input costs.

The average rand/US dollar exchange rate was little changed from that of the previous year but was extremely volatile throughout the year. This made forward planning extremely challenging. Whereas a weaker national currency would have traded in our favour, this failed to materialise.

	2018 Rm	2017 Rm
Revenue	**45 274**	39 022
Cost	**(41 666)**	(39 337)
EBITDA	**3 608**	(315)
Depreciation and amortisation	**(831)**	(976)
Once off items	**–**	71
Profit/(loss) from operations	**2 777**	(1 220)
Net finance cost	**(2 013)**	(1 441)
Impairment	**(10)**	(2 604)
Equity income	**138**	139
Profit on disposal of investment	**415**	–
Taxation	**63**	(2)
Profit for the year	**1 370**	(5 128)
Headline earnings/(loss)	**968**	(2 518)
Headline earnings/(loss) per share (cents)	**89**	(230)

On the back of an average 12% increase in the company's net realised prices, in the year revenue grew 16% to R45 274 million (2017: R39 022 million). Reflecting the state of the South African economy, local sales increased by only 1% while exports rose by 21%.

Whereas our average actual prices grew by 12% per tonne, the cost of the basket of raw materials used to produce that same tonne of steel increased by only 3%.

Financing costs increased by R885 million in the current year. This stemmed mainly from foreign-exchange losses due to the weakening of the rand against the US dollar at the end of the year. It is important to note that the company is in a net USD positive position on an EBITDA level. USD sales (direct and derived) exceed the USD cost of sales (direct and derived) and therefore the benefits of a weaker USD/rand exchange rate are captured within EBITDA. This, to a large extent, offsets the foreign-exchange losses reflected within the finance cost, these losses mainly originating from USD payables which have enjoyed very favourable payment terms.

A profit of R415 million on the sale of the company's investment in Macsteel International Holdings (MIHBV) was recognised in the income statement and the related foreign currency translation reserve to R2 067 million was released to profit and loss.

At a positive R968 million, our headline earnings contrasted sharply with the negative R2 518 million of 2017. This derived in large part from an operating profit of R2 777 million – an improvement of almost R4 billion. As a result, EBITDA reversed from a negative R315 million to a positive R3 608 million.

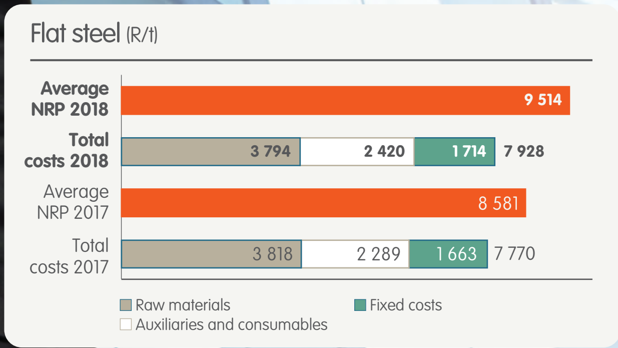
Costs

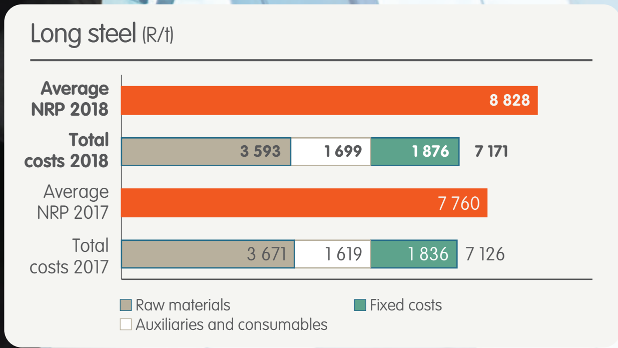
In *Sustainable profits throughout the steel cycle* on pages 40 to 43 we address in some detail our challenges – and achievements – on limiting our variable-cost increases, optimising our production processes and achieving a USD50/tonne cost reduction net of inflation and foreign-exchange depreciation by 2021. We believe that very solid progress was made towards achieving these objectives and on realising the projected outcomes of our Transformation for sustainability and growth strategy.

Within each of our business units we implemented and sustained scores of hard-won cost savings while our achievements on paring our raw material and logistics costs is detailed on page 41. Not the least of our achievements on cost containment was the fact that, whereas international coking coal prices rose by some 9%, our per-tonne cost decreased by 6%.

I believe we have done – and are doing – everything possible to ensure our international cost competitiveness. However, unrealistic increases in so-called administered, monopoly prices remain a real and even growing threat to our ability to protect an industry which underpins much of our country's economy.

Cost dynamics





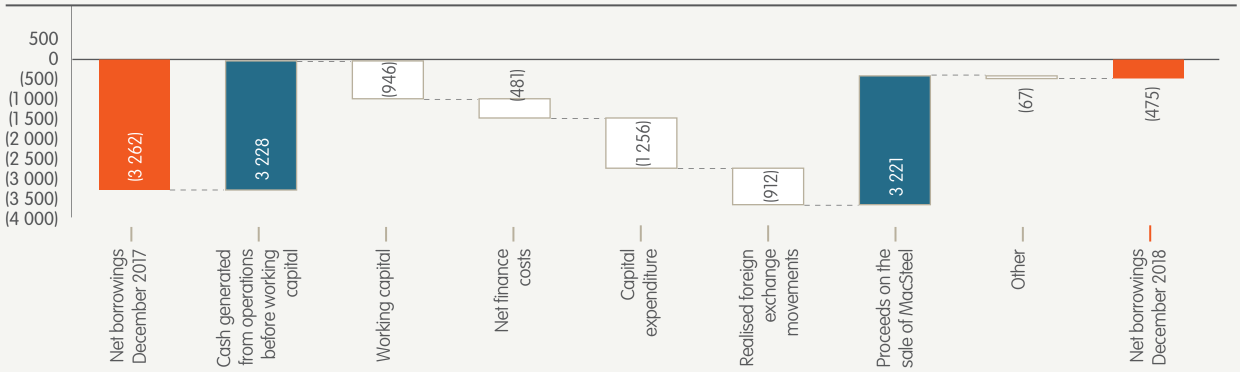
Cash and financial position

By year-end our balance sheet had strengthened significantly on the back of an improved financial result and the sale of our non-core investment in Macsteel International Holdings (MIHBV).

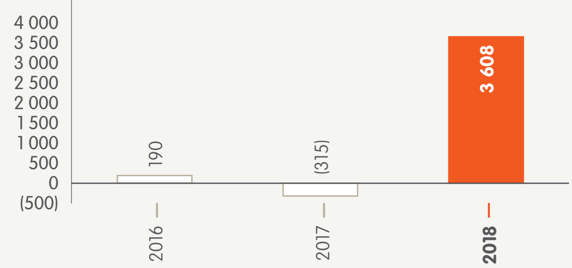
Cash flow and analysis (Rm)

	31 December 2018	31 December 2017
Cash generated/(utilised) from operations before working capital	**3 228**	(645)
Working capital	**(946)**	(67)
Cash generated from/(utilised in) operations	**2 282**	(712)
Capital expenditure	**(1 256)**	(1 324)
Net finance costs	**(481)**	(667)
Investment in associates and joint-ventures	**3 221**	(11)
Income tax paid	**(2)**	80
Realised foreign-exchange movements	**(912)**	(210)
Finance lease obligation repaid	**(85)**	(70)
Borrowings (repaid)/raised	**(3 400)**	4 450
Other	**17**	(57)
(Decrease)/increase in cash and cash equivalents	**(616)**	1 479
Effect of foreign-exchange rate changes on cash and cash equivalents	**3**	(1)
Net (decrease)/increase in cash and cash equivalents	**(613)**	1 478
Cash and bank balances	**2 525**	3 138
Borrowings (current and non-current)	**(3 000)**	(6 400)
Net borrowings	**(475)**	(3 262)

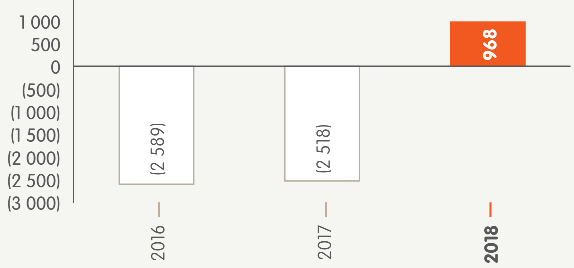
Net borrowings bridge



EBITDA (million)



Headline earnings (million)



Consolidated statement of financial position (Rm)

	31 December 2018	31 December 2017
Current assets	**18 864**	18 131
Cash balance	**2 525**	3 138
Inventories	**12 179**	11 519
Trade & other receivables	**3 972**	2 988
Other current assets	**188**	486
Non-current assets	**9 696**	13 065
Property, plant & equipment	**8 995**	8 474
Equity accounted investments	**220**	4 424
Other non-current assets	**481**	167
Total assets	**28 560**	31 196
Current liabilities	**14 963**	17 346
Trade and other payables	**13 779**	12 284
Provisions	**406**	304
Borrowings	**300**	3 700
Other current liability	**478**	1 058
Non-current liabilities	**5 636**	5 792
Provisions	**1 774**	1 826
Borrowings	**2 700**	2 700
Other non-current liabilities	**1 162**	1 266
Total liabilities	**20 599**	23 138
Shareholders' equity	**7 961**	8 058
Total liabilities and equity	**28 560**	31 196

The movement in net working capital of R946 million related to:
- Inventories increasing by R520 million mainly following a higher value of steel inventory despite metal stocks being 50 000 tonnes lower; movement in raw materials stemmed primarily from higher-value alloys in stock.
- Receivables increased by R1 billion, deriving from higher shipments and prices when compared to a year previously while the increase in payables, of R579 million, related to the revaluation of foreign payables at a weaker exchange rate at the end of December

The MIHBV transaction was cash positive in the amount of R3.2 billion. In approximate terms, proceeds from the MIHBV disposal are being used to reduce debt (some 50%). Roughly half of the remaining 50% of revenue from this sale will be committed to business sustainability including environmental capital expenditure and operational stability, and the other half to expansion including investment in our Vanderbijlpark galvanising line and in increasing our coke-making capacity.

By year-end our net borrowing position had improved from R3 262 million as at 31 December 2017 to R475 million. In total, in the year, some R3.4 billion in borrowings were repaid.

In 2019 ArcelorMittal South Africa will commence the renegotiation of our borrowing-based facility (BBF) whose term comes to an end in May 2020. The company's intention is to retain the BBF and extend it for another three years. The level of the BBF to be retained is still to be determined.

As part of the transaction in terms of which our company bought the Thabazimbi iron ore mine in November for R1, we acquired an asset in the form of an environmental trust which holds investments worth R332 million. This amount is reflected as a non-current asset.

Outlook

In 2019 international steel prices are expected to soften while the costs of raw materials will not necessarily track lower.

As mentioned (by both myself and the chief executive officer), tariffs charged for, particularly, rail and electricity are increasingly threatening our ability to create sustainable financial and social value. Carbon taxes – whose effect we will likely feel from Q3 2019 – will further undermine our ability to compete against exporters who are in no way subject to such taxes.

Positively, in the new year the cost-saving achievements of our business transformation programme to date will be expanded and embedded while our successful procurement strategy will be further refined. We expect LSP to retain its momentum in the new year and we remain optimistic about both our export opportunities and about the prospects for domestic infrastructural investment. Our balance sheet will remain strong and our finance cost is likely to reduce.

Maharaj

Desmond Maharaj
Chief financial officer

2018 highlights and 10-year performance review

In addition to the information disclosed in the chief financial officer's report, here we detail key indicators that inform our strategic objective of 'delivering sustainable profits through the steel cycle' (see also page 40).

		2010	2011
Revenue	Rm	30 224	31 453
EBITDA	Rm	3 522	1 720
By segment: Flat	Rm	1 442	597
Long	Rm	1 090	500
Coke and Chemicals	Rm	1 029	870
Other	Rm	(39)	(247)
EBITDA/tonne	R/t	699	365
EBITDA margin	%	11.7	5.5
Headline earnings/(loss)	Rm	1 377	(52)
Production (tonnes of liquid steel)	000 tonnes	5 674	5 453
Flat	000 tonnes	3 814	4 060
Long	000 tonnes	1 860	1 393
Sales	000 tonnes	5 041	4 708
By segment: Flat	000 tonnes	3 348	3 424
Long	000 tonnes	1 693	1 284
Sales			
By market: Domestic	000 tonnes	3 414	3 507
Africa Over Land	000 tonnes	47	75
Blue water exports	000 tonnes	1 580	1 126
Net cash/borrowings	Rm	3 476	419
Capacity utilisation (liquid steel)	%	78.0	75.0
Productivity – tonnes of HRC equivalent/total FTE	t/FTE	467	427

Five-year benchmarking

	2014	2015	2016	2017	**2018**
EBITDA margin (%)					
ArcelorMittal global*	9.1	8.2	11.0	12.2	**13.5**
ArcelorMittal South Africa#	3.6	(2.6)	0.6	(0.8)	**8.0**
EBITDA/tonne production (USD/t)					
ArcelorMittal global*	85	62	75	99	**122**
ArcelorMittal South Africa#	27.4	(15.4)	3.2	(4.8)	**60.6**
USD/t cost (revenue less EBITDA)					
ArcelorMittal global*	775	689	602	707	**784**
ArcelorMittal South Africa#	672	606	541	601	**701**
China import prices, ArcelorMittal South Africa costs and prices					
China hot rolled coil (price)ᶲ	596	419	461	638	**625**
Vanderbijlpark hot rolled coil (cash cost)#	529	445	386	530	**547**
Saldanha hot rolled coil (cash cost)#	508	441	433	502	**553**
ArcelorMittal South Africa hot rolled coil (domestic prices)	701	521	515	637	**762**

* *ArcelorMittal global reported figures.*

\# *ArcelorMittal South Africa's previously published results.*

ᶲ *USD/t selling price into South Africa. China import price equals China export (FOB/t)† plus sea freight plus trader margin.*

	2012	2013	2014	2015	2016	2017	2018
	32 291	32 421	34 852	31 141	32 737	39 022	**45 274**
	1 121	1 768	1 258	(809)	190	(315)	**3 608**
	(266)	135	535	(1 269)	(392)	264	**2 670**
	770	1 198	16	(348)	286	(945)	**808**
	503	514	428	427	172	365	**370**
	114	(79)	279	381	124	1	**(240)**
	243	418	297	(196)	47	(74)	**803**
	3.5	5.5	3.6	(2.6)	0.6	(0.8)	**8.0**
	(518)	(224)	(227)	(5 370)	(2 589)	(2 518)	**968**
	5 090	5 096	4 518	4 839	4 771	4 910	**5 092**
	3 554	3 229	3 586	3 145	3 221	3 458	**3 561**
	1 536	1 867	932	1 694	1 550	1 452	**1 531**
	4 622	4 230	4 240	4 131	4 087	4 257	**4 491**
	3 138	2 771	2 981	2 678	2 736	2 995	**3 098**
	1 484	1 459	1 259	1 453	1 351	1 262	**1 393**
	3 336	3 126	3 002	3 039	3 275	3 302	**3 337**
	167	257	232	236	218	204	**221**
	1 119	847	1 006	856	594	751	**933**
	874	285	(546)	(2 865)	(290)	(3 262)	**(475)**
	70.0	76.4	69.5	70.0	78.2	81.0	**83.5**
	400	419	418	472	471	478	**496**

	2014	2015	2016	2017	2018
China import prices, ArcelorMittal South Africa costs and prices					
China rebar (price)†	454	394	420	564	**611**
Newcastle rebar (cash cost)#	558	476	444	597	**615**
ArcelorMittal South Africa rebar (domestic prices)	686	484	481	606	**752**
International raw material basket (USD/t)					
– Flat†	285	196	217	277	**296**
South African raw material basket (USD/t – including transport)					
Flat					
– Vanderbijlpark#	311	249	216	321	**315**
– Saldanha#	268	263	224	310	**350**
Long					
– Newcastle#	289	247	247	338	**356**

ArcelorMittal South Africa's previously published results.
† *Platts/MB.*

Transformation for sustainability and growth – our strategy to 2021

Business transformation programme

This year, as part of our new strategy, the board approved a business transformation programme which is without parallel in our company's history given its holistic and all-encompassing approach. It does, however, incorporate many of the best-of-breed aspects of those cost-competitiveness programmes embarked on over the past two decades.

The business transformation programme is comprehensive in terms of the depth of research and planning which informed it, the high-level human resources devoted to it, and the realistic expectation of substantial, achievable and sustainable outcomes. Recognising that incremental changes and improvements were not enough to ensure our sustainable profitability, the business transformation programme – being the foundation stone of the overall strategy – aims to achieve an 'always-on' culture of transformation. It seeks to effect a profound change to our business model, our people and processes.

Sustainability

In 2018 ArcelorMittal South Africa recorded a much improved financial performance, its best for several years. This performance was in part derived from hard-won process and cost improvements implemented since 2017, and most importantly, initiatives carried out since January 2018 in response to extreme currency volatility and the strength of the local currency experienced in late 2017 and much of 2018. At all of our plants and in support functions, we squeezed out costs.

The business transformation programme's implementation, and the time needed to gain traction, benefited from the fact that steel prices remained strong for longer than had been the case in the recent past. A much stronger-than-anticipated international steel market with the spread between our realised prices and those of, particularly, our raw material basket, accounting in large measure for our improved result.

In 2019 world steel markets are expected to soften. Our strategy to improve our cost competitiveness aims to ensure our ability to survive such regular downturns while continuing to create value. Simultaneously we are striving to create a culture of continuous change and improvement, one that is always internationally competitive.

Our 2018 performance was bolstered by higher steel prices internationally. Although the South African currency was volatile relative to the US dollar throughout the year, the average exchange rate was similar to that of 2017. With an expected softening of prices, however, it is imperative that we are able to better withstand inevitable market downturns, currency fluctuations and weather (possibly) several more years of low domestic economic growth. We also have to be ready for an anticipated end to import protection at some point.

The business transformation programme is about ensuring that the company can withstand those developments which are beyond our control, including international steel and input prices and currency fluctuations, vulnerabilities to which the business will continue to be exposed.

The programme was developed through a deep-dive analysis by experts within both ArcelorMittal South Africa and the parent company, and external expert consultants with deep local and international steel experience. Working with senior management, these experts spent three months analysing and reporting on opportunities and models to fundamentally change our company's cost competitiveness, to re-examine our entire business model and identify opportunities for sustainable savings and revenue growth. A wide range of ArcelorMittal group senior executives and technical experts assisted in scoping this programme and in providing detailed, achievable outcomes and required methodologies.

In May a dedicated business transformation office, headed by an experienced, senior executive, was established with 14 full-time expert staff. Their ranks include the most senior personnel experienced in production, commercial, finance, human resources, logistics and procurement and other key disciplines. Progress on achievement of our cost-competitiveness initiatives is regularly reviewed, in detail, at the plant and senior management/CEO levels.

Our business transformation programme sees ArcelorMittal South Africa reducing fixed and variable costs by USD50/tonne of liquid steel by end-2021. This will have a targeted R3.5 billion bottom-line impact.

Partnerships

One key element of our strategic turnaround strategy – that of public-private partnerships – holds enormous potential for us to create meaningful social value and transformation.

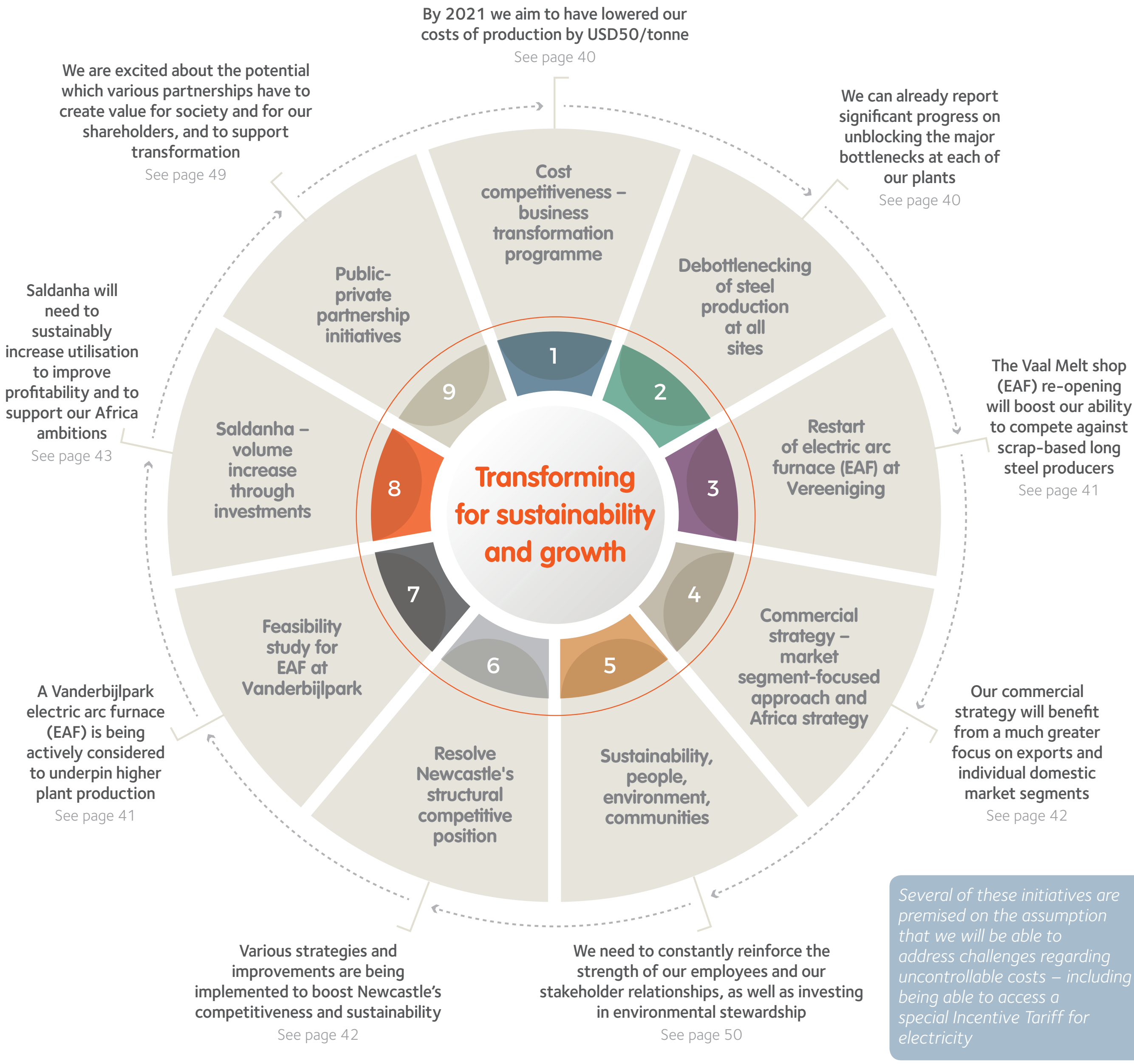
Similarly, our commercial strategy has to increasingly focus on the needs and expectations of our customers. We will achieve this by getting much closer to our customers than ever before. We will also seek to identify and grow new markets, notably in the export arena, forging sustainable partnerships wherever possible.

In achieving the desired cost-competitiveness outcomes, the strength of our human capital will be critical; we need a highly motivated, highly-skilled workforce which will allow us to compete effectively and sustainably throughout the steel cycle. We recognise that we have not always deployed the right technical, entrepreneurially minded individuals to the task of improving our processes and transforming our business.

In a nutshell, ArcelorMittal South Africa's new turnaround strategy is focused on:

Short term	Medium term	Long term
Implementing initiatives to ensure a return to profitability and positive cash-flow generation (to 2019)	Secure earnings and cash-flow sustainability (to 2021)	Generate above-average financial returns while strengthening the balance sheet

The graphic below illustrates the key elements in our strategy, which has, as a deadline for achievement of its medium-term objectives, the end of 2021. All of these elements are discussed in greater detail in this report, as indicated.



Several of these initiatives are premised on the assumption that we will be able to address challenges regarding uncontrollable costs – including being able to access a special Incentive Tariff for electricity

Strategic objective 1:
Towards zero harm
We place safety above any other consideration, objective or issue

Key safety performances include:
- A company-wide LTIFR of 0.53 – lower than the 0.66 of the preceding year and the 0.62 of 2016 but worse than the 0.48 recorded in 2015
- A slight decline in the disabling injury frequency rate, from 0.87 in 2017 to 0.85
- A substantial rise in the number of proactively recorded serious occurrences (SOs) and potential to cause serious injury or fatalities (PSIFs) – essentially the meaningful identification and remediation of hazardous conditions – from 53 to 505.
- An improved safety performance by contractor employees.

Keeping our people safe

2018 represented ArcelorMittal South Africa's best safety record for at least nine years, as measured by two key performance indicators: the lost time and total injury frequency rates.

As reported in the previous year's integrated report, in monitoring and reporting on safety statistics, the total injury frequency rate (TIFR) has recently received greater internal emphasis. TIFR performance is consistently communicated, at all levels and with all employees and contractors, to create an appreciation that even 'less serious' incidents and conditions have the potential to cause serious harm.

At 6.91, our 2018 TIFR represented a not insignificant improvement on that of 2017 which, in turn, was half that of 2014 and less than a third of the rate recorded in 2010.

While work-related fatalities reduced from the three of the previous year, grade 1 operator, Lusindiso Magaso, was killed in Q2 at Saldanha's steel-making plant. With five lost-time injuries (2017: none), Saldanha's LTIFR deteriorated sharply, to 1.81.

Three-year key performance indicators

KPI 1
Work-related fatalities

2018 **1**
2016: **3** 2017: **3**

KPI 2
Lost time injury frequency rate (LTIFR)

2018 **0.53**
2016: **0.62** 2017: **0.66**

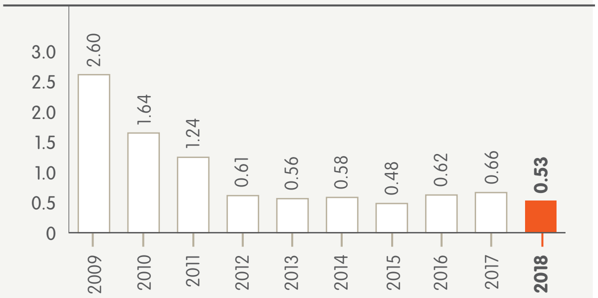
KPI 3
Total injury frequency rate (TIFR)

2018 **6.91**
2016: **9.50** 2017: **7.66**

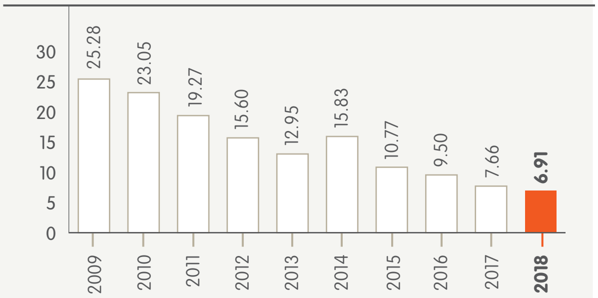
Company safety professionals believe that this year's overall improved safety performance derived in part from a better financial performance, which improved morale and focus on individual performance, including safety behaviour.

In 2018 we undertook a concerted focus on the safety performance of contractor employees. The success of this focus was reflected in LTIFR and DIFR statistics for contractor employees which declined from 0.80 to 0.52 and from

10-year LTIFR



10-year TIFR



0.97 to 0.69 respectively although the TIFR for all contractors worsened, from 7.50 to 8.11.

While holding management to strict account for the company's safety performance and culture, directors were satisfied that a new safety leadership team, focused on lessons learnt at key operations (principally Vanderbijlpark), was achieving measurable success – which progress had the potential to be sustainable.

Directors noted their concern that whereas both Vanderbijlpark and Newcastle improved on various important metrics, smaller operations including Coke and Chemicals, Vereeniging and Pretoria disappointed.

In detail, the board noted the following interventions:

- The increasingly proactive identification, by management and supervisors, of hazards; in particular the fact that the reporting and treatment of SOs/PSIFs rose almost ten-fold, the materiality of all being verified by a corporate safety specialist (a new appointment)
- The reporting of 468 SOs/PSFIFs was proactive in nature
- Of all SOs/PSIFs reported, 363 were considered 'closed off', meaning that they had been effectively addressed – verification and signing off being done by the corporate safety specialist
- More concerted communication, to all employees, about their right – with impunity – to halt operations should they become aware of potentially unsafe conditions or unsafe acts, and improvements in pre-shift safety briefing protocols
- 2 646 hours being devoted to train and coach line managers and supervisors on safety methodologies and protocols, including 21 Days of Safety Leadership
- The trial implementation of a computerised risk management inventory at Vanderbijlpark with a view to it being rolled out at other operations in 2019.

Also in 2018 management implemented the following:

- A health audit to gauge how the company fared in terms of health practices. One outcome was that business units were able to cross-pollinate best practices among themselves. Major findings of the health audit included:
  - Emergency or standby situations need to be managed correctly
  - In some instances the medical screening programme did not include medical checks before employees moved between departments
  - Air and bio-monitoring should be done on an annual basis in high-risk areas
  - Explicit health objectives and targets need to be communicated to medical personnel
  - First-aiders need to be properly trained and identifiable on the plants, and first-aid boxes better managed
- After realising that many of our employees were poorly equipped to identify hazards, we implemented a risk-awareness process through shop-floor audits and pre-shift meetings where superintendents were given a portal containing all relevant information with which to conduct quality pre-shift safety briefings
- Statutory inspection questions were added to our shop-floor audit process to continuously track and monitor legal compliance
- This year we grew the number of 'red scorpions' on site at our plants, to at least 10 per plant. Red scorpions are employees who have had experience as observers during high-risk tasks and who coach colleagues, stop unsafe conditions and seek to find solutions to particular safety challenges.

Outlook

In 2019 virtual reality training for safety risks will be rolled out across the company. The bespoke system simulates actual plants, letting employees walk through their work environments with risks appearing as users move around. The training helps employees to better understand risks and how to eliminate them.

Strategic objective 2:

Delivering sustainable profits throughout the steel cycle

We need to fundamentally transform our business to ensure that we are sustainably and internationally competitive

The context in which we need to deliver sustainable profits

Everywhere in the world – and throughout recent history – the steel industry has experienced repeated cycles: periods of high demand and stronger pricing are inevitably followed by downturns.

To make profits, steel companies need to manage fixed costs but they also need to constantly ensure that the gap between the prices they are paid for their steel and, most critically, their raw material basket is sufficient to ensure sustainable profitability.

Our new (2018) strategy, Transformation for sustainability and growth, is designed to ensure that we manage this gap and that we are able, sustainably, to produce more of the steel our customers want, at compelling prices and at a cost that means we can weather the downturns while maximising shareholder returns during the good years.

We have recently (especially in 2018), benefited from better international pricing. To some extent, the crucial gap between these two (prices and the basket) can be managed by judicious and diligent management of procurement, logistics, employee and contractor costs. Our prices can be managed by developing and reliably delivering the best steel in the required quantities and on time, and by growing our markets. But we also need to produce more steel, to deliver and sell it profitably and at costs that make us competitive on an international stage. To this end, a key part of Transformation for sustainability and growth is our business transformation programme.

Three-year key performance indicators

KPI	Indicator	2018	2016	2017
4	EBITDA per tonne of liquid steel (R/t)	709	47	(64)
5	Return on capital employed (ROCE) (%)	20.4	(1.2)	(7.5)
6	Steel market share (%)	71	67	69
8	Cash generated from operations before working capital (Rm)	3 228	215	(615)
9	Net cash/debt position at year-end (Rm)	475	(290)	(3 262)
10	On-time deliveries (%)	57.1	59.1	50.9

Our strategy to deliver sustainable profits

The business transformation programme aims to achieve a USD50/tonne saving from our production of iron and steel. The most important metric to measure our success in this undertaking will be EBITDA per tonne of liquid steel.

Although just months since its inception, at year-end, the business transformation programme could point to a number of important gains. These included:

Bottlenecks

With the depth of analysis and input from multi-disciplinary teams that the business transformation programme has made possible, since August, Wave 1 of the programme has already begun to demonstrate tangible debottlenecking benefits.

At Saldanha, the operation's chief bottleneck related to its inability to produce sufficient quantities of liquid iron, requiring the introduction of scrap, which dramatically slowed the Conarc furnace process. The business transformation programme set a debottlenecking-improvement target for Saldanha at a sustainable R277 million per annum. By year-end some 45% of this target had been achieved in terms of improved yields and reduced electricity consumption.

In 2019 the company envisages introducing equipment called side lances from a redundant electric arc furnace (EAF) in Vanderbijlpark, the initial phase of this project costing R32 million.

In Q3 2018 our flagship Vanderbijlpark works recorded its best EBITDA performance (deriving from cost, price and production volumes) since Q2 2010. At 653 000 tonnes, Q3 quarterly production was the highest since Q2 2016.

Since 2015 Vanderbijlpark has pursued cost and process improvement drives named, respectively, project attack and project focus. The business transformation programme is building on the successes of these interventions and the many lessons learnt.

Following the closure of the Vanderbijlpark EAF in 2013, the steel plant represented the business unit's single largest brake on productivity. Working with on-site representatives of the business transformation office, plant management this year changed the steel plant layout to improve ladle and crane availability, adding a ladle furnace and improving reline times. As is being experienced at other plants, this far-reaching debottlenecking exercise required limited capital expenditure.

Procurement and logistics

The prices we pay for our key input materials, most notably iron ore (in 2018 42% of our raw material basket) and coking coal (44% of the same basket), have a fundamental impact on our profitability. Even where we source these inputs locally, they are benchmarked against international prices. Since 2015, international prices for iron ore have risen by 27% (to an average USD70/tonne) – roughly comparable to those of the previous year. Coking coal, at an average USD205/tonne in 2018 was 8% higher than the average for the previous year – and almost double that of three years earlier.

Relative to prevailing world prices in 2018, the efforts of our internal procurement experts on the purchase of raw materials realised savings of R3.3 billion net of foreign exchange and volume factors.

This built on the R2.2 billion procurement and logistics savings of 2017 and the R860 million achieved in 2016.

The rand/US dollar exchange rate was especially volatile in 2018. During the year the local currency strengthened to under USD12 and ended the year at USD14.43, rand value against the US currency averaging R13.24 for the year versus a 2017 average of R13.32.

On industrial products, services and maintenance, actual savings in the year amounted to R583 million. An expert third-party analysis indicated that R900 million savings in such products and services was possible by end-2019. Business transformation programme tracking at year-end indicated that we were likely to achieve, and possibly exceed, this outcome by December 2019.

By rebasing, and then renegotiating, annual service and supply contracts with a value of R1.3 billion, savings of R160 million were projected.

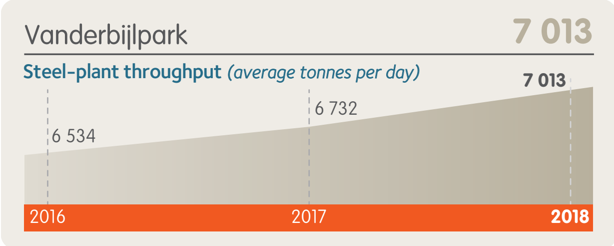
A significant challenge to our cost competitiveness is that of administered prices, applied by what are essentially monopolies (in the case of rail and electricity, *state* monopolies) and industrial gas. Transnet Freight Rail's on-time delivery performance declined by 7%. Despite this, our rail fees remain punitively high, those for railing import coal being 37% above international benchmarks.

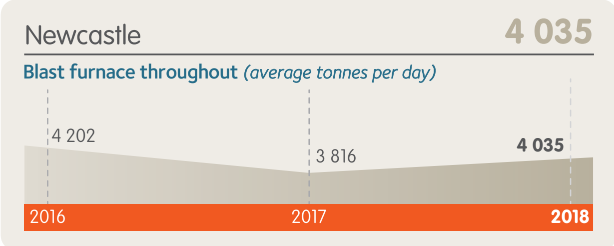
In 2018 our procurement and logistics function more actively managed the transport of, especially raw, materials, switching loads between rail and road on an ongoing basis, to save costs. Despite the traditionally higher cost attached to road, this strategy of dynamically switching between the two modes of transport achieved R243 million in savings.

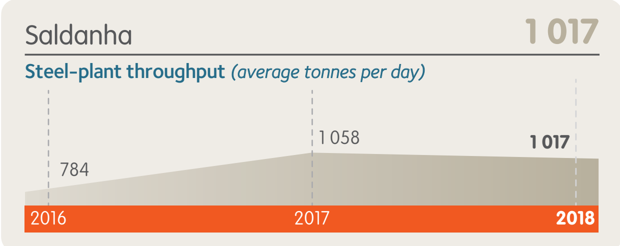
Maintenance

At the outset of the planning phases leading up to the business transformation programme's rollout in August 2018 it was envisaged that Saldanha would serve as the company-wide test bed for transforming our maintenance practices, investments and processes.

Debottlenecking key indicators







* *Coke and Chemicals' production of market coke in 2018 was similar to that of recent years, with capital expenditure planned for 2019 expected to achieve material debottlenecking improvements*

Saldanha management overhauled the plant's maintenance systems, focusing much more on detailed maintenance scheduling (as opposed to generic maintenance planning).

Maintenance improvements introduced in 2018 concentrated on Saldanha's hot strip mill where the results were almost immediate, and substantial, stoppages ascribable to three root causes being cut with minimal capital expenditure.

Vaal Melt shop and Vanderbijlpark EAF

The Vaal Melt shop long steel facility, with an annual capacity of 400 000 tonnes, was mothballed in 2015 as a result of steep increases in electricity tariffs.

Recent state interventions to discourage the export of steel scrap have sharply reduced domestic scrap prices, a key input for, especially induction and electric arc steel-making furnaces. This – coupled with our company's reduced scrap intake – encouraged the entry of a significant number of new producers using these technologies to produce, especially, rebar and light sections.

Strategic objective 2:
Delivering sustainable profits throughout the steel cycle continued

Restarting our plant in Vereeniging – which occurred in January 2019 – will allow us to produce small-volume product lines which will have the effect of debottlenecking and reducing complexity at Newcastle, thus significantly de-risking our long steel products division. The success of this will be dependent on the previously mentioned special incentive price.

In 2018 company leadership began investigating the possibility of building an EAF with a capacity of at least 500 000tpa at Vanderbijlpark. Such a facility would give the plant greater flexibility in terms of liquid steel supply during periods of heightened market demand and planned outages.

At the time of reporting, no firm decision had been taken on the business case for building an EAF at Vanderbijlpark.

Commercial strategy

From 2019 the company is expected to have additional product available for sale – in excess of 400 000 tonnes a year. Our commercial strategy will aim to export much of this, particularly to sub-Saharan Africa. Several of these markets are experiencing GDP growth well ahead of that of South Africa with their governments prioritising infrastructural spend.

To date we have failed to focus sufficiently on exports, on nearby markets where we will enjoy a growing measure of price and quality competitiveness, especially given the expected decline in Chinese exports. Achieving our export ambitions, both Africa Over Land (AOL) and blue-water exports, will require limited investment in an improved distribution capability. In 2018 considerable work went into establishing on-the-ground relationships and putting in place the necessary physical logistics arrangements. Particular success was recorded in growing sales in East Africa while overland sales to SADC markets disappointed with macro-economic developments limiting demand.

In increasing our export sales, price, quality and reliability of supply will be essential. We will also appeal to importers, distributors and end-users with the fact that we offer a full spectrum of flat and long products. Increased investment in infrastructure, including rail, could substantially benefit both our long steel products division and the profitability of our tolling arrangement with Evraz Highveld Steel.

Domestically, we are committed to getting closer to our customers and to specific market segments. To this end we have appointed additional sales and marketing personnel. In 2018 we focused on markets where, if we are able to deliver in smaller quantities and to required sizes and costs, we can replace large amounts of imported material. One such example is the market for thin-gauge galvanised steel where a major shutdown of our galvanising line is planned for Q1 2019, to produce products to the gauge and coating requirements of smaller buyers who make up the majority of this market segment.

De-risking Newcastle

In 2017 long steel products returned an EBITDA loss of R945 million. Long steel products enjoy no countervailing duty protection against unfairly subsidised imports and depressed prices for plentiful scrap steel have lowered barriers to entry and incentivised existing (mostly induction-furnace) producers to increase capacity.

The result of intense and growing competition in the domestic long steel market has been to erode the competitiveness of producers such as Newcastle with their substantial fixed costs required for the production of both iron and steel and their limited ability to consume plentiful, inexpensive, scrap.

Strategic responses to the sustainability challenges facing Newcastle were, in 2018, considerable and varied. Different scenarios and options were mapped out and, at the time of reporting, being scoped in detail by expert teams. Along with Vanderbijlpark and Saldanha, Newcastle enjoyed the substantial savings on raw materials achieved by company procurement. A great deal of focus also went into managing Newcastle's logistics costs, to overcome the plant's locational disadvantage (relatively far from the

Outlook

Wave 2 of our business transformation programme will commence in H2 2019. Wave 1 gains booked and in the pipeline will be communicated to all stakeholders.

USD10/tonne cost saving

Cost competitiveness and other strategic corporate actions will be pursued with vigour, informed at all times by detailed data capturing and reporting. Net of inflation impacts we anticipate that 2018 will contribute cost-competitiveness improvements in the region of USD10/tonne.

In 2018 and H1 2019 we expect our Wave 1 fixed-cost savings (especially manpower) to contribute minimally to our cost targets but that, with stretched targets being met, these will accelerate in H2 2019 and into 2020.

Next year the company intends diversifying its sources of iron ore and coal. In particular, we plan to reduce our dependence on expensive Australian coking coal by securing new, especially, African, sources.

Engagement on administered prices

Our executives intend engaging closely with the leadership of Transnet Freight Rail on more realistic rail rates. Should such engagement not produce desired outcomes, the company has in place contingency plans and models to mitigate its uncompetitively high logistics cost.

Our electricity cost burden remains a threat to our sustainability, our cost from Eskom per megawatt hour rising by 6.9% in 2018 – a 21.1% increase over the past three years. At 0.60MWh per tonne of liquid steel produced, our energy efficiency improved by 14.35% over the past three years. Our MWh per tonne of liquid steel will increase in 2019 due to the re-starting of the EAF (electric arc furnace) in Vereeniging, assuming a positive response to our application for a special incentive tariff.

In almost all cases, debottlenecking opportunities will require limited capex and the additional volumes should be largely accommodated within the downstream operations' capacity and capability, particularly at Newcastle.

sources of both input materials and markets).

Success in growing our export markets is expected to further de-risk long steel products as this is a potential growth segment in which the division has traditionally been poorly marketed and for which our analysis shows there is considerable demand.

Debottlenecking will be of the utmost significance for Newcastle. Business transformation programme projections envisage long steel benefiting from major fixed-cost dilution through the production of an additional 225 000 tonnes a year, some 130 000 tonnes of which will be contributed by the re-opening of the Vaal Melt shop. At Newcastle, in particular, additional volumes are expected to be easily handled by the existing downstream capability and capacity.

Newcastle's significantly improved performance in 2018 – on profitability, sales and on productivity, especially debottlenecking its blast furnace – bolstered a greater belief in the sustainability of this important part of our operations.

Business unit overviews

Flat steel products

Vanderbijlpark

Vanderbijlpark had a much improved year as measured by most key metrics, in addition to the advances made on debottlenecking the steel plant described above.

Production of 2.475 million tonnes of liquid steel was 134 000 tonne, or 5.7%, higher than in 2017.

Most significantly, the increase in the cash cost per tonne of HRC was limited to just R188 or 3%. This achievement was aided by a 7% rise in productivity with FTEs (full-time employment equivalents) reducing by 6.1%. The pulverised coal injection rate also improved, from 118kg/tonne to 146kg/tonne.

Saldanha

In 2018 Saldanha achieved production of 1.09 million tonnes of liquid steel (97% of output in 2017). This was despite a pronounced slump in Q3 output which plant management largely ascribe to a deterioration in staff morale following the fatality suffered in June (see page 38).

In Q4 output regained the momentum achieved in H1. (This production performance was also despite two relatively long planned shutdowns, in April and October of a combined 17 days, both of which, while disruptive of production, were beneficial for medium-term stability.) Throughout the year production of ultra-thin coil (<1mm) was sustained. A hot strip mill shutdown in April, of seven days, boosted temper mill 1mm yields from 91.7% to 95.1% in Q4.

Aided by the business transformation programme, iron-making fuel rates reduced by 8.3% from 1 146kg/tonne in Q1 to 1 051kg/tonne in Q4.

Long steel products

In 2018 long steel products' operational and financial performance improved dramatically – to the extent that the division posted an EBITDA profit of R808 million. (This against an EBITDA loss in 2017 of R945 million.)

The division's turnaround derived from improved, more stable production and significant savings on variable added costs – in the region of USD15/per tonne. By the end of 2018, variable cost savings were ahead of business transformation programme projections for the end of 2019. As such, focus in the new year will be on meeting stretch targets including an increase in the pulverised coal injection (PCI) rate. Cheaper than other fuel sources, blast furnace operators aim to maximise their use of PCI. Greater use of PCI also assists in the amount of ore that can be added at any given time. Newcastle improved its PCI injection rate from 125kg to 130kg per tonne of hot metal.

Cost reductions were such that by the end of the year Newcastle was producing rebar and other products at prices equivalent to FOB China prices with all production finding ready domestic and export markets. South African market share increased by 5.17% to 58.5% at prices with net realised prices rising 14% to R8 828/tonne relative to the previous year.

Cost reductions

The business transformation programme prioritised debottlenecking Newcastle's blast furnace and considerable progress was already recorded in 2018. Whereas average blast furnace throughput in 2017 was 3 815 tonnes per day, by changing its blast furnace control philosophy, the Newcastle plant was consistently achieving daily production of over 4 500 tonnes by end Q3. The re-opening of the Vaal Melt shop, in January 2019, is expected to decrease complexity and boost throughput.

Capacity utilisation

Total production in the year was 1 531 million tonnes (2017: 1 452 million tonnes) while capacity utilisation improved from 76% to 81%. The Newcastle N2 coke battery performed to expectations and budgets.

Production at the Evraz Highveld Steel heavy structural mill – with which we have a tolling agreement – was consistently stable.

Newcastle's integrated performance was similarly exemplary, the plant delivering a much improved safety record while environmental performance was such that all licence and permit conditions were met. The plant maintained its zero effluent discharge (ZED) status throughout the year.

Coke and Chemicals

This year, at 184 000 tonnes, production of commercial coke disappointed relative to targets set and the 2017 output of 190 000 tonnes. The shortfall in expected production was almost entirely related to ongoing difficulties with the Pretoria gas plant.

Tar sales were negatively impacted by a shortage of raw materials. In Q1 this was addressed by importing materials from Zimbabwe but a sharp weakening of the rand against the USD made such imports unviable. At 81 000 tonnes, tar sales for the year were similar to those of the previous year.

Maintaining revenue

Despite these challenges, Coke and Chemicals' revenue was not significantly impacted as net realised commercial coke prices rose by 10.1%.

In Q1 2019 the first phase of an essential gas-plant repair project will be carried out at a capital cost of R31 million. The repairs are likely to have a minimal impact on production.

Positively, this year Coke and Chemicals developed a new market for steel slag produced at Vanderbijlpark and Saldanha for use in rail infrastructure. Not only did this represent additional revenue but it reduced disposal and increased storage space. Significantly, in 2018 Saldanha supplied some 1.5 million tonnes of Corex and steel slag to a new crude-oil storage and blending facility being built in the town. By mid-2019 Saldanha will have sold 2 million tonnes to the OTMS facility, virtually eliminating by-product stockpiles.

Strategic objective 3:
Being a valued, responsible corporate citizen

We actively invest in the quality of our stakeholder relations so that, together with others, we can create real social value for our financial value chain, communities and society

2018 environmental performance

ArcelorMittal South Africa considers environmental performance one of its most material issues, an issue which has been of particular leadership focus for some time.

In 2018 our capital expenditure on environmental controls was R105 million, more than double the R41 million spent on mitigating our impacts in 2017. We envisage that this allocation will increase in 2019 with substantial improvements being earmarked for Vanderbijlpark's coke gas-cleaning facility.

Our environmental policy

We strive to achieve the ArcelorMittal group's sustainability outcomes and policies, to make efficient use of resources and to achieve high utilisation rates for our by-products.

The 10 principles of the ArcelorMittal group's environmental policy – which guides our stewardship of the environment – are:

- Implementation of environmental management systems including ISO 14001 certification for all production facilities
- Compliance with all relevant environmental laws and regulations and other company commitments
- Continuous improvement in environmental performance, taking advantage of systematic monitoring and aiming at pollution prevention
- Development, improvement and application of low impact, environmental production methods taking benefit from locally available raw materials
- Development and manufacture of environmentally friendly products focusing on their use and subsequent recycling
- Efficient use of natural resources, energy and land
- Management and reduction, where technically and economically feasible, of the CO_2 footprint of steel production
- Employee commitment and responsibility towards environmental performance
- Supplier and contractor awareness and respect for ArcelorMittal South Africa's environmental policy
- Open communication and dialogue with all stakeholders affected by ArcelorMittal South Africa's operations

Three-year key performance indicators

KPI 11

Preferential-procurement spend (percentage of total spend %)

	2018	2016	2017
EMEs	2.97	3.28	2.88
QSEs	6.56	6.85	6.42
Black-owned business	25.76	14.01	22.19

KPI 12

B-BBEE compliance score

2018	2016	2017
Level 5*	Level 3	Level 5

*Self-assessed and subject to external audit.

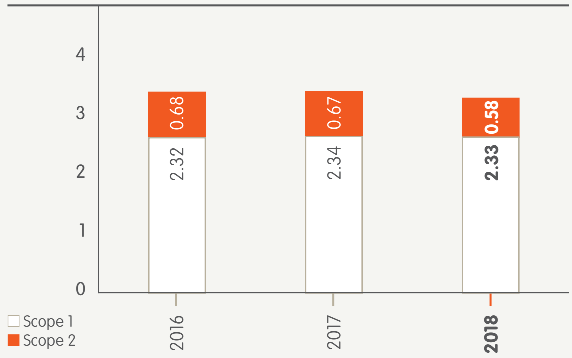
KPI 13

Environmental spend (Rm)

2018	2016	2017
105	38	41

CO_2 emissions (per tonne of steel)

(tCO_2/t liquid steel)



Our ISO 14001-certified environmental management systems are based on these core principles. In 2018 all of our operations retained their ISO 14001 certification.

We are bound by environmental legislation including the National Environmental Management Act, No 107 of 1998 (NEMA); the National Environmental Management Air Quality Act, No 39 of 2004; the National Water Act, No 36 of 1998 and the National Environmental Management Waste Act, No 59 of 2008.

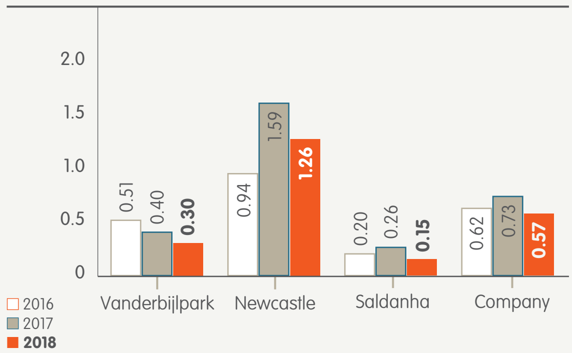
In 2018 our most material environmental issues were:

Emissions to air	Proposed carbon tax and climate change-related developments	Water management	Rehabilitation of legacy sites	Achieving compliance

The chief technical officer (CTO) is responsible for overall environmental management, compliance and carbon and climate-change issues. The CTO reports to the health, safety and environment committee of the board on environmental activities, performance, policies and outlook. The committee in turn raises material environmental issues with the board. On an ongoing basis, environmental performance is monitored by the exco environmental committee (a subcommittee which makes recommendations to the executive committee).

From time to time, operations experience instances of poor performance, which may be due to technical faults or other reasons. However, we have become more effective in identifying and addressing these operational issues as quickly as possible. Processes and structures have been created to enhance monitoring and reporting in this regard, and to ensure that reasonable steps are taken to address any shortcomings.

Particulate emissions (kilogram per tonne of liquid steel) (kg/t liquid steel)

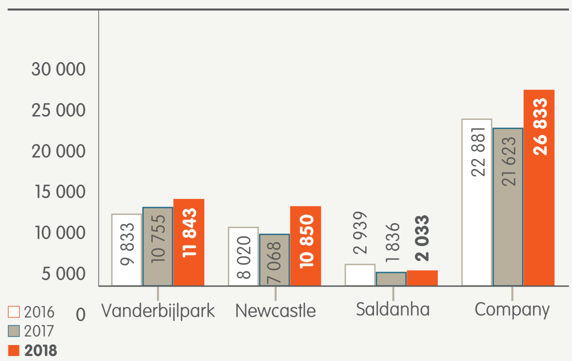


Emissions to air

Despite spending R340 million on a new coke gas-cleaning facility in 2010, Vanderbijlpark has continued to experience technical and operational challenges with this facility.

In May 2018 the Gauteng Department of Agriculture and Rural Development (GDARD) issued a pre-compliance notice relating to Vanderbijlpark's air emission licence (AEL) and authorisation concerning the gas-cleaning plant. (Prior to receiving this notice, the company had begun working on plans to improve performance of the plant). Responding to the pre-compliance notice, the company explained in detail the unforeseen difficulties experienced at the gas-cleaning facility and proposed improving and even rebuilding the facility, to be fully operational within a period of two-and-a-half years. It also addressed perceived difficulties in relation to Vanderbijlpark's AEL.

Total SO_2 emissions (tonnes per annum) (t/annum)



In August GDARD accepted ArcelorMittal South Africa's proposals and issued a compliance notice giving effect to the proposals. The compliance notice required, *inter alia*, that the coke gas-cleaning facility be improved and reinstated within the agreed 30 months from the date that orders were placed for the required equipment. As part of this commitment, the board has approved significant capital expenditure over the next two-and-a-half years.

The compliance notice further stipulated that a small normalising furnace at Vanderbijlpark's foundry be shut down as GDARD was of the view that this furnace was not adequately or correctly licensed in the AEL. The company did not share this view but fully cooperated with the relevant authority. The closure of the normalising furnace did not have a material effect on Vanderbijlpark's operations.

In January 2019 we were informed of the prosecuting authority's intention to institute a criminal prosecution in relation to two listed activities and the sulphur-related emissions (in 2016) at Vanderbijlpark Works' coke-making facilities. It was agreed with the prosecution that before a prosecution was instituted, we would first be afforded an opportunity to meet with the prosecution to make representations regarding our defences against potential charges. This process had not been concluded at the time of reporting.

As previously noted, in 2017, the dust-abatement system at Newcastle's blast furnace cast house collapsed. Improvements costing some R71 million were completed in 2018 but the structural integrity of the cast house floor needs further attention before this abatement system can achieve its full potential. At Newcastle a new abatement facility to improve dust extraction from the sinter building and emissions from the stack of this facility was completed in 2018. At the time of reporting, these improvements were in the final stages of commissioning.

Vanderbijlpark's sinter main stack remained sporadically non-compliant during 2018, the company responding with the appointment of a dedicated team to implement, and monitor, corrective actions at the abatement facility which had been commissioned in 2012 but which had failed to perform to specifications and our expectations. At the time of reporting, compliance was projected by April 2019 but it was expected that this objective would be achieved sooner, based on very encouraging performance during November and December 2018.

Despite these challenges, Vanderbijlpark's sinter performance was significantly improved, such that, at 0.30kg per tonne of liquid steel, particulate emissions for Vanderbijlpark Works were fully a quarter down on those of 2017. For the whole company, specific particulates (kg/t) were 22% lower than those of 2017.

Similarly, CO_2 intensity reduced by 3.3% to 2.91tCO_2/tonne liquid steel. This derived from increased self-generation of electricity, energy efficiency measures and higher steel production.

In the year SO_2 emissions grew by some 24% in absolute terms. This derived from improved monitoring, higher readings from Newcastle's sinter plant and an increase in the sulphur content of coal received. `

Water management

In 2018 our performance on water abstraction per tonne of liquid steel was 8% lower than that of 2017 which, at 3.16kl per tonne of liquid steel, was the lowest in our history and a figure which compared favourably with the best performances worldwide. Our abstraction per tonne of liquid steel in 2018 was 2.90kl/tonne.

Our ZED performance in the year was pleasing, Newcastle and Saldanha complying with our commitments in this regard. Vanderbijlpark Works showed a very encouraging improvement with full ZED compliance being achieved in November and December 2018.

At year-end various measures which had been planned, funded and applied for at our Saldanha Works were still awaiting regulatory approval. These measures included using treated sewage water and groundwater abstraction.

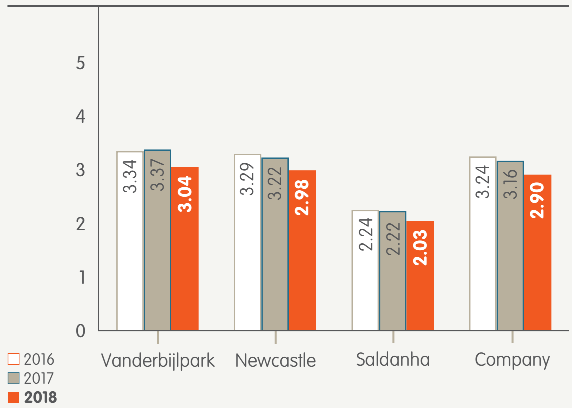
Energy efficiency

In 2018 our specific total energy consumption per tonne of liquid steel decreased by 3.4%. This improvement was achieved through actions to reduce coke and coal consumption, supplemented by the results of our energy-efficiency drives.

The electricity cost per tonne of liquid steel fell by 3.2% while the tariff increase was 6.9% per megawatt hour (MWh). We succeeded in reducing absolute consumption by 6.1%, our efforts being largely undertaken to mitigate the effects of tariff increases. In the year there was a 9.4% decrease per tonne in specific purchased electricity consumption compared to 2017. This was achieved through increased throughput, energy efficiency improvements and higher self-generation.

Specific natural-gas consumption decreased in 2018 by 7.3% per tonne compared with an 11% decrease in 2017.

Fresh water intake (per tonne of steel)
(kℓ/ t liquid steel)



The first phase of a variable-speed drive (VSD) project reduced Eskom purchases by 79.8GWh in 2018 – 2.6% of current consumption. A second phase of the VSD project will start in 2019 with targeted electricity savings of 30GWh. In 2018 an additional 52GWh was self-generated compared to 2017, reducing our indirect CO_2 emissions by approximately 49 000t.

Despite continued efforts to improve our plants' energy efficiency, our current electricity cost burden poses a direct threat to our competitiveness and survival. Total electricity spend in the year was R2.7 billion.

Carbon tax and by-products

Draft legislation providing for the imposition of carbon-emissions taxes was approved by the Parliamentary Standing Committee on Finance in February 2019. This bill was not materially different from previous iterations.

We are still of the view that our carbon-tax liability could peak at some R300 million per year. However, two sets of related regulations, currently being prepared by the authorities and likely to be published in Q2 2019, could have the effect of slightly lessening our carbon-tax burden.

In our 2017 integrated report we reported that by-product sales were well short of recent levels – the result of depressed economic conditions. We also noted that since 2015 the company has been unable to sell BOF slag produced at Newcastle because of a government compliance notice/directive requiring buyers of BOF slag to acquire waste management licences. In 2018 the imposition of this 225 000 tonne of slag which otherwise could have been sold.

We have consistently argued that, contrary to the view espoused by the authorities, BOF slag is a by-product and not a waste product. After exhausting all administrative options to get the notice/directive overturned, the company was compelled to take the authorities' decision on review at the High Court. In June 2018 the company received a favourable ruling but this ruling could be subject to an appeal.

Despite these obstacles, in the year the percentage of byproducts which had to be disposed of fell from 40% to 33.5%. This decline stemmed from lower generation of by-products and higher sales.

2018 social performance

Issues which, in 2018, were most material to our company creating real social value:

- Supporting the viability and growth of the downstream steel and manufacturing sectors
- Investing in socio-economic development and enterprise and supplier development initiatives which have real impacts within our communities
- Transforming our supply chain
- Driving transformation within the pillars of the B-BBEE Codes of Good Practice

Since 2016 we have actively sought to engage with like-minded entities, both public and private, to maximise our efforts and investments in social value creation. In this regard we focus on the sectors and geographic regions in which we operate, specifically the Vaal Triangle, the West Coast and northern KwaZulu-Natal.

In our 2017 integrated report we detailed how we were able to secure matched co-funding from the Department of Trade and Industry to the value of R15 million for the Matlafatso incubation hub in Sedibeng. In total, R30 million will be required for the hub's start-up capital cost, as well as operational costs during its first three years.

In similar vein, with various local businesses and provincial and local government, we were instrumental in building a corporate procurement forum and a new-business portal for 1 400 emerging enterprises in the greater Saldanha area.

ArcelorMittal South Africa has a dedicated transformation office employing 15 individuals (2017: 10) full time – both at our head office and at each of our manufacturing operations. This team is responsible for carrying into practice our social value creation policies and projects including our B-BBEE execution, socio-economic development and the transformation and empowerment of our supplier (and potential) supplier base.

Management has a B-BBEE committee which meets monthly and considers matters which are formally reported under the B-BBEE Codes of Good Conduct but which also impact our broader interaction with communities, society and suppliers. The board and the transformation, social and ethics committee, interrogate, and give direction to, management on the company's social value creation.

Our 2018 performance

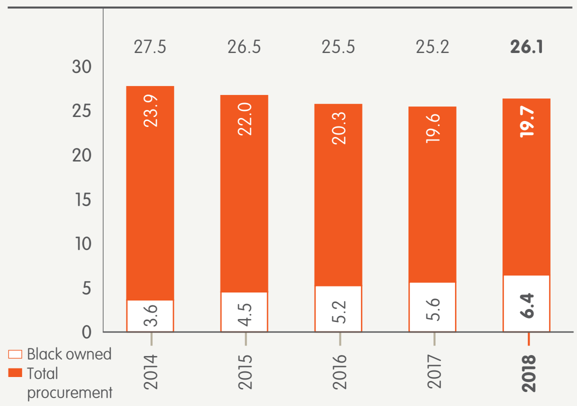
Enterprise and supplier development and preferential procurement

Procurement

As a large industrial concern with a substantial supply chain and with multiple economic linkages we believe that it is by leveraging our buying power that we can have maximum social and transformational impact.

In 2017 we reported that the board 'had directed management to focus on growing spend with majority black-owned EMEs and QSEs'. In 2018 spend with EMEs and QSEs increased (when measured relative to total procurement spend, by 3% and 2% respectively. These increases occurred despite tough economic conditions. Similarly, procurement from black-owned and black women-owned companies improved by 16% and 86% respectively. The result was that in 2018 procurement from black-owned businesses represented fully a quarter of all procurement.

Black-owned procurement (billion)



In the year our percentage of total procurement recognised as B-BBEE spend fell by 12%. This stemmed primarily from a decline in the B-BBEE compliance of a small number of our key raw material suppliers.

Enterprise and supplier development (ESD)

As with other elements of our performance against the B-BBEE codes, our recognised spend on ESD exceeded required levels. Relative to our, eventual, actual profit, however, we believe that we underperformed.

In 2018 our company spent R8.7 million on enterprise development and R21.7 million on supplier development.

In the year we conducted business with 27 supplier development beneficiaries. In total we have directed procurement spend to the value of R138 million towards these beneficiaries. Employment is tracked with respect to our Matlafatso incubation hub only; for the hub's 11 beneficiaries, at year-end employment stood at 170 (2017: 102). This year, these emerging businesses grew their verified contract pipeline from R8 million to R15 million.

The ArcelorMittal South Africa business park in Vanderbijlpark hosted two medium-sized township businesses employing 114 people (62 the previous year). This year a similar small-business park was opened in Newcastle. Increasingly, several of our enterprise-development investments are focused on providing much-needed community infrastructure and socio-economic development support.

Despite financial challenges which negatively affected our procurement from EMEs and QSEs, we grew our database of QSE/EME suppliers by 2% to 1 135. In 2018, 27 registered suppliers benefited from supplier-development support including mentoring, the provision of workspace and business-services support.

In Saldanha the company continued, from 2017, its multi-stakeholder engagement with the West Coast Business Development Centre (WCBDC), sponsoring development of local community-based entrepreneurs. To this end, the WCBDC assisted more than 4 000 start-up enterprises with compliance-related matters. A further 768 entrepreneurs were supported with the registration of their businesses. These entrepreneurs also benefited from 353 training courses offered by the WCBDC.

Socio-economic development (SED)

This year, for the first time, we report the SED contributions made by Thusong Projects, a non-profit company under the auspices of the Vesco Group.

In 2018 Thusong Projects made scores of donations to 56 NGOs, charities undertaking vital social responsibility work in Saldanha, Newcastle and the Vaal Triangle. In total, these vital disbursements were worth R8 million. Examples included the provision of 6 500 meals per day via Thusong-run soup kitchens and the sponsoring of food hampers, toys, feminine products and educational aids.

As in previous years, our greatest SED commitment took the form of sponsoring our three science centres, in the Vaal Triangle, Newcastle and Saldanha. At a cost of R13.2 million (2017: R11.4 million) these vital community upliftment and investment resources reached 19 000 learners from 1 162 schools while outreach programmes emanating from the science centres benefited 70 000 learners and adult community members. In 2018 the science centres broadened their social impact by positively influencing early-childhood development beneficiaries and adult learners.

In total in the year ArcelorMittal South Africa's socio-economic development spend stood at R14 million (2017: R23 million). This amount (which included our sponsorship of the above mentioned science centres) was spent on projects, donations and education, training and empowerment projects. An example of the latter was a grant of R250 000 made to the Get On Skills Development Foundation which, in the year, supported disadvantaged young people by imparting basic business and entrepreneurial skills.

During 2018 the company contributed R4.5 million in cash towards local community investment specific to the Tshikondeni village, outside the discontinued coal mine in Limpopo. In addition, ArcelorMittal South Africa donated capital infrastructure to the value of R83 million – all of which is earmarked for creating a sustainable local community legacy post-mine closure. Additional investment will occur during 2019.

B-BBEE rating

A year ago we reported that we had been externally assured as a level 3 contributor. This was a major achievement given our recognition, only three years previously, as level 7.

In 2018 our status dropped to a self-assessed level 5. This level is subject to audit. This deterioration derived from our weaker share price (which negatively impacted us on the ownership net value sub-element category of the B-BBEE codes). Despite this setback, ArcelorMittal South Africa performed exceptionally on preferential procurement, ESD and SED; in other words, those transformational actions and investments which were within its control.

Supporting the viability and growth of the downstream steel and manufacturing sectors

In the past our company has been criticised for being indifferent to the needs of individual customers, especially those which were not considered 'key'. How the businesses which buy and use our steel perceive ArcelorMittal South Africa will inevitably impact our treatment by government, regulators and state-owned enterprises, all of which can have substantial impacts on our sustainability. We have a fundamental and vested interest in the wellbeing of the steel downstream.

In seeking to meet customers' needs we introduced, this year, a much more flexible approach to pricing while developing –

typically in consultation with manufacturers – new products and specifications. Our long steel products division was especially active in this regard, scoping and developing some 10 new product categories. Expected volumes per category range between a few hundred tonnes per annum to, potentially, tens of thousands of tonnes. New products developed for flat steel were mostly aimed at import replacement, often to replace inferior and even hazardous imported products.

In 2018 the company granted R249 million in value-added export rebates (2017: R322 million).

Through organisations such as the SA Iron and Steel Institute and directly, we engaged extensively with government, including the Department of Trade and Industry (DTI) and its steel industry task team, whose interventions since 2015 have been essential to saving tens of thousands of South African jobs.

Where appropriate and whenever requested, we have advised and consulted on the R1.5 billion Steel Development Fund – which was initiated with funding from the DTI and leveraged by the Industrial Development Corporation (IDC) using its own funds.

This year ArcelorMittal South Africa paid an amount of R45 million (2017: R60 million) to the Committee of Secondary Manufacturers (COSM) to help sustain the downstream. These funds are sourced from a voluntary levy paid by the company.

Regrettably, our heightened customer focus this year did not translate into a significant improvement on our key on-time delivery indicator (OTD), which rose from 51% to 57%.

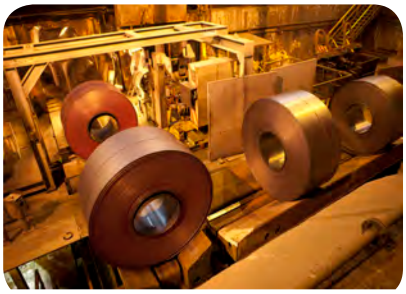
Public-private partnerships

Since 2015, by exercising a much greater degree of transparency and by putting into practice our stated willingness to seriously embrace transformation and social value-creation, we believe we have fundamentally changed and improved the quality of our public-sector stakeholder relationships.

Our business transformation programme has placed a great value on the ability of public-private partnerships (PPPs) to unlock value and to ensure our sustainability. Working closely with a number of development finance institutions, at the end of 2018 we were progressing various promising opportunities. All of these have the potential to support our business's transformation and sustainability while creating great social value. Given our size and linkages across the South African economy, ArcelorMittal South Africa is uniquely positioned to work with government on various opportunities to develop black industrialists.

Public-private partnership opportunities include:

- The development of coking coal capacity in which our company would either be an investor or commit to an off-take agreement
- Possible acquisitions and company divestments, which would support the growth of black industrialists or positively influence our balance sheet
- Pelletising of fine iron ore, junior miner offtake agreements, coal sourcing and channel market management through the state's black industrialisation programme
- Participation of black industrialists in our new Africa export focus



Outlook

In addition to the large sums required for the coke gas-cleaning rebuild in Vanderbijlpark and other air-related projects, additional capital expenditure will be directed towards addressing challenges relating to the construction of disposal sites and stormwater discharge. At Newcastle such discharges have been sporadic but challenging from a water use licence perspective. Vanderbijlpark stormwater discharges are not always compliant with the plant's water licence and the company is engaging on the issue with the Department of Water and Sanitation.

Rehabilitation at the Thabazimbi iron ore mine – whose assets the company acquired in November 2018 – will continue, as detailed in the site's environmental management plan endorsed by the Department of Mineral Resources.

Rehabilitating legacy sites at Vanderbijlpark, Vereeniging and Pretoria will be ongoing. A priority will be fulfilling the regulatory requirements of climate change-related legislation and the proposed carbon tax.

Further particulate-emission reductions are expected in 2019 following the completion of improvements to the abatement system at Newcastle's blast furnace cast house.

In the new year, an increase in the specific electricity consumed is anticipated – due to the Vereeniging electric arc furnace restarting.

Strategic objective 4:
Transforming our culture

Only a highly-skilled, motivated workforce will ensure our ability to generate sustainable profits and to create value for our communities, our people, the company and its investors

Forging a new culture

In 2018 the executive leadership clearly and consistently communicated to all employees a new vision of fundamental and sustainable transformation and prioritised creating a pervasive culture of delivery, urgency and business transformation. To this end, the human resources function was directed to begin a review of the extent to which employees' abilities, skills, experience and values supported the future transformed ArcelorMittal South Africa.

This approach, to matching the right skills and values with required outcomes, was premised on using contemporary psychometric tools and methods to assess values orientation, to ensure that the organisation starts to correctly shape the required blend of skills sets and values. The results of this wide-ranging process will have important implications for career development and, especially, succession planning as we migrate from a default orientation of hierarchical control to a more collaborative and results-oriented culture.

Our return to profitability in 2018 presented a further opportunity to reinforce a belief in the organisation's ability to turn around and succeed in consistently achieving positive results. It also allowed the company to recognise its employees' hard work by paying performance incentives to both bargaining unit and package category staff.

Human resources and transformation

Our new executive leadership instructed the human-resources function (which in early 2018 itself came under new leadership) to direct resources and expenditure away from 'transactional' HR functions to those which will support the business transformation process. Traditionally transactional or administrative functions consumed more than two-thirds of HR capacity and contributed to a vacuum in the more transformative and strategic output required from HR. To this end, the HR function was refocused in 2018 into three key areas to more directly support the business transformation objectives:

- Performance, development and succession
- Resourcing
- Organisational health and development.

In 2018, organisational-health and culture workstreams were established organisation-wide, using input and data collected from the annual *Speak Up* survey as well as 30 workshops and face-to-face interviews. Organisational health, focusing on the interplay between culture, values, motivation and delivery, is now a key strategic thrust and underpins all of the primary workstreams in the business transformation process.

Retaining vital skills and minimising job losses

Very few large South African companies which have been in the consistently challenging situation in which we have found ourselves in recent years have succeeded to the extent that we have in minimising job losses. At many mining, engineering and industrial concerns, mass layoffs and retrenchments have been an almost inevitable management response to falling, or negative, profitability. This has not been the case at ArcelorMittal South Africa, an achievement which should not be underestimated, particularly given the profoundly important roles our production facilities play in the economic and social wellbeing of at least three important geographic regions.

Our full-time (employment) equivalents have remained little changed in recent years. This has been no mean achievement and derived largely from the integrated social compacts which we have had with governments at all levels, with communities and with organised labour.

At the end of 2018 our Own Labour complement stood at 8 837 (2017: 8 913). This represented a minimal reduction in head count while contractor and hired labour reduced by some 305 positions.

At 4%, our voluntary turnover rate was the same as that of 2017 but down on the 5.3% of 2016.

From 2018 the company's three-year wage agreements with unions Numsa and Solidarity (representing a combined 99% of bargaining unit employees) will facilitate a period of stable labour relations and allow for a dedicated focus on transformation for sustainability and growth. In 2018, as in previous years, there were no incidents of industrial action and wage negotiations were completed amicably.

Three-year key performance indicators

KPI 14

Total cost of employment (TCOE): TCOE/tonne of liquid steel (ZAR)

2018	1 083
2016: **1 063**	2017: **1 049**

KPI 15

Management control performance (under B-BBEE codes)

2018	9.23
2016: **9.50**	2017: **9.22**

Training expenditure, cost and skills-development pipeline

Cost	2018	2017	2016	2015	2014
Training expenditure (Rm)	**140**	154	184	202	151.4
Training hours	**313 318**	317 072	519 000	581 295	310 507
Individuals directly impacted by skills development					
Apprentices	**752**	743	546	462	447
Learner technicians	**10**	21	46	41	24
Production learners	**559**	414	416	422	374
University and University of Technology bursars	**136**	129	115	111	107
Candidate engineers	**89**	74	46	44	43
Candidate technicians	**40**	52	30	33	52
Candidate artisans	**75**	53	117	153	84
Graduates in training	**26**	32	30	35	17
Total development pipeline	**1 687**	1 518	1 346	1 301	1 148

Employee training investment-equity breakdown

Pipeline and pipeline employment equity

		African		Coloured		Indian		White		Total		
Pipeline	**Total**	Male	Female	Male	Female	Male	Female	Male	Female	**Male**	**Female**	**%EE**
Apprentices	**752**	578	87	27	1	27	2	30	0	**662**	**90**	**96%**
Candidate artisans	**75**	63	4	0	0	6	0	2	0	**71**	**4**	**97%**
Candidate engineers	**89**	25	17	0	0	10	6	25	6	**60**	**29**	**65%**
Candidate technician	**40**	23	10	2	0	2	1	2	0	**29**	**11**	**95%**
Graduates in training	**26**	9	13	0	1	0	1	0	2	**9**	**17**	**92%**
Learner technician	**10**	8	1	0	1	0	0	0	0	**8**	**2**	**100%**
Production learners	**559**	410	78	31	5	9	1	22	3	**472**	**87**	**96%**
University bursars	**113**	36	18	2	4	13	7	26	7	**77**	**36**	**71%**
Technician bursars	**23**	9	13	0	1	0	0	0	0	**9**	**14**	**100%**
Total	**1 687**	1 089	190	82	17	67	18	109	15	**1 397**	**290**	**93%**

UIF partnership apprenticeship profile

		African		Coloured		Indian		White		Total		
Pipeline	**Total**	Male	Female	Male	Female	Male	Female	Male	Female	**Male**	**Female**	**%EE**
UIF apprentices	**197**	166	25	1	0	1	0	4	0	**172**	**25**	**98%**
Total	**197**	166	25	1	0	1	0	4	0	**172**	**25**	**98%**

Strategic objective 4:
Transforming our culture continued

Employee benefits

Membership of a retirement fund is a condition of employment for all permanent full-time employees. At Saldanha, employees become members of the Saldanha Steel Retirement Fund while all other employees may choose to become members of either the ArcelorMittal SA Selector Pension and Provident funds or the Iscor Employees Umbrella Provident Fund. The basic contribution rate towards the retirement funds is a combined 17% of pensionable salary. This compares favourably with industry averages.

All three funds are properly governed in terms of the Financial Sector Conduct Authority's (Formerly FSB) Circular PF No. 130 titled *Good Governance on Retirement Funds*. The cost structures, benefit design (death and disability benefits) and investment performance of all three funds compare well with predefined benchmarks of similarly structured funds. By virtue of these being defined contribution funds, there is no employer liability.

Outsourcing of the sole remaining defined benefit fund (Iscor Retirement Fund), from the company balance sheet point of view, was effectively completed when the guarantee moved from the fund (employer) to the insurer (Old Mutual), to the value of R181 million. This was achieved on 1 January 2018. From a regulatory point of view, the company remains a participating employer until the fund is liquidated and de-registered with the authorities.

While the monetary 'hedging' has been addressed; the regulatory fund winding-down process is long and cumbersome.

The process, post-movement of assets, consists predominantly of two major steps:

Movement of assets from the fund to individual pensioners	Liquidation of the fund

The trustees have a detailed roadmap for the above processes and timelines. Parts of the processes are, however, beyond the control of the fund's trustees as they are in the hands of the authorities. Trustees do, however, keep following up on progress and current timelines suggest that this process will continue well into 2019.

Pursuant to the issuing, by the Minister of Finance, of final default fund regulations in terms of the Pension Funds Act, all company funds are working towards complying with these regulations. In line with the intent behind the regulations, established task teams are on track to ensure that funds meet the target date of 1 March 2019.

There are four accredited medical schemes at ArcelorMittal South Africa, from which full-time employees may choose. Company subsidy is 60% of the option chosen, subject to a maximum cap, which is reviewed annually (the current cap is R2 894). As negotiated with the schemes, most underwriting conditions have been waived. At the end of 2018, 97.31% of all employees were on company-provided medical schemes. The balance were on spouses' medical schemes.

OUR HUMAN IMPACT

A lifetime of learning

In 1993 when he began an apprenticeship at what was then still called Iscor, Calvin Mokgote's was one of only a few black faces in that year's intake.

'There were about 200 of us starting our apprenticeships back then; maybe five of us were black,' he recalls.

Things have certainly changed. Today white faces are the minority among the hundreds acquiring vital technical skills at the ArcelorMittal South Africa Engineering Academy in Vanderbijlpark.

Since joining Iscor as a loader in 1991, Mokgote first did a four-year electrician apprenticeship, working in Vanderbijlpark's plate mill for 15 years until he took advantage of another opportunity – to do a company-sponsored conversion to technician. These days Mokgote is a training officer at the same academy where he spent so many years, teaching the ins and outs of AC and DC motors and generators.

In 2012 Mokgote earned a national diploma in electrical engineering and he's now working towards a B.Tech degree, to become an engineer.

At 47, Mokgote's career at ArcelorMittal South Africa has undergone profound change. And so has the company – and the business. If you have the right attitude and ability, the company will back you, whoever you are,' he says.

Training for transformation

An outstanding company achievement in 2018 was the extent to which we succeeded in not only maintaining the quality and size of our technical skills pipeline, but in actually growing it. This was achieved despite a significant reduction in the company's training and skills development spend year on year.

In total, training hours were similar to those of 2017 at 313 318 hours, with 16 000 of those hours being devoted to the re-skilling of individuals affected by the Section 189 process undertaken in the previous year.

At year-end, 752 learner artisans (apprentices) were undergoing three-year apprenticeship training through our Engineering Academy. This was 38% up on the figure for 2017. Some 96% of apprentices were from historically disadvantaged backgrounds.

As previously reported, in 2016/17, almost 200 unemployed, overwhelmingly AIC, candidates underwent apprenticeship training provided by ArcelorMittal South Africa, facilitated by the Manufacturing, Engineering and Related Services Seta (merSETA) and funded by the Unemployment Insurance Fund. One hundred of these are scheduled to leave the Engineering Academy in March 2019 with the remainder exiting at the end of next year after having obtained trade qualifications.

In 2018 production learners numbered 559, up from 414 in 2017. Not only are production learners less costly to train than full-time apprentices, our production processes benefit from valuable work contributed by these youngsters (typically production learners spend 70% of their time on the shop floor).

Graduating learner artisans to candidate artisans remained a key priority in the year. In the prior year our ability to produce candidate artisans declined sharply but improved 42% this year to 75 positions. Other categories within our technical skills pipeline, including bursars, candidate engineers and candidate technicians, returned similar results to that of the previous year.

We sought to collaborate with like-minded entities to leverage our resources and expertise to produce as many technical skills as possible. As was the case with merSETA and the UIF, in 2018 we worked with the SA Institute of Welding and Majuba College to produce, respectively, qualified welders and refractory masons. In addition, our full-time trainers were instrumental in writing new national curricula linked to occupational codes under the auspices of the Quality Council for Trades and Occupations (QCTO). The QCTO is instrumental in continuously assessing and recommending improvements to various curricula with the aim of improving the quality of the various programmes from an acquired, applicable skills perspective. In 2018 we were the first company to integrate the new codes into our training.

Outlook

The human resources focus for 2019 will be on reinforcing the transformation of our business through a transition to a delivery-oriented organisational culture and the creation of a positive and supportive environment.

Significant effort will be directed towards effectively resourcing the organisation by focusing on delivering the right skills in the right place at the right time. We will progress to higher levels of productivity through intelligent resourcing and by capacitating ownership. A priority will be to create a culture in which every employee is able to make a direct contribution to the success of the business – and is valued and recognised for that contribution.

Strategic objective 4:
Transforming our culture continued

OUR SOCIAL IMPACT

Dressed for success

In 2017 Morena Nyaku gave up a job as an inventory controller in Midrand to take up a position as a storeman at Real Tree in Vanderbijlpark, a company which is ultimately controlled by ArcelorMittal South Africa and is near where he grew up.

Of course, 'inventory controller' is just a fancy phrase for a storeroom manager and becoming a simple storeman meant a cut in salary for Nyaku. But he'd spotted plenty of opportunity at Real Tree.

Freddie Swart, ArcelorMittal South Africa's group manager: transformation centre of excellence, also spotted something – the potential of this now 33-year-old go-getter. Just a year after employing him, Swart made Nyaku first a procurement manager and then the commercial manager of a new company, Sizanane Clothing Proprietary Limited.

Today Sizanane turns over some R14 million, manufacturing and supplying PPE protective clothing and equipment. The business employs 79 seamstresses who make up to 120 trousers and 120 jackets a day, from a specially equipped ArcelorMittal South Africa business park. As well as supplying to the steelmaker, Sizanane has eight other clients across the country. While it's a level 1 B-BBEE company, it has to continuously compete on quality and price.

Sizanane is about serious transformation and upliftment – in its short life it has more than doubled its number of full-time employees and, very soon, another 46 trainees will be added to the payroll. Nyaku, a dapper dancing champion and choreographer, is under no illusions that that kind of decent job creation will only be sustainable if the income keeps coming. And the income will only keep coming if the customers are kept satisfied. 'If we have to get an order to a customer in Newcastle on time and there's no-one else to do it, well then, I'll just get in my car and take it there myself,' he says.
Getting Sizanane up and running is only the beginning for Nyaku. He's constantly scouting for new business and he's just embarked on a Unisa course which will lead, after three years, to a bachelor's degree (mind you, he has some catching up to do on the domestic academic front: his wife is currently studying towards her PhD).

Nyaku makes no bones about his ambitions for Sizanane – or for himself. 'I'm the sort of person who, if you say "no" to me, will keep coming back until you stop saying "no", he smiles. 'I want equity in this business – I want it to be *my* business. It's up to me to make Sizanane such a success that nobody will be able to say, no, I can't own it.'

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