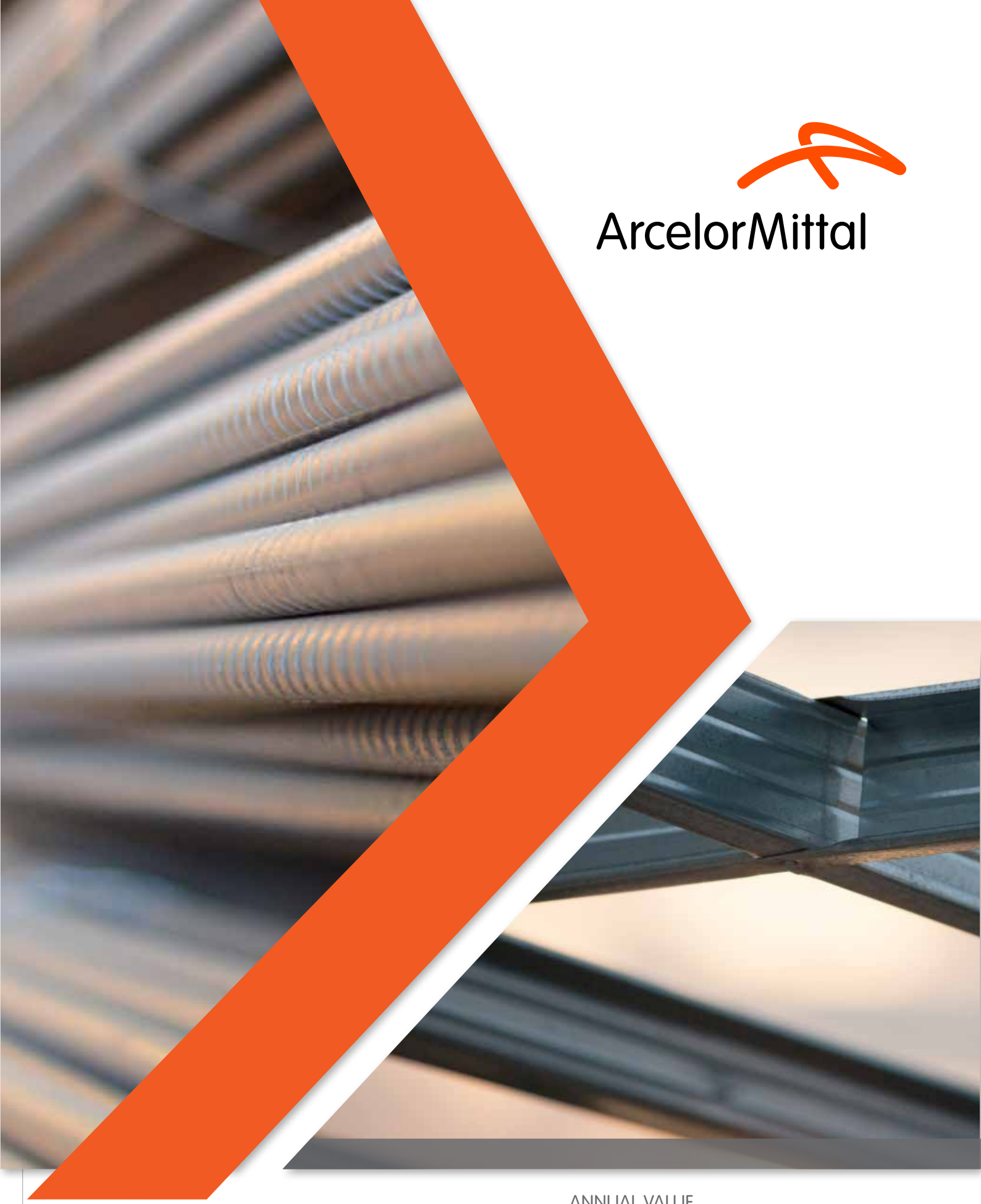


ArcelorMittal

ANNUAL VALUE CREATION REPORT 2017

About this report

ArcelorMittal South Africa's 2017 annual value creation report explains how our leadership's integrated strategy for creating value impacted – both positively and negatively – various stakeholders.

Whereas, in 2017 we again failed to generate profits, we believe that a sustainably profitable company will be able to use its business model, intellectual and manufactured capital and its relationships to create considerably greater non-financial value. This will be to the benefit of employees, suppliers, communities, local, regional and national economies, authorities and the physical environment. Our leadership report contains details on how our board's ethical and effective leadership creates value.

Scope and boundary of this report

This annual value creation report covers the period from 1 January 2017 to 31 December 2017. It concerns the value-creation strategy and strategic execution of ArcelorMittal South Africa as well as its engagement with – and impacts on – its most material stakeholders. In addition, this report includes an expanded (relative to the 2017 integrated annual report) discussion on the company's determination of materiality and its governance of risk.

ArcelorMittal South Africa's business model and its operations, inputs and outputs are described on 2, 3, 8 and 9 of the integrated annual report.

Access our full integrated annual report

The full 2017 integrated annual report, which is available at https://southafrica.arcelormittal.com/InvestorRelations/IntegratedAnnualReports.aspx, provides comprehensive insight into the leadership and operations of the company for the year under review. Copies of the full integrated annual report may also be requested from the company secretary through our registered offices.

Access our full annual financial statements

The full 2017 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.

Feedback

We value feedback from our stakeholders and use it to ensure that we are reporting appropriately on the issues that are most relevant to them.

Please take the time to give us your feedback on this report.

Visit the web link: **https://southafrica.arcelormittal.com/InvestorRelations/Emailus.aspx**

http://www.youtube.com//arcelormittal

https://www.linkedin.com/company/arcelormittal-south-africa/

Contents

How we create social and human value

Local economic and social impact

Our plants are at the very heart of the local economies of the Vaal Triangle, northern KwaZulu-Natal and the West Coast.

In 2017, in addition to paying employees R4.2 billion in salaries, wages and benefits, we spent R29 billion with suppliers and invested R1.38 billion on maintaining and improving our plants and on mitigating our environmental impacts. Much of this work was carried out by local contractors and suppliers. This capital expenditure was spent as follows in these three regions: Newcastle R523 million, Vaal R762 million and Saldanha R97 million.

National economic, industrial and employment impact

More than 70% of our South African sales go to four key industrial sectors which, between them, account for some 20% of South Africa's GDP and almost two million jobs.

Sector	GDP contribution (%)	Our 2017 sales (000 tonnes)
Construction	3.6	1 735
Utilities (water and energy)	2.5	152
Mining	6.3	295
Automotive	7.5	292

Employer, job creator and skills developer

197 – number of full-time apprenticeships offered in partnership with the Department of Labour, merSETA and the Unemployment Insurance Fund

345 – number of jobs revived following the reopening of the Evraz Highveld Steel structural steel mill in Mpumalanga

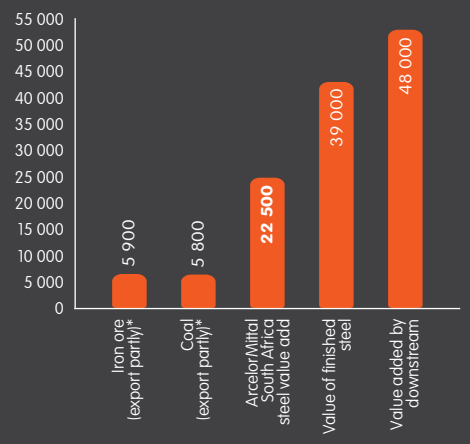
3 – jobs created for every 1 000 tonnes of steel produced

317 000 hours of training conducted at a cost of **R154 million**

Almost **9 000** directly employed, of whom 65% were ACI (African, coloured and Indian)

ArcelorMittal South Africa will enable the NDP by creating value through converting raw material to steel (Rm)

Statistics for 2017



** Tonnes consumed at average EPP for 2017.*

Catalyst for change

R30 million – cost of a 1 600m² business incubation hub opened with the Department of Trade and Industry in Vanderbijlpark

19% – percentage of total procurement sourced from black-owned businesses – up from 14% in 2016

92% – percentage of those in our technical training pipeline who were black. Of 743 learner apprentices, 95% were black, as were 100% of bursar technicians

Level 3 – B-BBEE contributor status

As Africa's largest primary steel producer, ArcelorMittal South Africa is uniquely positioned to create great social and human capital. Our products beneficiate South African raw materials worth billions of rand while underpinning the manufacturing, construction, mining and energy sectors. We invest in thousands of employees, contractors and suppliers and are increasingly working with communities, government and other businesses to transform and grow our economy.

Our steel building Africa

In 2017 ArcelorMittal South Africa:

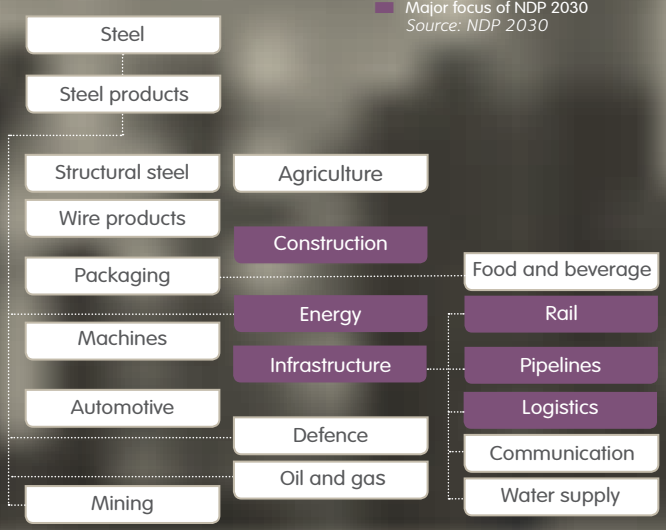
Actively supported applications for import protection on **15** downstream product categories	Grew its technical training pipeline by **13%** to **1 518** individuals	Invested **R23 million** in local communities through socio-economic development (2016: R17.4 million)
Had a freshwater intake of **3 160** litres per tonne of liquid steel – one-ninth of the world average	Reached **54 000** learners through our three sponsored science centres	Grew supplier development by over 80% to **R17.8 million**

Economic growth engine

R322 million – value of rebates given to customers who used our products to achieve new export sales in 2017 – more than three times the 2016 value	**R29 billion** – amount paid to suppliers
R7.3 billion – export revenue – up 34% over 2016	**R60 million** – paid to the Committee of Secondary Manufacturers' Trust to support downstream exports

Touching every part of the South African economy, steel is central to the achievement of the 2030 goals of the NDP

Major focus of NDP 2030
Source: NDP 2030



Enabling the NDP through beneficiation

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

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

Inputs

Natural capital

Raw materials consumed

	2015	2016	2017
Iron ore	6 541kt	6 604kt	**7 234kt**
Coal	4 075kt	4 014kt	**4 056kt**
Consumed scrap*	759kt	684kt	**781kt**
Fluxes	1 658kt	1 733kt	**1 767kt**

** Externally procured and internally generated and recycled.*

Energy

	2015	2016	2017
Electricity purchased (TWh)+	3.40	3.14	**3.26**

+ Externally assured.

Water intake

	2015	2016	2017
Water intake (Mℓ)	18 418	15 475	**15 505**

Human and intellectual capital

	2015†	2016†	2017†
Employees	9 315*	9 056*	**8 913**
Hired labour	106	320	**77**
Service contractors	2 417	2 997	**2 890**
Training spend	R202m	R184m	**R154m**

† As at 31 December.
** Permanently employed (including fixed term contractors).*

Financial capital

	2015	2016	2017
Equity+	R13 472m	R13 543m	**R8 058m**
Borrowings+	R5 029m	R1 950m	**R6 400m**

+ 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

Raw materials

Blast furnaces

Caster

Billet mill

Hot strip mill

We produce three types of products:

Flat steel products

Long steel products

Coke and Chemicals

unsustainable if we do not create real and meaningful value for investors, employees, government, suppliers, communities and customers – while proving that we are doing everything possible to minimise our environmental impact.

Outputs and outcomes

OUR NEW SALES ENVIRONMENT

Since 2016 we have applied fair pricing on flat steel products. Performance on this commitment is transparent with our application of a pricing remedy agreed with the Competition Commission being independently audited.

Financial capital

Shareholders, investors, employees

	2015	2016	2017
Revenue+	R31 141m	R32 737m	**R39 022m**
EBITDA+	(R809m)	R190m	**(R315m)**
Loss from operations+	(R4 736m)	(R1 092m)	**(R1 220m)**
EBITDA margin	(2.6%)	0.6%	**(0.8%)**
Headline loss per share+	(1 338c)	(244c)	**(230c)**
Headline loss+	(R5 370m)	(R2 589m)	**(R2 518m)**

Tariffs and other trade measures aim to protect us and other primary steel producers as well as downstream manufacturers from unfair government-subsidised imports.

Human capital

Employees, contractors

	2015	2016	2017
Safety: LTIFR+	0.48	0.62	**0.66**
Safety: Fatalities+	2	3	**3**
Salaries and wages+	R4 027m	R4 175m	**R4 164m**

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

Manufactured capital

Customers

	2015	2016	2017
Flat steel products sold	2 678kt	2 736kt	**2 995kt**
Domestic market	1 915kt	2 097kt	**2 352kt**
Export market	763kt	639kt	**643kt**
Long steel products sold	1 459kt	1 351kt	**1 262kt**
Domestic market	1 124kt	1 178kt	**950kt**
Export market	329kt	173kt	**312kt**
Coke and Chemicals			
Market coke	451kt	367kt	**193kt**
Tar	96kt	75kt	**82kt**
Other (mostly slag)	1 120kt	710kt	**709kt**

Our pricing and even particulars of our capital expenditure are monitored by independent regulators.

Social capital

Local communities, suppliers, HDSA businesses

	2015	2016	2017
Socio-economic development+	R16.3m	R17.4m	**R23.0m**
Procurement spend	R32 275m	R27 789m	**R29 058m**
Direct GDP contribution	1%	0.9%	**1%**
Taxes contributed	R870m	R837m	**R968m**
Procurement – QSE and EME	R2 500m	R2 750m	**R2 170m**

+ *Externally assured.*

Trade-offs

In 2017, we took decisive action to preserve cash. This meant that we had to reduce costs on many fronts, impacting our employees, suppliers, communities and ultimately our ability to create human and social value.

Manufactured capital

↓ **R636 million**

The amount by which our capital expenditure declined from 2016 – to preserve cash – to R1 382 million

Social capital

↑ **> 300%**

Growth in the value of export rebates given to customers over the previous year, to R322 million. This impacted our bottom line but enabled local customers to earn foreign exchange and to sustain and grow their businesses

Human capital

↓ **2 380**

The number of package category employees and directors who went without salary increases in 2017, in order to preserve financial capital

Social capital

↑ **R1 billion**

The amount by which procurement spend increased from the R28 billion of 2016 as purchases of goods and services from black-owned business rose by almost a fifth

Human and intellectual capital

↓ **R30 million**

The reduction in training expenditure, translating into a third fewer training hours, impacting our intellectual and human capital

Financial capital

↓ **R377 million**

Increase in interest incurred on borrowing following the conclusion of a borrowing-based facility. While financial capital negative, the facility very substantially derisked our business

Risk and materiality

In 2017 our strategy was principally concerned with combating risks to the company's survival.

Whereas significant progress was made this year on ensuring our sustainability, the majority of our top risks remained of such magnitude that they dominated board and management deliberations on strategy formulation and execution. As such, our most material issues derived from our top risks, including continuing risks to the safety of people.

The top 10 risks facing our company in 2017 were:

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

Our most material issues this year were:

- Workplace safety
- Liquidity
- Unsustainable input and fixed costs
- Customer focus and support for the downstream
- B-BBEE compliance
- Environmental compliance
- Optimising our industrial footprint
- Organisational restructuring

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 on our four key strategic objectives:

- Keeping our people safe
- Ensuring financial sustainability
- Creating social value
- Creating a high-performance culture

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 are the issues that 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 a values-driven organisation, safety is our foremost material issue.

The board regularly appraises the quality and content of stakeholder engagements. Our licences to operate derive from multiple stakeholders. In 2017 we deepened both the quality and extent of our stakeholder relationships as well as reporting on these.

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 overseen by the audit and risk committee.

Risk management

This year our risk register highlighted the many ways in which the environments mentioned above posed very real threats to our viability and to our ability to continue creating value.

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. Our new focus on opportunities derives not only from the publication of the King IV code but also from the fact that some top risks (such as B-BBEE compliance and imports) have been significantly mitigated, and that we are now positioned to exploit actions previously taken to mitigate these risks, to create considerable value.

Because risk and opportunity management are essential to our value-creation strategy, in this online annual value creation report we include an extended discussion on the subject.

Risk governance report

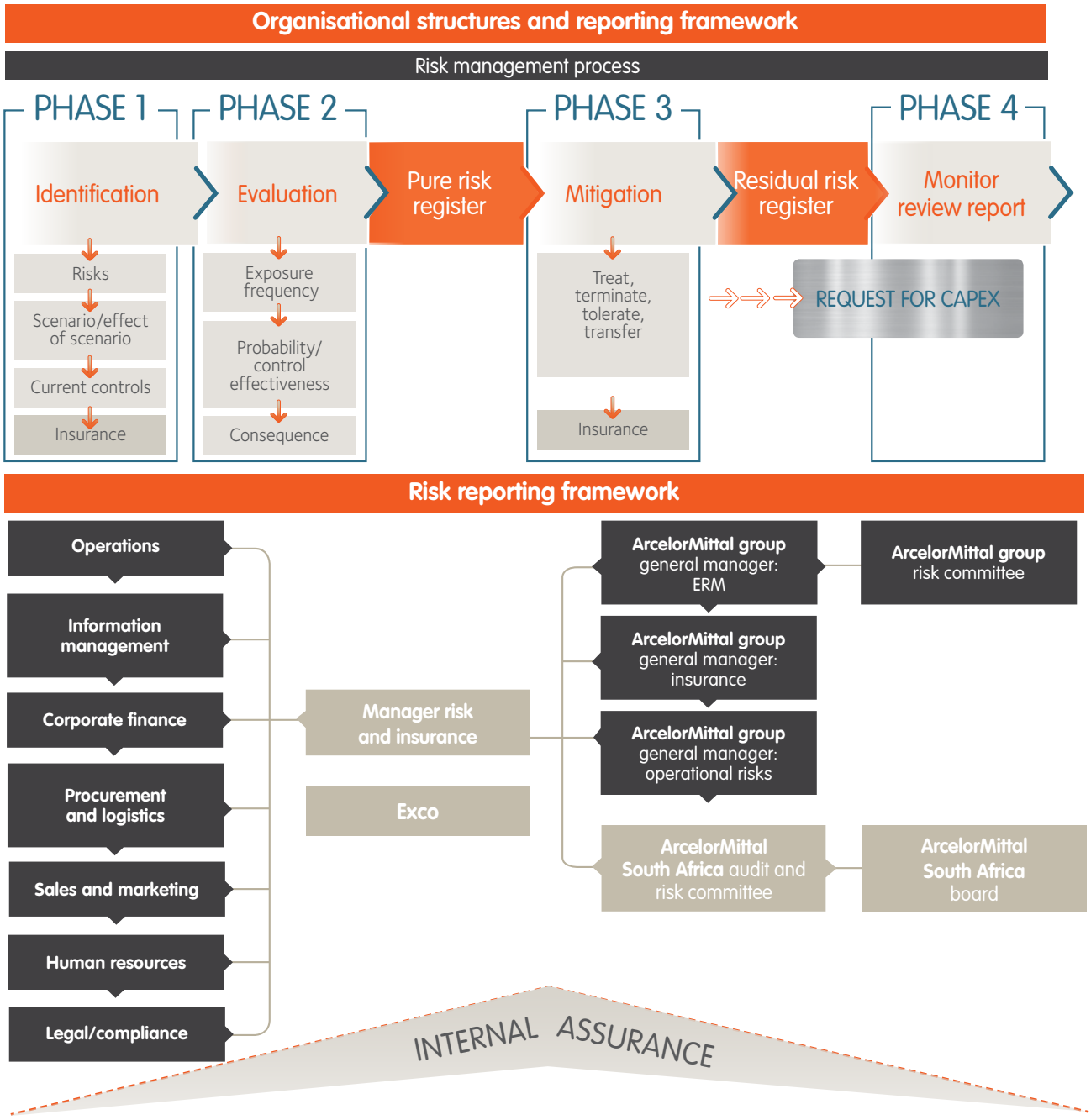
Enterprise risk management

ArcelorMittal South Africa's enterprise risk management (ERM) process is aligned with world best practices, the King IV code, the ISO 31000 and 22301 standards and ArcelorMittal group risk management policies and practices. 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 board. Top risks are also reported to the ArcelorMittal group risk committee via the group enterprise risk manager.

The board bears responsibility for information technology (IT) governance while delegating to management the 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 cyber security threats (including the security of sensitive information) receive considerable attention.



Risk governance report continued

Risk management is structured around the following functional risk areas: sales and marketing, operations, procurement and logistics, human resources, finance, strategic, legal, health, safety and environment. 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 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:

Risk and opportunity

The company actively applies the principles set out in King IV. With the risk management process sufficiently embedded and with the potential impact of some top risks being significantly mitigated, in 2017 the company pursued the identification and evaluation of risk upside (opportunities) as per the King IV code. At ArcelorMittal South Africa, opportunities have been broadly defined as follows:

- Strategic opportunities/projects
  - 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. (In our case examples include reopening the Evraz Highveld Steel heavy structural mill and aligning operations to market requirements).
- Strategic risks posing opportunities
  - The impact of the company's strategic risks is calculated both on 'most credible impact' and 'best case impact'
  - In some cases best case impacts present opportunities. An example is the rand/US dollar exchange rate.
- Project-related opportunities
  - Risks and opportunities on significant capital projects are identified. Opportunities are listed (and assessed), examples of opportunities we have to maximise value creation include the use of local steel in project execution, or the use of local labour when placing contracts with international companies.

Combined assurance

In 2016 the combined assurance process, supported by the risk management system, was implemented in full. The implementation process consisted of four phases:

- Finalisation and testing of the combined assurance process within the risk systems
- Training of risk specialists and risk database users in combined assurance principles and changes to the database
- Conducting combined assurance (control effectiveness) audits on top risks
- Auditing of the combined assurance process by global assurance (internal audit) at the end of 2016.

In 2017 the outcomes of the 2016 process were used to further improve the effectiveness of combined assurance which is today fully integrated into the risk management process. This integration ensures that remediation or improvement opportunities are prioritised and assessed for comprehensiveness.

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.

The components of the COSO 2013 framework are applied as an integral part of the overall system of internal control and are built into the risk management system.

Asset risk management

Any steel industry is, by its nature, exposed to asset risks. A comprehensive asset risk management process is in place to assess, prioritise and address these exposures. The risk management process is directly linked to the capital process, to ensure that risk-based capital allocation is prioritised and scrutinised to address exposures that are real threats to the business.

Over the past five years significant asset risk mitigation actions were executed. Newcastle spent a large amount of capital on reducing its risks. Chief among these investments were a R1.8 billion blast furnace reline in 2014, stove refurbishment, sinter plant reline and a basic oxygen furnace (BOF) flare stack repair. Other business units also spent significant amounts of risk-mitigating capital on items such as the Corex campaign extension at Saldanha (at a cost of R76 million); purchasing of critical spares with gearbox spares being the top priority; upgrading drives and the improvement or installation of fire detection and suppression systems.

New asset risks identified in 2017 were assessed and included in the various risk registers. Top asset risk exposures identified in 2017 were:

- Restriction of water supply (Saldanha)
- Blast furnace stoves
- Motors/generators
- Structures.

Structural risk surveys

ArcelorMittal South Africa's plants are ageing, between 18 and 106 years old. Because of the age of our plants, the risk of structural failure was identified as a focus area in 2015 with continued focus in 2016 and 2017. Although structural risks were identified and mitigated in certain areas, it was further decided to launch an investigation to determine the status of all critical physical structures within the company. This investigation included the identification of structures at risk, the frequency and adequacy of structural surveys, the state of at-risk structures and actions to address concerns identified. Structural risks identified are prioritised and actions to mitigate them allocated.

Maintenance governance

In 2015 the company created a CEO maintenance governance committee. In 2017 meetings of this committee were combined with quarterly asset risk management meetings in order to leverage overlapping principles and opportunities. The principal objective of the combined maintenance and risk governance committee is to monitor the execution of plant maintenance and reliability performance to improve plant availability and reliability while minimising or eliminating major breakdowns and risks. Information discussed supports decision-making processes on:

- Operating/capital expenditure
- Maintenance practices
- Risk identification and mitigation
- Comparison against group technical benchmarking (GTB) information.

A formal presentation on maintenance and risk practices was compiled and scrutinised by the audit and risk committee. These practices include:

- A comprehensive training programme for artisans and operators to ensure reliable operations, thus improving stability
- Predictive maintenance programmes to proactively identify and mitigate risks
- An SAP-based job card system informed by manufacturers' standards to ensure that plants are maintained as per original design
- A comprehensive asset risk management programme linked to capital requirements to address risks in a structured and prioritised manner
- Incident reporting and root cause analysis to reduce/prevent recurring events
- Enabling technologies to support reliable operations
- Maintenance audits to identify and rectify deviations.

Project risk management

Project risk management, a continuing focus area in 2017, 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. Follow-up on project risks and opportunities and the implementation of mitigation actions is done during the project execution phase.

Identifying opportunities as part of project risk management became more relevant in 2017 due to both the drive from risk specialists and the governance expectations set by King IV, and will be a continued focus area in 2018.

Risk management application database

An internally developed risk management database is used to register all risks identified at ArcelorMittal South Africa, 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 evolving risk management discipline informed the implementation of changes to the risk management process and database in 2017. A phased approach was adopted with the following highlighting the 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 with the identification of mitigation actions.

Risk governance report continued

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. The purpose of this policy is to provide a basis for understanding and implementing business continuity within ArcelorMittal South Africa and to provide confidence in the organisation's dealings with stakeholders.

Business continuity plans are implemented according to the risk profile of the company. This year IT business continuity plans were revised prior to the SAP platform being migrated to the cloud. These updated contingency plans ensured a continuation of normal business during the transition period when SAP was down. Operational business continuity plans at other sites will be benchmarked and updated.

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. During 2017 HDI Global, our lead asset insurer, joined our loss surveyors (Axa-Matrix) in the annual loss survey exercise. The chief outcomes of the survey were:

- Improvements identified on:
  - The availability of critical spares
  - Housekeeping that contributes among others towards reduced fire load
  - Management awareness of risks and actions to address exposures.
- Additional emphasis is required on:
  - Compliance with SANS 329 and SANS 10108
  - Hot work permit system application
  - Reliability of fire systems.

Operational risk exposure is measured by risk consultants using a vulnerability index. Loss surveyors evaluate three main categories: management, fire protection and process safety to determine the company's vulnerability index. Our combined vulnerability index for our three major sites was unchanged in the year. Action plans to improve the vulnerability rating have been drafted and form part of the risk management process.

We have an insurance programme in place which is underpinned by an approved insurance policy that 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.

Good risk management practices and vigilance by operations reduced the insurable incidents to such an extent that the company is claim free since February 2013. This improved the company's insurability leading to an approximate 40% reduction in asset insurance premiums in 2017.

Compliance risk management

Until recently, while the company had an effective compliance policy, apart from some pockets of excellence, there was no entrenched compliance culture. In 2017, a compliance risk management framework (whose development had been initiated in 2015) and compliance operating procedures were adopted by the board.

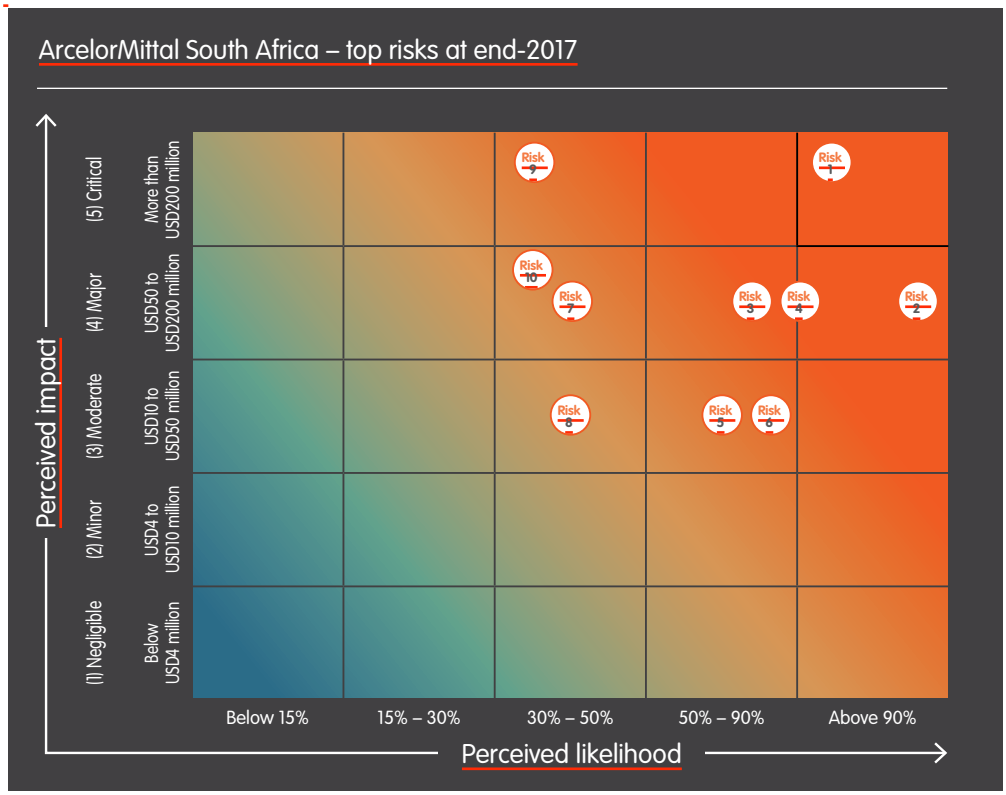
A compliance officer and compliance champions were appointed and, in 2017, underwent extensive training. Competition law was a particular training focus. Also this year the internal audit function undertook a robust audit of the compliance risk management process, finding that satisfactory progress had been made.

Outlook for 2018

In the year ahead we will focus on improving the robustness of risk management by, among other measures, embedding the King IV recommended practice concerning the identification of upside risks (opportunities), taking the risk control effectiveness approach to a more detailed level, improving and testing our operational business continuity plans to mitigate the impact of a disaster and seeking to put in place an alternative risk financing programme when the company's risk bearing capacity is challenged. In 2018 various actions will be taken to embed and integrate compliance risk management at both head office and business unit level.

Most significant risk exposures

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



Risks

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

(1) Rare: very unlikely to occur during the next 12 months

(2) Not impossible to occur during the next 12 months

(3) Possible: can be expected at least once in the next 12 months

(4) Likely to arise once during the next 12 months

(5) Almost certain: will occur several times during the next 12 months

Risk governance report continued

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)
1	**Solvency and liquidity** A decline in markets due to low local infrastructure spend, imports and a decline in steel prices lead to severe cash pressure on the company. Sufficient cash/facilities are crucial during the current trying times	❯ Borrowing-based facility implemented ❯ Promissory notes programme ❯ True sale of receivables (TSR) programme ❯ Subordinated loan facility with ArcelorMittal group ❯ Agreed covenant holiday with lenders ❯ Secured R1.5 billion letter of support from ArcelorMittal group ❯ Supplier financing programme ❯ Import tariffs implemented ❯ Designation of steel in certain sectors ❯ Flat steel pricing model ❯ Safeguards on HRC implemented ❯ Sale of non-core assets ❯ Production efficiency measures ❯ Procurement savings	❯ Expansion of supplier finance and TSR programmes ❯ Ongoing sale of non-core assets ❯ Inventory (working capital) management
2	**Foreign-exchange exposure** With a significant portion of EBITDA costs being rand-based, the company is exposed to fluctuations in the exchange rate	❯ All full commitments covered for ArcelorMittal sourcing purchases ❯ Continuously hedge net firm commitments and maximise cash in functional currency	❯ Investigate alternative hedge positions
3	**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 impact customers, which may prompt them to seek alternative supply, increasing the risk of imports or the loss of market share	❯ Tracking of plant KPIs ❯ Reliability programmes (including root cause analyses) ❯ Maintenance plans ❯ Skills development ❯ Operational procedures ❯ Quality control on input material	❯ Business improvement process ❯ 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
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 price 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 ❯ Initiatives to reduce fixed and variable costs

Measures taken to mitigate our top strategic risks continued

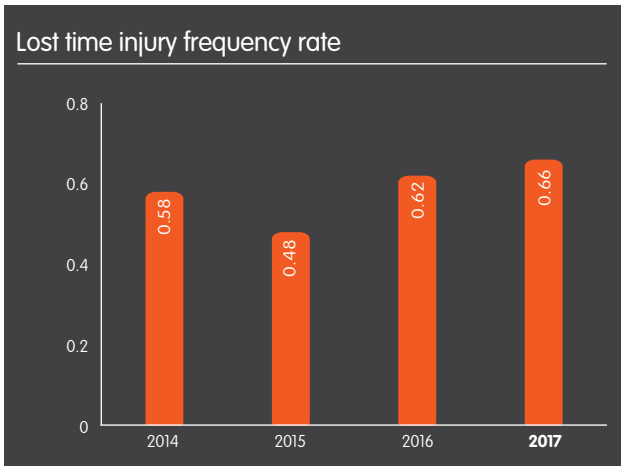
No	Risk name and context	Control details (controls currently implemented)	Action details (additional actions being considered or planned)
5	**Decrease in market demand** Global oversupply of steel puts pressure on steel prices. This, together with lower domestic economic activity and local long steel competition, contributes to market demand declining	❯ Adequate market intelligence, including: • Monitoring of imports • Arbitration meetings ❯ Entry into heavy sections (Evraz Highveld Steel) ❯ Import tariffs implemented ❯ Localisation of steel in certain sectors	❯ Pursuing growth in the Africa Overland market ❯ Designation of steel (education drive to the downstream) ❯ Pursue prescription of local steel to achieve localisation ❯ Engage top 12 customers to improve service
6	**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 HRC implemented ❯ Designation of local steel implemented	❯ Pursue prescription of local steel to achieve localisation. ❯ Ad hoc and proactive engagement with importing clients to match import offers ❯ Improve customer service
7	**Insufficient input material supply and quality of input material** Input material disruptions due to factors such as insufficient stock holding, Transnet Freight Rail inefficiency, supplier disruptions (such as strikes, breakdowns or incidents) or poor quality of input material could result in plant stoppages/disruptions with resultant production losses	❯ Internal logistics improvement plan to address turnaround times ❯ Monthly forum with Transnet ❯ Inventory management ❯ Daily, weekly and monthly planning meetings ❯ Integrated transport plan ❯ Logistics operations centre with Transnet on site ❯ Alternative supply of critical input material ❯ Maintain safety stock levels to serve as contingency	❯ Joint optimisation project between management of company and Transnet to improve service delivery ❯ Investigation into potential technical solutions at the respective plants ❯ Importation of pellets ❯ Potential reactivation of Thabazimbi to mitigate the high alumina levels from Beeshoek and Sishen
8	**Increased input costs** Higher and rising input 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 mechanisms ❯ Weekly stock planning meetings (target stock days) ❯ Optimise internally generated material (eg scrap) ❯ Avoid take-or-pay contracts ❯ Strategic partnerships ❯ Increased Africa/alternative supply ❯ Leakage prevention initiatives	❯ Base volume to be negotiated (rail and road) – thus focus should be on sustainable logistics performance ❯ Hedging of exchange rate on iron ore contract

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)
9	**Safety performance** Non-compliance and non-adherence to fatality prevention standards and unsafe acts and conditions may potentially lead to lost time injuries and ultimately to fatalities	❯ Focus on identifying and reporting serious occurrences/potential to cause serious injury ❯ Driving adherence to fatality prevention standards (FPS) ❯ Shop floor audits ❯ Management presence on the shop floor	❯ Reducing DIFR, TIFR, number of serious occurrences and potential serious injuries or fatalities ❯ Driving fatality prevention standards – level 3 at all sites end-2018
10	**Environmental compliance** Non-compliance with existing environmental laws and regulations could have a significant impact on the company.	❯ Environmental projects implemented, eg waste disposal site (Vanderbijlpark), BOF slag disposal site and refurbishing of coke battery number 2 (Newcastle), baghouses ❯ Ongoing monitoring of air emissions, water quality and waste as required in licences	❯ Individual action plans to partially remediate with capital provision for air/water and waste: • Top projects: air » Coke and casthouse dedusting (Vanderbijlpark, Newcastle) » Coke-making coal water treatment plant (Vanderbijlpark) » Sinter bag house optimisation (Vanderbijlpark) • Top projects: water » Stormwater treatment plant (Newcastle) » Remediation to address groundwater pollution (Vanderbijlpark) • Top projects: waste » Waste site (Newcastle) » Phase 2 of metallurgical waste disposal site (Vanderbijlpark) » Solid waste disposal site and slag disposal site extension (Saldanha)

Strategic objective 1: Keeping our people safe

If we cannot keep our people safe we should not be in the steel business.



Why this is important

Safety affects our people's lives and their work performance, our reputation, market acceptance, profitability and potentially, our legal licence to operate.

Unless everyone feels safe while working at our company, we will be unable to maintain a high-performance culture, without which we will fail to drive profitability; safety not only underpins our licence to operate but is essential to our sustainability. In 2017 three people died while working at ArcelorMittal South Africa. We are convinced that these tragic events could have been avoided, and that they should not be repeated.

Three-year key performance indicators

KPI 1 — **Work-related fatalities**†

2017: 3 | 2016: 3 | 2015: 2

KPI 2 — **Lost time injury frequency rate**† (LTIFR)

2017: 0.66 | 2016: 0.62 | 2015: 0.48

KPI 3 — **Total injury frequency rate** (TIFR)

2017: 7.66 | 2016: 9.50 | 2015: 10.77

† *Externally assured.*

Issues that were most material to driving safety issues in 2017

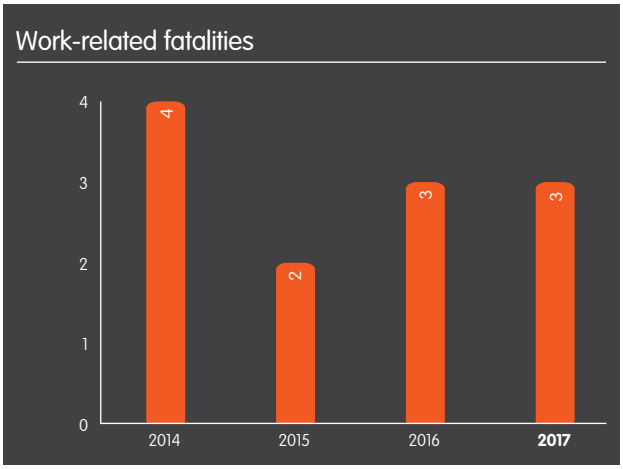
- Contractor safety performance
- Improving risk awareness and reducing risk tolerance
- Man/vehicle interactions
- Legal non-compliance

Key actions taken in 2017 to achieve this strategic objective

- Identification and addressing of serious occurrences (SOs)/potential to cause serious injury or fatalities (PSIFs)
- Aggressive approach to separating men and machines
- Proactively identifying hazards and eliminating them
- Training superintendents and improving the quality of pre-shift safety meetings
- Awareness training on top five safety risks

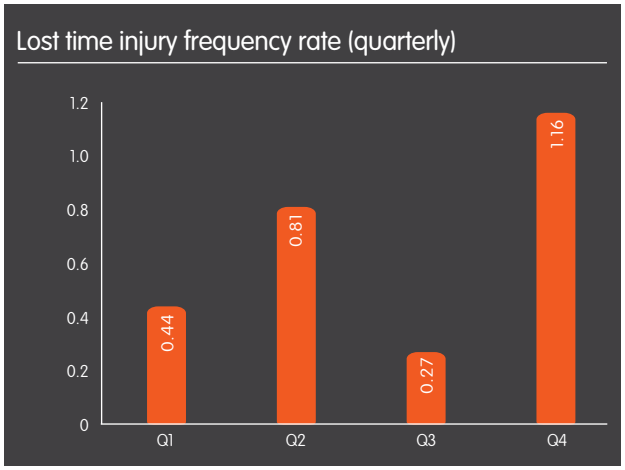
A mixed safety performance

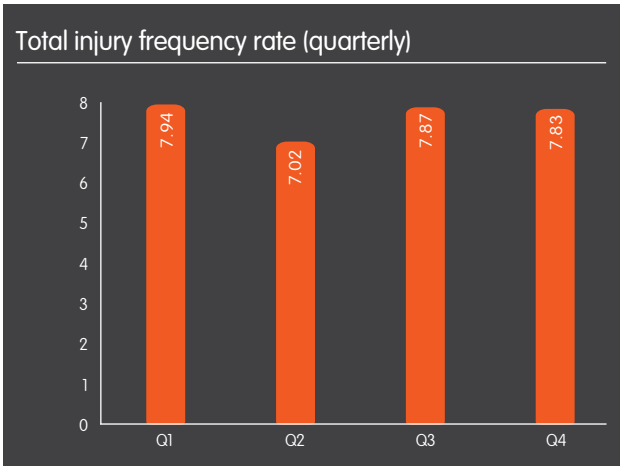
In 2017 we again suffered three work-related fatalities at our premises. This was the same number of people killed as in the previous year. In 2015, two people died while working at ArcelorMittal South Africa and, the year before that, four. The six people who died at our plants in the past two years were all contractor employees. All deaths were avoidable and we remain convinced that it is possible for us to make steel without incurring fatalities.



This year our key LTIFR deteriorated from the 0.62 of 2016 to 0.66. This derived largely from a worse performance in the second half of the year. Positively, our TIFR, at 7.66, was significantly better than that of the previous year (9.50) and less than half the figure for 2014. Long steel products – which particularly disappointed in 2016 – achieved a considerably better record – as measured in terms of both lagging and leading indicators with its LTIFR showing a notable improvement.

Strategic objective 1: Keeping our people safe
continued

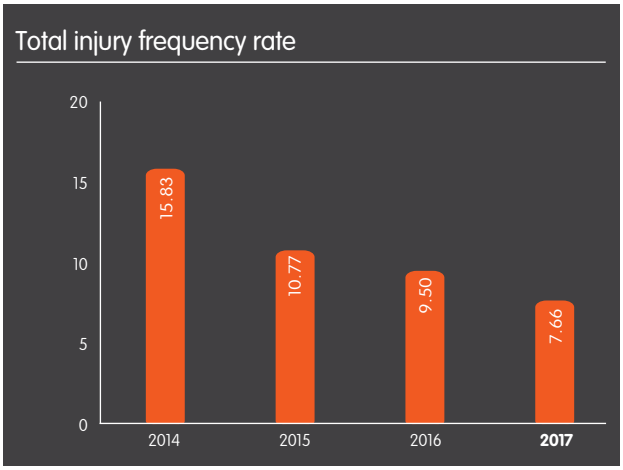




In 2017 health and safety teams at corporate and business unit level concentrated on implementing and enforcing the diligent recording of all SOs and PSIF cases, in line with ArcelorMittal group policy.

By monitoring and investigating SOs in detail, we aim to foster a culture in which everyone on site takes personal and team responsibility for identifying potential hazards, reporting them and taking appropriate, timely action. In 2017 we stepped up the scope and level of reporting by safety professionals to plant and business unit management on risks and incidents.

At 0.87 the disabling injury frequency rate (DIFR) – which includes fatalities, lost time injuries (LTIs) and restricted workday case injuries – was similar to that of 2016 (0.89).



In encouraging a total safety culture we are laying greater emphasis, in our daily communications with employees and contractors, on the TIFR. This approach attempts to create awareness that the conditions and actions responsible for even 'less serious' incidents including near misses, first-aid cases and medical aid injuries have the potential for serious harm.

Coke and Chemicals operated without an LTI since Q3 2016 while Saldanha recorded zero LTIs in 2017.

Changing our safety culture

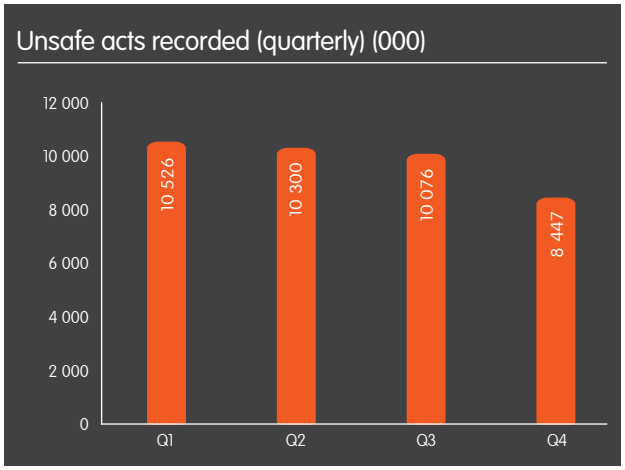
As was the case in 2016, this year we continued to ramp up communication between safety professionals and managers, between managers and teams and among team members.

As part of the Be Aware – We Care initiative for Vanderbijlpark Works since 2016, hazard identification continued through the 'Snakes for Safety' and 'Hunt for Hazards' interactive training programmes. Hunt for Hazards encourages shop-floor employees to become part of finding safety solutions while encouraging management involvement and their safety interaction with employees. Snakes for Safety uses live snakes to drive home impactful, memorable safety messages.

In 2017 Newcastle Works implemented a participative safety process after deciding to adopt Sonasid, a similar long steel plant within the ArcelorMittal group, as a benchmark. A number of initiatives were borrowed from Sonasid, including training programmes, emotional connection and system simplification.

In February a company-wide 'train-the-trainer' workshop was held with facilitation by the group. Also this year the group head of corporate health and safety visited our plants, stressing the importance of communication between shop-floor workers and management, and of understanding and reporting SOs and PSIFs.

This year Vanderbijlpark hosted a safety leadership roadshow which was attended by 462 managers and superintendents while safety functionaries evaluated pre-shift meetings, identifying a lack of information sharing and the need for safety leadership training. Such training – in effectively conducting pre-shift safety meetings – was subsequently attended by 331 superintendents.



Considerable effort went into education and creating awareness around the identification and treatment of SOs and PSIF cases. Despite the novelty of identifying and reporting on SOs/PSIFs, such reporting was encouraging, exceeding targets for the year. The number of shop floor audits, at 147 000, was similar to that of recent years. These are being actively encouraged as a means to promote behaviour change inside our plants.

Following a directive from the CEO that all sites make extraordinary efforts to separate pedestrians from vehicles, by year-end 1 972 site-specific hazards had been identified and 51% of actions required to mitigate these hazards taken.

Contractor safety still a key concern

For the second year all three of those killed at our premises were employees of contractors.

On 3 April, Mr David Chikwen and Mr Zola Tyali, high-angle workers aged 38 and 28 respectively, were killed during a Corex shaft-cleaning shutdown at Saldanha. The men were unblocking a waste chute when an abnormally large amount of dust was ejected out of an opened manhole on the gas cyclone. The dust spontaneously ignited, burning the ropes on which the men were suspended. They died as a result of a fall of 14m. Mr Chikwen leaves a wife and three children and Mr Tyali a wife and one child.

On 23 May, Mr B Gusha, a 30-year-old bricklayer, was walking on a walkway at Vanderbijlpark's coke battery 6 when he was struck from behind by a forklift which, on impact, rolled over him. Mr Gusha was an unmarried father of one child.

As was the case in recent years, in 2017 the three tragic incidents in which contractor employees lost their lives were thoroughly investigated. Lessons learnt were widely disseminated and, as indicated, decisive action taken at all business units to do everything possible to prevent a repetition of the tragic man-vehicle interaction which claimed Mr Gusha's life.

This year we continued to hold contractor principals responsible for the safe conduct of their employees.

Following the dismal safety performance of various contractors in recent years, at Vanderbijlpark we appointed 154 so-called safety custodians, mid-level managers who monitor contractors' application of our safety standards and procedures and their workers' safety culture. These custodians report directly to general managers in the event that they become aware of contractors' material non-compliance.

Safety outlook

This year we undertook a rigorous deep-level drive to bed down our focus on SOs and PSIFs. Reporting on such cases was satisfactory but, in the new year, we will redouble efforts to achieve active implementation of identification and reporting. In particular, safety professionals will work with plant and business unit managers to close the gap on SOs and PSIFs. This means that where risks are reported to have been mitigated and controlled, safety officials will actively verify that all effective controls have, in fact, been implemented. Where they believe that this is not the case, they will be empowered to report any non-compliance.

In the new year, reporting on SOs/PSIFs will comprise 5% of all managers' bonus KPIs.

Strategic objective 2: Ensuring financial sustainability

With sustainable profits we will have a greater ability to contribute to economic growth while rewarding those who grant us our licences to operate and who contribute to the success of our business.

Why this is important

Without the ability to generate sustainable profits and cash we cannot remain in business, provide returns to our providers of capital, income to our employees and suppliers and investment into our communities.

Three-year key performance indicators

KPI 4 — **EBITDA per tonne** (R/t)

2017: (64)† 2016†: 47 2015†: (196)

KPI 5 — **Return on capital employed (ROCE)** (%)

2017: (7.5) 2016†: (1.2) 2015†: (342)

KPI 6 — **Market share** (%)

2017: 69 2016: 67 2015: 60

KPI 7 — **Liquid steel production** (000 tonne)

2017: 4 910 2016: 4 771 2015: 4 839

KPI 8 — **Cash generated from operations before working capital** (R million)

2017: (613)† 2016†: 215 2015†: 1 186

KPI 9 — **Net cash/debt position at year-end** (R million)

2017: (3 262)† 2016†: (290) 2015†: (2 865)

KPI 10 — **On-time deliveries** (%)

2017: 50.9 2016: 59.1 2015: 64.9

† *Externally assured.*

Issues that were most material to ensuring financial sustainability in 2017

- Minimising variable cost increases
- Fixed costs
- Footprint optimisation
- Restructuring our balance sheet
- Achieving plant stability

Key actions taken in 2017 to address our most material financial sustainability issues

In H1 2017 our company recorded a negative cash flow of R2 059 million and ended the year with net debt of R3 262 million. Restructuring our balance sheet, in 2016 a rights issue raised R4 500 million while early this year overnight facilities were replaced with a three-year borrowing-based facility of a similar amount. These corporate actions were essential to our operating as a sustainable company as were several working capital initiatives carried out over the past two years. At the time of reporting, further balance sheet restructuring was being investigated by the company's leadership.

In 2017 the company initiated several important measures to improve operational efficiencies, increase volumes and reduce costs. These initiatives included:

- The N2 battery refurbishment at Newcastle Works which was completed in Q3 2017. It is expected that the refurbishment will improve the sustainability of the coke batteries and that the batteries' coke-making capability (traditionally a significant EBITDA contributor) will be restored to 381 000 tonnes per year
- Optimising our footprint through closing unprofitable lines (including Vanderbijlpark's galvanised annealing plant), upgrading others and undertaking detailed planning for further near-term rationalisation
- Active engagement with strategic suppliers on reducing costs resulted in a record R2.2 billion saving
- Further restructuring, cost-cutting and efficiency measures were implemented
- Reduction of working capital, mainly through lower inventory levels
- An off-gas boiler project completed at Vanderbijlpark in June 2017 will enable the generation of approximately 70 000MWh additional power per annum – a R60 million annual benefit
- Aggressively pursuing the Africa Overland (AOL) market.

The viability of our business depends on our being able to sustainably generate positive EBITDA and positive cash flows from our operations. Without these we will be unable to return to profitability.

Frontal attack on costs

In 2017 our leadership could point to a number of extremely important achievements in the past two years. These included putting behind the company legacy competition issues and the many regulatory challenges these entailed, overhauling the company's B-BBEE standing including a landmark ownership transaction, completed in 2016, stabilising production and cementing our social licences to operate. Balance sheet restructuring, putting in place measures and agreements to protect the company from potentially crippling procurement increases and overhauling our performance management systems were by no means the least of these achievements.

Freed from these demanding tasks, in 2017 a far-reaching, decisive new approach towards managing down production process costs was embarked upon, in conjunction with no fewer than 17 visiting ArcelorMittal group experts, including nine individuals at the level of chief technology officer, who between them spent 51 weeks at our premises.

In 2016 our company's business improvement unit began implementing a cost-savings drive, Project Focus, at our flagship Vanderbijlpark plant. Project Focus achieved conspicuous success; by end-June 2017 this internally driven programme had achieved 87% of the R1.419 billion savings planned. However, it became apparent this year that, even with the drive to reduce variable costs (it had been planned that Project Focus would be replicated at other business units), considerably more had to be done. Despite the gains achieved by incremental cost savings, because of inflation, by 2020 EBITDA costs at both Newcastle and Vanderbijlpark would have risen by between USD30 and USD60 per tonne.

Following recent deep benchmarking work comparing the performance of several ArcelorMittal European plants (which exercises disclosed considerable, attainable outcomes), the CEO requested group support for undertaking a similar exercise at ArcelorMittal South Africa. Over several months a detailed top-down and, subsequently, bottom-up analysis, confirmed the realistic achievement of variable cost savings, at Vanderbijlpark, of USD35 to USD45 per tonne, and at Newcastle of approximately USD50 per tonne.

In Q4 a focused, process-by-process benchmarking of added, feasibly eradicable costs dubbed Project Attack (ArcelorMittal South Africa total targeted added cost and KPIs) was launched at Vanderbijlpark, Newcastle and Saldanha. Project Attack has committed management at all levels to assume a new, more detailed and more meaningful level of responsibility for delivering, on a daily, weekly and monthly basis, on performance against targets. In particular, line managers are to be held responsible for costs per process step with greater accountability in cases where cost KPIs are not met.

In 2016 management gains accounted for procurement and logistics savings of R860 million while the figure for 2017 was some R2.2 billion, excluding exchange rate and volume adjustments. Stressing the importance of line management working more closely with the procurement function, Project Attack targets further, very substantial company-wide procurement savings.

Saving on procurement and logistics costs

Our record performance on reducing input and logistics costs by R2.2 billion in 2017 was achieved through numerous initiatives and engagements with suppliers. During the course of the year we engaged with 50 of our key strategic suppliers in an effort to secure long-term sustainable savings. Their willingness to often initiate savings was a most gratifying outcome and a sign of a growing appreciation by suppliers that they can contribute towards ensuring our sustainability.

The international prices of key raw materials were volatile. The iron ore price declined this year from USD83.18t in Q1 to USD65.75t in Q4 and coking coal prices increased significantly, from USD169.53 in Q1 to USD206.21 in Q4. In mitigating the effects of unpredictable iron ore prices, we fixed in excess of 50% of our iron ore requirement in rand, significantly below the prevailing market price. Also this year, as part of negotiations with Kumba Iron Ore over our takeover of the Thabazimbi mine, we succeeded in reducing the threshold applicable to our discount pricing agreement with that company.

Applying increased discipline to preventing contract leakage to ensure that work contracted was carried out to specification resulted in savings amounting to R64 million for the year.

Disposing of non-core and redundant assets remained a focus this year. Although not significant in terms of generating cash during the year, at year-end management was exploring a number of options to be executed in 2018.

In 2017 important progress was achieved on stabilising previously erratic logistics performance, in particular the rail delivery of raw materials; this year road transport which had been necessitated by rail under-performance was reduced by some 420 000 tonnes which had substantial environmental and financial benefits. Despite these improvements, rail logistics remain prohibitively expensive, some R350/t across all company flows. In 2017 the company began researching in detail the prospects and potential cost savings of replacing domestic coal and iron ore supplies with imported materials; at the time of reporting the findings of this study were in the process of being implemented.

Strategic objective 2: Ensuring financial sustainability
continued

A distribution centre opened by the company and other partners in Isando, Gauteng, in February 2017 was intended to increase the volume of our products shipped by rail (rather than by road) by 1 million tonnes in 2018. Regrettably, the distribution centre experienced considerable operational difficulties. In 2017 our performance on delivering to customers deteriorated only 50.9% of deliveries being on time (2016: 59.1%). This stemmed largely from a cold hearth incident at Vanderbijlpark which prompted many customers to alter their orders.

Restructuring fixed costs

Project Attack is concerned with addressing variable costs but it is apparent that this approach, on its own, will be insufficient to ensure the sustainable competitiveness of ArcelorMittal South Africa. In 2017, simultaneous to the introduction of Project Attack, the rollout of oneAMSA entails a substantial reduction in the company's total cost of employment (TCOE) which, at 465 tonnes of HRC/rebar per full-time equivalent (FTE) position, is in the group's poorest quartile.

Optimising our industrial footprint

In 2017 important progress was made on optimising our footprint and on stabilising production. This was despite weak and often uncertain demand.

Flat steel products – Vanderbijlpark

Vanderbijlpark began 2017 with the need to stabilise operations following the loss of one of blast furnace C's three hot blast stoves in November 2016. Repairs to the stove are scheduled for completion in Q2 2018.

While ironmaking difficulties were encountered in Q2, notably at blast furnace D, these were successfully addressed and iron making continued to improve throughout the year such that, at 608 682t, output in Q4 was 102 670t higher than Q1. With the completion of repairs to Newcastle coke battery 2 there was no requirement for poorer-quality import coke. This had the effect of further stabilising operations and reducing fuel rates which, at 516kg of coke equivalent to tonne of hot metal for the year, was 1.9% better than the 2016 performance.

Apart from minor and isolated setbacks, the steel plant and downstream mills performed well, in some instances achieving exceptional results. Galvanising line 4's standout achievement was to increase mean time between failure to 88 hours (a key measure of stability which, in 2012, stood at 24 hours). Yields on the hot strip mill similarly achieved record yields while a process change on the tin line resulted in much improved efficiencies.

A R70 million expenditure on automating and improving the steering capability of continuous pickling line 3 improved yields by 20% and will enable the mothballing of continuous pickling line 2 in H1 2018, saving on both fixed and variable costs. A R10 million investment in upgrading the steering on the continuous annealing line doubled utilisation to above 80%.

By the end of Q2, Vanderbijlpark's internal cost-saving initiative, Project Focus, had achieved almost 90% of a targeted R1.4 billion in savings since January 2016. (At the end of Q2 Project Focus was terminated.) This performance bolstered confidence in the likelihood of attaining Project Attack targets by December 2018.

At 87%, capacity utilisation in Q3 showed a significant improvement on that of the previous two quarters while the positive effects of the implementation of safeguards continued to be felt later in the year, Vanderbijlpark operating at 83% of capacity in Q4.

Year on year the HRC cash cost increased by 3.7% (R255/t HRC) mainly as a result of high costs in Q1 and Q2 which derived from large quantities of import coke whose poor quality translated into plant inefficiencies. More stable operations in the second half saw better cost results with the Q4 cost being 5.5% lower than that of Q1.

Vanderbijlpark key performance indicators

Blast furnace total fuel consumption (kg/t hot metal)

2017: 515	2016: 525	2015: 514

Non-prime generation (%)

2017: 6.52	2016: 8.7	2015: 7.34

Flat steel products – Saldanha

This year was the first since 2014 that Saldanha had been run full, the plant achieving production of 1 058 102 tonnes of HRC (a 26% increase on the 784 343 tonnes of 2016) and closing the year with an EBITDA profit of R270 million.

During the year, production was affected by the premature failure of two vertical conveyor belts at the Corex plant, the result of a manufacturing defect which had a 36 000 tonne HRC impact on output. Other than these unplanned stoppages, both iron and steelmaking performed satisfactorily while good progress was made on improving product quality and raw material costs.

In 2017 a number of trials on reducing input costs were successfully completed. These included work on optimising the consumption of iron ore pellets, with Saldanha expected to start introducing pellet replacement extrusions during 2018. Other initiatives include the securing of alternative sources of coal; optimising the mix of material inputs; and using chemical energy to reduce electrical consumption in the steelmaking process. Saldanha continues to work on securing affordable electricity for its export-focused facility with the special electricity pricing framework expected to be completed during Q1 2018. In 2017 work continued on the feasibility of obtaining electricity from a planned gas-to-power plant in Saldanha.

Improving product quality is essential to Saldanha's ability to compete in the export markets on which it depends. This year considerable progress was made on ultra-thin rolled coil, production of 0.99mm thickness being sustained while conducting experiments with 0.9mm.

In the new year various efficiency improvements proven in recent years will, it is envisaged, translate into sustainable EBITDA gains of over R140 million while Project Attack is projected to reduce production costs by some USD14/t relative to a 2016 baseline.

The drought persisting in the Western Cape focused attention on Saldanha's freshwater intake. This year R20 million was committed to upgrading the plant's reverse osmosis facility, to increase the plant's ability to consume sewage water. This will reduce freshwater intake by some 40% by H1 2018. Other than the reverse osmosis investment, following the Corex campaign extension repair completed in the previous year, capital expenditure in 2017 was minimal.

Saldanha key performance indicators

Combined fuel rate (t/t/Fe)		
2017: 0.610	2016: 0.625	2015: 0.602

Non-prime generation (%)		
2017: 84.09	2016: 82.73	2015: 83.16

Long steel products

In 2017 high coal prices created a price advantage for local scrap-based mills, resulting in long products' market share being eroded, from 66% in 2016 to 56% as domestic sales declined by 228 000 tonnes. The scrap raw material basket of producers using scrap to manufacture long products has traditionally been USD30 to USD50 per tonne higher than the raw material basket of an integrated process such as ours. However, due to the spike in coal prices, in H1 in particular, this position made integrated mills uncompetitive against scrap-reliant producers. As coal prices began to normalise from Q3, our competitiveness improved.

This year management of the LSP division responded to poor market demand and lower than projected sales in Q1 and Q2 by maintaining production efficiencies despite lower throughputs. Fixed costs were lowered by reducing employment, maintenance and other sales, general and administrative costs to compensate for a lower throughput of 1.45 million tonnes (1.55 million in 2016). Operations were then able to quickly ramp up production in Q3 to exploit more buoyant local demand while maintaining the reduced cost footprint. This made it possible to increase exports at profitable margins.

Implementation of Project Attack commenced in Q4 with early indications being that material progress would be achieved on all cost drivers. (By year-end a stretch target for the key pulverised coal injection rate, of 140kg/t, was already being achieved.) Long steel production cost was USD535/t (2016: USD429/t), the increase primarily the result of higher raw material costs.

Production at the Evraz Highveld Steel mill was successfully restarted, output reaching 10kt per month by the end of the year and products finding ready market acceptance.

Responding to intense competition in the long steel sector, this year the division successfully developed a number of new product lines. These included an OCTG pipe threading line and special sizes on the seamless mill, ultra-light window sections and 500MPa rebar. All products were successfully marketed, both domestically and in export markets. LSP's on-time delivery performance remained stable at 72%.

Strategic objective 2: Ensuring financial sustainability
continued

Long steel products key performance indicators

Cost of coal blend (R/t)

2017: 4 062 2016: 2 291 2015: 2 241

Coal to coke (%)

2017: 74.27 2016: 73.4 2015: 72.9

Scrap melting (%)

2017: 18.8 2016: 18.0 2015: 16.6

Coke and Chemicals

Traditionally a strong contributor to EBITDA, in Q3 and Q4 2017 Coke and Chemicals overcame planned (and unforeseen) production challenges to return to a more normalised performance.

In H1 the division suffered from not having enough commercial coke available for sale at a time that market prices peaked, a development which led to customers importing the bulk of their requirements.

In September the two-stage recommissioning of the Newcastle N2 coke battery following a costly R286 million refurbishment was completed, allowing for a more regularised supply of metallurgical coke to, especially, Vanderbijlpark, and budgeted sales of commercial coke.

Another challenge, encountered in Q3 2017, related to a labour dispute at Exxaro's Grootgeluk colliery (which accounted for 87% of that supplier's coal deliveries). This unforeseen development disrupted coal supplies for two weeks and was effectively addressed by closely managing deliveries of such coal as was available and by extending baking times from 19 to 25 hours.

While meeting the imperative to supply coke to the company's iron and steelmaking units under challenging circumstances, Coke and Chemicals succeeded in achieving its target of producing 190 000t of saleable coke for 2017. Net prices were better than budgeted for both commercial coke and tar (R4 652/tonnes and R4 397/tonnes respectively) while fixed costs were some R4 million lower than budget.

Coke and Chemicals key performance indicators

Market coke production (000 t)

2017: 190 2016: 251 2015: 406

Tar production (000 t)

2017: 77 2016: 74 2015: 91

Energy efficiency

This year our specific total energy consumption per tonne of liquid steel increased by 2.5%. Because of the high cost of imported coal, we increased the use of (cheaper) local soft coking coal, energy consumption per tonne increasing because of the lower yield from this local coal.

In 2017 our company's electricity cost per tonne increased by 4.6%. The increase in the average tariff for bought electricity was 3.8% with 0.9% of the overall increase deriving from the fact that, in 2016, Saldanha's Corex furnace underwent a lengthy reline.

This year our specific natural-gas consumption decreased by 11% per tonne.

A third party-supplied variable speed drive (VSD) project began in 2016 and was completed in 2017. These VSDs have reduced Eskom purchases by close on 90 000MWh per annum, some 2.5% of our annual electricity purchased.

In 2017 a 10MW off-gas boiler was commissioned at Vanderbijlpark with the potential to generate up to 70 000MWh per year. Own generation will represent approximately 10% of the company's total electricity requirement.

Despite concerted efforts to improve our plants' energy efficiency, our current electricity cost burden poses a direct threat to our competitiveness and even survival; in 2017 the company's total electricity cost was R2.69 billion.

This year an application for tariff relief was submitted. However, it transpired that the Department of Energy's frameworks for dealing with such applications were inadequate and it was therefore not possible for Eskom to submit applications to the National Energy Regulator of South Africa for special tariffs. At the time of reporting the company was awaiting the publication of such a framework.

Strategic objective 3: Creating social value

Stakeholder relations are central to the growing success we have begun to achieve in catalysing real social value within our financial value chain, our communities and our broader operating context.

Why this is important

We actively strive to achieve the ArcelorMittal group's desired sustainability outcomes of being an 'active and welcomed member of the community' and of having our contributions to society 'measured, shared and valued'. In South Africa, demonstrating that we use our influence and relationships to create broad-based economic empowerment and social upliftment is essential to the company being seen to be a responsible corporate citizen.

Three-year key performance indicators

	Preferential-procurement spend (percentage of total spend) (%)			
KPI 11	EMEs	2017: 5.6	2016: 3.28	2015: 2.41
	QSEs	2017: 5.7	2016: 6.85	2015: 8.14
	Black-owned businesses	2017: 19.2	2016: 14.01	2015: 13.37
KPI 12	B-BBEE compliance score	2017: Level 3	2016*: Level 3	2015: Level 4

** Reported as a self-assessed Level 4, subsequently independently assessed as Level 3.*

	Environmental capital spend (Rm)		
KPI 13	2017: 41	2016: 38	2015: 65

Issues that were most material to our creation of social value in 2017

- Supporting the viability and growth of the downstream steel and manufacturing sectors
- Having our creation of social value through socio-economic development and enterprise and supplier development valued
- Implementing a fair price for steel
- Transforming our supply chain
- Cementing stakeholder relationships to create broad-based social value

Key actions taken in 2017 to create social value

- Opened a small business incubation hub and a business park
- Used our expenditure to leverage R5.6 million for enterprise development
- Led tariff protection applications for 15 downstream products
- Collaborated with the Gauteng government on sharing procurement databases for historically disadvantaged small-, medium-, micro-enterprises (SMMEs)
- Provided almost 200 full-time three-year apprenticeships in partnership with the Department of Labour and merSETA
- Rolled out integrated regional and sectoral transformation models with like-minded businesses and provincial government
- Advanced plans to develop a privately funded Vaal logistics hub and 750 hectare agricultural project with provincial government and local business

In the year reviewed a number of concrete outputs spoke to the increasing maturity of our integrated social value creation model, a model in whose implementation the board took an active and continuous interest.

Output highlights included:

- **The opening of a R30 million, 1 600m² small business incubation hub adjacent to our Vanderbijlpark plant**
  - Partner: National Department of Trade and Industry – committed R15 million
  - Outcomes: Eleven start-up, previously disadvantaged businesses providing 102 jobs with a combined verified pipeline worth R9 million per annum during the first year of development.

- **Creation of a business park in Vanderbijlpark housing three medium-sized businesses with free business space and facilities for township enterprises**
  - Partners: Local chambers of commerce and community NGOs
  - Outcomes: Hosted businesses provide 62 jobs and have a pipeline worth R8.2 million with further infrastructure capacity still to be awarded to suitable projects.

  Capital investment in a business park for emerging small businesses in Newcastle was completed, establishing underroof space of 1 892m². As part of phase 2, six mid-sized workshops will also be completed.

- **Providing expertise and man-hours to developing tariff, safeguard and anti-dumping protection for the downstream**
  - Partners: Various industry organisations and companies
  - Outcomes: Protection safeguards business viability and jobs.

Strategic objective 3: Creating social value continued

- **Collaboration with the Gauteng provincial government's Tshepo 1Million Township Marketplace Platform initiative in terms of which we share databases and business opportunities for SMMEs**
  - Partner: Provincial government
  - Outcomes: Exposure for 870 ArcelorMittal South Africa-registered enterprises to procurement opportunities worth R919 million.

- **Apprenticeship training of unemployed individuals funded by the Unemployment Insurance Fund through merSETA**
  - Partners: Department of Labour and merSETA
  - Outcomes: 197 full-time three-year apprenticeships; 143 graduates in 2017.

- **Our integrated regional transformation model adopted by nine leading businesses in Saldanha to accelerate socioeconomic and enterprise and supplier development**
  - Partners: Nine corporates, Western Cape provincial government, local municipality
  - Outcomes: Corporate procurement forum and portal established, exposing 1 400 local emerging businesses to opportunities for development and revenue generation.

- **Our integrated socio-economic/enterprise and supplier development model adopted by a new multi-stakeholder entity, the Empowered Engineering and Manufacturing Initiative**
  - Partners: Steel and Engineering Industries Federation of Southern Africa (Seifsa) and 10 corporates
  - Outcomes: Empowered black-owned engineering and manufacturing businesses.

- **Advancing plans to develop a privately funded Vaal logistics hub and agricultural project on 750 hectares of company land in Vanderbijlpark**
  - Partners: Gauteng provincial government, local chambers of commerce and NGOs
  - Outcomes: Sustainable employment and food security.

Integrated social value creation

Our strategy on integrated development is underpinned by the belief that co-operation with like-minded entities greatly enhances social and economic impact.

In the past, our socio-economic development (SED) and enterprise and supplier development (ESD) efforts and investments were focused on projects driven exclusively by the company. Since 2016, however, we have sought to integrate these initiatives with work being carried out elsewhere in the regions and sectors in which we operate, to leverage potential positive outcomes. Given our straitened financial circumstances, the cost (R30 million) of the Matlafatso incubation hub in Sedibeng would have been beyond the company's current means. It was thanks to a matching investment by the Department of Trade and Industry that we were able to equip the hub with quality equipment, facilities and personnel.

In Saldanha the successful launch of an SMME opportunity portal, Grow-Net, by multiple stakeholders including ArcelorMittal South Africa resulted in 1 400 emerging businesses receiving exposure to large buyers of products and services. (Before Grow-Net, ArcelorMittal South Africa Saldanha had 350 potential vendors registered; with the portal we are now exposed to the larger figure mentioned.)

Putting partnerships to work

The success of initiatives such as Matlafatso and the corporate procurement forum in Saldanha has demonstrated ArcelorMittal South Africa's commitment to broad-based social and economic value creation and encouraged government to invest further in joint initiatives. So, for example, this year the Department of Trade and Industry ought our co-operation on its strategic partnership programme and supplier parks programme. These opportunities are being actively explored. Similarly, the Gauteng Infrastructure Financing Agency has been instructed to support the establishment of the Vaal logistics hub, a greenfields development to be privately funded and with the potential to provide a significant number of sustainable jobs.

Through our supplier development programme, existing beneficiaries benefited this year from procurement worth R103 million (contributing to a year-on-year increase in procurement spend with EME vendors of 48%).

In 2017 our facilities were visited by various government leaders including the premier of Gauteng, the Gauteng MEC for finance and the ministers of trade and industry and labour. In all instances, these political leaders spoke favourably about the social, human and financial capital impacts our various undertakings were having on a broad range of stakeholders.

Being seen to be using our size and economic footprint to do good is imperative to retaining our licences to operate. Where regulators have approved trade protection measures which ensure our survival, it is imperative that we demonstrate how we have used these lifelines to benefit society.

Leveraging resources, skills and capital

Seifsa is a respected sectoral body which this year established the Empowered Engineering and Manufacturing Initiative (EEMI), an undertaking which enjoys substantial high-level endorsement and which aims to actively support transformation and the creation of black industrialists. ArcelorMittal South Africa is lending considerable support to EEMI, which has adopted our collaborative integrated value creation model.

In Saldanha procurement and transformation professionals employed by the area's largest employers have all embraced our integrated value creation model. This will have the effects of accelerating local procurement and minimising red tape while exposing deserving beneficiaries to real benefits.

ArcelorMittal South Africa has a transformation team consisting of 10 full-time employees at year-end. The team is responsible for overall social value creation including B-BBEE execution, SED and managing social value creation partnerships. A management B-BBEE committee meets monthly while the board receives and considers reports on transformation on a quarterly basis.

In 2017 we marked a decade since the establishment of the first ArcelorMittal South Africa-sponsored science centre. Our flagship SED projects, the three science centres, which we wholly fund at a cost of R11.4 million (2016: R12.6 million), in Sebokeng, Saldanha and Newcastle, reached some 13 000 learners from 96 schools through on-site interaction and tuition. In addition, the centre's outreach programmes benefited 41 831 learners in their local areas.

Total SED spend, including a range of corporate social investment activities and donations, amounted to R23 million (2016: R17.4 million).

B-BBEE performance

In our 2016 report we stated that we had maintained our Level 4 compliance rating, based on a self-assessment exercise. In fact, subsequent to the year-end, we were independently verified as being a Level 3 contributor.

This achievement reflects the priority which the board and management attach to transformation, and the considerable strides made in recent years on improving our broad-based social and human impact. As we reported in 2016, two years previously we were at Level 6 and, in 2014, Level 7. Level 3 was achieved despite the effects which the revised codes had on steel and other large industrial companies, most of which dropped at least two levels. At 94 points, our 2017 total B-BBEE score was more than double that at the end of 2014 (the latter measured under the old codes).

At year-end 2017 our internal assessment was that we would possibly not retain our Level 3 status, dropping one level. This prognosis stemmed from financial constraints impacting our performance (notably in the area of skills development) and several key, very large suppliers having their status eroded.

In 2017 the board's B-BBEE committee (subsequently the transformation, social and ethics committee) continued to provide leadership, oversight and direction on this most important aspect of our social licence to operate.

As was the case in 2016, our spend on socio-economic and supplier and enterprise development had a quantifiable impact well in excess of that required to earn maximum points in the relevant categories of the B-BBEE codes.

This performance is reflected in the following table:

Investment area	Required spend	Actual spend
Socio-economic development	R5.2 million	R23.0 million
Enterprise development	R5.2 million	R5.6 million
Supplier development	R10.4 million	R17.8 million

Ownership

In 2017 our black shareholding was little changed from that of the previous year when shareholders approved a transaction which resulted in the 100% black-owned Likamva Resources acquiring 17% of our issued shares and staff 5.1%. With the interests of other shareholders, the company is assured of a long-term black shareholding of at least 25.1% – verified as 25.8% in May 2017 – and securing a full 25 points under the ownership element of the B-BBEE codes.

In 2017 the company, board and Likamva Resources made considerable progress towards giving local communities a 5% equity stake in ArcelorMittal South Africa. At the time of reporting, this process was on track to be finalised by September 2018.

Enterprise and supplier development (ESD) and preferential procurement

Our focus on enterprise and supplier development (ESD) derives less from compliance imperatives than from our strategic imperative to position ArcelorMittal South Africa as a company which creates very broad-based value. For this reason, we report in detail on our execution against the ESD element of the B-BBEE codes above. The following largely concerns our procurement performance in the year:

Between 2014 and the current year, the company's recognised preferential procurement spend declined from 92% to just 35%, a decline deriving from the amended codes' more stringent criteria and the extent to which the amendments translated into most suppliers achieving lower levels of recognition. Since 2015 our ESD programme has improved the company's B-BBEE performance by some 10 percentage points.

At year-end we had 2 643 active vendors, of which 676 were emerging micro-enterprises (EMEs) and 458 were qualifying small enterprises. In 2017 the number of EMEs actively supplying to ArcelorMittal South Africa rose by 21% while that of QSEs decreased by 9%. These trends continued to reflect the effects which the code amendments had on QSEs (suppliers with turnovers of between R10 million and R50 million), and the impact we have had on fostering sustainable black-owned smaller suppliers.

With the code amendments, one very large supplier which was previously recognised as being black- and black women-owned lost this recognition, a fact which impacted our procurement from these types of entities. Stripping out the effect of this single supplier losing its B-BBEE ownership status, we increased procurement from black-owned and black women-owned vendors by 40% and 31% over the last three years.

In improving our preferential procurement spend, the board has directed management to focus on growing spend with majority black-owned EMEs and QSEs, and to ensure that all non-compliant suppliers achieve at least Level 4 compliance.

Strategic objective 3: Creating social value continued

Tariff and non-tariff import protection

By the end of 2017 duties had been applied to the import of 10 steel product categories. With a number of stakeholder groupings, ArcelorMittal South Africa applied for these duties to protect the primary and downstream steel sectors from the import of steel which had been unfairly subsidised. This brought South Africa in line with virtually all countries possessing primary steel industries.

In August 2017 the last of these 10 duties (on certain structural steels) came into force following the restart of production at Evraz Highveld Steel; a duty of 10% had been gazetted in 2015 but not implemented pending the resumption of production at the plant.

In terms of a tolling arrangement whereby slabs and blooms produced at Newcastle are shipped to Evraz Highveld Steel for processing into structural steel, in 2017 it was possible to restart the Mpumalanga mill which had been shut two years earlier when its owner entered business rescue. By year-end this had resulted in the re-employment of some 345 of 1 800 people who had been retrenched while providing a substantial boost to the local economy and saving 63 000 tonnes of imported structural steel.

This year, safeguards (additional, import protection measures) were approved for HRC and plate. The implementation of safeguards on HRC was particularly significant as these products represent more than 40% of our company's revenue.

In addition to these important protections, this year the authorities enforced the designation of local steel for use in state projects including rail rolling stock, power transmission, construction and permanent railway infrastructure. This means that all successful tenderers must use prescribed percentages (in most cases 100%) of local steel in the execution of their work.

Forging partnerships with the downstream

In assisting with applications for tariffs, safeguards and designation we were not motivated only by our concerns. Unfair imports have a direct, negative impact on the downstream, for which reason this year a project was initiated to integrate a range of activities aimed at supporting the downstream. (The downstream represents the businesses we wish to supply to; if we are to sustain sales to them, it is in our interests to help ensure their sustainability.)

Support extended to the downstream in 2017 included assistance for import protection on semi-finished and finished steel products. At year-end we were working closely with a number of industry organisations including:

- SA Wire Association
- Association for Steel Tube and Pipe Manufacturing
- Southern African Metal Cladding and Roofing Association
- SA Iron and Steel Institute
- SA Coil Coaters Association
- SA Institute of Steel Construction.

In total, the company was involved in preparing applications for tariff protection and designation for 15 downstream product groups.

For the first time, this year the company, together with other stakeholders, began supporting a number of local 'industries in crisis' in obtaining safeguards or anti-dumping protection. These industries included drawn wire and fasteners, square and rectangular tubes, prefabricated steel buildings, bright bar, leaf and helical springs, steel shelving, set screws, bolts and nuts, threaded rod, tube and pipe, corrugated roof sheeting, wire, ceiling and partitioning and scrap.

On behalf of and in co-operation with various stakeholders including the downstream, in 2017 we liaised with the Gauteng region of the SA Local Government Association, various industrial development zones and government departments, agencies and state-owned enterprises, on the importance of maximising the use of local steel. We also engaged with these bodies and the SA Bureau of Standards on enforcing quality standards (a great deal of the steel products imported are of often dangerously inferior quality).

Whereas designation should assist both the primary and downstream sectors to increase their sales and to sustain jobs, compliance with designation regulations cannot be assumed. To this end, the company deployed several internal experts to engage with state-owned enterprises on helping them to understand their obligations and how to ensure compliance. Our employees also consulted with officials of the South Africa Revenue Service on ways to improve tariff enforcement and reporting.

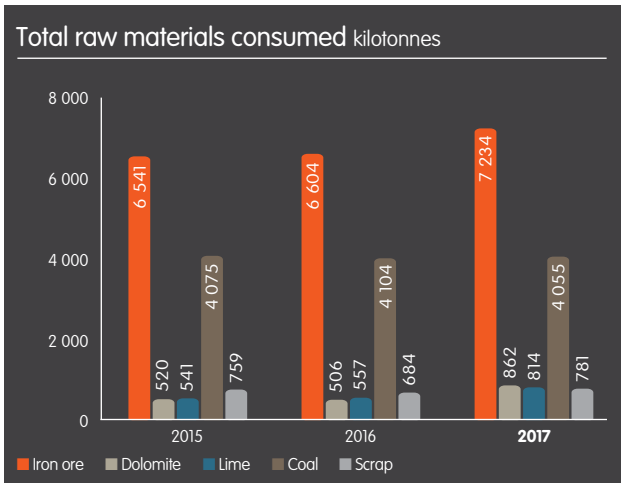
In 2017 the company ended its practice of granting volumetric discounts. In the previous year these amounted to some R386 million and, while benefiting some customers (mostly merchants), it was apparent that the system of extending these discounts had failed to achieve its intended outcomes. It also had the effect of favouring larger, well-established players in the steel industry while, potentially, prejudicing new, smaller entrants.

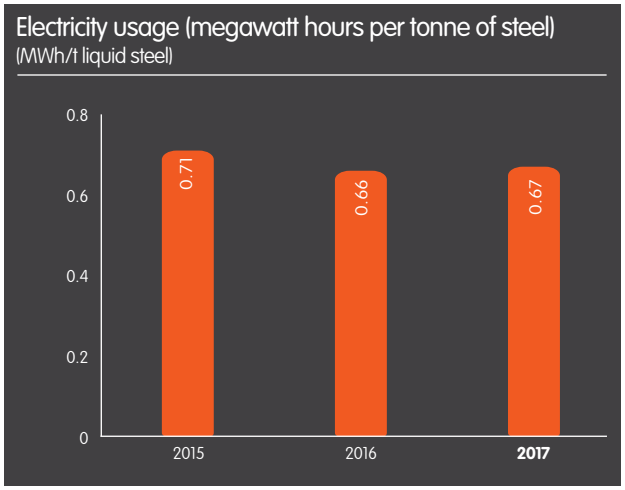
While volumetric discounts were no longer granted with effect from Q3 2017, this year the company paid some R322 million in secondary value-added export (VAE) rebates. These are rebates for customers who buy steel domestically and transform it into products which they are then able to sell into export markets. Along with Committee of Secondary Manufacturers (COSM) levies of more than R60 million paid by the company in 2017 (at R20.43 per tonne), the VAE rebates allow South African companies to compete in international markets while maintaining employment and earning foreign exchange.

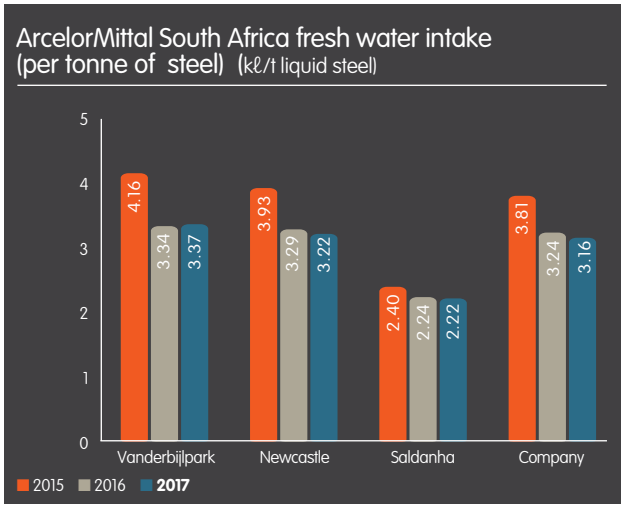
Outlook for socio-economic value creation

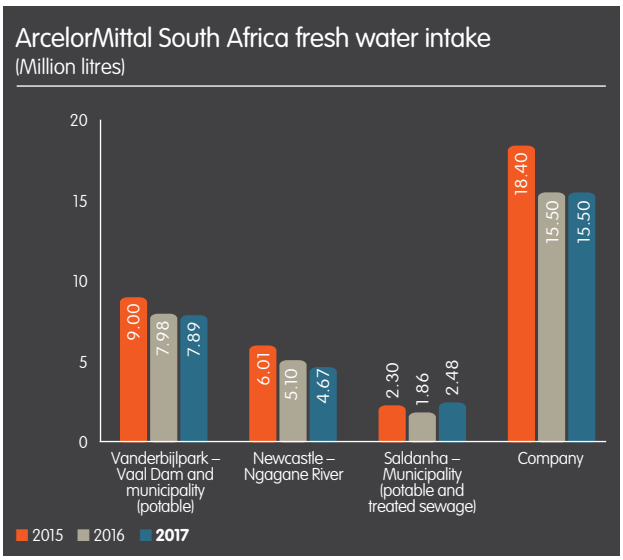
Achieving an expanded reach through our science centre sponsorships, to support various entrepreneurial disciplines, will be further explored in collaboration with the departments of Basic Education and Science and Technology.

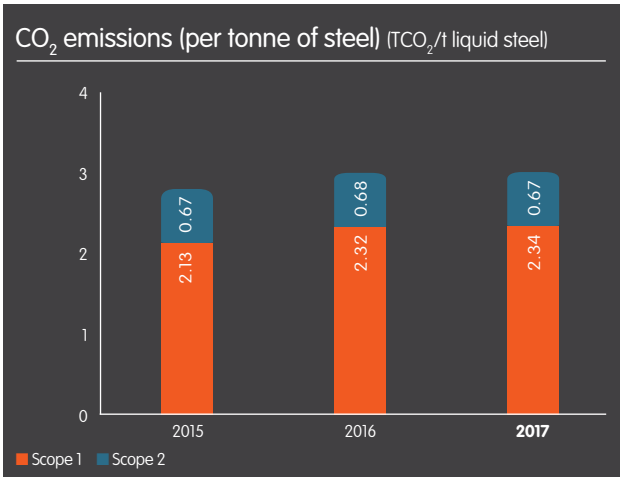
Environmental performance

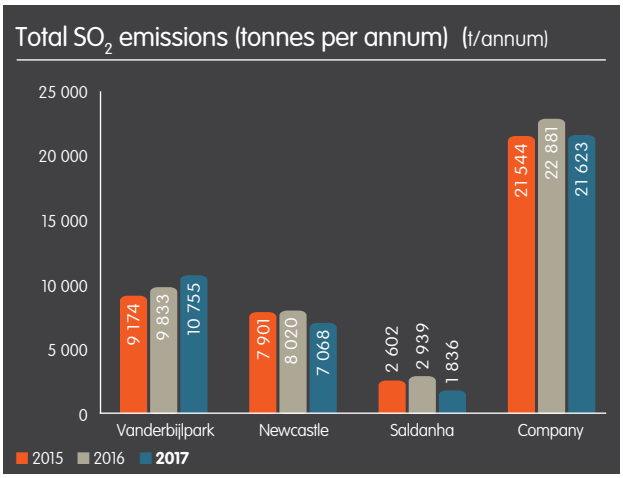




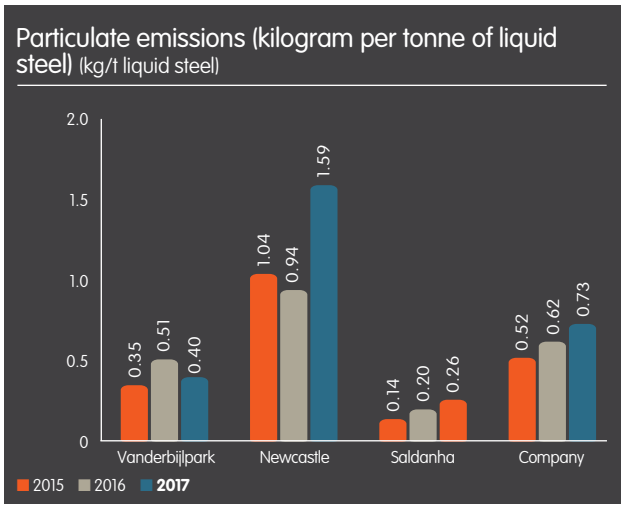


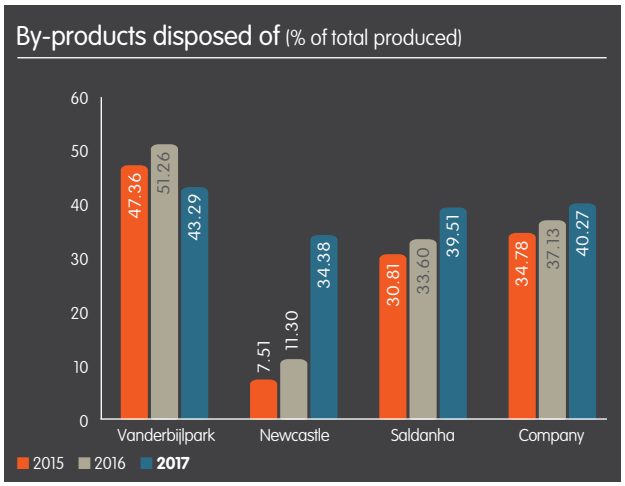






Strategic objective 3: Creating social value continued





It is of the greatest importance to us that our stakeholders, especially local communities, investors and regulators, acknowledge our responsible and efficient use of natural resources and our sincere and appropriate efforts to mitigate our environmental impacts.

In 2017, our most material environmental issues were:

- Emissions to air
- Water management
- Proposed carbon tax and climate change-related developments including energy efficiency
- Rehabilitation of legacy sites
- Achieving 100% compliance.

(Our key environmental indicators derive from those most material issues which we are able to directly influence.)

The production of iron and steel inevitably consumes large quantities of raw materials and energy – particularly iron ore, coal, coke and electricity. Volumes consumed are tied to overall production but it is incumbent on us to ensure that as much raw material as possible is transported to our plants by rail rather than by road.

We are among South Africa's largest single users of electricity which, today, is one of our largest variable cost items, a cost which increasingly threatens our sustainability. In a water-stressed country, it is incumbent on us to reduce wherever possible our abstraction of fresh water.

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.

Our environmental policy

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 production methods taking benefit of 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 the ArcelorMittal group's environmental policy
- Open communication and dialogue with all stakeholders affected by ArcelorMittal South Africa's operations.

Our ISO 14001-certified environmental management systems are based on these core principles. In 2017 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, the National Environmental Management Waste Act No 59 of 2008 and others.

The group manager: environment oversees environmental management. The group manager and corporate energy manager share responsibility for carbon and climate change issues. Both positions report to the chief technology officer. The corporate environment department reports to the safety, health and environment (SHE) committee of the board on environmental activities, performance, policies and outlook. The committee in turn raises material environmental issues with the board.

2017 environmental overview

This year the company struggled to sustainably comply with a number of its formal environmental licences. This related largely to our financial performance which impacted our ability to invest in necessary environmental improvements. In the year we spent an amount of R41 million on mitigating our environmental impact (2016: R38 million) and had to contend with the effects of underinvestment in, especially, emissions controls. In 2018, the company intends investing greater amounts to address this reality.

Performance against key environmental indicators is by no means determined exclusively by the amount of capital expenditure made. It is also largely determined by skills and expertise and the disciplined application of management and control systems. In this regard it is noteworthy that the company continued to perform well on lowering its intake of fresh water; this stemmed more from the rigorous application of controls than from any new investment.

Less success was achieved in terms of managing emissions to air. CO_2 emissions rose on the back of increased production while CO_2 intensity (per tonne of liquid steel) was little changed. SO_2 emissions decreased and dropped marginally in absolute and intensity terms. Particulate emissions, on the other hand, increased by an unacceptable 18%, the result of one particular challenge at Newcastle. Vanderbijlpark succeeded in slightly reducing dust emissions.

There were no major environmental incidents recorded this year in terms of section 30 of the National Environmental Management Act (NEMA). Inspections by the Green Scorpions were all of a routine nature with no significant non-conformances reported other than those that the authorities were already informed of.

In September Vanderbijlpark inaugurated a 50 tonne per hour off-gas boiler with a 10MW generating capacity. Commissioning of this important addition to our self-generating capacity was delayed by six months due to technical difficulties.

Water management

In 2017 we continued to improve on our water abstraction rates. At 3.16kl per tonne of liquid steel, freshwater intensity was 2% lower than that of 2016 – when the company achieved its lowest figure in almost a decade.

The performance on water intake was despite difficulties encountered in maintaining Vanderbijlpark's zero effluent discharge (ZED) status.

Newcastle lost its ZED status in February and November. Despite an improved performance from November, Vanderbijlpark had been unable to achieve full ZED compliance by February 2018. Saldanha maintained ZED compliance throughout the year.

In Saldanha the crippling drought afflicting the Western Cape posed a severe threat to the plant's continued operations from Q4. This was after the Department of Water and Sanitation instructed the local municipality to reduce potable water supplies to industry by 40%, with effect from 1 October. At Saldanha water recovery and reuse rates are already at a theoretical maximum which makes the stipulated reduction impossible to achieve. This is now forcing the company to investigate alternative water sources. Saldanha is working closely with the municipality to investigate alternative water sources such as treated sewage water and groundwater.

In 2018 an amount in the region of R20 million is likely to be spent on upgrading the plant's reverse osmosis capability. We believe that, with an investment of this magnitude, it will be possible to reduce Saldanha's freshwater intake by some 40%. Regrettably, given delays experienced in obtaining water use licences, it is unlikely that this benefit will be realised before H2 2018.

Strategic objective 3: Creating social value continued

Emissions to air

In February the dust abatement system at Newcastle's blast furnace cast house collapsed, resulting in considerable, unplanned emissions. The relevant authorities were immediately informed with an independent assessment reporting that the plant's variance from its atmospheric emissions licence was acceptable from an environmental impact perspective for a limited period.

By year-end good progress had been made on effecting the required improvements. It is expected that compliance will be achieved by July 2018, at a capital cost of some R90 million.

With Vanderbijlpark's sinter plant continuing to experience difficulties with its emissions abatement system, particulate emissions were the company's single largest area of environmental underperformance in 2017.

A large three-year project at Vanderbijlpark, to be implemented from 2018, will improve our ability to remove SO_2.

At the time of reporting the company was dealing with issues relating to various licences and general compliance.

Rehabilitation

Disposal site management this year was focused on maintaining existing areas with some small-scale rehabilitation of maturation dams in Vanderbijlpark which had been used for storing coke-making effluent in the past. In 2018 the rehabilitation of Dams 1 to 4, used for storage of leachate from an old disposal site, will commence. This project is expected to take three years to complete.

Carbon tax and by-products

There were few material developments this year on government's proposed carbon tax despite a draft Bill being published for comment in December 2017. It now appears likely that parliament will consider draft legislation during H1 of 2018. This year we continued to argue, in various forums, that the proposals, in their current form and levels of taxation, would threaten the existence of the primary steel industry and that other mechanisms to achieve the desired climate change outcomes should be developed. To the year 2020, we estimate that, if enacted as proposed, a carbon tax would add approximately R300 million to our annual cost base.

In 2017 by-product sales remained well short of recent historical levels, a reflection of depressed economic conditions. This translated into the percentage of by-products that had to be disposed of instead of finding alternative, commercial uses, rising from 37% to 40%. Since December 2015 we have been unable to sell any of the BOF slag produced at Newcastle because of an executive directive to the effect that the traditional buyers of this product lacked waste management licences. This compelled us to dispose of 440 000t of slag which would otherwise have found economically productive uses. Our legal dispute with the authorities on this issue (ArcelorMittal South Africa contends that BOF slag is not a waste product and, as such, should not require such licences) is unlikely to be resolved before February 2018, at the earliest.

Key environmental risks

Risk	Why it is important	Developments and actions taken in 2017
Carbon taxes	Could have the effect of making our business unsustainable. We acknowledge our potential impacts on climate change.	Legislation to implement carbon tax is now expected to be debated by parliament in 2018 after cabinet approved the concept of a carbon tax in principle. This year we engaged extensively on seeking additional relief for carbon-intensive, but employment-generating, industries such as iron and steel.
Effluent discharges	Environmental impacts and potential licensing and legislative infringements.	Newcastle ZED project was finalised in 2015 but ZED status was not fully maintained this year. Vanderbijlpark's ZED status was lost in September 2017. It is planned that the plant's status will be restored in 2018. Vereeniging was able to sustain the boron levels in its effluent below specified levels after improvements made in 2015 and 2016.
Fugitive and point source emissions	Emissions caused by ineffective process controls could infringe atmospheric emissions licence (AEL) conditions.	All plants issued with AELs and a renewed AEL for Vanderbijlpark was awaited at the time of reporting, application having been made in Q1 2017. Improvements were devoted to capturing excessive emissions at the Vanderbijlpark sinter plant where the recently installed abatement system is not performing as expected. A top priority is the replacement of the collapsed Newcastle blast furnace cast house air abatement system and completion is scheduled for July 2018. The newly installed sinter building dust abatement system is scheduled for completion by May 2018. Also at Vanderbijlpark, a vapour recovery project at the tar distillation facility was completed after some unfortunate delays. A large-scale project to improve the coke oven gas treatment and sulphur removal facilities at Vanderbijlpark is scheduled for completion by May 2018. Temporary technical problems resulting in excessive fugitive emissions at Saldanha's Corex plant were resolved but further work is planned to achieve additional improvements. For 2018, significant improvements are scheduled, or are to be continued, at our ironmaking and coke-making facilities with a strong focus on Newcastle Works.
Legacy areas	Rehabilitated legacy areas account for lower fugitive emissions.	All waste disposal takes place on lined areas and during 2017 an extension of a hazardous waste disposal site was completed in Newcastle to ensure continued safe disposal practices. Similar disposal site extensions are scheduled for 2018 at Vanderbijlpark. Good progress was made at Vanderbijlpark to complete and maintain remediation efforts, with more work planned for 2018.
Groundwater contamination	Groundwater pollution from legacy dams and active sources at certain business units could affect communities and the environment.	Work is ongoing where legacy groundwater pollution is evident and good progress was made on neutralising past activities that may have resulted in potential contamination. The practice of storing effluent in unlined dams was phased out some years ago and ongoing monitoring is showing encouraging results.

Environmental outlook

We anticipate ongoing challenges in complying with our various environmental licences in 2018. As a result, pressure on financial resources for investment in capital projects that will mitigate and, wherever possible, ameliorate, our impacts will remain considerable.

It is likely that in 2018 essential environmental capital expenditure will represent a substantial increase over the annual spend of the previous three years. Priorities will be the Newcastle cast house abatement system and ongoing improvements at the Vanderbijlpark sinter plant. (At Newcastle, a project to reduce particulate emissions from the sinter building itself to below 50mg/m^3 is scheduled for completion in Q2 2018.)

A two-year initiative to extend our disposal site footprint at Vanderbijlpark will commence in the new year; expenditure in the initial year is likely to be limited to some R10 million.

At Saldanha Works a strategy was adopted to implement comprehensive additional measures to reduce the use of potable water supplied by the municipality. The strategy will be implemented in 2018 with success depending on the required authorisations being issued. The main focuses of this strategy are the use of treated sewage water and the abstraction of groundwater on site.

In the new year the ArcelorMittal South Africa corporate environment department will begin implementing strategic plans to achieve compliance with 2020 air quality standards; where appropriate, postponement applications may also be planned, especially for plants that have limited life expectancies beyond 2020. The three-year coke products' sulphur recovery plant improvements will commence in 2018 to address a long-term compliance concern at Vanderbijlpark's coke batteries.

We have worked assiduously to ensure maximum compliance with the 2020 standards and will be able to point to considerable adherence to the standards but, in a few instances, it is simply not feasible for us to achieve compliance in the short term. Such instances include the Vanderbijlpark direct reduction plant (SO_2) and Pretoria coke production works which are due to be decommissioned in 2030.

Strategic objective 4: Creating a high-performance culture

A safe, lean but highly productive workforce is essential to proving that we can sustainably make great steel products at prices our customers can afford.

Why this is important

ArcelorMittal South Africa is positioned within the bottom quartile of all ArcelorMittal group companies in terms of labour productivity. Since 2010 labour costs have risen 61% while crude steel production has decreased by 15%. In the decade since 2008, we have increased the tonnes of HRC produced per full-time equivalent (FTE) job from 428 to 478 but these gains have been outstripped by labour inflation.

Clearly a step change in reducing fixed costs is needed if our company is to remain competitive and return to sustainable profitability.

Three-year key performance indicators

KPI			
KPI 14	**Total cost of employment** (TCOE): TCOE/tonne of liquid steel (ZAR)*		
	2017: 1 049	2016: 1 063	2015: 970
KPI 15	**Management control performance** (under B-BBEE codes)		
	2017: 9.22**	2016: 9.50+	2015: 7.40

* *Previously reported in USD.*
\+ *Independently verified; previously reported (self-assessed) as 9.25.*
** *Self-assessed.*

Issues that were most material to ensuring high-performance in 2017

- Workplace safety
- Restructuring operations to unlock value and reduce costs
- Training for a new operating reality
- Producing sufficient fit-for-purpose technical skills
- Talent management and succession planning
- Employee engagement and changing our culture.

In 2017 management worked with various group experts to implement stretch targets on reducing variable and fixed costs. However, in ensuring that we rapidly sustain ongoing, positive EBITDA and positive cash flow, it is imperative that our apparently systemically poor performance on tonnes of HRCe/eRebar per FTE be improved. To this end, this year we began the process of restructuring our workforce. Our own labour reduced to 8 878 in 2017, representing a 3% reduction.

Restructuring oneAMSA

Under new leadership, the company's human resources function this year began implementing oneAMSA, a wide-ranging undertaking to improve productivity and decision-making by delivering a flatter, more streamlined organisation. The board and executive committee oversaw all elements of oneAMSA's rollout.

Of particular significance, in the year personal performance objectives were, for the first time, aligned with corporate strategic objectives using the new SuccessFactors software platform.

To ensure that individual performance is geared towards execution against our most important objectives, it is important that all employees subscribe to the objectives that will ensure our survival and our ability to create sustainable value for shareholders and other stakeholders. As such, oneAMSA aims to inculcate a sense of corporate belonging and shared values. (The reality of our organisational structure and culture, identified in 2016 and 2017 by a number of internal and external experts, is that business units and divisions have operated largely autonomously, in 'silos', to the detriment of effective decision-making and execution against strategic objectives.) This reality has also resulted in considerable, quantified, duplication of resources and processes; oneAMSA seeks to address these wasteful shortcomings by rapidly bolstering the creation of a high-performance culture.

In August 2017 a Section 189 process was initiated to achieve total cost of employment (TCOE) savings. OneAMSA envisages reductions in each of the four labour components of our fixed costs: own labour, contractor labour, overtime and hired labour. No direct job losses are expected with natural attrition accounting for the required lower head count – as occurred in 2017 when full-time employment reduced by 453 positions through resignations and retirements.

Borrowing extensively from ArcelorMittal group best practice, in 2018 shared services (including human resources, finance, sales and marketing, purchasing and logistics and IT) will be centralised as far as possible and appropriate. This will have the effect of streamlining decision-making, reducing costs and, in the case of sales and marketing, of improving customer relations and service levels. So, for example, the sales and marketing department's headcount will increase almost four-fold. This reflects the fact that, under oneAMSA, finished product warehousing and despatch personnel will resort under the sales function whereas previously they reported to production.

Strategic objective 4: Creating a high-performance culture continued

Training for our new future

A leaner, more productive labour force will need to demonstrate consistent high performance, which will require our people to possess even greater skills levels, an imperative that underlines the importance of continuing to invest in training.

In 2015 and 2016, despite severe financial constraints, we succeeded in spending a combined amount of R386 million on training. This year the company's financial position was such that it was not possible to sustain this expenditure, training spend declining by some R60 million to R153.9 million. Mitigating the impact of budgetary cuts was largely achieved by reducing externally provided training and by eliminating expenditure on leadership development while minimising operating costs. As a result, it was possible to even increase investment in the development of essential technical skills and to grow the technical pipeline; at year-end the pipeline consisted of 1 518 individuals (2016: 1 346).

This increase in one of our traditional areas of greatest non-financial impact was achieved largely through partnerships, in particular partnerships with the Department of Labour and the Manufacturing, Engineering and Related Services Seta (merSETA). In 2016/2017, through the department's 'match-making' platform, Employment Services for South Africa, and merSETA, an amount of R30 million from the Unemployment Insurance Fund (UIF) was made available to ArcelorMittal South Africa to provide apprenticeship training to unemployed South Africans. In 2016/2017, 197 unemployed individuals from mostly impoverished backgrounds underwent apprenticeship training with an expected end date of 2019/2020, as indicated by the table below.

(In a previous partnership during 2012, 96 unemployed youths completed a similar apprenticeship programme with 59 being absorbed into the company's candidate artisan programme. Of these, 35 obtained permanent positions.)

UIF partnership apprenticeship pipeline

		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

At the end of 2017 some 743 individuals were participating in full three-year apprenticeship training programmes provided by the company's Engineering Academy in Vanderbijlpark. This year 143 apprentices graduated from this programme.

The 743 apprenticeships in our development pipeline (including the UIF beneficiaries) represented a 36% increase on the 546 registered a year previously. Some 95% of the current apprentices were from historically disadvantaged backgrounds. As has traditionally been the case, this number is in excess of ArcelorMittal South Africa's own requirement, meaning that scarce artisanal skills will continue to be developed and made available for deployment elsewhere in the manufacturing and industrial sectors.

In 2017, 3 487 employees were aged under 35, representing 38% of the workforce. (Significantly, the age profile of our artisanal workforce – at an average 40 years – is lower than the national average, estimated at 45 for practicing artisans.)

Training expenditure and hours

Cost	2017	2016	2015	2014	2013
Training expenditure (Rm)	**153.9**	184	202	151.4	138.1
Training hours – bargaining unit employees	**258 379**	378 778	488 079	231 732	196 890
package employees	**58 693**	133 794	93 216	78 775	33 296
Individuals directly impacted by skills development					
Apprentices	**743**	546	462	447	574
Learner technicians	**16**	46	41	24	58
Production learners	**414**	416	422	374	813
University and university of technology bursars	**143**	115	111	107	137
Candidate engineers	**72**	46	44	43	61
Candidate technicians	**45**	30	33	52	66
Candidate artisans	**53**	117	153	84	95
Graduates in training	**32**	30	35	17	18
Total development pipeline	**1 518**	1 346	1 301	1 148	1 822

Development pipeline

Individuals directly impacted by skills development

	Grand Total	African		Coloured		Indian		Whites		Total by gender		
		Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	% EE
Learner apprentices	743	572	62	34	1	36	2	35	1	677	66	95
Candidate artisans	53	40	6	4	0	1	0	2	0	47	6	96
Candidate engineers	72	17	18	1	0	5	3	24	4	47	25	61
Candidate technician	45	19	19	3	0	2	0	2	0	26	19	96
Graduates in training	32	14	12	0	1	1	3	0	1	15	17	97
Learner technician	16	11	2	0	0	1	1	1	0	13	3	94
Bursar technicians (University of Technology)	8	6	2							6	2	100
Bursar technician (SAISC bursars – drafting)	5		5							0	5	100
Bursar technician (IM bursars)	13	7	6							7	6	100
Production learners	414	314	37	36	8	3	1	15	0	368	46	96
University bursars	117	36	15	3	4	12	9	30	8	81	36	68
Total	1 518	1 036	184	81	14	61	19	109	14	1 287	231	92

Substantial progress was also made this year on developing black engineering skills, notably those of African women who are being developed to boost the ranks of our candidate engineers. At year-end the company's pipeline included 72 candidate engineers, a substantial increase from the previous reporting period (44 in December 2016). This is considered essential to address the ageing workforce and to ensure a healthy pipeline of technical skills. Another partnership, with the SA Institute of Steel Construction, resulted in the full-time training of four African women draughtsmen.

In 2017 training hours for bargaining unit employees decreased 32% relative to the 378 778 hours of 2016. Expenditure on our Future Leaders programme declined by 26% to R6.7 million as we switched our training focus to the development of technical skills and away from leadership development.

Although we achieved an outstanding 24.76 points out of a possible 25 B-BBEE skills development points in 2015 (an industry high) and a most respectable 22 points the following year, due to our prevailing financial situation, it was necessary to reduce skills development spend in 2017 by R60 million. This resulted in the company achieving (a self-assessed) 19.16 points this year.

Technical training

In 2017 an in-depth training needs analysis was conducted for the first time, based on the newly developed technical/functional profiles of the operational workforce. This allowed the company to position itself for the 2018 year with a structured approach to such training being in place. The new, more structured technical training programme leverages the strengths of the ArcelorMittal University based in Luxembourg to roll out a number of functional courses (such as a coke-making course) through the university's satellite campus in South Africa. During the year 66 433 technical seats were presented.

Whereas the quantity and quality of technical training provided by the company's Engineering Academy was an undoubted highlight of the year, it was particularly pleasing that the quality of this training received international recognition in 2017. Two Engineering Academy apprentices took top honours in the National World Skills Competition with these two progressing to represent South Africa and ArcelorMittal South Africa at the World Skills Competition (welding category) in Abu Dhabi and an arc-welding competition in China. Osbourne Mbambani won the fifth international arc-welding contest in the student category, while Philip Terblanche was placed 25th out of 34 competitors in the World Skills Competition in Abu Dhabi, the best performance by a South African to date.

Talent development and succession

In 2017, 173 employees took part in the company's talent development programme (2016: 76). All talents identified for progression to mid and senior positions have robust personal development plans in place. Talents are placed on one of three levels, each of which has its own development programme: 'rising', 'emerging' and 'confirmed'. In addition, 16 talents have been nominated into the ArcelorMittal Global 'Acceleration Pool' with the intention of fast-tracking their development to becoming global mobile resources.

During the year, training personnel held a number of engagements with senior leaders to provide talents with the requisite exposure aligned with their development.

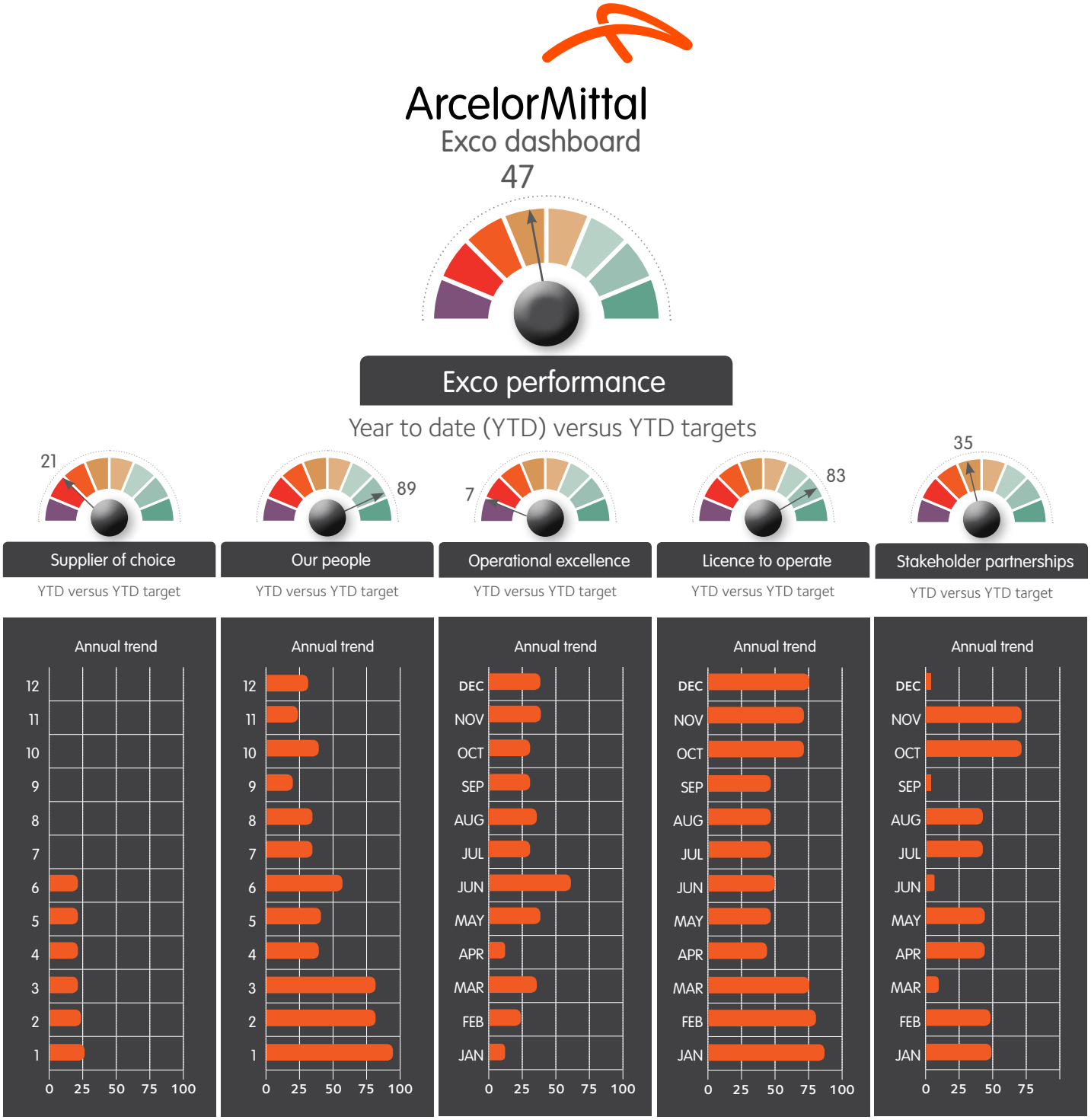
ArcelorMittal South Africa this year again took part in the Standard Bank Rising Star awards, which recognise talented young (under 40) individuals who have the capacity to excel in their chosen fields. Alicia Moodley, senior change leader at the company's business improvement unit, won the manufacturing, retail and fast-moving consumer goods category.

Ensuring effective succession for talents and other employees is a cornerstone of our people development process. With this process, employees are mapped as successors with their personal development plans detailing specific development actions and required outcomes. In 2017 these plans were embedded throughout the company, creating a robust, stable succession platform with specific 'skills transfer' documents and processes being compiled per employee. During the year 15 expatriate group employees were brought to South Africa and contracted to transfer skills to identified employees (in addition to the high-level experts deployed for strategic reviews). It is also envisaged that ArcelorMittal South Africa staff will be sent to sister plants elsewhere in the group to develop and transfer skills in 2018.

Strategic objective 4: Creating a high-performance culture continued

Performance

During the year the company's strategic objectives were aligned with personal performance and cascaded using the newly implemented SuccessFactors software platform. Previously, personal performance objectives were not aligned with company objectives. In the new order, to align the actions of all employees with the desired outcomes of the company, strategic objectives have been cascaded from the CEO to the lowest level, and contextualised per role level to ensure all actions aggregate to the achievement of these objectives. To track objectives at an executive committee level, a dashboard facilitating visibility and transparency was created. The following example demonstrates the dashboard's at-a-glance functionality.



Labour relations

There were, again, no incidents of industrial action in 2017. At year-end 62% of bargaining unit employees were members of the National Union of Metalworkers (Numsa). Solidarity represented 37% of bargaining unit employees.

In 2015 Numsa and the company signed a two-year agreement and, in the same year, Solidarity and the company signed a similar three-year agreement. In 2017 the final year of the three-year agreement with Solidarity was implemented and negotiations with Numsa succeeded in aligning the wage negotiation cycle with both unions.

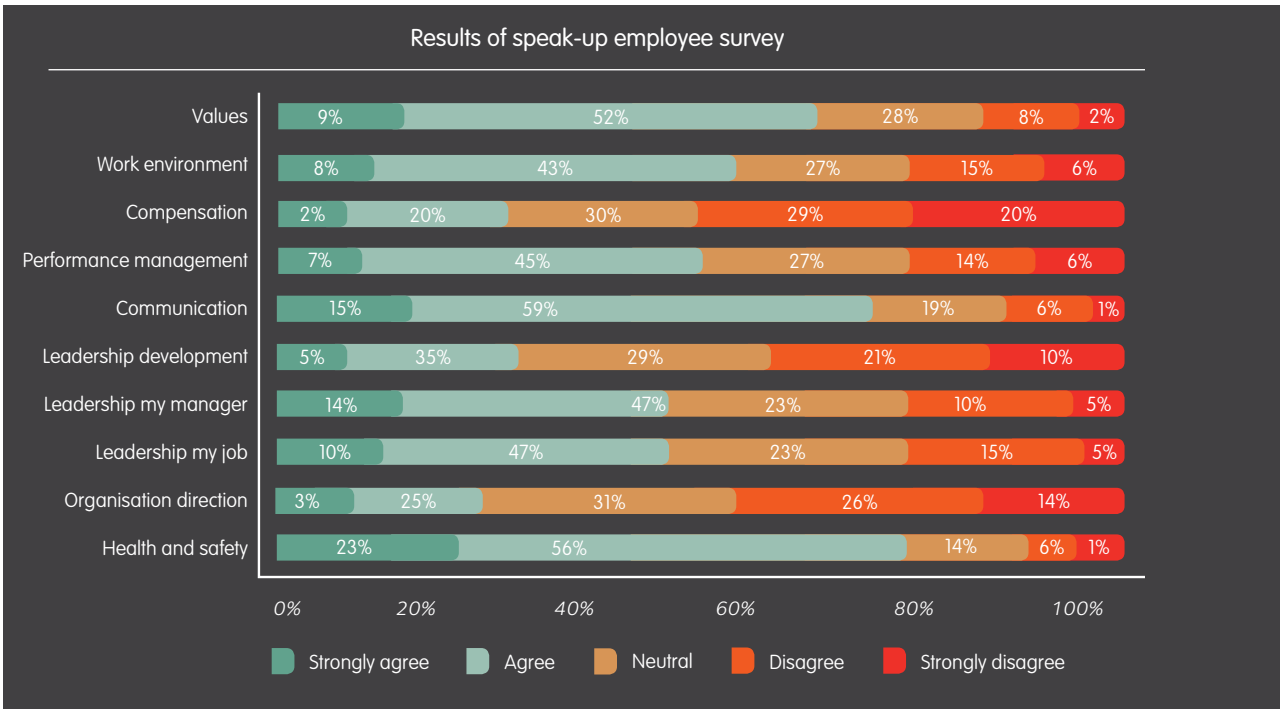
Details of wage negotiations are contained in the remuneration report on 43 of our integrated annual report.

Culture and employee engagement

A conducive environment, in which all employees feel engaged with the company and its success, is essential to the achievement of strategic objectives. In 2017 this process was driven from the top by 40 (2016: 269) management level employees attending the Future Leaders programme (FLP) while input was actively sought from the workforce.

A 'bottom-up' approach was implemented through 'values-based' workshops at the lower levels to identify and address blockages. At Newcastle alone 507 employees took part in such workshops.

In 2017 a tool to effectively determine levels of employee engagement was deployed across the company. Sourced from the ArcelorMittal group, 'speak-up' outcomes will be used to assist 'values teams' in providing solutions to enhance employee engagement while contributing towards the overall employee value proposition (EVP).



The results of this first survey of employee engagement were invaluable in charting the future direction of human resources strategy. They pointed to the very real challenges entailed in keeping our workforce motivated and engaged, particularly in light of the company's adverse operating context.

e-learning for high performance

Traditional classroom learning has enabled considerable skills and knowledge transfer but a rapidly evolving, connected environment requires a more innovative approach to learning, one which is both safe and geared towards providing training when and where it is needed.

ArcelorMittal South Africa can claim to have pioneered several aspects of micro-learning and virtual reality training. In 2017 the development of e-learning modules, specifically focused on fatality prevention standards training, was a focus area aimed at ensuring a better learning experience with greater knowledge retention. This year various safety training modules were started using 'gamification' techniques, allowing focused learning while 'playing games' in the

Strategic objective 4: Creating a high-performance culture continued

virtual world (e-learning). This enabled the use of such technology for mobile learning (e-learning through mobile devices) with the intention of implementing micro-learning during 2018.

An industry first executed by the company was the inauguration of a bespoke virtual reality system which tests for fear of heights and forms part of the working at heights safety module. Using virtual reality, knowledge is applied in a safe, controlled environment, thus building competencies that are required to work safely.

Directing our drive towards high performance

The general manager: human resources and transformation, reporting to the chief executive officer (CEO), is a member of the executive committee and regularly briefs fellow executives on employment, recruitment, skills development and transformation issues. The board's human resources, remuneration and nominations committee (previously the remuneration, social and ethics committee) is addressed by the general manager at its quarterly meetings regarding the delivery of the human resources agenda.

We are committed to the fair, equitable and non-discriminatory treatment of all employees including equal remuneration for men and women, and to building an inclusive and diverse workforce. We align our people management strategy with our business goals, to drive cost competitiveness and sustainable productivity, and develop and sustain a skilled and capable organisation.

We are directed by a group-wide health and safety policy, which includes our safety principles and highlights the imperative of shared responsibility for the safety of employees and contractors. Within ArcelorMittal South Africa we also have a safety, health and wellness policy, and comply with relevant local occupational health and safety legislation including the Occupational Health and Safety Act (1993).

The CEO is ultimately responsible for the health and safety of employees. The group manager: safety, health and wellness, reports to the CEO and manages day-to-day health and safety issues. This function also reports to the safety, health and wellness committee which meets on a monthly basis and is chaired by the CEO. The committee comprises the group manager: safety, health and wellness, the chief technology officer, the general managers of each operational site and union representatives.

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.

The company's retirement funding obligations towards current employees are all in terms of defined contribution. The sole remaining defined benefit fund (which has only pensioners as members and an asset value of R300 million) is financially sound and in the process of being reviewed for outsourcing to an insurer.

Pursuant to the issuing, by the minister of finance, of final default fund regulations in terms of the Pension Funds Act in August 2017, various company funds are working towards complying with these regulations. In line with the intent behind the regulations, task teams have been established to ensure that the defaults proposed to members will be both appropriate to the needs of a majority of members and comprehensible to them.

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 705). As negotiated with the schemes, most underwriting conditions have been waived.

At the end of 2017, 97.12% of all employees were on company provided medical aid. The balance were on spouses' medical schemes.

The company offers family funeral benefits to employees and their dependants. This benefit is insured through the external provider and is fully funded by the company.

A policy extending support to those injured or killed at work but who are not permanent employees was introduced in 2016, in line with a board directive to give further effect to the company's duty of care. As well as permanent employees, support is now extended to those injured (or the families of the deceased) where the person concerned is a fixed-term contract employee or temporary employee, an expatriate, production learner or apprentice.

Outlook for 2018

In the new year the continued rollout of oneAMSA will have wide-ranging impacts on the structures and culture of the company. These changes will be executed with maximum empathy and in close, open communication with affected employees and their union representatives. Driving culture change, from a top-down command structure to an inclusive environment in which all employees feel committed to the achievement of strategic objectives, will be embedded by values teams.

The development of digitised training will continue in 2018 with the completion of training materials for all outstanding fatality prevention standards and plant inductions.

How our key relationships create value

ArcelorMittal South Africa creates social, human and environmental value not in isolation from its stakeholders but, increasingly, in partnership with them.

In 2017 considerable progress was made on strengthening relations with a broad range of stakeholders and in applying integrated thinking to unlock mutually beneficial, often widespread, value.

The board of directors takes an active and ongoing interest in the quality of stakeholder relationships and in associated risks and opportunities. Here we detail our key stakeholder relationships, stakeholders' interests in our value creation model as well as their needs and expectations, and the outcomes effected through these relationships. The discussion below illustrates a number of instances in which the growing strength of stakeholder relationships has translated into financial value for the company and its investors.

This section focuses on outcomes achieved in 2017. However, we believe that, given a return to sustainable profitability, we can exploit the lessons learnt in the year as well as the relationships forged and strengthened to catalyse a substantially greater impact. We are committed to using our strengths, size and economic reach to create broad-based, affirmative and sustainable value for a multiplicity of stakeholders.

Stakeholders	Their interests, needs and expectations of us	Methods of engagement	Outcomes effected
Social value			
Customers	Fair pricing for primary steel	Engaged extensively with independent regulators on fair pricing model and implementation; continuously communicated pricing developments to the downstream	Maximum prices on flat steel products guarantee customers reasonable, more predictable pricing
	Predictable, on-time delivery of quality products	Our 2017 performance on delivering on time to customers was extremely disappointing, declining from an already unacceptable 59% to just 50.9%	Negatively affected customers' sales and ability to deliver on orders
	Assistance against unfair imports	Support extended to the downstream in 2017 included assistance in securing import protection on semi-finished and finished steel products. At year-end we were working closely with a number of industry organisations including: ❯ SA Wire Association ❯ Association for Steel Tube and Pipe Manufacturing ❯ Southern African Metal Cladding and Roofing Association ❯ SA Iron and Steel Institute ❯ SA Coil Coaters Association ❯ SA Institute of Steel Construction The downstream is also expected to benefit from the company's engagements with various authorities on enforcing the designation of local steel	Assistance in obtaining protection against unfair imports of finished and semi-finished steel products safeguards local jobs, income and taxes
	Pricing support for exports	Communicated to customers the availability of export rebates and how to claim these.	R323 million in export rebates enabled new employment sustaining foreign orders for SA companies
	Availability of quality new primary products which can create and sustain new downstream markets. Combat (often inferior) imports and bolster exports	Worked with customers in South Africa and elsewhere in Africa to develop new, fit-for-purpose, more cost-effective products	Seven new flat and seven new long products or specifications developed, or under active development, a majority of which were developed in consultation with existing and/or new customers

How our key relationships create value continued

Stakeholders	Their interests, needs and expectations of us	Methods of engagement	Outcomes effected
Central government	Job creation in local communities and, especially, in the steel and engineering downstream, and enhanced business activity	Opened a co-funded (with the dti) R30 million 1 600m² incubation hub in Vanderbijlpark	An initial 11 start-up black-owned businesses had a work pipeline worth R9 million at year-end while employing 102 people
		Engagement with downstream on opportunities arising from localisation	
	Development of science, maths and engineering skills among historically disadvantaged youths	Alignment of training with national curricula. Continuous interaction between personnel at four science centres funded by the company, and high-school educators and basic education officials	(See communities below)
Provincial government	Job creation and the sustainability and growth of, especially, the downstream as well as that of suppliers	Supported the Gauteng government's Tshepo 1Million Township Marketplace platform	Exposed 870 company-registered SMMEs to procurement opportunities worth R919 million; company can access wider supplier base
		Partnered with the Western Cape government and local corporates and organised business to establish Grow-Net, a procurement and ESD portal for local, mostly black-owned SMMEs	Some 1 400 emerging businesses in the Saldanha area exposed to opportunities for revenue growth, training and development; company has a greater choice of suppliers
		Collaboration with Gauteng government on developing a privately funded Vaal logistics hub and agricultural project	Outcomes expected to include sustainable employment and greater food security
Communities, NGOs and local government	Job creation, procurement and business development opportunities	Local government and chambers of commerce closely involved in incubation hub and business park and development of Vaal logistics hub	(See central government). Business park hosting which had a combined pipeline worth R8.2 million, providing 62 jobs
	Improved education	Funded three science centres to the value of R11.4 million	Reached 13 000 learners directly with science, maths and engineering learning plus 42 000 through outreach programmes
	Clean environment	Proactive communication, meetings and briefings	Feedback indicated appreciation of the company's increased engagement

Stakeholders	Their interests, needs and expectations of us	Methods of engagement	Outcomes effected
Suppliers	Procurement and security of business pipeline	Regularly engaged with all strategic suppliers on pricing and efficiency	In 2017 various suppliers proactively initiated cost savings amounting to several hundred million rand, an exceptional illustration of integrated thinking on the part of our supply chain With Transnet Freight Rail, the Isando logistics hub was opened, creating 40 permanent jobs while being expected to improve customer satisfaction
	Enterprise and supplier development opportunities	Worked with the Department of Trade and Industry to develop a R30 million business incubation hub housing emerging black-owned businesses	Incubatees have created 102 jobs with a local economic impact of R9 million in 2017
	Preferential procurement	Transformation unit staffed by 10 individuals worked with local emerging businesses and suppliers, including 1 138 EME and QSE vendors	Existing supplier development beneficiaries provided goods and services worth R103 million with spend with EME suppliers increasing by almost 50%
Regulators	Economic sustainability through the application of trade remedies	Liaised with the International Trade Administration Commission on import duties and fair pricing agreements. Consulted with government's multi-departmental steel task team on industry needs and developments	Eighteen percent decline in imports of primary and fabricated flat steel products, safeguarding investment and employment
	Fair and unfettered competition	Reported to the Competition Commission on compliance with rulings made in 2016	Commission agreed to stagger first annual (R300 million) payment of R1.5 billion fine

How our key relationships create value continued

Stakeholders	Their interests, needs and expectations of us	Methods of engagement	Outcomes effected
Human value			
Government and local communities	Skills development	Collaborated with Department of Labour and merSETA on utilising Unemployment Insurance Fund for artisanal training	In 2017, 197 individuals received full-time, three-year apprenticeship training at the ArcelorMittal South Africa Engineering Academy. Thanks to this collaboration, the strength and size of our technical pipeline was maintained
Employees and trade unions	Career prospects and advancement	Conducted 258 000 hours of bargaining unit, and 59 000 hours of package category training	Bargaining unit training hours declined by 32% while leadership training expenditure fell by 26% as a result of lower training budgets
	Income and benefits	Structured engagement with bargaining unit employees	Alignment between Solidarity and Numsa on wage negotiation cycle. See the remuneration report in integrated annual report for salary and benefits agreements
	Employment and job security	From December regular engagement with employees and unions on Section 189 process	Judicious and focused execution of Section 189 process is expected to result in no job losses through the optimal redeployment of personnel which will enhance operational effectiveness. Detailed outcomes will be communicated in the 2018 integrated annual report Reopening of the heavy section mill at Evraz Highveld Steel resulted in 345 of 1 800 jobs lost when the plant closed being revived
Environmental value			
Local and provincial government	Reduced freshwater intake	Planning to spend R20 million to upgrade Saldanha's reverse osmosis capability, to make greater use of sewage water	By H2 2018 Saldanha's freshwater intake will reduce by 40%
Manufactured value			
Customers and government	Products that can sustain manufacturing	Developed new products (see customers)	Product development was lower than in 2016 as a result of cash constraints
	Import replacement and tax revenue	Negotiated with management and business rescue practitioners on agreements to restart structural steel production at Evraz Highveld Steel	Restarting Evraz Highveld Steel heavy sections mill resulted in the local production of 49 000t of steel which would otherwise have been imported

ArcelorMittal

ArcelorMittal South Africa Corporate Office

Delfos Boulevard
Vanderbijlpark
Phone: +27 (0) 16 889 9111
Fax: +27 (0) 16 889 4318
GPS coordinates: E 27° 48′ 19.6″ S 26° 40′ 22.3″

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