ArcelorMittal

Integrated annual report 2018

Contents

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

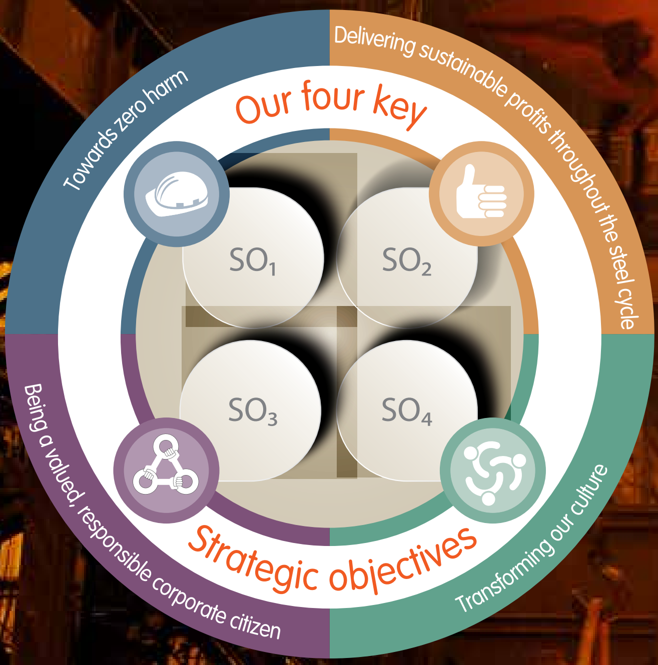
At https://southafrica.arcelormittal.com/InvestorRelations/AnnualValueCreationReports.aspx and https://southafrica.arcelormittal.com/InvestorRelations/LeadershipReports.aspx we report in greater depth and detail on our performance against each of the four key strategic objectives covered in the integrated report and on our corporate governance.

Report navigation

To aid navigation and cross-referencing, this report contains the following icons: **our key strategic objectives, our most material issues, our top 10 risks and our key performance indicators.**

Our online report includes additional information on particular topics.

These icons refer to our four key strategic objectives



Our material issues:

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

Our top 10 risks:

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

Our 15 KPIs:

- KPI 1 Work-related fatalities
- KPI 2 Lost time injury frequency rate (LTIFR)
- KPI 3 Total injury frequency rate (TIFR)
- KPI 4 EBITDA per tonne (R/t)
- KPI 5 Return on capital employed (ROCE) (%)
- KPI 6 Steel market share
- KPI 7 Liquid steel production (000 tonne)
- KPI 8 Cash generated from operations before working capital (Rm)
- KPI 9 Net cash/debt position at year-end
- KPI 10 On-time deliveries (%)
- KPI 11 Preferential-procurement spend
- KPI 12 B-BBEE compliance score
- KPI 13 Environmental spend (Rm)
- KPI 14 Total cost of employment (TCOE)
- KPI 15 Management control performance (under B-BBEE codes)

Why you should read this report

Board responsibility

The board is satisfied that this report addresses the material issues, accurately presents the integrated performance of the company and that it has been compiled in accordance with the International Integrated Reporting Framework.

The board authorised this report on 27 March 2019.

Mpho Makwana
Chairman

Kobus Verster
Chief executive officer

Desmond Maharaj
Chief financial officer

Brian Aranha

Zee Cele

Noluthando Gosa

Gert Gouws

Raman Karol

Nomavuso Mnxasana

Jacob Modise

Monica Musonda

Neville Nicolau

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

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

Our 2018 report

In 2018 the leadership of ArcelorMittal South Africa began rolling out a Transformation for Sustainability and Growth strategy, a drive to fundamentally change our business model, to ensure our sustainable ability to generate profits despite the vagaries of the steel cycle. This strategy – its context, components, progress to date and outlook – is described in some detail and with considerable candour. For an overview of our new strategy, see, particularly, pages 32 and 33.

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

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

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

Enhancements to our 2018 report include:

- Changing the presentation of information by making greater use of more digestible charts, graphs and 'fact boxes'
- Greater disclosure on targets and – while remaining consistent – improving the comparability of information
- A stronger emphasis on trade-offs in our strategic efforts to achieve desired outcomes, and
- Reducing page count by including a summarised remuneration context, performance and implementation report. As with the full financial statements, a full remuneration report is contained in our online suite of annual reports.

Printed copies of this integrated annual report may be requested from the company secretary, nomonde.bam@arcelormittal.com.

Forward-looking statements

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

Our 2017 report was among the first by a JSE-listed company to include an independent statement of assurance over the process of report compilation. This 2018 report, similarly, contains a statement by the head of internal audit on the process, on page 63.

A limited assurance report on selected key performance indicators is contained on page 63.

An independent audit was performed by Deloitte & Touche, expressing an unmodified opinion on the consolidated financial statements. The opinion is on page 7 of the online financial statements.

In 2018 our most material issues were:

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

In 2018 our key strategic objectives were:

page 34 Towards zero harm

page 36 Delivering sustainable profits throughout the steel cycle

page 40 Being a valued, responsible corporate citizen

page 46 Transforming our culture

Our values

These underpin our strategic objectives and impact our stakeholders:

Safety

Caring

Customer focus

Commitment

View this report online:

https://southafrica.arcelormittal.com/InvestorRelations/IntegratedAnnualReports.aspx

Our Vision

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

Our Mission

We aim to achieve our vision by:

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

In addition to this integrated report, as in recent years, we report in considerably greater detail on our strategic performance and leadership in our online

– Annual value creation report
– Full annual financial statements, including unabridged remuneration and financial performance and limited assurance reports
– Leadership report, including our King IV™* application statement, full governance overview and full remuneration report.

Access our full annual financial statements

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

Who we are

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

Flat steel products

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

Vanderbijlpark Works

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

For more information on Vanderbijlpark Works – see page 39

Saldanha Works

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

For more information on Saldanha Works – see page 39

Long steel products

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

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

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

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

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

For more information on long steel products – see page 39

Coke and Chemicals

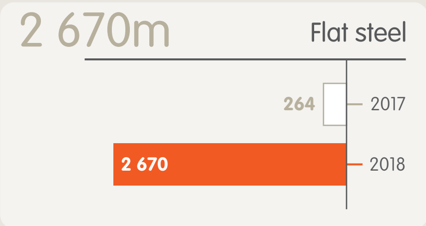
From batteries in Vanderbijlpark, Newcastle and Pretoria, Coke and Chemicals Works produces metallurgical coke for our furnaces in Vanderbijlpark and Newcastle, and commercial coke for sale to, especially, the ferro-alloy industry. The business also processes and beneficiates metallurgical and steel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

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

For more information on Coke and Chemicals – see page 39

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

EBITDA contribution (Rm)



Capacity

Vanderbijlpark Works:
2.9 million tonnes of liquid steel per annum

Saldanha Works:
1.3 million tonnes of liquid steel per annum

Vanderbijlpark Works

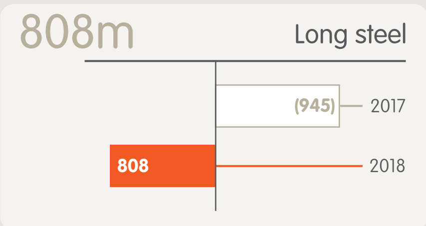
Capacity utilisation	LTIFR	Revenue	Liquid steel production
85%+	**0.31+**	**R25.5 billion+**	**2.475 million tonnes+**
2017: 81%	**2017:** 0.38	**2017:** R22.5 billion	**2017:** 2.340 million tonnes
2016: 82%	**2016:** 0.39	**2016:** R18.3 billion	**2016:** 2.389 million tonnes

Saldanha Works

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

+ *Externally assured.*

EBITDA contribution (Rm)



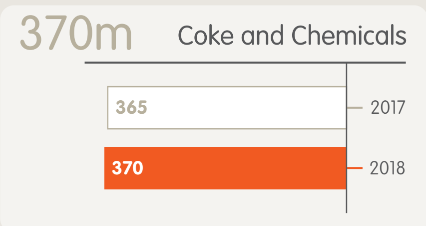
Capacity

Newcastle Works:
1.9 million tonnes of liquid steel per annum

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

+ *Externally assured.*

EBITDA contribution (Rm)



Capacity

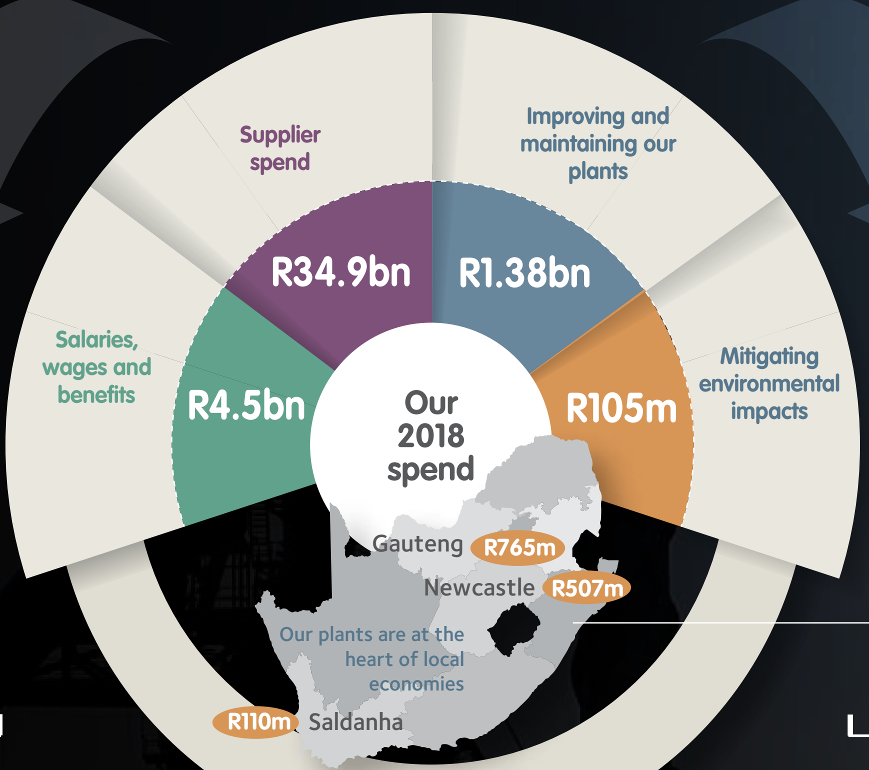
220 000 tonnes of coke

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

+ *Externally assured.*

How we create social and human value

Local economic and social impact



2018 capital expenditure

National economic, industrial and employment impact

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

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

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

Employer, job creator and skills developer

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

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

3 jobs
Created for every 1 000 tonnes of steel produced

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

559 production learners
Up from 414 in 2017

Catalyst for change

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

19%
– increase in procurement from emerging micro-enterprises

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

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

** Self-assessed*

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

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

In 2018 ArcelorMittal South Africa:

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

Economic growth engine

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

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

R10bn Export revenue – up 37% over 2017

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

Employer, job creator and skills developer

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

Enabling the NDP through beneficiation

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

Steel

Major focus on NDP 2030. Source: NDP 2030

Steel products

Structural steel

Agriculture

Wire products

Construction

Packaging

Food & beverage

Energy

Rail

Machines

Infrastructure

Pipelines

Automotive

Logistics

Defence

Communication

Oil and gas

Mining

Water supply

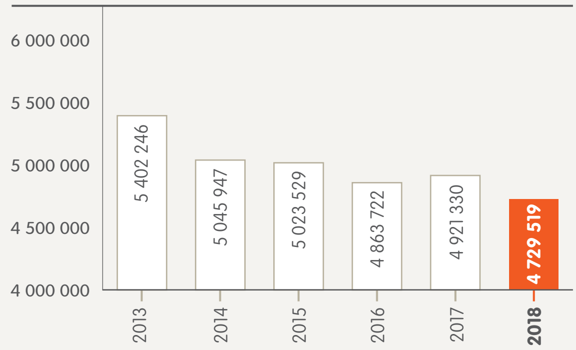
The NDP stresses how important exports are to job-creating sustainable growth. In 2018 we grew our own exports by a fifth while rebates amounting to R249m helped our customers sell outside South Africa. Major beneficiaries of these value-added rebates were:

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

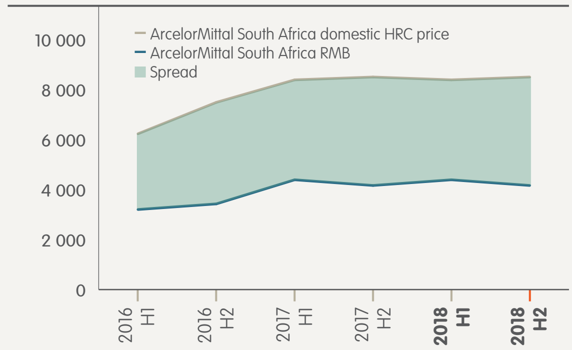
Our operating context

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

South African apparent steel consumption (ASC)



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



Market overview

Global

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

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

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

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

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

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

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

Africa

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

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

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

South Africa

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

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

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

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

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

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

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

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

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

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

Costs

Predictably managing down our costs is essential to our survival – and a consideration which was key to our transformation strategy implemented from 2018 (see page 32).

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

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

Currency impacts

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

Monopoly suppliers

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

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

Our value creation model

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

Inputs

Natural capital

Raw materials consumed

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

* *Externally procured and internally generated and recycled.*

Energy

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

+ *Externally assured.*

Water intake

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

Human and intellectual capital

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

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

Financial capital

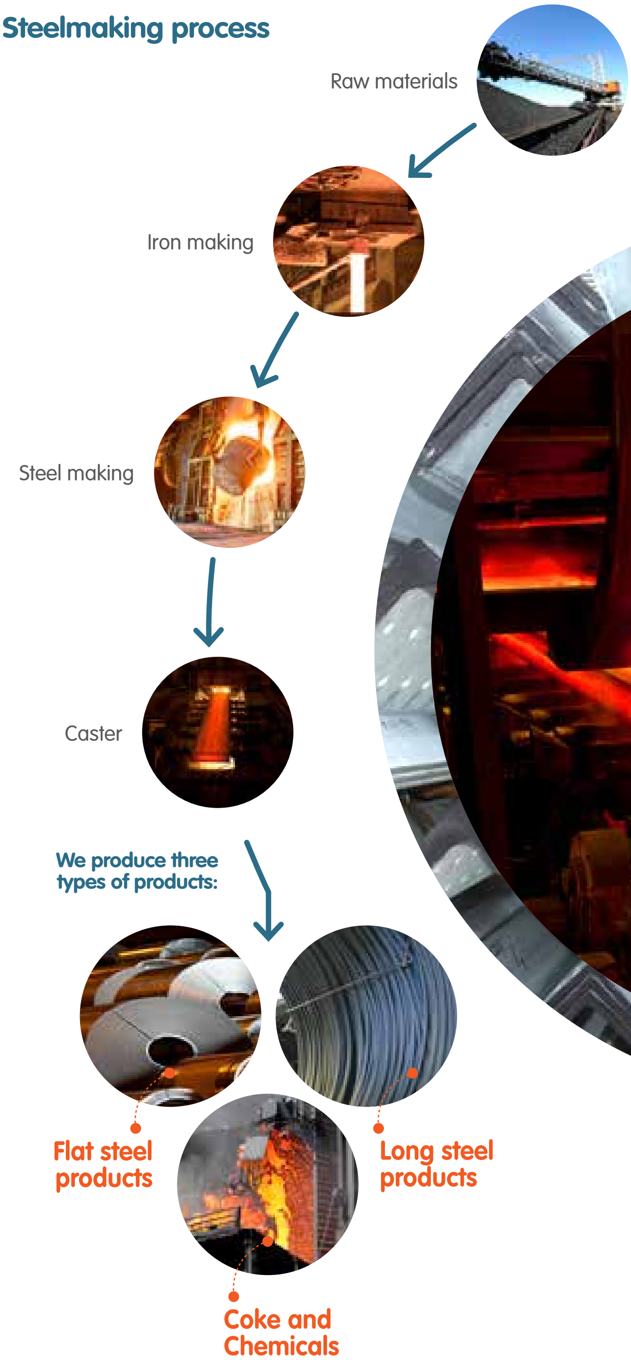
	2016	2017	2018
Equity+	R13 543m	R8 058m	R7 961m
Borrowings+	R1 950m	R6 400m	R3 000m

+ *Externally assured.*

Our working business model

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

Steelmaking process



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

Outputs and outcomes

Financial capital

Shareholders, investors, employees

Sustainable profits throughout the steel cycle

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

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

Human capital

Employees, contractors

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

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

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

Manufactured capital

Customers

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

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

Social capital

Local communities, suppliers and HDSA businesses

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

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

+ *Externally assured.*

Trade-offs

In 2018 our Transformation for sustainability and growth strategy prioritised our return to profitability and the generation of positive cash flows. However, as the discussion of our new turnaround drive on page 32 makes clear, this strategy is by no means about just growing our financial capital. Our people, our environment and our communities – and stakeholder interests – are integral to the new ArcelorMittal South Africa we are working to create. Inevitably, therefore, our strategic execution entailed a number of fundamental trade-offs. Here we highlight some of these most material trade-offs.

Manufactured, natural and financial capital

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

Social and financial capital

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

Human and financial capital

As our remuneration report – see pages 52 to 57 makes clear – in 2018 we resumed most bonus payments. This negatively impacted financial capital but the board judged such payments to be essential to retaining critical technical and leadership skills and to improving employee morale – our stock of human and intellectual value.

Financial, human and intellectual capital

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

Social and financial capital

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

Financial and manufactured capital

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

Human and financial capital

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

Key sustainability indicators

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

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

+ *Externally assured.*

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

Materiality, strategy and risk

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

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

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

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

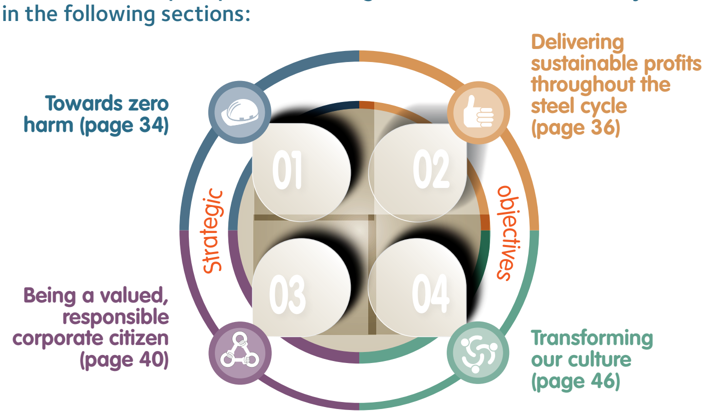
- Being a responsible, proudly South African company, and recognised as such
- Operational excellence
- Inculcating a culture of innovation and agility
- Customer-centricity
- High-performance people

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

Determining materiality

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

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



We formulate our key strategic objectives by answering the questions:

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

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

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

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

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

Risk 1
Solvency and liquidity
2017: Risk 1

Risk 2
Operational stability
2017: Risk 3

Risk 3
Environmental performance
2017: Risk 10

Risk 4
Spread risk
2017: Risk 4

Risk 5
Foreign-exchange exposure
2017: Risk 2

Risk 6
Safety performance
2017: Risk 9

Risk 7
Decrease in market demand
2017: Risk 5

Risk 8
Increased imports
2017: Risk 6

Risk 9
Increased input costs
2017: Risk 8

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

Enterprise risk management (ERM)

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

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

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

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

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

Risk management is structured around the following functional risk areas: operations (including assets, health, safety and environment), information management, finance, procurement and logistics, sales and marketing, human resources and legal and compliance. The risk-management process is divided into four distinct phases. 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.

Combined assurance

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

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

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

Maintenance governance

One of the initiatives forming part of the first wave of the business transformation programme (see page 32) is to identify and implement improvement opportunities in the maintenance environment. Part of this initiative is a 'plant restoration programme'. This entails the restoration of equipment back to its original condition/design. A phased approach is taken, starting with high-risk plants/areas.

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

Project risk management

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

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

Insurance

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

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

Application of King IV code (risk and opportunity)

The company actively adheres to the principles set out in the King IV code. With the risk management process sufficiently embedded, from 2017 the company pursued the identification and evaluation of the upside (opportunities) as per the King IV code. At ArcelorMittal South Africa, opportunities have been broadly defined as follows:

Strategic opportunities

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

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

Operational risks which present opportunities

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

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

Strategic risks which present opportunities

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

Project-related opportunities

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

OUR SOCIAL IMPACT

Abel and willing

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

Living next door to the dump, his grandmother showed young Abel the fundamentals of the scrap business.

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

Today Radebe is the biggest shareholder in a black-owned business that turns over almost R140 million a year, a business that employs 14 people full-time and often hires another 10. That business – Boipatong Scrap Metal Consortium (BSMC) – has premises at ArcelorMittal South Africa's new business park in Vanderbijlpark, premises that are equipped with a R750 000 weighbridge.

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

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

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

Business continuity management

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

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

Compliance risk management

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

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

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

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

Asset risk management

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

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

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

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

Water supply	Stove failure
The restriction of water supply risk in Saldanha was mitigated by installing a sewage water cleaning plant to obviate the buying of water.	Installing a new stove at Vanderbijlpark's Blast Furnace C stove 9, at a total cost of R140 million. With the stove 9 risk mitigated, all other stoves at Newcastle and Vanderbijlpark were assessed and action taken to address exposures.

Largest asset risk-mitigating items in 2018:

R117 million

R82 million

R84 million

R31 million

Outlook for 2019

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

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

Most significant risk exposures

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

Perceived impact / **Perceived likelihood**

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

Risks:

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

Our strategy, stakeholders and creation of value

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

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

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

Our board of directors

In 2018 the board of directors held eight meetings including one special meeting, one strategy session and one budget review. On this page we give details of individual directors including their attendance at the meetings of the board and specific committees.

Chairman

8/8
5/5
4/4
▲* 2/2

Mr PM Makwana (Mpho) (48)
BA (Hons)
Board value:
Governance, stakeholder relations and transformation best practice
Appointment date:
5 February 2013
** Chairman for matters pertaining to nominations only*

Chief executive officer

♣ 8/8
8/8
2/2
5/5
4/4
2/2

Mr HJ Verster (Kobus) (52)
BCom, BCom Economics (Hons), MBL Executive Management Programme
Board value:
Strategic leadership, steel industry management and financial insight
Appointment date:
1 February 2018

Chief financial officer

2/2
1/1

Mr AD Maharaj (Desmond) (46)
MFin, CA(SA)
Board value:
Commercial and financial expertise
Appointment date:
1 October 2018

4/5
3/5
3/3

Mr BE Aranha (Brian) (63)
BAppSc
Board value:
Strategy, operational improvement and steel industry management
Appointment date:
31 March 2018

8/8
8/8
2/2

Ms LC Cele (Zee) (65)
BCom, MAcc
Board value:
Commercial and tax expertise
Appointment date:
4 January 2016

6/8
▲ 4/4

Ms NP Gosa (Noluthando) (55)
BA (Hons), MBA
Board value:
Business administration and experience in investment banking
Appointment date:
1 December 2016

8/8
✦ 0/0
✦ 0/0

Mr GS Gouws (Gert) (59)
BCom (Law), BCom (Hons), CA(SA), FCMA CGMA
Board value:
Strategic financial and organisational leadership
Appointment date:
1 November 2017

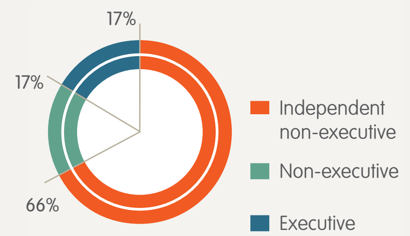
1/1
✦ 0/0
✦ 0/0
✦ 0/0

Mr R Karol (Raman) (43)
CA (India), MBA (Finance)
Board value:
Experience in finance and steel industry management
Appointment date:
1 December 2018

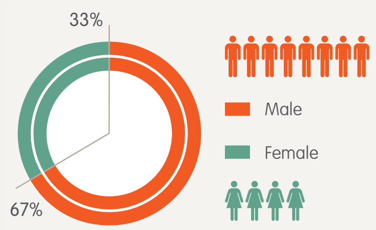
8/8
7/8
2/2
▲ 5/5
4/4

Ms NP Mnxasana (Nomavuso) (62)
BCom, BCompt (Hons), CA(SA)
Board value:
Sustainability best practice, risk and finance management expertise
Appointment date:
1 October 2013

Board membership at the time of reporting



Board diversity (including international directors)



▲ 8/8
8/8
5/5
4/4
2/2

Mr JRD Modise (Jacob) (52)
BCom, BAcc, CA(SA), MBA, AMP
Board value:
Financial, governance, risk management and sustainability best practice
Appointment date:
1 October 2013

7/8
4/4

Ms KMM Musonda (Monica) (44)
LLB, LLM
Board value:
Knowledge of legal, entrepreneurial and African business
Appointment date:
12 June 2017

8/8
▲ 2/2
5/5
4/4
1/1

Mr NF Nicolau (Neville) (59)
BTech, MBA
Board value:
High-level strategic and technical insight
Appointment date:
10 September 2015

¼ Meeting attendance
▲ Chairman
♣ Attendance at the January meetings by invitation
✦ Appointed to the committee later in the year

Ethical and effective leadership

ArcelorMittal South Africa is committed to high standards of governance, ethics and integrity.

We embrace world-class banking practices and robust institutional frameworks to ensure our banking services are secure and stable.

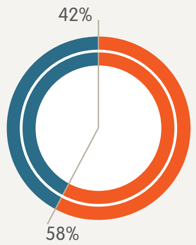
We are constantly reviewing these practices to ensure that we consistently act in the best interests of our stakeholders. Banks are expected to adapt to regulatory changes quickly, which means we have to entrench good governance practices, while retaining the flexibility to respond proactively to the fast-changing regulatory environment. ArcelorMittal South Africa's corporate governance philosophy, approach, standards, policies and practices support achievement of each of the King IV principles and enable the board and management to conclude that we are currently achieving the King IV governance outcomes.

We believe that good governance can contribute to living our values through enhanced accountability, strong risk and performance management, transparency and effective leadership.

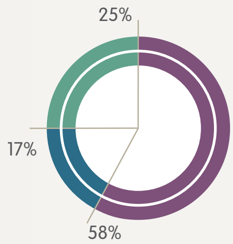
Attendance key

Board	Board
ARC	Audit and risk committee (ARC)
SHE	Safety, health and environment committee (SHE)
HRN	Human resources, remuneration and nominations committee (HRN)
TSEC	Transformation, social and ethics committee (TSEC)
Ad hoc	Ad hoc committee

Board diversity (including international directors)



Board tenure



Message from the chairman

A year of optimism

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

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

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

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

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

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

Why iron and steel matter

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

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

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

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

Investing for common benefit

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

The industry's downstream – our customers – are, first and foremost, the people on whom we depend for our survival and growth. Directors take detailed interest in the ways in which management are doing everything they can to help them survive and thrive, by developing and making as well as selling products and grades that they want, that help them to grow. We also (see page 44) have granted the extraordinary sum of R249 million in export rebates to our customers this year.

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

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

Appreciating stakeholder support

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

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

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

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

and senior management but also by executive and non-executive directors in 2018. As the Leadership section makes clear (see page 48), directors responded with enthusiasm and devotion to the need for leadership, addressing the many challenges, risks and opportunities facing our company this year. I applaud them all for their willingness, throughout the year, to take on an extremely heavy workload.

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

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

Mpho Makwana
Chairman

Outlook

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

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

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

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

Message from the chief executive officer

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

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

A challenging context

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

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

Growing in a contracting market

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

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

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

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

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

Transforming for sustainability

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

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

Our strategy (see page 32) was developed through in-depth research and planning based on best-of-breed cost competitiveness programmes and benefited from input from several of the world's leading steel experts, experts whose time, insights and expertise were made available by the ArcelorMittal group.

Our discussion of how we are working to deliver sustainable profits (page 36) gives some insight into the solid gains we began to make in 2018, despite Wave 1 of our strategy implementation only beginning in H2.

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

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

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

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

Cementing these gains, in production reliability and quality and cost control, are vital to realising our objective of lowering our production cost by USD50/tonne by 2021. Substantial strides towards achieving this objective were made not only at Newcastle and Vanderbijlpark but also at Saldanha and by our Coke and Chemicals operations. On page 36, for instance, you can read about how our efforts to debottleneck Saldanha's steel-making process had already, by year-end, achieved almost half the ambitious cost-saving target set in terms of our transformation strategy. Whereas sales of commercial coke sales declined in 2018, this was largely the result of necessary, planned upgrades at our Newcastle coke plant, capital investments which will underpin our sustainability and our ability to achieve our transformation goals.

Investing in sustainability

In 2018 we more than doubled the amount we spent on environmental controls, to R105 million. As we indicate elsewhere in this report (page 40) our leaders are closely focused on our responsibilities towards the environment and our communities. And we are under no illusions about the scale of environmental challenges we face.

We are pleased, however, to be able to report (see pages 40 to 42) that this year we significantly improved our environmental impacts, as measured by several of our key indicators. We remain committed to cooperating closely and openly with all stakeholders, including regulators and environmental authorities. In the new year this commitment will remain undiminished.

Kobus Verster
Chief executive officer

Outlook

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

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

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

Message from the chief financial officer

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

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

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

Results for the year

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

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

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

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

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

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

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

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

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

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

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

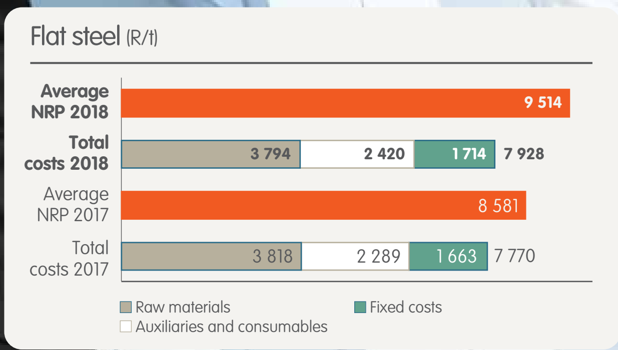
Costs

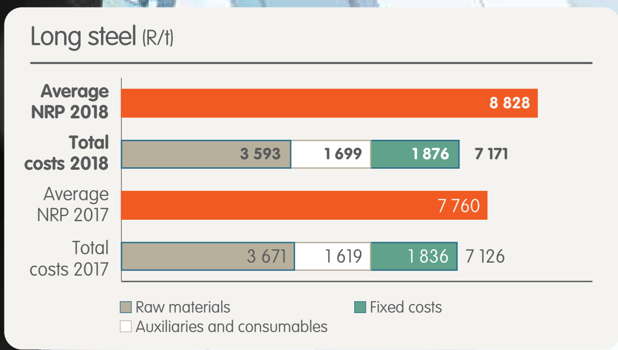
In *Sustainable profits throughout the steel cycle* on pages 36 to 39 we address in some detail our challenges – and achievements – on limiting our variable-cost increases, optimising our production processes and achieving a USD50/tonne cost reduction net of inflation and foreign-exchange depreciation by 2021. We believe that very solid progress was made towards achieving these objectives and on realising the projected outcomes of our Transformation for sustainability and growth strategy.

Within each of our business units we implemented and sustained scores of hard-won cost savings while our achievements on paring our raw material and logistics costs is detailed on page 36. Not the least of our achievements on cost containment was the fact that, whereas international coking coal prices rose by some 9%, our per-tonne cost decreased by 6%.

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

Cost dynamics





Message from the chief financial officer continued

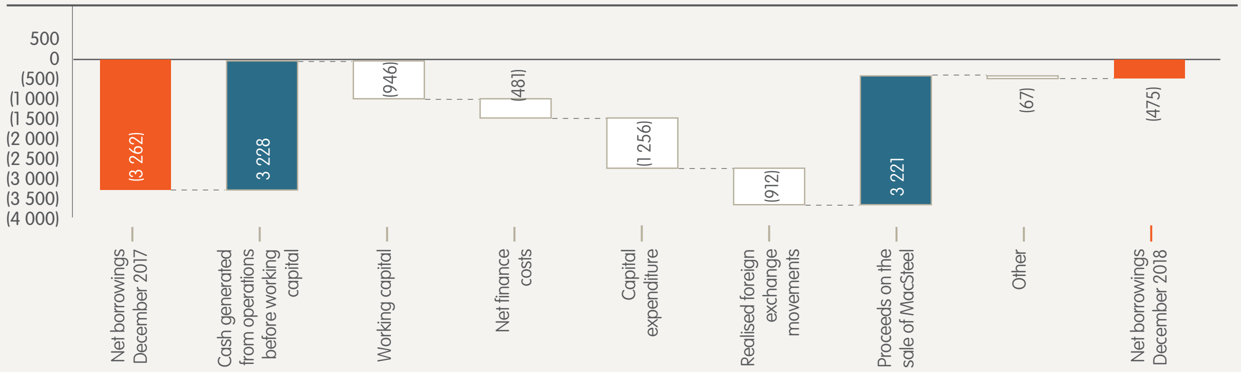
Cash and financial position

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

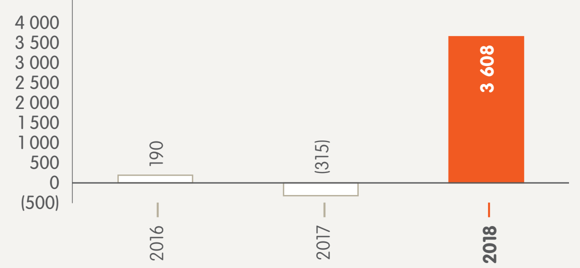
Cash flow and analysis (Rm)

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

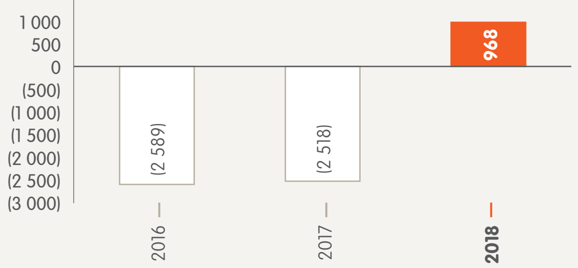
Net borrowings bridge



EBITDA (million)



Headline earnings (million)



Consolidated statement of financial position (Rm)

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

The movement in net working capital of R946 million related to:

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

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

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

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

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

Outlook

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

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

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

Maharaj

Desmond Maharaj
Chief financial officer

2018 highlights and 10-year performance review

In addition to the information disclosed in the chief financial officer's report, here we detail key indicators that inform our strategic objective of 'delivering sustainable profits through the steel cycle' (see also page 36).

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

Five-year benchmarking

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

* *ArcelorMittal global reported figures.*

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

ᶲ *USD/t selling price into South Africa. China import price equals China export (FOB/t)[1] plus sea freight plus trader margin.*

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

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

ArcelorMittal South Africa's previously published results.

† *Platts/MB.*

Transformation for sustainability and growth – our strategy to 2021

Business transformation programme

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

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

Sustainability

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

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

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

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

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

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

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

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

Partnerships

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

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

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

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

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

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

By 2021 we aim to have lowered our costs of production by USD50/tonne
See page 36

We can already report significant progress on unblocking the major bottlenecks at each of our plants
See page 36

The Vaal Melt shop (EAF) re-opening will boost our ability to compete against scrap-based long steel producers
See page 37

Our commercial strategy will benefit from a much greater focus on exports and individual domestic market segments
See page 37

We need to constantly reinforce the strength of our employees and our stakeholder relationships, as well as investing in environmental stewardship
See pages 44 and 46

Various strategies and improvements are being implemented to boost Newcastle's competitiveness and sustainability
See page 37

A Vanderbijlpark electric arc furnace (EAF) is being actively considered to underpin higher plant production
See page 37

Saldanha will need to sustainably increase utilisation to improve profitability and to support our Africa ambitions
See page 39

We are excited about the potential which various partnerships have to create value for society and for our shareholders, and to support transformation
See page 44

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

Strategic objective 1:
Towards zero harm

We place safety above any other consideration, objective or issue

Key safety performances include:

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

Keeping our people safe

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

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

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

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

Three-year key performance indicators

KPI 1
Work-related fatalities

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

KPI 2
Lost time injury frequency rate (LTIFR)

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

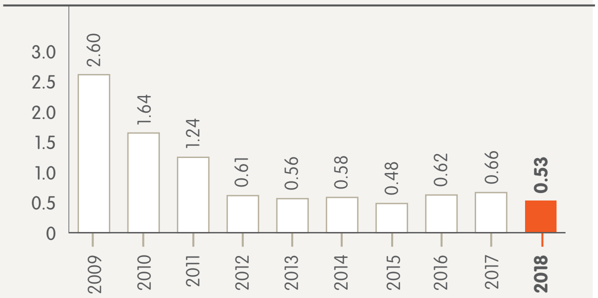
KPI 3
Total injury frequency rate (TIFR)

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

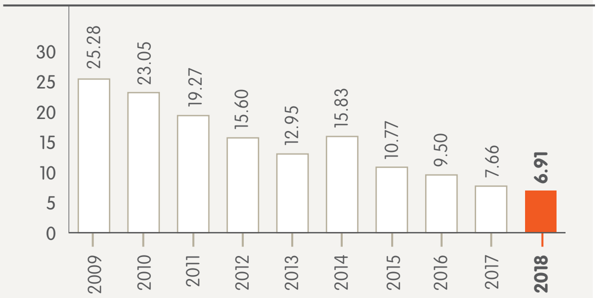
Company safety professionals believe that this year's overall improved safety performance derived in part from a better financial performance, which improved morale and focus on individual performance, including safety behaviour.

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

10-year LTIFR



10-year TIFR



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

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

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

In detail, the board noted the following interventions:

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

Also in 2018 management implemented the following:

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

Outlook

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

Strategic objective 2:
Delivering sustainable profits throughout the steel cycle
We need to fundamentally transform our business to ensure that we are sustainably and internationally competitive

The context in which we need to deliver sustainable profits

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

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

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

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

Our strategy to deliver sustainable profits

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

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

Bottlenecks

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

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

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

Three-year key performance indicators

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

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

Procurement and logistics

Since 2015, international prices for iron ore have risen by 27% (to an average USD70/tonne) – roughly comparable to those of the previous year. Coking coal, at an average USD205/tonne in 2018 was 8% higher than the average for the previous year – and almost double that of three years earlier.

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

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

The rand/US dollar exchange rate was especially volatile in 2018. During the year the local currency strengthened to under USD12 and ended the year at USD14.43, rand value against the

US currency averaging R13.24 for the year versus a 2017 average of R13.32.

On industrial products, services and maintenance, actual savings in the year amounted to R583 million. An expert third-party analysis indicated that R900 million savings in such products and services was possible by end-2019.

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

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

Maintenance

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

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

Vaal Melt shop and Vanderbijlpark EAF

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

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

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

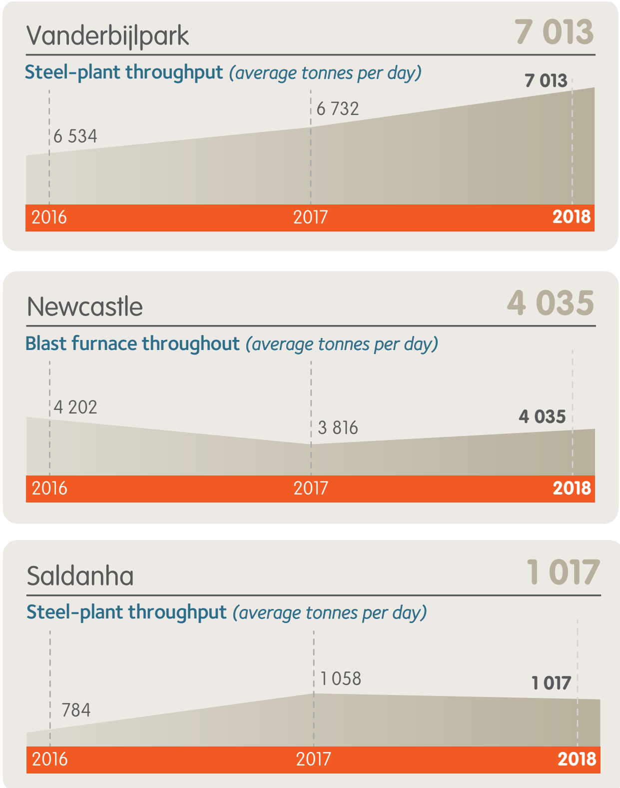
In 2018 company leadership began investigating the possibility of building an EAF with a capacity of at least 500 000tpa at Vanderbijlpark. Such a facility would give the plant greater flexibility in terms of liquid steel supply during periods of heightened market demand and planned outages.

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

Commercial strategy

From 2019 the company is expected to have additional product available for sale – in excess of 400 000 tonnes a year. Our

Debottlenecking key indicators



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

commercial strategy will aim to export much of this, particularly to sub-Saharan Africa. Several of these markets are experiencing GDP growth well ahead of that of South Africa with their governments prioritising infrastructural spend.

To date we have failed to focus sufficiently on exports, on nearby markets where we will enjoy a growing measure of price and quality competitiveness, especially given the expected decline in Chinese exports. In 2018 particular success was recorded in growing sales in East Africa while overland sales to SADC markets disappointed with macro-economic developments limiting demand.

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

De-risking Newcastle

In 2017 long steel products returned an EBITDA loss of R945 million. Long steel products enjoy no countervailing duty

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

protection against unfairly subsidised imports and depressed prices for plentiful scrap steel have lowered barriers to entry and incentivised existing (mostly induction-furnace) producers to increase capacity.

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

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

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

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

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

OUR HUMAN IMPACT

A lifetime of learning


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

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

Things have certainly changed. Today white faces are the minority among the hundreds acquiring vital technical skills at the ArcelorMittal South Africa Engineering Academy in Vanderbijlpark, enrolment nowadays much more closely mirroring the national demographic.

Artisans and technicians who have trained and qualified at Africa's biggest steelmaker are in great demand, having 'AMSA-trained' on your CV being a great mark of distinction as government and many companies entrust technical training to the academy simply because of the quality of technical personnel it has produced over several decades.

Since joining Iscor as a loader in 1991, Mokgote has grasped every opportunity to advance his skills and his career – and the company has responded to his eagerness for advancement by making sure that his ambitions were realised.

First he did a four-year electrician apprenticeship, working in Vanderbijlpark's plate mill for 15 years until he took advantage of another opportunity – to do a company-sponsored conversion to technician. Studying part time while continuing to work as an electrician, Mokgote duly qualified but his wealth of experience, especially, on the shop-floor, coupled with his great patience and people skills, meant that he was destined to go back into the classroom. These days Mokgote is a training officer at the same academy where he spent so many years, teaching the ins and outs of AC and DC motors and generators.

But he's not just teaching – he's still being taught himself. In 2012 Mokgote earned a national diploma in electrical engineering from the Vaal University of Technology and he's now going back to that same institution, this time to earn himself a B.Tech degree.

From loader to artisan, to technician, to lecturer, to (soon) engineer . . .

At 47, Mokgote's career at ArcelorMittal South Africa has undergone profound change. And so has the company – and the business. 'In almost 30 years this company has transformed so much. If you have the right attitude and ability, the company will back you, whoever you are,' he says.

Business unit overviews

Flat steel products

Vanderbijlpark

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

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

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

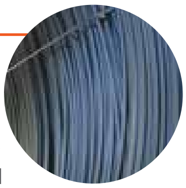
Saldanha

In 2018 Saldanha achieved production of 1.09 million tonnes of liquid steel (97% of output in 2017). This was despite a pronounced slump in Q3 output.

In Q4 output regained the momentum achieved in H1. (This production performance was also despite two relatively long planned shutdowns, in April and October of a combined 17 days, both of which, while disruptive of production, were beneficial for medium-term stability.) Throughout the year production of ultra-thin coil (<1mm) was sustained.

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

Long steel products



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

The division's turnaround derived from improved, more stable production and significant savings on variable added costs – in the region of USD15/per tonne.

Focus in the new year will be on meeting stretch targets including an increase in the pulverised coal injection (PCI) rate. Cheaper than other fuel sources, blast furnace operators aim to maximise their use of PCI. Newcastle improved its PCI injection rate from 125kg to 130kg per tonne of hot metal.

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

Cost reductions

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

Capacity utilisation

Total production in the year was 1 531 million tonnes (2017: 1 452 million tonnes) while capacity utilisation improved from 76% to 81%.

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

Coke and Chemicals

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

Net realised commercial coke prices rose by 10.1%.

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

Positively, this year Coke and Chemicals developed a new market for steel slag produced at Vanderbijlpark and Saldanha for use in rail infrastructure. In 2018 Saldanha supplied some 1.5 million tonnes of Corex and steel slag to a new crude-oil storage and blending facility being built in the town. By mid-2019 Saldanha will have sold 2 million tonnes to the OTMS facility.

Outlook

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

USD10/tonne cost saving

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

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

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

Engagement on administered prices

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

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

Strategic objective 3:

Being a valued, responsible corporate citizen

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

2018 environmental performance

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

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

Emissions to air

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

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

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

Three-year key performance indicators

KPI 11

Preferential-procurement spend (percentage of total spend %)

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

KPI 12

B-BBEE compliance score

2018	2016	2017
Level 5*	Level 3	Level 5

*Self-assessed and subject to external audit.

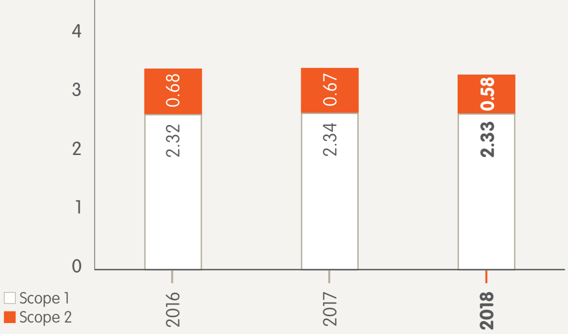
KPI 13

Environmental spend (Rm)

2018	2016	2017
105	38	41

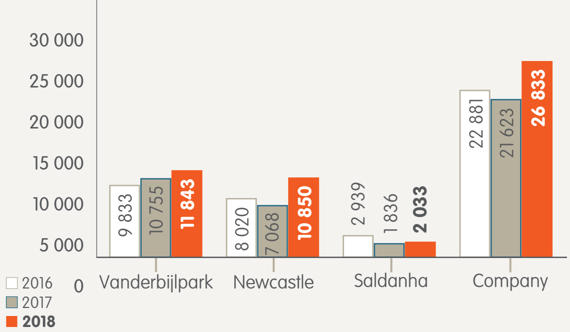
CO_2 emissions (per tonne of steel)

(tCO_2/t liquid steel)



Total SO_2 emissions (tonnes per annum)

(t/annum)



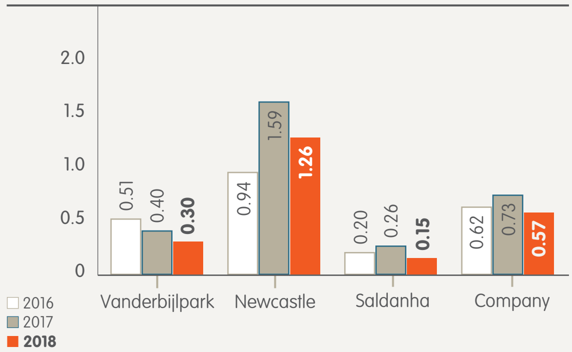
The compliance notice further stipulated that a small normalising furnace at Vanderbijlpark's foundry be shut down as GDARD was of the view that this furnace was not adequately or correctly licensed in the AEL. The company did not share this view but fully cooperated with the relevant authority. The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

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

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

Vanderbijlpark's sinter main stack remained sporadically non-compliant during 2018, the company responding with the appointment of a dedicated team to implement, and monitor,

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



corrective actions at the abatement facility which had been commissioned in 2012 but which had failed to perform to specifications and our expectations. At the time of reporting, compliance was projected by April 2019 but it was expected that this objective would be achieved sooner, based on very encouraging performance during November and December 2018.

Despite these challenges, Vanderbijlpark's sinter performance was significantly improved, such that, at 0.30kg per tonne of liquid

steel, particulate emissions for Vanderbijlpark Works were fully a quarter down on those of 2017. For the whole company, specific particulates (kg/t) were 22% lower than those of 2017.

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

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

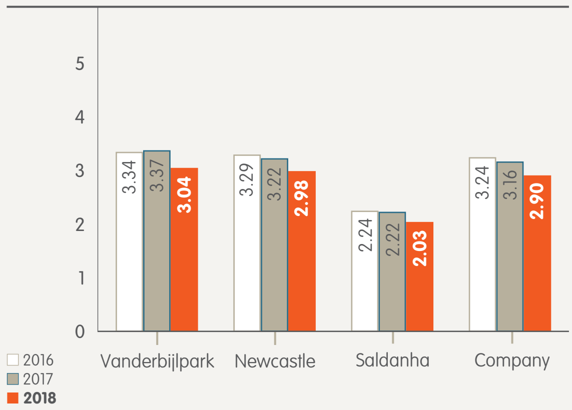
Water management

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

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

Strategic objective 3:
Being a valued, responsible corporate citizen continued

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



Energy efficiency

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

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

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

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

Carbon tax and by-products

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

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

Since 2015 the company has been unable to sell BOF slag produced at Newcastle because of a government compliance notice/directive requiring buyers of such slag to acquire waste management licences. In 2018 the imposition of this notice/directive compelled the company to dispose of 225 000 tonne of slag which otherwise could have been sold.

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

OUR SOCIAL IMPACT

The fabulous Miss Fabulous

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

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

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

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

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

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

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

2018 social performance

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

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

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

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

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

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

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

Our 2018 social performance

Enterprise and supplier development and preferential procurement

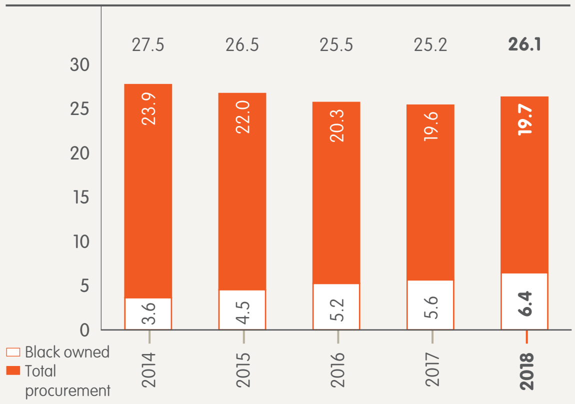
Procurement

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

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

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

Black-owned procurement (billion)



Enterprise and supplier development (ESD)

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

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

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

The ArcelorMittal South Africa business park in Vanderbijlpark hosted two medium-sized township businesses employing 114 people (62 the previous year). This year a similar small-business park was opened in Newcastle.

Despite financial challenges which negatively affected our procurement from EMEs and QSEs, we grew our database of

Strategic objective 3:
Being a valued, responsible corporate citizen continued

QSE/EME suppliers by 2% to 1 135. In 2018, 27 registered suppliers benefited from supplier-development support including mentoring, the provision of workspace and business-services support.

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

Socio-economic development (SED)

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

In 2018 Thusong Projects made scores of donations to 56 NGOs, charities undertaking vital social responsibility work in Saldanha, Newcastle and the Vaal Triangle. In total, these vital disbursements were worth R8 million.

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

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

B-BBEE rating

A year ago we reported that we had been externally assured as a level 3 contributor.

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

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

In seeking to meet customers' needs we introduced, this year, a much more flexible approach to pricing while developing – typically in consultation with manufacturers – new products and specifications. Our long steel products division was especially active in this regard, scoping and developing some 10 new product categories. Expected volumes per category range between a few hundred tonnes per annum to, potentially, tens of thousands of tonnes. New products developed for flat steel were mostly aimed at import replacement, often to replace inferior and even hazardous imported products.

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

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

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

Public-private partnerships

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

Public-private partnership opportunities include:

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

OUR SOCIAL IMPACT

Dressed for success

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

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

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

Today Sizanane turns over some R14 million, manufacturing and supplying PPE protective clothing and equipment.

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

Sizanane is about serious transformation and upliftment – in its short life it has more than doubled its number of full-time employees and, very soon, another 46 trainees will be added to the payroll. Nyaku, a dapper dancing champion and choreographer, is under no illusions that that kind of decent job creation will only be sustainable if the income keeps coming. And the income will only keep coming if the customers are kept satisfied. 'If we have to get an order to a customer in Newcastle on time and there's no-one else to do it, well then, I'll just get in my car and take it there myself,' he says.

Getting Sizanane up and running is only the beginning for Nyaku. He's constantly scouting for new business and he's just embarked on a Unisa course which will lead, after three years, to a bachelor's degree (mind you, he has some catching up to do on the domestic academic front: his wife is currently studying towards her PhD).

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

Outlook

In addition to the large sums required for the coke gas-cleaning rebuild in Vanderbijlpark and other air-related projects, additional capital expenditure will be directed towards addressing challenges relating to the construction of disposal sites and stormwater discharge.

At Newcastle such discharges have been sporadic but challenging from a water use licence perspective. Vanderbijlpark stormwater discharges are not always compliant with the plant's water licence and the company is engaging on the issue with the Department of Water and Sanitation.

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

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

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

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

Strategic objective 4:
Transforming our culture

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

Forging a new culture

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

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

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

Human resources and transformation

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

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

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

Three-year key performance indicators

KPI 14

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

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

KPI 15

Management control performance
(under B-BBEE codes)

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

Retaining vital skills and minimising job losses

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

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

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

Training expenditure, cost and skills-development pipeline

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

Outlook

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

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

Training for transformation

In 2018, total training hours were similar to those of 2017 at 313 318 hours, with 16 000 of those hours being devoted to the re-skilling of individuals affected by the Section 189 process undertaken in the previous year.

At year-end, 752 learner artisans (apprentices) were undergoing three-year apprenticeship training through our Engineering Academy. This was 38% up on the figure for 2017. Some 96% of apprentices were historically disadvantaged (2017: 95%).

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

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

Leadership – how the board is leading the transformation of our company

Overview

ArcelorMittal South Africa is a public company listed under the Industrial – Steel and Other Metals sector of the JSE Ltd (JSE). The company is subject to the JSE Listings Requirements and the Companies Act as well as other legislation applicable to companies in South Africa.

Ethical and effective leadership

The board of directors is the custodian, and focal point, of corporate governance at ArcelorMittal South Africa. The board is mindful of the outcomes it needs to achieve as set out in the King Code on Corporate Governance (King IV) and in doing so applies the code's principles, as well as its practices as appropriate for the company. Directors acknowledge that their fundamental responsibility is to lead and direct the organisation in an ethical and effective manner.

The board, led by an independent non-executive chairman, accepts that it remains accountable to, and should report in a transparent and open manner, to all stakeholders regarding the performance of the company and how it has fulfilled its responsibilities as a board. As set out in King IV, the board appreciates that the company's core purpose, its risks and opportunities, strategy, business model and sustainable development are all inseparable elements of its value creation process. Decisions need to be made in an integrated manner, taking into account the effects of strategy on all stakeholders and the social, economic and environmental context.

In the year the board met on eight occasions, one being a strategy meeting and another for approving the 2018 budget, as well as one special meeting (in 2017, seven meetings were held).

In 2017 the board's then six committees were consolidated into four so as to improve decision-making and board effectiveness. In January 2018 this new structure was reviewed by the board and it was agreed that it was achieving its desired outcomes. The board also reviewed its delegation of authority, which is done on an annual basis. The effectiveness of the delegation of authority was monitored by the board and management on an ongoing basis.

Board evaluation

An external board evaluation was conducted in October 2018, with the year of evaluation being 2017. The results of the evaluation were discussed by the board; key conclusions included:

- In general, the work and dynamics of the board were at a high level
- There was an appropriate balance between independent and non-executive directors
- Debates were robust
- The leadership of the chair was good
- The relationship between the board and CEO was felt to be good.

Areas for improvement included a need for greater input from group directors on industry developments and the board needed to apply increased focus on:

- Transformation and environmental performance
- CEO and CFO succession
- Board succession
- Certain board processes.

Actions

In detail, in 2018 the board discharged its responsibility to provide ethical, effective leadership by:

- Engaging with senior management on the transformation strategy and approving the strategy, receiving and considering regular update reports and continuously interrogating executives on work in progress and outcomes, both actual and projected
- Scrutinising the company's risk management with a renewed focus on taxation, environmental and information-technology risks
- Providing strategic direction on funding issues, including those relating to the company's going-concern status
- Focusing on B-BBEE performance, notably the decline in the company's recognition level, and relations with its B-BBEE shareholder, Likamva Resources
- Reviewing the quality of stakeholder engagement, including that with government, regulators, trade unions, communities, customers and the ArcelorMittal group
- Appointing a new CFO
- Holding management to account for the company's safety performance, to ensure that recent improvements were sustained
- Involving itself extensively in remuneration issues, including the imperative of incentivising and retaining talent, and the payment of short-term bonuses to both package and bargaining-unit employees
- Receiving reports on race and gender diversity within the company
- Providing close leadership on pressing environmental issues
- Monitoring the company's compliance with agreements with, *inter alia*, the competition authorities.

Policies and procedures

In 2018 the board engaged with the company secretary, with management and independent experts on assessing the extent to which it applied the principles and recommended practices of King IV, and the extent to which this application resulted in the desired governance outcomes.

The board delegates to committees of the board particular roles and responsibilities – which are detailed in committee reports forming part of the online Leadership Report. Committees of the board are all governed by formal terms of reference and deal with matters in greater detail and then report to the board or obtain approval of the board with regard to material matters.

Structure and process

The board is governed by a formal board charter setting out its composition, processes and responsibilities. The primary responsibilities of the board are to:

- Retain full and effective control of the company
- Give strategic direction to the company
- Monitor management on implementing plans and strategies, as approved by the board
- Appoint the CEO and executive directors
- Identify and regularly monitor key risk areas and key performance indicators of the business
- Oversee the quality of stakeholder relationships and ensure that these relationships create broad-based value for the company, for society and for stakeholders
- Ensure that the company complies with relevant laws, regulations and codes of business practice
- Maintain oversight over succession planning and management
- Ensure that the company communicates with shareowners and all relevant stakeholders openly and promptly
- Monitor the company's integrated performance
- Establish a formal and transparent procedure for appointments to the board, as well as a formal orientation programme for incoming directors
- Regularly review processes and procedures to ensure the effectiveness of internal systems of control including information and technology management and accept responsibility for the total process of risk management
- Assess the performance of the board, its committees and its individual members on a regular basis.

A clear division of responsibility exists at board level, as captured in the board charter which provides evidence of the balance of power between the independent non-executive chairman, chief executive officer and non-executive directors.

Ethical business practices

Fair and ethical business practices are at the heart of our values. These principles are entrenched in our code of business conduct and reinforced by specific policies and training programmes on issues such as anti-trust and anti-corruption behaviour. This year the transformation, social and ethics committee reviewed the code and anti-corruption guidelines and reported to the board that it believed these were adequate.

Over the past year, 81 ethics-related incidents were reported to forensic services (2017: 68). Of these, 66 were found to have been unsubstantiated or were referred back.

In the year reviewed none of our operations was identified as having human rights violations.

Board committees

While the board remains accountable and responsible for the performance and affairs of the company and the need to provide consistent, quality, ethical and effective leadership, it delegates to management and board committees certain functions to assist it in properly discharging its duties.

Each committee acts within approved written terms of reference under which authority is delegated by the board. The chairman of each committee reports at each scheduled meeting of the board, and minutes of committee meetings are provided to the board.

Committee reports, including their terms of reference, membership and activities during the year, are included in our online Leadership report, which also incorporates our King IV governance application statement.

Remuneration report

Human resources, remuneration and nominations committee chairman's report

On behalf of the human resources and nominations committee (HRN), it gives me great pleasure to present the 2018 ArcelorMittal South Africa remuneration report.

The previous year saw the introduction, at our company, of the King Code on Corporate Governance (King IV), in particular emphasis on Principle 14, the importance of responsible, fair and transparent remuneration policy and implementation. Since 2017, very focused changes to our remuneration policy have included substantially strengthening the link between performance and reward and exercising greater governance, fairness and transparency in the implementation of remuneration policy.

Our transition to an amended policy was the result of extensive, robust engagement with shareholders who expected our remuneration policy to demonstrate clearer links between company performance, value creation and remuneration outcomes. In 2018 we continued, we believe, to improve our new approach towards remuneration policy, implementation and reporting. It is our hope that this report will demonstrate our commitment to meeting shareholders' expectations.

It has been my privilege to serve on the HRN with Mr Henri Blaffart who retired in early 2018. In his role as a non-executive director, Henri contributed immensely to striking an optimal balance between the interests of shareholders and those of the organisation and its employees. I take this opportunity to thank Mr Blaffart for his valuable contributions and wish him well during his retirement. Mr Brian Aranha has since been appointed in Mr Blaffart's stead and we look forward to benefiting from his valuable insights and contributions.

As described in more detail elsewhere in this integrated report, while the domestic market in which we operate continued to be constrained, an upturn in the company's financial performance began towards the end of 2017. At the time this by no means represented a return to sustainable profitability and also did not result in full-year positive cash flows. A year ago, however, progress made with regards to safeguards on flat steel products, import duties and the designation of local steel for government infrastructure projects had started to materialise, this progress continuing during 2018. To its great credit, the company has continued to invest in social value-creation projects including its sincere and impactful commitment to socio-economic development, investing in enterprise and supplier development and preferential procurement, and mitigating environmental impacts to maintain and improve compliance.

The company's improved financial-performance trajectory continued into 2018. The more positive financial results were, in no small measure, assisted by stronger international steel pricing and improved sales, a notable downside being a stronger rand/USD exchange rate.

Throughout the year there was a continuous and diligent focus on cost containment as our industry remained plagued by uncertainties, weak domestic demand and upheavals in international trade flows. Having seriously considered and examined these factors, the executive leadership, which worked hard to enhance short-term profitability and cash flow, developed and implemented the transformation strategy which forms much of the subject matter of this integrated report.

The King IV implementation plan adopted by the board in June 2017 – which included the annual tabling of a remuneration policy and implementation report for a non-binding advisory vote by shareholders – was presented at the AGM on 24 May 2018. At the AGM, 97.86% of votes were cast in favour of the remuneration policy with the implementation report being approved by 97.69% of votes.

We are satisfied that the remuneration sacrifices made by package category employees, including executive and senior management as well as by non-executive directors, went a long way towards improving and managing costs and demonstrating much-needed commitment. There were, however, some unintended consequences such as the loss of critical skills, particularly at senior management level (see the voluntary turnover statistics on page [illegible]) of this integrated report. It is within the context, of demonstrated discipline, strength of leadership and a determination to transform the company, that we note substantial execution against the company's strategic objectives. In particular, we note that:

– There has been a dramatic turnaround in headline earnings from a loss of R2 518 million to a profit of R968 million

– EBITDA improved by R3 923 million from a R315 million loss while net borrowings decreased by R2 787 million to R475 million

– Revenue increased by 16% to R45 274 million

– Sales volumes grew by 5% mainly attributed to an increase of 21% in export sales, this despite domestic steel consumption being at a nine-year low

– There was a R3 997 million improvement in profit from operations.

At the beginning of 2018 the HRN recognised challenges relating to lower-than-budgeted productivity and the need to improve not just operational efficiency but operational transformation. This led to a review of our short-term incentive schemes with a view to strengthening the link between company performance and rewards. We were therefore pleased to re-introduce this year a revised key performance incentive bonus scheme (called 'KPI') for bargaining-unit employees. The KPI is a self-funded scheme where positive EBITDA is a gatekeeper. This replaced the production and maintenance bonus scheme (OPI) which the committee and board deemed ineffective in achieving its stated objectives and in supporting company performance.

Bonuses under the short-term incentive plan (STIP 2017 and STIP 2018) applicable to non-package employees were effected in 2018 for the 2017 full year and H1 2018 performance periods. STIP 2018 was introduced only as a 'special incentive scheme', providing for more streamlined measures comprising 90% financial performance and 10% safety. It further provided for bonus payments in two tranches, for the 2018 H1 and H2 periods. Achievement of targets resulted in the first-tranche bonus payments being effected in August 2018, the second-tranche payment to be implemented in 2019.

In 2017 annual adjustments were forfeited by non-bargaining unit and non-executive directors. Salary increases were, however, re-introduced in April 2018 and we are confident that the revised remuneration strategies have contributed towards greater buy-in to the business transformation process and improved financial performance.

We are very pleased to announce that following a protracted wage negotiation process, a three-year multi-term wage agreement was concluded for bargaining-unit employees. The agreement provides for an annual fixed percentage pay adjustment and (of particular importance) an incentive based on annually determined liquid steel productivity targets. We thank our labour partners for their commitment and engagement in this regard.

The committee trusts that the remuneration policy, incentive targets and the achievement of stated objectives have all combined to enhance the support of shareholders and, at the same time, the earnings and motivation of employees.

In closing, I encourage all employees to remain vigilant and committed to the transformation of our business. We should never again become complacent regarding matters of cost containment, wastage and, in particular safety. We are on track towards building a sustainable primary steel business for all South Africans. We are very clear about the medium- to long-term operating strategy; we will transform in order to grow and we acknowledge all our employees, stakeholders and investors.

Nomavuso Mnxasana
Chairman, HRN committee

27 March 2019

Context to remuneration policy and implementation

In 2015 and 2016, and even in 2017, voluntary turnover among senior management was within acceptable limits, given the challenges facing our company. However, voluntary turnover at senior management level rose from 7% in 2017 to an unsettling 11% in 2018.

During the year we maintained our philosophy of attracting, developing and retaining talent through our employee value proposition. In the context of increasingly challenging trading conditions, management worked with considerable success to reduce fixed and variable costs, enhance plant stability and utilisation, boost output and sales and to manage our material cash pressures.

The HRN committee was delegated by the board to oversee the following human resources strategies during 2018:
- Review of short-term and long-term incentives, approved amendments as well as their implementation
- Review appointments and determine alignment with undertakings made to the Department of Labour
- Senior executive and company secretary search and appointments to the board, committees and any other entity such as retirement-fund boards
- Remuneration and benefits for non-executive directors, employees and executive directors
- Targets and ground rules for performance-related pay schemes linked to company performance and shareholder value, annual reward allocations including three-year multi-term wage agreements
- Retirement fund rule amendments
- Continuing to strengthen performance requirements as the cornerstone of reward practices linked to shareholder value, company, team and individual responsibility
- Policy review aligned with the equal-work-for-equal-value principle: the committee re-evaluated the suspended 2015 salary correction strategy and parity model pending the financial position of the company within the medium-term outlook
- Progress with employee empowerment share trusts
- Executive succession planning framework
- Review of HR policies.

Remuneration policy

Remuneration design structure

The principle of performance-based remuneration is one of the cornerstones of our remuneration policy and implementation. Since 2017 the King IV principle of strengthening alignment between reward and the achievement of strategic objectives and positive outcomes has strongly influenced the remuneration policy, notably in the setting of performance conditions, measures and weightings in terms of short- and long-term incentive plans.

Key changes to our remuneration policy

In the past year the board resolved, with group approval, to review pay practices and policy within a sound governance framework in order to drive the principle of equal pay for work of equal value that is fair, free from unfair discrimination and consistently applied. To this end, a salary parity model was developed in order to re-initiate a remuneration correction strategy for inclusion into the 2019 total cost of employment (TCOE) budget.

In addition, revised performance conditions, targets and weighting linked to incentives were implemented:
- Long-term incentive plan (LTIP) performance measures remained as ROCE (60% weight) and market share (40% weight). However, the targets changed as indicated in this report (see page 55)
- Improved stability in the medium term through a multi-term wage agreement providing for guaranteed pay adjustments and commitment to liquid steel production improvements
- Improved productivity-related short-term incentive (STI) schemes at all levels of the organisation
- The 2018 STIP 'once-off incentive scheme' based predominantly on financial performance measures and safety, 50% increase in role level performance factor, and incentive payments in two tranches at the end of performance periods H1 and H2
- The KPI with increased absenteeism penalties, improved line of sight with regard to productivity/cost/safety business drivers which fall within the influence and control of the employee.

Key components of our remuneration mix

Remuneration component	Policy principle	Policy execution
	Remuneration mix	
	FIXED PAY	
Total guaranteed pay (cost to company – CTC/ basic salary)	– Non-bargaining: basic cash plus employer contributions to retirement (including disability and death risk insurance) = CTC – Bargaining: basic salary plus allowances – Market-related broad salary bands differentiated by job family and levels of work – Internal and external remuneration parity modelling – Increase factors include: external comparable market; inflation; performance and affordability	– Non-bargaining: paid a monthly CTC adjustment based on approved parameters which include individual performance, inflation and affordability – Bargaining: paid a basic salary plus allowances adjusted according to approved mandate and negotiated outcomes – Salary scales adjusted according to annual general adjustment
Employee benefits and allowances	– Membership of a retirement fund is a condition of employment for permanent full-time employees. Retirement funds are defined contribution – Medical schemes for full-time employees who can choose from four medical schemes – Allowances include statutory allowances, housing, overtime, retention etc	– Total contribution to retirement funds is 17% of pensionable salary – Medical aid company subsidy is 60% of total contribution subject to maximum cap, currently at R2 894 per month
	VARIABLE PAY	
Non-bargaining: short-term incentive plans	– Annual bonus plan with performance measures at company, rather than business unit, level. Targets set in advance	– Bonus payments on linear target scale of 80% – 120%. 2018 targets: Profitability (EBITDA 54% and free cash flow (FCF – 36%) and health and safety (10%) – Bonus calculated on achievement of H1 and H2 targets, grade performance level, annual CTC and three-year individual performance multiplier. Payment in two tranches for H1 and H2 performance outcomes
Bargaining unit: Key performance indicator (KPI)	– Monthly bonus based on three broad performance themes: productivity, cost and safety. Gatekeepers are positive EBITDA and safety, team based and includes absenteeism penalties. Targets set monthly	– Monthly bonus based on a combined sliding scale from 0% – 80% (productivity/cost) and 20% (safety) – Bonus calculated on basic salary; achievement of actual targets = 7% of basic salary; payment subject to safety achievement
Bargaining unit: Liquid steel production	– Production improvement annual bonus for achievement of liquid steel target communicated and set in advance annually for 2018, 2019 and 2020 – Monthly short-term incentive	– Bonus calculated on achievement of liquid steel target in H2 based on 0.5% of basic salary for nine months (April to December)
Non-bargaining unit: long-term incentive plan (LTIP)	– Equity settled conversion of each share option into one ordinary share on exercise – No dividend or voting rights – Three-year performance plan with annual allocations based on service conditions including ongoing employment, role, individual performance – 2018 LTIP allocations split based on 100% performance stock units (PSUs) or 50% PSU and 50% restricted stock units (RSUs) – Linear vesting scale 80% – 120%	– Current LTIP grant performance measures: • ROCE (%) weighted 60%. Targets: 6.0% (2018), 7.6% (2019) 10.0% (2020) • Market share weighted 40%. Target: 77.3% (2018), 77.6% (2019), 77.9% (2020) – Allocations calculated on CTC, applicable percentage per grade and individual performance

Remuneration implementation

Guaranteed pay in 2018

Non-bargaining employees are remunerated according to a cost to company (CTC) pay structure which includes basic cash plus employer contributions to retirement. Increased contributions to retirement are permitted although these changes are cost neutral to the company and impact the individual's net income. CTC adjustments are normally awarded in April of each year.

Bargaining unit employees are covered by collective bargaining and term agreements which provide for the principles of basic salary and fixed allowance increases. Salary increases are not subject to performance management. However, pay progression intervals from pay scale minima to maxima are achieved through a structured competency improvement process. The board-approved mandate culminated in a three-year collective agreement covering the period from 1 April 2018 to 31 March 2021. Year 1 of the agreement was implemented on 1 April 2018, all fixed pay components were adjusted by 7.5% for semi-skilled and 7% for skilled.

	Multi-term wage agreement guaranteed pay		Implementation
Agreement main features	**2018**	2019/2020	**2018**
Formulae	7% across the board	7% across the board	**7%**
Performance improvement factor	2018 target: H2 – Liquid steel 2.8m tonnes	2019 and 2020 target: to be determined	**H2 liquid steel achievement – 2.5m tonnes**
	0.5% of basic salary calculated from 1 April to 31 December	0.5% of basic salary calculated from 1 April to 31 December	**0.5%**
Semi-skilled level	7.5%	7%	**7.5%**
Skilled level	7%	7%	**7%**
Medical aid subsidy cap	7%	7%	**7%**

Short-term incentive plan for package category

Variable pay structures have been re-designed in recent years to ensure that differentiation exists depending on the extent to which an employee is able to control delivery or achievement of the performance measures; therefore line of sight is an important STI principle.

STIP 2018 – performance scorecard

	Performance levels			Performance measure weights			
				Financials		Health and safety	
Role	**Threshold 70%**	**Target 100%**	**Stretch 120%**	**EBITDA**	**FCF**	**Frequency rate**	**Frequency rates lost-time injury plus restricted work**
CEO (A role) General managers (B role)	30.0%	60.0%	90.0%	54.0%	36.0%	5.0%	5.0%
Group managers (C role) Managers (D role)	20.0%	40.0%	60.0%	54.0%	36.0%	5.0%	5.0%

STIP 2018 – Targets

	2018 H1 targets				2018 H2 targets			
	Financials		Health and safety		Financials		Health and safety	
Performance level	EBITDA	FCF	Frequency rate	Frequency rate long-term injury plus restricted work	EBITDA	FCF	Frequency rate	Frequency rates lost-time injury plus restricted work
Threshold 70%	USD100.1		0	0	USD103.6	USD106.4	0	0
Target 100%	USD143.1	USD0.0	0.46	0.67	USD148.0	USD152.0	0.46	0.67
Stretch 120%	USD171.6	USD20.0	0	0	USD177.6	USD182.4	0	0

Note: Linear vesting scale: 70% to 120% applied to all targets except FCF in H1, zero upper/ lower limits for health and safety.

Short-term incentive plan for bargaining unit employees

Production and maintenance bonus (OPI) production employees

Following the suspension of the OPI bonus scheme due to financial constraints from April 2017, the scheme was abolished, mainly because the desired productivity, cost management and safety results were not being realised.

Productivity bonus schemes for bargaining unit employees

Key performance indicator (KPI)

The productivity bonus scheme is a negotiated incentive scheme for bargaining unit employees. Recently the company was challenged by lower-than-budgeted production and in April 2017 the scheme was suspended due to financial constraints. During the latter part of 2017, the scheme underwent a full review to enable operational efficiency improvements through improved line of sight. Amendments to the incentive scheme were approved by the board and implemented in April 2018. Three broad performance themes were introduced: production, cost and safety. The latter is a gatekeeper for all performance themes. KPI targets:

- Production/cost combined – 80% weighted
- Safety – 20% weighted.

Notwithstanding the 80% weight combined for production/cost, a sliding scale from 0% to 80%, if achieved, results in a monthly bonus payment calculated at 7% of basic salary.

Liquid steel production incentive

In addition to the KPI, bargaining unit employees are eligible for a once-off payment based on the achievement of liquid steel production for 2018. The liquid steel measures and targets are based on a linear scale of 80% to 120% and the liquid steel set for 2018 is production of 2.8 million tonnes of liquid steel in H2. Similar principles will apply for the year 2019 and 2020 and these will be communicated at the beginning of each year.

Long-term incentive plan (LTIP) for senior management

Salient features of the 2018 LTIP award, in accordance with the approved allocation rules:

- It is a three-year performance plan
- Awards are made annually
- Allocations are calculated on
  CTC X applicable % per grade X individual performance
- Threshold must be achieved to trigger payout for any measurement
- It is capped at 120% achievement of a specific target
- The audited financial year's performance is used for measurement purposes.

Eligible participants must remain employed to qualify for any settlement. There is provision for proportional awards when there is a change in the effective control of the company, or when an employee is retrenched, retires or dies while in service.

2018 LTIP performance conditions

Weight	Measure	2018	2019	2020
60.0%	ROCE (%)	6.0%	7.6%	10.0%
	Flat market share	84.0%	84.3%	85.0%
40.0%	Long market share	65.5%	65.5%	65.5%
	Company market share	73.3%	77.6%	77.9%

Remuneration mix

ArcelorMittal South Africa's remuneration philosophy aims to attract and retain motivated, high-calibre employees whose interests are aligned with those of our stakeholders and shareholders. In our attempt to achieve this, we believe we have designed a system comprising a competitive but also affordable remuneration mix of guaranteed pay and performance-based or variable pay. The latter provides for differentiation between high, on-target and low performance. The pay mix differs according to the level of the employee and, generally, the more senior the employee, the higher the proportion of variable pay as part of his or her total reward package.

Employee retention scheme

During 2017 no new retention agreements were entered into. However, the company experienced disconcerting turnover rates of 11% (voluntary) and 14% (all exits) at executive senior management levels.

In 2018 employee retention was redesigned to retain critical skills, not limited to the executive management but cascaded to the senior management and professional/middle management categories. The strict payment terms remain in force. For executives, retention is calculated at one-third of 100% of CTC, for senior management at 75% of the same and for professional/middle management at 50%. However, retention benefits were extended to those deemed to possess critical skills, subject to narrowly-defined qualifying criteria. The value of executive retention payments for 2018 was R1.1 million.

Medium Term Incentive Scheme (MTI)

The MTI continues to operate but is restricted to those employees who are in possession of a Government Competency Certificate (GCC). Eligibility and payment criteria are linked to positional requirements.

Contractual arrangements

We do not have any fixed-term contracts with executive directors or senior executives and there exists no restraint or special severance compensation payable to such employees. A period of restraint with standard non-compete and non-solicitation conditions is included as a generic clause in employment contracts.

On 24 October 2017 the company advised stakeholders that then CEO Mr Wim de Klerk would be retiring as chief executive, with effect from 31 January 2018. On that date, Mr de Klerk duly left ArcelorMittal South Africa. Upon exiting the company, Mr de Klerk received a voluntary severance package of R13 470 000. In addition, the board authorised payment of the balance (R1 600 000) of his sign-on bonus.

Non-executive directors

A three-year remuneration correction strategy to offset the effects of non-executive directors receiving no increases in 2012 and 2014 was approved by the board in November 2015.

The three-year strategy would have been fully implemented as at 1 June 2018. However, fee adjustments based on the strategy for 2017 and 2018 were not implemented after the board resolved, in July 2017, that non-executive directors would forfeit an increase in remuneration for the period 1 June 2017 to 31 May 2018.

The 2018 non-executive directors' benchmark report, which provided an in-depth analysis and overview of non-executive earnings relative to comparable markets, broadly indicated that the board chairman and members and chairmen of all committees were being remunerated below the market median and lower quartile. The board then approved an adjustment, for 2019, to retainer fees through a CPI-based adjustment of 6%. In order to close the gap between the market median and our meeting-fee structure, a 25% factor was applied as an adjustment. This factor was derived from the difference between 70% of the median and current average total remuneration by at least 33% as the first of three corrections. Implementation date is 1 June 2019.

Our full 2018 remuneration report may be found in our online leadership report.

Remuneration of directors and prescribed officers

The table below refers to directors' remuneration and prescribed officers for services rendered to ArcelorMittal South Africa.

	Salary[1] R	Retirement funding R	Short-term incentives[2] R	Equity incentives[3] R	Retention/ sign on bonus/ voluntary severance package R	Other[4] R	Total rem-uneration 2018 R	Total rem-uneration 2017 R
Executive directors								
HJ Verster[5]	8 449 176	520 556	2 224 000	–	1 600 000	44 934	**12 838 666**	–
AD Maharaj[6]	807 941	67 060	–	–	1 155 000	11 399	**2 041 400**	–
WA de Klerk[7]	287 755	43 429	–	–	15 070 000	5 356	**15 406 540**	12 507 442
D Subramanian[8]	1 613 932	139 768	1 145 000	–	452 330	113 407	**3 464 437**	5 145 867
Subtotal	11 158 804	770 813	3 369 000	–	18 277 330	175 096	**33 751 043**	17 653 309
Prescribed officers and highest paid employees								
M Adam	3 060 750	254 046	1 176 000	1 176 123	1 120 792	144 841	**6 932 552**	5 352 086
R Bardien[9]	167 744	13 923	–	–	–	3 563	**185 230**	2 590 652
C Hautz	2 799 930	–	943 500	–	768 000	1 743 760	**6 255 190**	1 901 529
RI Holcroft	2 147 324	324 326	913 500	714 115	499 992	49 726	**4 648 983**	3 292 641
WA Nel	2 513 512	208 624	966 000	804 865	–	62 544	**4 555 545**	3 464 612
AM Ngapo	3 033 132	251 754	926 500	–	–	44 934	**4 256 320**	3 846 483
HPR Orsoni	3 389 253	–	1 226 000	–	–	1 341 766	**5 957 019**	4 764 210
RH Torlage[10]	756 244	64 072	–	–	–	49 819	**870 135**	3 441 344
W Venter	2 045 150	169 750	802 500	595 095	770 400	48 432	**4 431 327**	3 259 317
CTW Whitcher	1 847 887	164 216	727 500	97 643	–	291 300	**3 128 546**	3 137 073
Subtotal	21 760 926	1 450 711	7 681 500	3 387 841	3 159 184	3 780 685	**41 220 847**	35 049 947
Total	32 919 730	2 221 524	11 050 500	3 387 841	21 436 514	3 955 781	**74 971 890**	52 703 256

	Directors' fees R	Committee fees R	Other[4] R	Total remuneration 2018 R	Total remuneration 2017 R
Non-executive directors					
PM Makwana	1 411 320	–	–	**1 411 320**	1 356 840
L Cele	181 625	279 601	1 871	**463 097**	431 105
G Gouws[11]	181 625	120 388	–	**302 013**	–
NP Mnxasana	181 625	474 131	1 239	**656 995**	737 562
JRD Modise[12]	181 625	511 148	888	**693 661**	701 015
NF Nicolau	181 625	419 128	6 402	**607 155**	498 758
NP Gosa	181 625	211 694	160	**393 479**	348 978
KMM Musonda	181 625	164 833	–	**346 458**	181 761
LM Khangala (Ikageng)	–	58 160	–	**58 160**	14 540
MS Tonjeni (Ikageng)	–	43 620	–	**43 620**	14 540
LP Mondi	–	–	–	**–**	145 408
Total	2 682 695	2 282 703	10 560	**4 975 958**	4 430 507

1 *Cash salary includes basic salary (cash component).*
2 *The short-term incentive relates to bonus earned for the 2017 and first six months of the year.*
3 *Value earned in respect of performance period 2016 to 2018, vesting in 2019. Further detail on the equity incentives can be found under LTIPs in the table that follows.*
4 *Other includes UIF, COID, monthly leave structuring, leave encashment, travel claims, international mobility, telephone costs, death benefit, employer contribution to medical aid and travel allowance.*
5 *HJ Verster commenced as CEO designate on 2 January 2018 and CEO on 1 February 2018.*
6 *AD Maharaj was appointed CFO on 1 October 2018.*
7 *WA de Klerk resigned as CEO effective 31 January 2018. He received a voluntary severance package of R13 470 000 and the balance of his sign on bonus of R1 600 000.*
8 *D Subramanian resigned as CFO effective 31 July 2018.*
9 *R Bardien resigned as General Manager Human Resources and Transformation effective 31 January 2018.*
10 *RH Torlage resigned as General Manager Special Projects and Strategy effective 30 April 2018.*
11 *G Gouws' fees were paid to the IDC.*
12 *JRD Modise's fees were paid to Batsomi Enterprises (Pty) Ltd.*

ArcelorMittal South Africa long-term incentive plans

Names of executives	Award type	Award date	Number of allocations outstanding at the start of the year	Number of allocations made during the year	Adjustment for units not expected to vest	Number of allocations vested during the year	Number of allocations at the end of the year	Issue price R	Present value of unvested share units at the end of the year R
HJ Verster	LTIP	20/06/2018	–	2 845 185	658 998	–	2 186 187	2.39	5 224 987
			–	2 845 185	658 998	–	2 186 187		5 224 987
M Adam	LTIP	18/05/2015	147 387	–	134 299	13 088	–		–
		10/10/2016	390 407	–	299 745	–	90 662	9.75	883 950
		08/05/2017	333 203	–	63 762	–	269 441	7.62	2 053 139
		20/06/2018	–	1 061 776	245 927	–	815 849	2.39	1 949 879
			870 997	1 061 776	743 733	13 088	1 175 952		4 886 968
RI Holcroft	LTIP	08/05/2015	83 629	–	76 203	7 426	–		–
		10/10/2016	237 046	–	181 998	–	55 048	9.75	536 714
		08/05/2017	202 313	–	38 715	–	163 598	7.62	1 246 618
		20/06/2018		836 823	193 824	–	642 999	2.39	1 536 767
			522 988	836 823	490 740	7 426	861 645		3 320 099
WA Nel	LTIP	18/05/2015	104 733	–	95 433	9 300	–		–
		10/10/2016	267 170	–	205 127	–	62 043	9.75	604 920
		08/05/2017	273 628	–	52 362	–	221 266	7.62	1 686 048
		20/06/2018	–	871 937	201 957	–	669 980	2.39	1 601 253
			645 531	871 937	554 879	9 300	953 289		3 892 221
AM Ngapo	LTIP	08/05/2017	553 624	–	105 942	–	447 682	7.62	3 411 335
	LTIP	20/06/2018		540 050	125 086	–	414 964	2.39	991 765
			553 624	540 050	231 028	–	862 646		4 403 100
RH Torlage	LTIP	08/05/2015	99 887	–	91 017	8 870	–		–
		10/10/2016	154 340	–	118 499	–	35 841	9.75	349 453
		08/05/2017	80 499	–	15 404	–	65 095	7.62	496 021
			334 726	–	224 920	8 870	100 936		845 474
W Venter	LTIP	08/05/2015	20 255	–	9 228	11 027	–		–
		10/10/2016	197 538	–	151 665	–	45 873	9.75	447 261
		08/05/2017	202 313	–	38 715	–	163 598	7.62	1 246 618
		20/06/2018	–	644 686	149 321	–	495 365	2.39	1 183 921
			420 106	644 686	348 929	11 027	704 836		2 877 800
CTW Whitcher LTIP		08/05/2015	24 211	–	11 031	13 180	–		–
		10/10/2016	81 030	–	41 235	–	39 795	9.75	387 999
		08/05/2017	217 980	–	41 713	–	176 267	7.62	1 343 155
		20/06/2018		536 636	124 295	–	412 341	2.39	985 495
			323 221	536 636	218 274	13 180	628 403		2 716 649

Note: LTIP shares vest within three to five years.

Restricted stock unit (RSU)/performance stock unit (PSU) plans

The following table reflects the number of restricted and performance stock units allocated to executive directors, prescribed officers and the highest paid senior employees who belong to the ArcelorMittal group share-based payment scheme:

Names of executives	Award type	Award date	Number of allocations at the start of the year	Number of allocations made during the year	Number of allocations vested at the end of the year	Number of allocations at the end of the year	Issue price USD	Present value of unvested share units at the end of the year USD
HPR Orsoni	RSU	18/12/2015	5 000	–	5 000	–	–	–
	PSU	17/12/2014	5 000	–	5 000	–	–	–
		18/12/2015	5 000	–	5 000	–	–	–
		30/06/2016	107 280	–	71 520	35 760	4.66	166 642
		20/12/2017	4 480	–	–	4 480	32.17	144 122
		20/12/2018	–	5 550	–	5 550	18.61	103 308
			126 760	5 550	86 520	45 790		414 072
C Hautz	RSU	18/12/2015	1 500	–	1 500	–	–	–
	PSU	18/12/2015	1 500	–	1 500	–	–	–
		30/06/2016	51 480	–	34 320	17 160	4.66	79 966
		20/12/2017	4 097	–	–	4 097	32.17	131 800
		20/12/2018	–	5 050	–	5 050	18.61	94 001
			58 577	5 050	37 320	26 307		305 767

Audit and risk committee report

The audit and risk committee (the committee) has pleasure in submitting its report to the shareholders as required in terms of section 94(7) of the Companies Act.

Membership of the committee

The committee comprised the following members at the date of this report:

- Mr JRD Modise
- Ms LC Cele
- Ms NP Mnxasana

Each member is an independent director and has the adequate relevant knowledge, the financial expertise and experience to equip the committee to properly execute its duties and responsibilities.

The experience and qualifications of the members are set out on pages 6 to 10 of the notice of annual general meeting 2018.

Functions of the committee

During the year under review, eight meetings were held. Details of attendance are set out on pages 20 and 21.

The committee reports that it has adopted appropriate formal terms of reference as its mandate, and has regulated its affairs in compliance with this mandate, and has discharged all of the responsibilities set out therein. During the financial year under review, the committee reviewed the following matters:

- The quarterly and half-yearly financial reports, the integrated annual report, the annual financial statements and accounting policies for the company and all subsidiaries
- The effectiveness of the combined assurance model
- The reports of the internal audit function on the state of internal control including its forensic reports regarding fraud prevention and detection
- The effectiveness of the internal audit function
- The auditor's findings and recommendations
- Statements on ethical standards for the company and considered how they are promoted and enforced
- Significant cases of unethical activity by employees or by the company itself
- Reports on the risk management process in the company and assessed the company's exposure to the following risks:
  (i) Top strategic risks (including credit and market risks, human resources risks and compliance risks)
  (ii) Operational risks
  (iii) Information technology risks

Independence of auditor

The committee reviewed a presentation by the external auditor and, after conducting its own review, is satisfied with the independence and objectivity of Deloitte & Touche as external auditors in terms of section 22 of the JSE Listings Requirements and SI Rajcoomar as the designated auditor. The committee further approved the fees to be paid to Deloitte & Touche and their terms of engagement and pre-approved each proposed contract with Deloitte & Touche for the provision of non-audit services to the company. During the year the committee reviewed and approved all non-audit services to the group and company.

Statutory reporting

The committee has evaluated the annual financial statements of ArcelorMittal South Africa and the group for the year ended 31 December 2018 and, based on the information provided to the committee, considers that the company and group comply, in all material respects, with the requirements of the Companies Act of South Africa, the International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and applicable legislation and financial pronouncements as issued by the Financial Reporting Standards Council.

Internal financial controls

The committee agendas provide for confidential meetings between committee members and both the internal and independent external auditors.

The committee has oversight of the group's financial statements and reporting process, including the system of internal financial control. It is responsible for ensuring that the group's internal audit function is independent and has the necessary resources, standing and authority in the organisation to discharge its duties. The committee oversees cooperation between internal and external auditors, and serves as a link between the board of directors and these functions. The head of internal audit reports administratively to the chief executive officer and functionally to the chairman of the committee and head of group internal audit of the holding company, ArcelorMittal Holdings AG.

The committee is of the opinion, after having considered the assurance provided by the internal audit function, that the group's system of internal financial controls in all key material aspects is effective and provides reasonable assurance that the financial records may be relied upon for the preparation of the annual financial statements. This is based on the information and explanations given by management and the group internal audit function.

Combined assurance

The committee is responsible for monitoring the appropriateness of the company's combined assurance model and ensuring that significant risks facing the company are adequately addressed as well as monitoring the relationship between the external assurance providers and the company. The committee further ensured that the combined assurance provided by the internal and external assurance providers and management were sufficient to satisfy the committee that significant risk areas with the company have been adequately addressed and suitable controls exist to mitigate and reduce these risks.

Expertise and experience of the chief financial officer and the finance function

The committee has satisfied itself that the chief financial officer, AD Maharaj, has the appropriate expertise and experience to carry out his duties. His skills were deemed appropriate at the date of appointment.

The committee has assessed the competency, skills and resourcing of the group's finance function, and is satisfied as to the overall adequacy and appropriateness of the finance function, and further ensured that the company has established appropriate financial reporting procedures and that these procedures are operating.

Expertise and experience of the company secretary

The committee has satisfied itself that the company secretary, NB Bam, has the appropriate competence and experience and has maintained an arm's length relationship with directors. Her skills were deemed appropriate at the date of appointment.

Recommendation of the annual financial statements and integrated annual report

The committee, having fulfilled the oversight role regarding the reporting process for both the annual financial statements and the integrated annual report and having regard to material factors that may impact the integrity of these reports, recommends the integrated annual report and the annual financial statements for approval by the board of directors.

Auditor and designated individual partner

The committee notes that Deloitte & Touche has been the auditor of the group and company for 14 years. SI Rajcoomar was appointed as the designated individual partner in 2018. The committee agendas provide for confidential meetings between committee members and both the internal and independent external auditors.

Key audit matters

The key audit matters as disclosed in the report of the independent auditor was communicated and reviewed by the committee.

JRD Modise
Chairman
27 March 2019

Transformation, social and ethics committee report

In 2018 the transformation, social and ethics committee (TSEC) completed its first full year in its current form after being constituted in May the previous year.

Role

TSEC has delegated authority from the board set out in its written terms of reference which were approved by the board in 2017. The primary purpose of TSEC, as described in its terms of reference, is to exercise oversight over the following matters in the company:

Transformation and economic development

Approving strategy on transformation, including employment equity and performance against the levers of the B-BBEE scorecard. The implementation herein will be monitored by the human resources, remuneration and nominations committee (HRN).

Having an 'umbrella view' of how the company is performing against the identified pillars of the amended Code of Good Practice.

Approving strategy and policy on the company's impact on economic development and corruption prevention.

Social and ethics

Organisational ethics; responsible corporate citizenship and community development.

Reporting on the company's impact on the social environment with regard to donations and sponsorships, public health and safety, advertising, consumer protection, consumer relations and human rights.

Ensuring effective whistleblowing channels, which would be monitored by the audit and risk committee; sustainable development; and stakeholder relationships.

Natural environment

Ensuring the company has appropriate policies which consider the company's environmental impact and whether it was being effectively managed through the safety, health and environment committee (SHE).The committee should ensure that on an annual basis, it receives confirmation from the SHE committee that the company discharges its responsibilities in respect of being a good corporate citizen on matters related to its environmental impact.

Workplace

To approve strategies and policies on:
- Organisational ethics to ensure the establishment of an ethical culture.
- Ensuring employees' safety and health.
- Ensuring effective employment relations, decent work and the education of employees, such to be monitored by the HRNC.

Composition

TSEC members as at the date of this report were Noluthando Gosa (chair), Mpho Makwana, Nomavuso Mnxasana, Monica Musondo, Neville Nicolau, Jacob Modise and Kobus Verster. Wim de Klerk retired from the board on 31 January 2018 and Mr Verster was appointed CEO and to the board on 1 February 2018. Ramesh Kothari, who resigned on 30 November 2018, was replaced by Raman Karol on 1 December 2018.

Activities

The committee carried out the following duties during the year:
- Monitored the implementation of determined strategies and improvement actions per the scorecard elements (progress against scorecard)
- Reviewed the B-BBEE partnership programme with B-BBEE partners
- Monitored the implementation of determined strategies and improvement actions per the scorecard elements as approved by the board
- Ensured that effective transformation is taking place within the company in respect of recruitment, retention, career development and succession planning
- Ensured that effective economic transformation is taking place in respect of enterprise development, supplier development and preferential procurement
- Reviewed matters relating to the company's corporate culture, employee engagement and development in retaining employees
- Monitored and evaluated the progress made against the ArcelorMittal South Africa Economic Footprint Study
- Monitored good corporate citizenship
- Monitored labour and employment
- Reviewed arrangements made by the company to enable employees and outside whistleblowers (including customers and suppliers) to report in confidence their concerns about possible improprieties (including fraud, corrupt practices and non-compliance with laws and regulations) that may have a direct or indirect effect on the company, including adherence to compliance
- Reviewed amendments to the company's code of conduct or other ethical standards and ensure management monitors and promotes compliance with such standards
- Monitored consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws
- Monitored social and economic development, including the company's standing in terms of the goals and purposes of the 10 principles set out in the United Nations Global Compact Principles, including the impact of the company's activities/ products and services.

The safety, health and environment (SHE) committee also monitors safety and environmental matters. In 2018, a focus area for improvement insofar as safety and environmental matters was concerned was better integration between the TSEC and SHE committees so that TSEC focuses on alignment with legislation and policies and SHE monitors performance and standards.

NP Gosa
Chairman

27 March 2019

Independent limited assurance report to the directors of ArcelorMittal South Africa Limited

We have performed our limited assurance engagement in respect of the selected non-financial key performance indicator (KPI) disclosures to be published in the ArcelorMittal South Africa Limited (ArcelorMittal South Africa) integrated annual report for the year ended 31 December 2018.

Subject matter

The subject matter comprises the non-financial KPIs prepared in accordance with the Global Reporting Initiative G4 Guidelines (GRI G4) supported by management's internal basis of preparation (the criteria) as prepared by the responsible party during the year ended 31 December 2018. The subject matter comprises the following:

Category	Indicator
Social	Lost-time injury frequency rate
	Total number of work related fatalities
	Total number of permanent employees and RSA-based employee demographic (race)
	Corporate social investment spend
	Total number employees within the development pipeline
Economic	Externally verified B-BBEE scorecard
	Liquid steel capacity utilisation
Environmental	Environment consumption (scope 1)
	Environment consumption (scope 2)
	Total greenhouse gas emission (scope 1 and scope 2)

Directors' responsibility

The directors being the responsible party, and where appropriate, those charged with governance are responsible for the subject matter information, in accordance with the GRI G4 and management's own internal basis of preparation.

The responsible party is responsible for:

- Ensuring that the subject matter information is properly prepared and presented in accordance with the criteria against which the underlying subject matter will be assessed
- Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information
- Designing, establishing and maintaining internal controls to ensure that the subject matter information is properly prepared and presented in accordance with the criteria against which the underlying subject matter will be assessed.

Assurance practitioner's responsibility

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information.* This standard requires us to comply with ethical requirements and to plan and perform our limited assurance engagement with the aim of obtaining limited assurance regarding the subject matter of the engagement.

We shall not be responsible for reporting on any non-financial performance indicator transactions beyond the period covered by our limited assurance engagement.

Quality control

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independence and other ethical requirements

We have complied with the independence and other ethical requirements of Parts A and B of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of work performed

We have performed our procedures on the subject matter, the non-financial key performance indicators of ArcelorMittal South Africa, as prepared by management in accordance with the GRI G4, as supported by management's basis of preparation for the year ended 31 December 2018.

Our evaluation included performing such procedures as we considered necessary which included:

- Interviewing management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process for the selected subject matter
- Testing the systems and processes to generate, collate, aggregate, validate and monitor the source data used to prepare the selected subject matter for disclosure in the report
- Inspected supporting documentation and performed analytical review procedures
- Evaluated whether the selected KPI disclosures are consistent with our overall knowledge and experience of sustainability processes at ArcelorMittal South Africa.

Our assurance engagement does not constitute an audit or review of any of the underlying information in accordance with International Standards on Auditing or International Standards on Review Engagements and accordingly, we do not express an audit opinion or review conclusion.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Independent limited assurance report to the directors of ArcelorMittal South Africa Limited
continued

In a limited assurance engagement, the procedures performed vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the non-financial performance indicators have been presented, in all material respects, in accordance with GRI G4 standards, supported by management's internal basis of preparation.

Conclusion
Based on our work described in this report, nothing has come to our attention that causes us to believe that the selected non-financial KPIs as set out in the subject matter paragraph for the year ended 31 December 2018, is not prepared, in all material respects, in accordance with the GRI G4 supported by management's internally developed basis of preparation.

Restriction on use and distribution
Our report is made solely to the directors of ArcelorMittal South Africa in accordance with our engagement letter dated 9 October 2018 for the purpose of providing limited assurance over the subject matter disclosed in the ArcelorMittal South Africa integrated annual report for year ended 31 December 2018.

Mark Victor
Director

Deloitte & Touche
Risk advisory

27 March 2019

National executive: *LL Bam chief executive, *TMM Jordan deputy chief executive officer; clients and industries, *MJ Jarvis chief operating officer, *AF Mackie audit and assurance, *N Sing risk advisory, *DP Ndlovu tax and legal, TP Pillay consulting, *JK Mazzocco talent and transformation, MG Dicks risk independence and legal, KL Hodson corporate finance, *TJ Brown chairman of the board

A full list of partners and directors is available on request

** Partner and registered auditor*

B-BBEE rating: Level 1 contributor in terms of DTI Generic Scorecard as per the amended Codes of Good Practice

Associate of Deloitte Africa, a member of Deloitte Touche Tohmatsu Limited

Assurance over the 2018 integrated annual report (IAR) reporting process

Background, scope and work performed
Management requested Internal Audit (IA) to conduct an assurance review over the process followed to compile the company's IAR for the year ending 31 December 2018.

A project plan for the IAR was compiled by management, containing the purpose, process, roles and responsibilities, focus areas and initiatives. In addition, a tracking sheet was compiled by the IAR reporting team to keep track of all interviews with internal stakeholders, information requests sent and follow-up on any outstanding information to ensure that complete information was obtained.

The reporting team obtained appropriate guidance from company leadership on what they (leadership) considered material for the purposes of reporting in the IAR. IA attended this briefing and closely monitored the IAR team on the detailed gathering, presentation and verification of information as well as communication with all internal stakeholders including the board. For the purpose of providing an assurance statement, IA formed part of the IAR team in an advisory capacity and observed the process.

Challenges faced during the process of compiling the IAR
One of the key challenges faced throughout the IAR process was the difficulty in obtaining certain information from management and a lack of response from some areas. This put unnecessary pressure on the IAR team to meet deadlines and deliver against their key performance indicators.

In addition to the above, the board could have communicated more effectively with the IAR team on the various drafts provided during the process. The board is the custodian of the IAR and therefore should play a more active role during the process of compiling the IAR.

Overall conclusion
IA is satisfied that the IAR team executed against its brief in terms of materiality and the presentation of information including that describing leadership's formulation and execution of strategy. The team was effective in obtaining material information concerning the operations of ArcelorMittal South Africa.

Adinda Louw
Head South Africa Internal Audit and Sox

28 February 2018

Corporate information

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

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