ArcelorMittal

# Integrated report 2021

# About this report

Our 2021 integrated report deals with one of the most momentous years in ArcelorMittal South Africa's long history. It concisely charts our recent past performance and examines how developments in 2021 – including our strategy evolution – are likely to impact the business's future ability to create value for our stakeholders.

## Our leadership reporting

This report emanates from our board of directors and speaks about how they and senior management formulated and executed our strategy. As such, it provides insight into the strategic thinking of those charged with the company's governance, including the trade-offs which are inevitable in the pursuit of value creation.

## Report contents and boundary

It is concerned with ArcelorMittal South Africa, listed on the Johannesburg Stock Exchange (JSE), its subsidiaries and their operations as well as the ArcelorMittal Foundation. The international ArcelorMittal group is referenced insofar as its activities and interactions impact our South African company's policies, performance and ability and prospects to create value.

The report is primarily focused on the period 1 January to 31 December 2021. However, much of what is reported on is forward looking in nature. Readers are advised to exercise caution and not to act on any such forward-looking information. Unless otherwise stated in this report, we consider "short term" to be the period to end-2023, "medium term" to 2026 and "long term" beyond 2026.

This report addresses the Covid-19 pandemic and its impacts on our operations, markets and stakeholders. Another key backdrop to the report is the state of international markets for steel and those of our key inputs – and the extreme volatility both have witnessed in recent years.

More than most for-profit entities, ArcelorMittal South Africa is extensively, and often intricately, integrated into the affairs and interests of our stakeholders. This report strives to give meaningful insight into how our activities affected these parties, and how they affected and will affect our activities.

## Our evolving approach to reporting

Regular readers of our integrated report will notice that this report contains fewer sections or chapters than has traditionally been the case. We have adopted this new approach to more concisely report on our integrated relationships with stakeholders, our management of risk and opportunity, leadership and governance, and our strategy and performance.

This year our suite of annual reports includes, for the first time, an environmental, social and governance (ESG) report. In our 2021 ESG report we give greater detail on how our board of directors led us ethically and effectively, and our management of risk.

## Consistency and comparability

2018

*We value the International Integrated Reporting Framework's guiding principle of consistency and comparability. However, developments in 2020, notably the Covid-19 pandemic and its effects on our business, were of such a magnitude as to make some comparisons with previous years, particularly our performance on strategic execution, either impossible or of limited meaning. In several instances in this report we acknowledge where we have either not applied this principle or not applied it fully. Similarly, in some instances, our reporting on key performance indicators (KPIs) is skewed this year by material exogenous factors.*

2021 was again a most unusual year in many respects and, again, comparisons with the previous year are often of limited value. In several instances, in particular where the report discusses financial and commercial developments, we choose to reference 2019 or 2018, the most recent year in which the state of our markets bore any resemblance to those pertaining in 2021.

## Board responsibility for this report

The board delegated responsibility to the chief executive officer for briefing the report preparation team on material matters and on report structure. All directors were given at least two opportunities to give input into the report. The board acknowledges its responsibility for ensuring its integrity and is satisfied that this report addresses the most material issues, accurately presents the integrated performance of the company and that it has been compiled in accordance with the International Integrated Reporting Framework, as updated in January 2021.

The board authorised this report for release on 12 April 2022.

**Mpho Makwana**
Chairman

**Kobus Verster**
Chief executive officer

**Suretha Van Wyk**
Interim chief financial officer

**Zee Cele**

**Noluthando Gosa**

**Gert Gouws**

**Raman Karol**

**Bradley Davey**

**Nomavuso Mnxasana**

**Monica Musonda**

**Neville Nicolau**

**Dawn Earp**

## Report assurance

For the fourth year, we include an independent statement of assurance by the regional head of internal audit and SOX on the process of report compilation – on page 61. A limited assurance report by Deloitte & Touche on key selected performance indicators is on page 50 of the ESG report.

# 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 producers in the world.

## Strategic focus

**Underpinning everything** in this report – and every strategic decision taken by our leadership – are the **3 Rs**. These three key considerations are essential to our ability to survive. They are:

**Restructure**
Reposition as the champion of South Africa's manufacturing backbone

**Reposition**
Ensure international cost competitiveness

**Resilience**
Revitalise balance sheet to improve sustainability, and enhance flexibility and agility

## Our objectives

This report goes into detail about our key strategic objectives. This year we have combined our previous reported "Preserving cash" and "Sustainability for the long run" objectives into "Long-term sustainability":

**Zero harm**
Workplace health and safety and our environmental impacts page 28

**Long term sustainability**
Transforming our business to create sustainable value page 32

**People first**
Our impacts on human and social capital page 44

## Additional online reporting

The full 2021 financial statements provide comprehensive insight into the financial position and performance of the company for the year. These are available at **https://www.arcelormittalsa.com/InvestorRelations/AnnualFinancialStatements.aspx**

Our first environmental, social and governance (ESG) report is also available online at **https://arcelormittalsa.com/InvestorRelations/Environmental,SocialandGovernance.aspx**

## Our top key performance indicators

- 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 sold
- KPI 5 Return on capital employed
- KPI 6 Steel market share
- KPI 7 Liquid steel production
- KPI 8 Cash generated from operations before working capital
- KPI 9 Net cash/debt position
- KPI 10 On-time deliveries
- KPI 11 Preferential procurement spend
- KPI 12 B-BBEE compliance score
- KPI 13 Environmental spend
- KPI 14 Total cost of employment (TCOE)
- KPI 15 Management control (under B-BBEE codes)

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# Who we are

## Our purpose

**Championing Africa's industrial ambitions through sustainable steel.**

## Our values

- Safety
- Customer focus
- Caring
- Commitment

ArcelorMittal South Africa is the largest steel producer in sub-Saharan Africa. In 2021 we made 3.1 million tonnes of finished primary steel. This was 34% more than the amount we produced in 2020 but 42% lower than our output of 4.4 million tonnes in 2019.

Our 10 030 employees and contractors produce both flat and long steel in hundreds of grades and specifications for further value-add by our customers – downstream manufacturers in southern, West and East Africa (and other markets).

We are part of the worldwide ArcelorMittal group – which employs more than 160 000 people and produces over 70 million tonnes of crude steel per year.

## Iron making

Our company has blast furnaces in Vanderbijlpark (two) and Newcastle (one). These furnaces, which turn iron ore into liquid iron, have annual ironmaking capacity as follows:

### Vanderbijlpark

Blast furnace C **1.3 million tonnes**
Blast furnace D **1.9 million tonnes**

### Newcastle

Blast furnace N5 **1.8 million tonnes**

Both Vanderbijlpark and Newcastle have sinter plants. These plants agglomerate iron ore fines (dust) with other fine materials at high temperature to create sinter that can be used in the blast furnaces. These sinter plants have capacities of 3.1 million and 2.2 million tonnes per annum, respectively.

Vanderbijlpark has six direction reduction (DR) kilns with two in operation on an average basis. The DR plant is designed to produce solid iron units for consumption in the blast furnaces.

### Key performance indicators

**2 917** (2020: 1 895; 2019: 3 235)
**Liquid iron production** (000 tonnes per year)
The amount of iron we make available for our own production of steel

**143** (2020: 151; 2019: 141)
**Pulverised coal injection** (PCI) rate (kg/tonne)
PCI is a very cost-effective blast furnace energy source

**454** (2020: 455; 2019: 415)
**Coke rate** (kg/tonne)
The amount of coke used to produce a tonne of liquid iron is a key measure of productivity

## Steel making and rolling

At Vanderbijlpark and Newcastle liquid iron is transformed into steel at basic oxygen furnaces. It is then cast into slabs (at Vanderbijlpark) for flat rolling and into blooms for long rolling (at Newcastle).

Utilising scrap steel as 60% of its feedstock, the Vaal Melt Shop in Vereeniging, with an annual capacity of 400 000 tonnes, is an electric arc furnace (EAF) which gives our operations additional flexibility. The Vaal Melt Shop produces steel inputs for our Gauteng long steel operations and, when required, for Newcastle. When operating reliably and efficiently, it also enables us to compete with other, lower-capital EAFs and to respond to market developments and changes in the costs of energy and inputs.

From the caster, steel slabs are cut into semi-finished products: blooms, slabs and billets. These are either reheated (hot rolling) or cold rolled for very precise applications. Before we ship products to clients, we treat what will become our final products in many ways; these treatments include painting, annealing, galvanising and cutting and batching to specification.

Tubular Products is the sole producer of hot rolled and cold drawn seamless tube products in South Africa. Of 72 000 tonnes produced per year, 65% is exported.

### Key performance indicators

**3 096** (2020: 2 305; 2019: 4 411)
**Liquid steel production** (000 tonnes per year)
The amount of steel we make available for our rolling operations

**88.0** (2020: 89.7; 2019: 91.2)
**Basic oxygen furnace (BOF) mechanical yield** (%)
How much iron is fed into our BOF relative to steel produced is an important indicator of BOF efficiency

**596** (2020: 714; 2019: 566)
**Electricity** (MWh) per tonne
Hot rolled coil (HRC) production accounts for >10% of our total electricity consumption

*Vereeniging excluded.*

Our steel is manufactured primarily at large, capital-intensive facilities in Vanderbijlpark (flat) and Vereeniging (long) in the Vaal Triangle of Gauteng and in Newcastle (long) in northern KwaZulu-Natal. Our second integrated flat steel plant, Saldanha in the Western Cape, has been under care and maintenance since 2020.

Our coke batteries in Vanderbijlpark and Newcastle produced 1.6 million tonnes of coke in 2021. The coke production is expected to increase to an average of 1.9 million tonnes per annum over the next five years. By-products resulting from our iron- and steel-making processes primarily slag and tar, are important sources of revenue.

## Metallurgical coke-making

Metallurgical coke is produced by five batteries in Vanderbijlpark and three in Newcastle for our own operations. Given our company's reduced steel output for at least the short term, these ovens have sufficient capacity to meet our internal demand.

### Key performance indicators

**1 414** (2020: 1 202; 2019: 1 615)

**Metallurgical coke production** (000 tonnes)
How much coke we make for our own production of iron and steel

**24.2** (2020: 24.8; 2019: 25.4)

**Coking time (hours)**
The average time one oven takes to produce one load of coke (approximately 10 tonnes Vanderbijlpark and 20 tonnes Newcastle)

**70** (2020: 47; 2019: 65)

**Ovens out of operation (average per month)**
The number of times over a year ovens are idled by unplanned events

## Coke and by-products

This operation produces, distributes and markets commercial (or market) coke for sale to customers, primarily in the ferro-alloys sector. It also markets by-products including tar, BOF and blast furnace slag.

### Key performance indicators

**160** (2020: 282; 2019: 191)

**Commercial coke production** (000 tonnes)
How many tonnes of coke we make for external sale

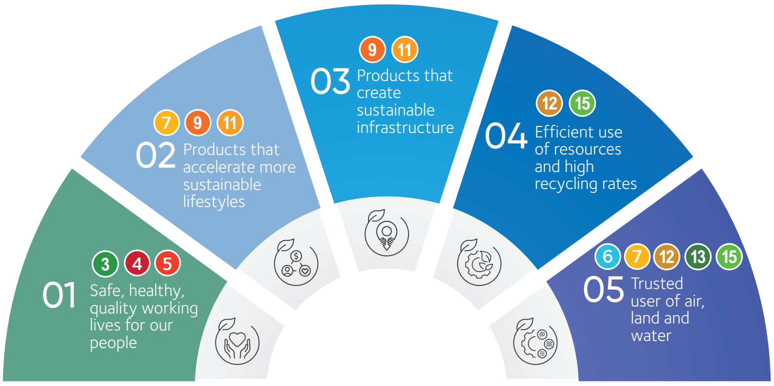
# Sustainable development

The below table links our 10 sustainable development outcomes, as described in our ESG report, to the strategic objectives in this integrated report. A further link between the 10 outcomes and the relevant SDGs is also graphically displayed below the table.

| ESG report | | Integrated report | |
|---|---|---|---|
| Sustainable development outcome | ESG priority area | Strategic objectives | Sub sections |
| 01 Safe, healthy, quality working lives for our people – Page 8 | | S01 | Workplace safety – Page 28 |
| 02 Products that accelerate more sustainable lifestyles – Page 12 | | S02 | Raw material and energy inputs at below-average prices – Page 34 |
| 03 Products that create sustainable infrastructure – Page 12 | | S02 | Quality steel in the world's first quartile – Page 33 |
| 04 Efficient use of resources and high recycling rates – Page 13 | | S01 | Recycling and by-products – Page 31 |
| 05 Trusted user of air, land and water – Page 14 | | S01 | Environmental safety – Page 30 |
| 06 Responsible energy user that helps create a lower carbon future – Page 21 | | S02 | Decarbonised steel – Page 39 |
| 07 Supply chains that our customers trust – Page 22 | | S02 | Delighted customers – Page 39 |
| 08 Active and welcomed member of the community – Page 23 | | S03 | Socio economic development – Page 45 |
| 09 Pipeline of talented scientists and engineers for the future – Page 26 | | S02 | Delighted customers – Page 39 |
| 10 Our contribution to society measured, shared and valued – Page 26 | | Our operating context | Page 5 |


Throughout our ESG we use the relevant SDG icons to reference our application and impacts on each of the goals:







These 10 group sustainable development outcomes are informed by the United Nations' (UN) 17 Sustainable Development Goals (SDGs) and, in their execution, support the UN's drive to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity by 2030. At ArcelorMittal South Africa we identified the above as the SDGs that are most material to our operations and to our ambition to create integrated value for multiple stakeholders.

There is considerable intersection between the ArcelorMittal group 10 sustainable development outcomes and the SDGs.

# Our operating context

## We operate in a socio-economic environment and sector, which have recently undergone profound change, even upheaval. Much of this change derived from the Covid-19 pandemic. Here we list the most material issues and recent developments in our operating environment and briefly explain how they impacted us.

A detailed consideration of these issues and developments, and their future implications for our ability to create value, informed our process for determining which material matters we report on (page 7).

### Workplace safety

In 2021 we endured a number of tragic events. Six of our colleagues lost their lives while performing their duties. Too many other colleagues were injured at work.

*Safety* and *Caring* are at the heart of our company's values. Safety is our first and utmost priority. Our worsening safety record was a development which cast a shadow over all that was done and achieved in 2021. We continue to believe that safety is an issue over which we can and must exercise greater control.

### Covid-19

The year began with South Africa in the midst of a second major wave of Covid-19 infections. Later in the year we experienced third and fourth waves. The direct impact on our operations was not as severe as in 2020 (when we experienced "hard" Level 5 lockdown). However, the cumulative effects of two years of infections and restrictions on work and movement were severe, on both our operations and our people.

### Steel demand and pricing

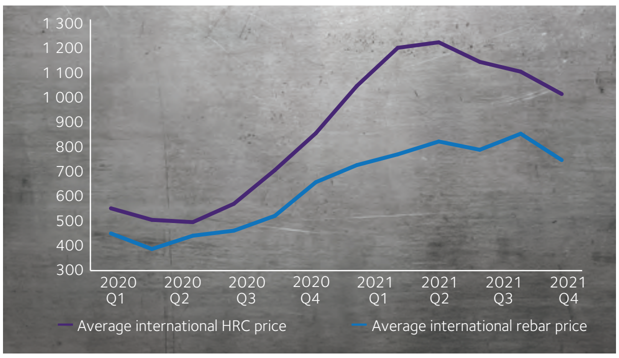
Global (and domestic) year-on-year economic growth in 2021 was strong, with global and South African growth registering 5.9% and 4.6%, respectively. Although these increases should be seen in the context of pandemic-related contractions in 2020, they nevertheless translated into strong demand for steel. This demand, in turn, was reflected in firmer steel pricing.

This year, at 1 910 million tonnes, global steel production was 58 million tonnes higher than the previous year. Driving this growth in demand was a pronounced shift from expenditure on services to spend on goods including machinery and construction. This followed an easing of the most severe pandemic restrictions in the world's more advanced economies.

In the first half of the year the Chinese authorities abolished steel export incentives, which had significant implications for non-Chinese companies.

In South Africa steel inventories had been run down to very low levels by end 2020 and restocking, of both flat and long steel, translated into a 22% increase in sales in H1 relative to H2 of 2020.

International HRC and rebar price evolution (USD/t)




*HRC: Hot rolled coil. Average domestic price between Northern Europe, Japan, US Midwest, China, Turkey, India and Russia.*
*Rebar: Average price between China Free on board (FOB) and Turkey FOB.*

Demand moderated in H2, sentiment being negatively affected by the civic unrest in July, a metal and engineering sector strike in October and continuing electricity constraints. However, sales remained elevated with market strength expected to continue for most of 2022. Despite these short-term gains, at approximately 4.5 million tonnes, annual demand in 2021 was still well down on the 5.2 million tonnes of a decade ago.

In 2021 imports of (mostly flat) steel reached a record level of an estimated 1.4 million tonnes. We produce some 50% of the products imported to South Africa.

This year, as domestic steel demand strengthened, our operational performance weakened. This meant that we were unable to make and sell as much steel as we could have. In turn, our underperformance encouraged domestic competition and imports. For us, plant reliability remains a most material matter.

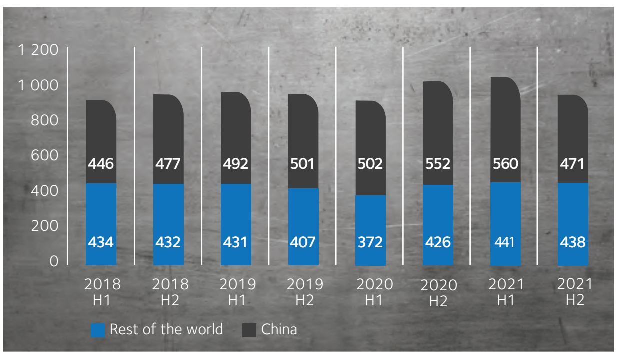
The Russia/Ukraine war has created sudden trade disruptions. Both countries are major commodity suppliers including steel and related raw materials. The costs for raw materials has been pushed up as have the prices of finished steel. Some of these supply disruptions are expected to last much longer than the war itself given the ensuing sanctions. Though the trade flows will rebalance from further afield, ArcelorMittal South Africa will structurally have the benefit from having spare capacity as well as being situated closer to the Atlantic markets where the supply from Ukraine and Russia will be amiss in the near future.

### Input costs and security of supply

In tandem with buoyant steel pricing, the costs of most iron- and steel-making raw materials rose sharply this year.

Managing our raw material basket (RMB) is critical to our sustainability; as with safety, it is an aspect of our business over which we attempt to exercise maximum control (page 24).
In 2021 we suffered above-inflation increases in the costs of regulated tariffs including electricity and rail. At the same time, the delivery of these essential inputs worsened, further threatening our ability to operate profitably and to meet our customers' expectations.

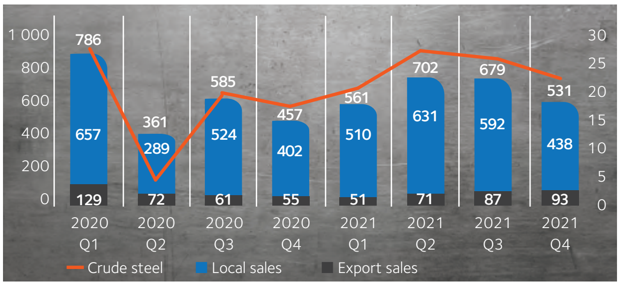
Global crude steel production (Mt)




*Source: S&P Platts, MetalBulletin*

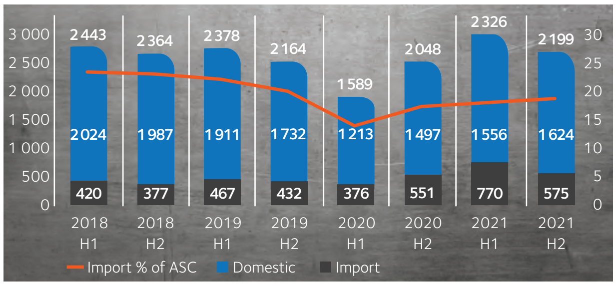
# Our operating context continued

### Sales and production volumes ('000 tonnes)



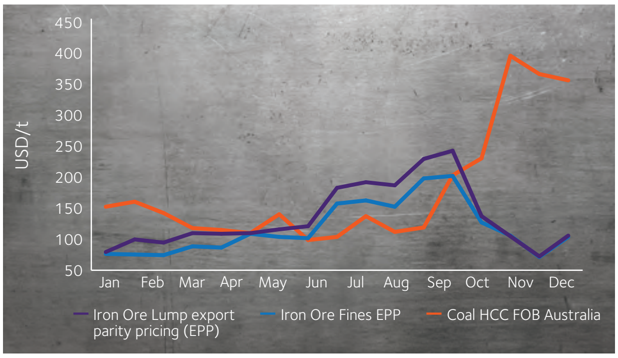

Source: SAISI

### Total apparent steel consumption ('000 tonnes)



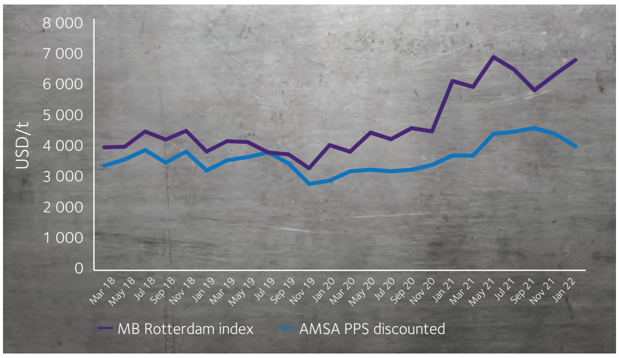

Source: SAISI

### International iron ore and HCC price evolution 2021




- *Iron ore prices reached a record high of USD233/t in May 2021 and remained above USD150/t for most of Q3 before dropping 37% to an average of USD110/t in Q4.*
- *Geopolitical tensions and extreme weather in the US, Australia and Mozambique stoked in hard coking coal price rises to USD440/t in Q4 2021. A shortage of metallurgical coke drove prices of this commodity to above USD640/t in the same period.*

### Scrap price in rand: March 2018 – February 2022




- *Scrap prices declined in H2 2021 due to an oversupply in South Africa linked to high stock levels and low volumes of exports. Since January 2022 scrap exports have increased with a resulting rise in prices.*

## Carbon agenda

The international community spent much of 2021 preparing for the United Nations' COP26 conference on climate change, held in Scotland in Q4. The outcomes from this momentous event failed to satisfy all parties' agendas, but it is now more evident than before that the world is determined to mitigate global warming and that all economic players are expected to contribute.

In our previous integrated report, we signalled the seriousness with which we as ArcelorMittal South Africa take our responsibility to reduce our carbon footprint, this despite us being part of what is universally acknowledged to be a "hard-to-abate" sector.

This year the ArcelorMittal group, which we are a part of, released its much-awaited second carbon action report (CAR2). Among a number of far-reaching commitments, CAR2 binds our South African operations to meet the group's 25% $CO_2$e reduction target for operations outside Europe by 2030.

In this integrated report and our first ESG report, we address the very real risks and opportunities which decarbonising holds for our business. For the first time, in our 2021 ESG report, we also explain how we believe we will achieve a 23% $CO_2$e reduction by 2030.

## Vertical integration

A recent development has been for several of our competitors and even our customers to pursue vertical integration. In essence, this means a business acquiring greater control over elements of its particular value chains other than those which it traditionally controlled or owned. This is achieved either through acquisitions or some form of strategic cooperation.

In the case of South African steel, we have seen companies that have traditionally been fabricators or merchants gain control over the production of primary steel. They are achieving this by investing in electric arc and induction furnaces. These customers/competitors increasingly consider ArcelorMittal South Africa to be a "swing" or only occasional/supplementary supplier.

Our response to vertical integration is two-fold. In the first instance, we are "backward" integrating by achieving greater control over the supply and cost of our raw materials. We are pursuing other options openly and consultatively through initiatives such as the Steel Master Plan.

## Economic restructuring

South Africa's feeble economic growth of recent years, its loss of manufacturing capacity and repeated underperformance on job creation and transformation are today receiving concerted attention from many stakeholders including government, business and civil society.

These deliberations and their projected outcomes are embodied in the South African government's Economic Reconstruction and Recovery Plan. This, and initiatives including the Steel Master Plan, the Infrastructure Investment Plan and the country's just energy transition have profound implications for a large company such as ours with its multiple economic linkages and its ability to create (or erode) value for society. Beyond our borders, the coming into force of the African Continental Free Trade Area agreement presents a golden opportunity for us to help accelerate trade and economic growth.

We seek to actively participate alongside other stakeholders in efforts to restructure for growth and shared prosperity. This is why, in 2022, our **Value Plan Programme** strategy repositioned us as:

> "The champion of South Africa's manufacturing growth"

# Materiality and our reporting approach

## Approach

For several years, in our integrated report, we have reported our performance, prospects, risks and opportunities through four key strategic lenses (objectives). This year we report against just three key objectives.

There are a number of main reasons for this:

- To better communicate what we mean by the sustainability of ArcelorMittal South Africa and to demonstrate the growing extent to which our leadership's thinking – and therefore strategy formulation and execution – are integrated. In recent years one of our four key strategic objectives was "Preserving liquidity". We now subsume prioritising liquidity (still a very key board and management concern) in our discussion, **Long-term financial sustainability** (Strategic objective 2). This is intended to illustrate how we perceive the interdependencies between liquidity and our (often short-term) preservation of financial capital and our ownership and use of, and investment in, manufactured, intellectual and human capital
- In reporting fewer strategic objectives, we emphasise our leadership's greater concern with the erosion and preservation of natural capital – **Towards zero harm** (Strategic objective 1)
- Stakeholder feedback on our annual reporting has stressed the value readers place on conciseness.

Other innovations introduced this year include:

- Greater integration of corporate governance, risk and opportunity management and stakeholder relationships in our strategic discussions
- The introduction of our first ESG report to provide additional disclosure and insight into our environmental, social and governance activities and our impacts on the various capitals.

### How we determine materiality

Our board of directors is ultimately responsible for our strategy formulation and execution. Strategy is concerned with maximising ArcelorMittal South Africa's ability to create value and to minimise value erosion for all stakeholders including investors, employees, suppliers, communities, governments and customers. Strategy directly addresses the issues that are most material to our value processes.

In approving strategy and resource allocation, the board regularly interrogates management's determination of both financial and environmental and social (so-called sustainability) material matters.

Management has a dedicated strategy resource, which is responsible for gathering intelligence, determining materiality and formulating and executing (board-approved) strategy accordingly. Reporting to the CEO and executive committee, this year the strategy team formulated our new **Value Plan Programme** (page 9) which was approved by the board in December 2021.

We determine our most material matters through the following processes. Duly authorised to do so by the board, the CEO instructs the integrated reporting team on material matters to be reported on – and their relative weighting.

# Materiality and our reporting approach continued

1. Intelligence gathering and observation
   Information on external trends, including emerging issues, is gathered by the strategy team assisted by various internal resources including the ArcelorMittal group and our own (customer-facing) commercial department.

   Material information is also acquired through subscriptions to information and intelligence portals aggregators and media monitoring services as well as through affiliation to, and participation in, industry and cross-sector organisations.

   Among our most important sources of material information are those having legitimate interests in our value creation.

2. Stakeholder interests and concerns
   We interact with our stakeholders through a variety of channels. Employees are regularly consulted through formal interpersonal structures and, increasingly, online surveys and feedback mechanisms. Customer feedback is constantly sought by our client-facing representatives; similarly, we have a well-resourced procurement function to liaise with suppliers.

   We gather the views of government, community leaders, regulators, trade unions, NGOs and funders through structured channels. Shareholders and analysts are consulted regularly including through results presentations, our annual general meeting (AGM) and an annual roadshow led by the chairman. Shareholder interests are curated by our strategy function.

   In line with the ArcelorMittal group's stakeholder engagement plan, we agree, internally, "ownership" of identified stakeholders and execute against documented annual engagement plans. The board is kept informed of stakeholder engagements and the quality of relationships through regular reports to the transformation, social and ethics committee.

   Stakeholder concerns and views and external information are assessed internally.

3. Determination of priority material matters
   Guided by directives from the board, the executive committee reviews and prioritises issues facing our business. It then determines and delegates required actions.

4. Risk and opportunity management
   External information is assessed and weighted by our dedicated risk and insurance function. Risks are mitigated and their materiality disseminated throughout the company, including their incorporation into strategic decision-making.

   After we have assessed, weighted, and acted on the information we consider material, we explain our actions and the outcomes from those actions.

5. Disclosure
   Using numerous channels, we report our views on the company's challenges and opportunities and the impacts our actions have had on stakeholders and the capitals. We utilise the JSE SENS news service, our website and one-on-one correspondence and meetings to disclose to stakeholders. Through our annual integrated and environmental, social and governance reports we invite all stakeholders to comment on the extent to which we have accurately assessed their interests, and delivered on their expectations.

# Our Value Plan Programme strategy

Our 2018 integrated report introduced readers to our new (at the time) Business Transformation Programme (BTP). Back then, this is how we anticipated BTP supporting our sustainability:

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

ST **Short term**
Implementing initiatives to ensure a return to profitability and positive cash-flow generation (to 2019)

MT **Medium term**
Secure earnings and cash-flow sustainability (to 2021)

LT **Long term**
Generating above-average financial returns while strengthening the balance sheet

### Since 2018

Our overarching strategy was concerned with the BTP. The BTP is about reconfiguring our operating model by deploying common planning, scheduling and production systems and IT infrastructure. It aims to improve the customer experience and squeeze out both variable and fixed costs.

### Since 2020

We have implemented One Organisation, or OneOrg, which seeks to transform our business and increase effectiveness, including streamlining processes by creating a new organisational structure – premised not on business units but on functions. OneOrg is designed to remove silos and to create a customer-focused One Organisation.

### In 2021

- We were still very much in what we call a "transformation for growth" phase
- BTP had achieved cost savings of R2.1 billion. At the time of reporting in 2022, its methodologies and resources were still being used to drive efficiencies and bolster reliability
- OneOrg had been bedded down and informs everything we do.

MT *Of course, when we published our 2018 report back in early 2019, we had no idea that less than a year later the world would be afflicted by a pandemic that would fundamentally change every aspect of our lives – and of our business. Despite this, in 2021 we could point to solid, substantial achievement against our key medium-term objective – to "Secure earnings and cash-flow sustainability".*

LT *In 2021 we used our considerably stronger performance on generating cash to strengthen our balance sheet (see page 24), to pay down debt and to invest in improving the reliability of our operations.*

VPP

Confident in the belief that BTP and other necessary restructuring exercises had given us a good start on our journey of transformation for growth, in 2021 our board approved a new strategic vision, our **Value Plan Programme.**

Management and our dedicated strategy team developed the **Value Plan Programme** by identifying and prioritising afresh our business's most material issues. These material issues were discussed in depth between management and the board.

# Our **Value Plan Programme** strategy continued

### What is the Value Plan Programme?

It seeks to move ArcelorMittal South Africa from quartile 3 in terms of the cost competitiveness of the world's steel producers to quartile 1 – to achieve a cumulative EBITDA-positive impact of more than USD500 million.

**By 2026**

In 2022 we began implementing a new management system consisting of 12 pillars:

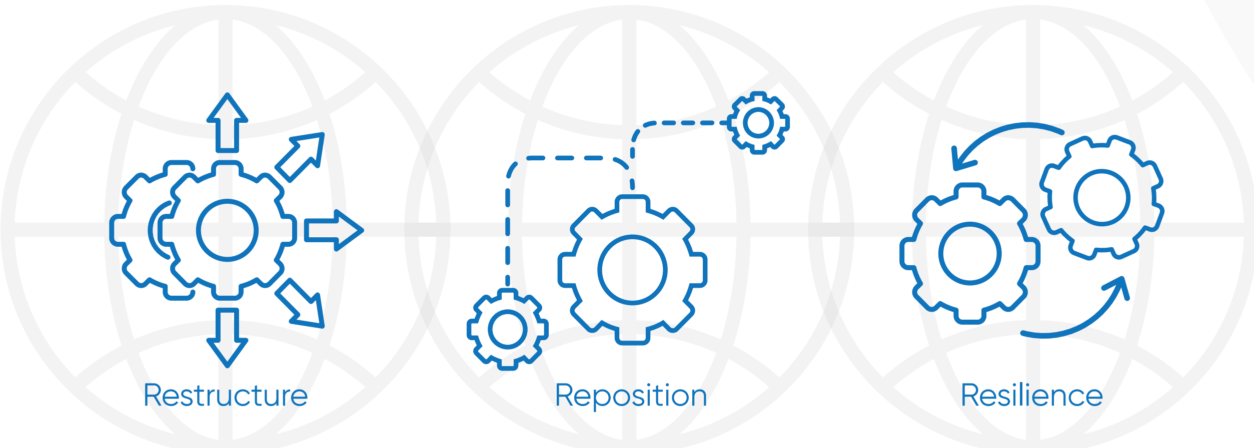
1. Safety, health and security excellence
2. Stakeholder engagement, communication and governance excellence
3. Licence to operate: environmental management and B-BBEE status
4. *Commercial excellence and product development, market development and segmentation optimisation*
5. *Operational and manufacturing excellence. Quality and yield, productivity improvement, reliability and modernisation*
6. *Energy*
7. *Procurement excellence*
8. *Strategic raw materials and scrap*
9. *Logistics*
10. People excellence, culture, training and diversity
11. Optimal footprint
12. Decarbonisation


### Key Value Plan Programme workstreams

In February 2022 a **Value Plan Programme** council was established, consisting of senior executives and chaired by the chief technical officer and interim chief financial officer. The internal BTP team had evolved into a **Value Plan Programme** team. Essentially, this team has two components – focused improvement tracking and focused improvement support. The focused improvement support comprises facilitators with training in improvement methodologies. Their work includes supporting breakthrough initiatives and business process optimisation.

BTP and restructuring measures – including Section 189s and mothballing Saldanha – plus the OneOrg operating model have put us in a position to achieve further delivery on our long-term ambition.

Our **Value Plan Programme** aims to deliver that ambition through three strategic focus areas:



## Restructure

More work has to be done to restore and improve operational reliability and workplace safety, to create a culture of excellence that delivers world-class steel at world-class costs.

### What we've achieved (2018 – 2021)

- Asset footprint changes
- Recast our fixed cost base
- Secured cost-plus raw material supply
- R5.6 billion of BTP savings.

### What we're now busy with

- Investment to underpin reliability and regain operational "rhythm"
- Driving competitiveness through raw materials procurement
- Scrap steel strategy
- Repurposing Saldanha
- Revamping culture and engagement with employees/unions.

## Reposition

We aspire to be a respected, thoroughly South African (and African) company, one that leads the steel industry and manufacturing through collaboration to deliver mutual economic, social and environmental benefits.

### What we've achieved (2018 – 2021)

- Increased communication and collaboration with customers
- Heightened engagement with government, business and civil society.

### What we're now busy with

- Demonstrating how we will become the backbone of South African manufacturing
- Partnering with government on economic restructuring
- Vertical integration with the value chain
- Becoming the sub-Saharan Africa steel supplier of choice
- Green journey to decarbonise
- Becoming a creator of transformational social value.

## Resilience

Build resilience by strengthening our balance sheet for sustainable investment and growth by reducing debt and securing more appropriate capital and funding.

### What we've achieved (2018 – 2021)

- Reduced debt by R2.1 billion since 2019
- Generated cash of R1.8 billion just in 2021
- Secured supplier finance facility of R2.0 billion
- Refinancing our borrowing-based facility.

### What we're now busy with

- Reducing our exposure to costly foreign currency-denominated sourcing
- Further de-leveraging
- Engagement with the Competition Commission regarding payment of part of the administrative penalty.

## We will restructure, reposition and recapitalise by executing against our three key strategic objectives:

Zero harm

Long term sustainability

People first

# Our risks and opportunities

## Enterprise risk management (ERM)

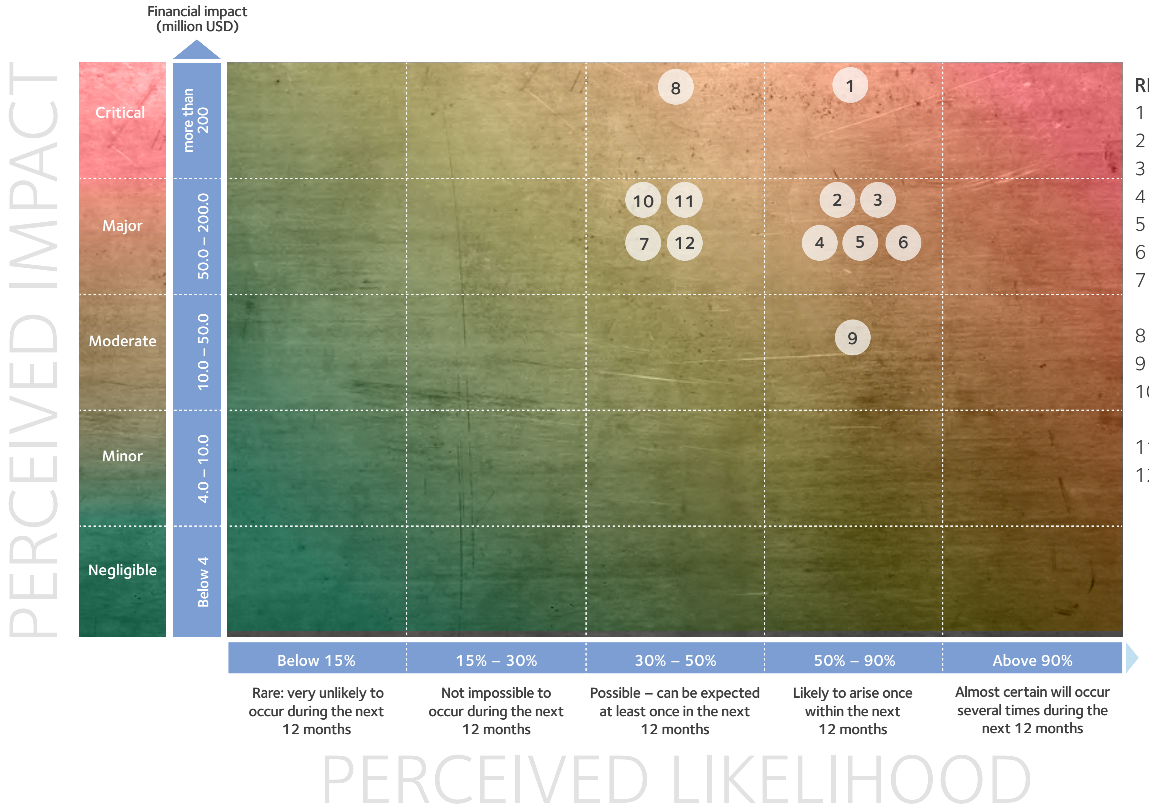
Covid-19 impacted all aspects of our business in 2021 – our people's mental and physical wellbeing and the health of our operations. This, at a time of rebounding demand and buoyant steel pricing.

The top enterprise risks we were exposed to in 2021 are highlighted below compared to their ranking in 2020.

| No | Risk name and description |
|---|---|
| 1 (was 6) | **Safety performance:**<br>Non-compliance and non-adherence to fatality prevention standards and unsafe acts and conditions may lead to serious injuries and/or fatalities. |
| 2 (was 1) | **Operational instability:**<br>Incidents causing operational instability leading to a loss of production are a risk not only to the profitability of the company but will also impact customers, which may prompt them to seek alternative supply, increasing the risk of imports or loss of local market share. |
| 3 (was 2) | **Input material supply:**<br>Input material disruptions due to factors such as Transnet Freight Rail (TFR) inefficiency, supply disruptions and the quality of input material could result in plant stoppages/disruptions. |
| 4 (was 9) | **Imports/competition:**<br>– Continued marginal pricing and increased sales by various exporters in Africa Overland (AOL) and South African markets, combined with increased competition from domestic producers<br>– Operational instability resulting in imports<br>– Rationalisation of product range |
| 5 (was 7) | **Market demand:**<br>– Risk of a downturn in local demand and long tail impact of the lockdown, resulting in a reduced market size<br>– Global slowdown in economic activity resulting in reduced demand for commodity exports from South Africa |
| 6 (was 8) | **Spread risk:**<br>An increase in the raw material basket without a concomitant increase in steel prices leads to margin squeeze, impacting profitability. |
| 7 (was 5) | **Foreign exchange exposure:**<br>With a significant portion of EBITDA costs being rand-based and revenue informed by the USD-denominated international steel prices, the company is exposed to fluctuations in the exchange rate. |
| 8 (was 4) | **Solvency and liquidity:**<br>Market demand, price softening and increased imports could lead to cash pressure and spread normalisation to pre-Covid-19 levels. |
| 9 (was 11) | **Input costs:**<br>– Higher and rising input costs of material, services or transport not compensated by an increase in steel prices could lead to margin squeeze<br>– Extraordinary increases in spot market prices can have a substantial impact on the raw material basket |
| 10 (was 12) | **Environmental compliance:**<br>Non-compliance with existing, and future, environmental laws and regulations could have a significant impact on the company, leading to penalties, prosecution or plant closures. |
| 11 (was 3) | **Health pandemic:**<br>If the pandemic is not contained and infections escalate, the health impact on employees and the country could be severe. |
| 12 (was 10) | **Availability of energy:**<br>With Eskom struggling to meet supply, load curtailment could result in production interruptions/stoppages with a resultant impact on sales. |

Our 2021 ESG report explains why we changed the relative rankings of particular risks, as well as control measures implemented and being considered together with detail on our enterprise risk management process, combined assurance, business continuity and insurance.

The top strategic residual risks as identified through our ERM process, which could impact our sustainability, are graphically displayed in below heatmap:




**RISKS**
1 Safety performance
2 Operational stability
3 Input material supply
4 Imports/competition
5 Market demand
6 Spread risk
7 Foreign exchange exposure
8 Solvency and liquidity
9 Input costs
10 Environmental compliance
11 Health pandemic
12 Availability of energy

# How we create, preserve and erode value

ArcelorMittal South Africa is no ordinary business – our company is intimately integrated into the economic and social fabric of South Africa while our products and our procurement of goods and services have far-reaching consequences. Our business model and our execution of strategy require us to demonstrate that we are creating meaningful value not only for investors but for multiple stakeholders including employees, communities, suppliers, government and customers.

## Inputs

### Natural capital

Raw materials consumed (kilotonne)

| | 2021 | 2020 |
|---|---|---|
| Iron ore | 4 213 | 3 125 |
| Coal | 2 914 | 2 279 |
| Purchased scrap | 274 | 161 |
| Fluxes | 1 181 | 729 |

### Energy

| | 2021 | 2020 |
|---|---|---|
| Electricity purchased (TWh) | 1.83 | 1.73 |

### Human and intellectual capital

| | 2021 | 2020 |
|---|---|---|
| Employees* | 7 133 | 7 135 |
| Hired labour | 522 | 44 |
| Service contractors | 2 375 | 1 877 |
| Safety: LTIFR | 0.98 | 0.58 |
| Safety: Fatalities | 6 | 1 |

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

### Financial capital

| | 2021 | 2020 |
|---|---|---|
| Equity | R9 053m | R2 344m |
| Borrowings | R5 910m | R6 964m |

## Outputs and outcomes

### Financial capital

Shareholders, investors, employees

| | 2021 | 2020 |
|---|---|---|
| Revenue | R39 708m | R24 643m |
| EBITDA | R8 569m | R37m |
| Profit/(loss) from operations | R7 976m | (R963m) |
| EBITDA margin | 21.6% | (0.2%) |
| Headline earning/(loss) per share | 615c | (185c) |
| Headline earning/(loss) | R6 860m | (R2 033m) |

### Social capital

Local communities, suppliers and HDSA businesses

| | 2021 | 2020 |
|---|---|---|
| Socio-economic development | R15.5m | R13.4m |
| Procurement spend *(excluding energy)* | R25 019m | R14 940m |
| Taxes contributed | R1 497m | R617m |
| Procurement – QSE and EME | R2 260m | R1 016m |

### Manufactured capital

Customers

| | 2021 | 2020 |
|---|---|---|
| **Steel products sold** | 2 473kt | 2 189kt |
| Domestic market | 2 171kt | 1 871kt |
| Export market | 302kt | 318kt |
| **Coke and Chemicals** | | |
| Commercial market coke | 308kt | 305kt |
| Tar | 46kt | 50kt |

## Outcomes

### Financial capital

We used the profits and cash we generated in 2021 to substantially de-risk our business. We achieved this by investing in the integrity of our industrial footprint and by reducing our debt. We were again not in a position to reward investors by paying dividends.

### Social capital

Our positive impact on local communities and society in general was reduced this year because of the need to preserve cash. This was evidenced in our socio-economic development and enterprise development expenditure as well as our traditionally strong pipeline of technical skills, which benefits companies other than ourselves. We succeeded, however, in growing our support for the downstream and job creation through our rebate schemes.

### Human capital

After reducing headcount, in 2021 we were able to employ many hundreds more. We also reinstated salaries that had been cut in the previous year. Safety incidents had a very negative impact on the wellbeing and even lives of our employees. Positively, stringent application of pandemic controls and employee support kept our people as safe as possible.

### Manufactured capital

This year we produced double the amount of steel we had in the previous year. Our manufacturing capital was enhanced through vital investment in our assets and in maintenance.

### Natural capital

Our environmental performance was decidedly mixed in 2021 and outlays on emission and discharge controls reduced. We plan, however, to increase such expenditure in 2022.

## Trade-offs

2021 began with lingering uncertainty over our financial prospects. As a result, our leadership took actions to preserve cash and reduce, in particular, fixed costs (trade-offs). As the year progressed, however, cutbacks in various areas of expenditure were eased. The following are some of the key trade-off decisions made in 2021 and their positive and negative impacts on the capitals.

**Export rebates**

– Financial

\+ Social

**R123 million**

We gave customers R308 million in strategic and export rebates (2020: R185 million). Of the rebates granted this year, R85 million was for value-adding exports (page 41).

**Maintenance expenditure**

– Financial

\+ Manufactured

**R932 million**

In 2021 our repairs and maintenance operational expenditure (R1 649 million) was more than double that of 2020 (R717 million) as we focused on improving plant reliability and resolving backlog maintenance (page 38).

**Training spend**

\+ Financial

\+ Intellectual

– Human

– Social

**R15 million**

Our training spend of R87 million for 2021 was lower than the R102 million for 2020 although R32 million higher than budget. Our planned spend for 2022 is R106 million (income grant included) (page 11 – in our ESG report).

# Our working business model

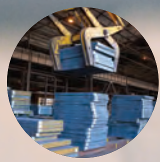
We produce iron and steel, commercial coke and useful by-products in processes that sustain hundreds of thousands of jobs.

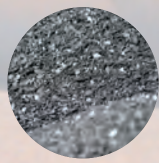
## We produce three types of products:

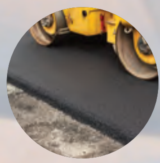
- Long steel products
- Flat steel products
- Coke and by-products

## Our finished products are:

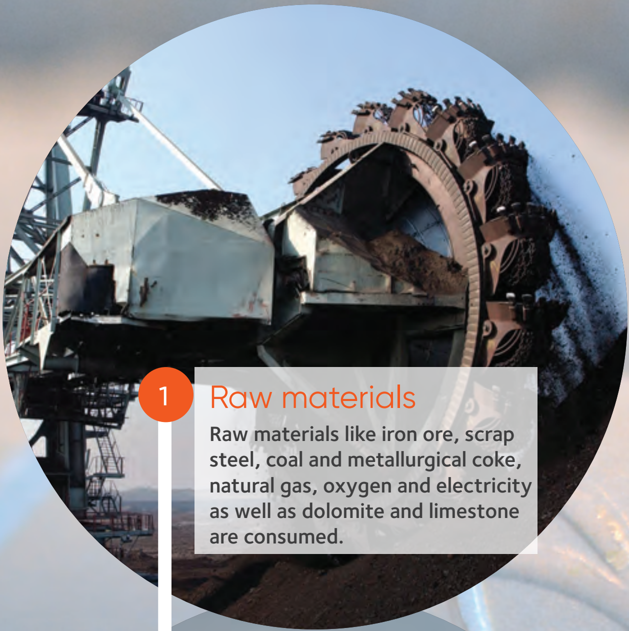

Long steel products


Flat steel products


Commercial coke

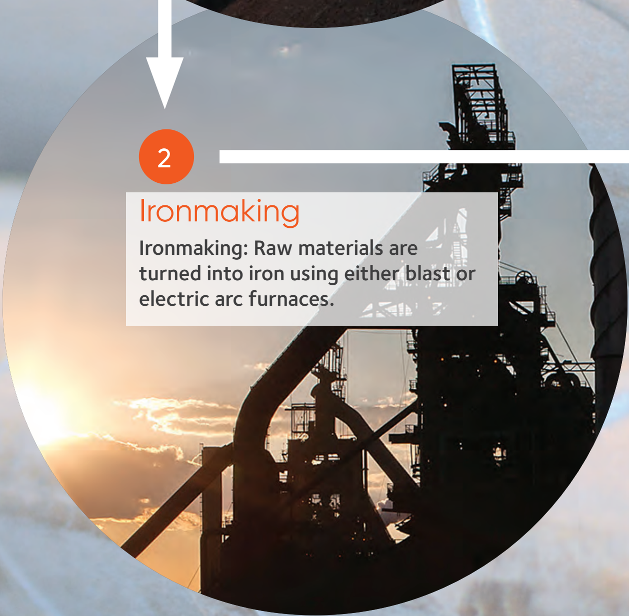

By-products (mostly slag and tar)

Our blast furnaces consume the metallurgical coke we produce and we sell the commercial coke.



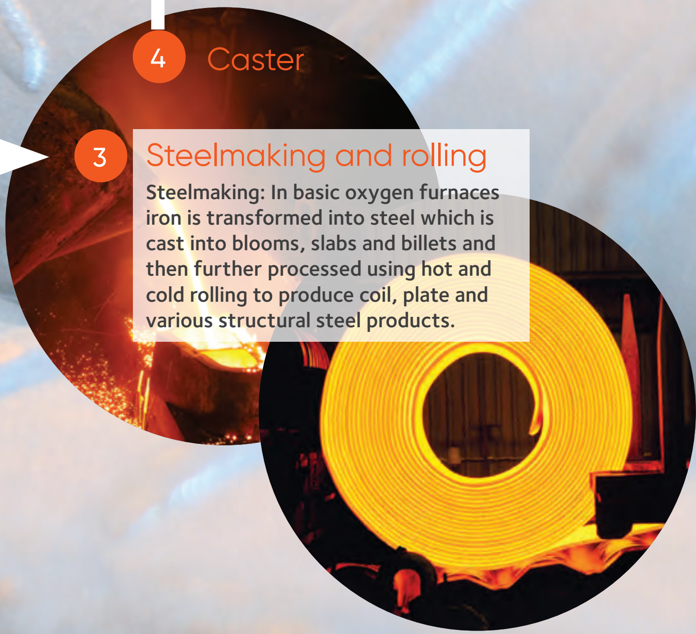
### 1 Raw materials

Raw materials like iron ore, scrap steel, coal and metallurgical coke, natural gas, oxygen and electricity as well as dolomite and limestone are consumed.



### 2 Ironmaking

Ironmaking: Raw materials are turned into iron using either blast or electric arc furnaces.



### 3 Steelmaking and rolling

Steelmaking: In basic oxygen furnaces iron is transformed into steel which is cast into blooms, slabs and billets and then further processed using hot and cold rolling to produce coil, plate and various structural steel products.

### 4 Caster

**Environmental expenditure**

+ Financial
− Natural

**R87 million**

We reduced environmental capital expenditure this year, from R151 million to R64 million, to preserve cash. However, we plan to increase this dramatically in 2022 (page 30).

**Capital expenditure**

+ Financial + Manufactured
− Natural

**R456 million**

Profitability enabled us to increase our capital spend from R509 million in 2020 to R965 million in 2021 with maintenance capital being almost a third of total capital spend.

**Salaries**

− Financial
+ Human

**R470 million**

This year we reverted to normal remuneration after the salary sacrifices required of employees in 2020. Bargaining unit employees received increases in late 2020 and in 2021.

**We are committed to growing our socio-economic impact.**

**Our flat steel prices are set according to a basket of prices prevailing in international markets.**

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

# Our board of directors

On these pages we give details of individual directors, including the special skills and expertise they bring to the board, as well as details of their attendance at meetings of the board and specific committees.

Chairman

8/8▲ 3/3 5/5●

### Mr PM Makwana (Mpho) (51)

BA (Hons), Postgraduate Diploma in Retailing Management
**Board value:**
Governance, stakeholder relations and transformation best practice
**Appointment date:** 5 February 2013

Chief executive officer

8/8 7/7♣ 3/3 5/5♣ 3/3

### Mr HJ Verster (Kobus) (55)

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

Interim Chief financial officer

3/3♣ 2/2♣

### Ms SM van Wyk (Suretha) (54)

CA(SA)
**Board value:**
Commercial and financial experience
**Appointment date:** 1 October 2021

8/8 3/3▲

### Ms NP Gosa (Noluthando) (58)

BA (Hons), MBA, Graduate Diploma in Business Administration
**Board value:**
Business administration and experience in investment banking
**Appointment date:** 1 December 2016

8/8 3/3

### Ms KMM Musonda (Monica) (47)

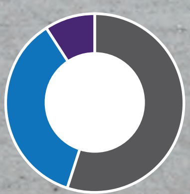
LLB, LLM
**Board value:**
Knowledge of legal, entrepreneurial and African business
**Appointment date:** 12 June 2017

8/8 5/5 3/3

### Mr GS Gouws (Gert) (62)

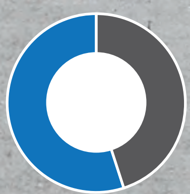
BCom (Law), BCom (Hons), CA(SA), FCMA CGMA, Advanced Management Programme
**Board value:**
Strategic financial and organisational leadership
**Appointment date:** 1 November 2017

Board membership at the time of reporting



- Independent non-executive – 55%
- Non-executive – 36%
- Executive – 9%

Board diversity (including international directors)

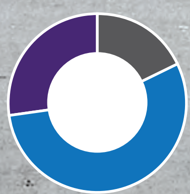


55% Male
45% Female

Board diversity (including international directors)

- Black – 55%
- White – 45%

Board tenure



- 0 – 3 years – 18%
- 3 – 6 years – 55%
- 6 – 9 years – 27%

**Attendance key**

| | |
|---|---|
| Board | Board meetings |
| ARC | Audit and risk committee |
| SHE | Safety, health and environment committee |
| HRRN | Human resources, remuneration and nominations committee |
| TSEC | Transformation, social and ethics committee |

◆ Apologies received ▲ Chairperson ● Nominations chairperson ■ Human resources and remuneration chairperson ♣ Attendance by invitation

8/8 7/7 3/3

### Ms LC Cele (Zee) (68)

BCom, MAcc, Postgraduate Diploma in Taxation, Executive Leadership Development Programme

**Board value:**
Commercial and tax expertise

**Appointment date:** 4 January 2016

8/8 7/7▲ 3/3 5/5■ 3/3

### Ms NP Mnxasana (Nomavuso) (65)

BCom, BCompt (Hons), CA(SA)

**Board value:**
Sustainability best practice, risk and finance management expertise

**Appointment date:** 1 October 2013

8/8 7/7 3/3 5/5 3/3▲

### Mr NF Nicolau (Neville) (68)

BTech, MBA

**Board value:**
High-level strategic and technical insight

**Appointment date:** 10 September 2015

8/8 7/7 2/3◆ 3/5◆

### Mr R Karol (Raman) (46)

CA (India), MBA (Finance)

**Board value:**
Experience in finance and steel industry management

**Appointment date:** 1 December 2018

4/4 3/3◆ 1/1 1/1

### Ms D Earp (Dawn) (60)

BCom, BAcc, CA(SA)

**Board value:**
Experience in finance and mining industry management

**Appointment date:** 1 July 2021

4/5◆ 1/2◆ 2/3

### Mr BL Davey (Bradley) (57)

BEng

**Board value:**
Steel industry, manufacturing and leadership

**Appointment date:** 1 April 2021

## The following board members resigned in 2021

### Mr JRD Modise (Jacob) (55)

BCom, BAcc, CA(SA), MBA, WBS, AMP

**Board value:**
Financial, governance, risk management and sustainability best practice

**Appointment date:** 1 October 2013

**Resignation date:** 26 January 2021

2/3◆ 2/2

### Mr BE Aranha (Brian) (66)

BAppSc, Executive Development Programme

**Board value:**
Strategy, operational improvement and steel industry management

**Appointment date:** 31 March 2018

**Resignation date:** 31 March 2021

5/5 5/5◆

### Mr AD Maharaj (Desmond) (49)

MFin, CA(SA)

**Board value:**
Commercial and financial expertise

**Appointment date:** 1 October 2018

**Resignation date:** 30 September 2021

# Our board of directors continued

## Changes to the board of directors

- Mr Jacob Modise resigned as a non-executive director and as chairman of the audit and risk committee with effect from 26 January 2021
- Ms Nomavuso Mnxasana, an independent non-executive director and member of the audit and risk committee, was appointed as chair of the audit and risk committee with effect from 29 January 2021
- Mr Brian Aranha retired as a non-executive director with effect from 31 March 2021
- Mr Bradley Davey was appointed as a non-executive director with effect from 1 April 2021
- Ms Dawn Earp was appointed as an independent non-executive director with effect from 1 July 2021
- Mr Desmond Maharaj, CFO and executive director, resigned with effect from 30 September 2021
- Ms Suretha van Wyk was appointed as interim CFO with effect from 1 October 2021
- The chairman of the board, Mr Mpho Makwana, as well as Ms Nomavuso Mnxasana, who were appointed as directors in 2013, have indicated that they would not be available for re-election at the annual general meeting (AGM) in 2022, in light of the fact that as at that date each would have served a period of about nine years as directors. Consequently, the board initiated a process to identify suitable directors for appointment during 2022, and in particular, a director that could be considered for appointment as chairman of the board.

A company was appointed to assist with the process and after having interviewed a short list of candidates, and based on the recommendation of the human resources, remuneration and nominations committee, the board has identified suitable candidates to be appointed as directors of the company.

In the circumstances, shareholders are advised as follows:

- Mr Mpho Makwana and Ms Nomavuso Mnxasana will retire by rotation at the AGM in May 2022
- Mr Bonang Mohale and Mr Abe Thebyane will in due course be nominated for appointment as directors at the AGM. Should Mr Bonang Mohale's appointment be approved at the AGM, the board intends appointing Mr Bonang Mohale as chairman of the board.

# Message from the chairman



"A leader's lasting value is measured by succession" – John C Maxwell

This message will be my final one as chairman of ArcelorMittal South Africa Ltd. I wish to express my gratitude towards the human resources, remuneration and nominations committee and the full board as well as our group chairman and group CEO for the efficient manner in which my proposed successor was identified. As I pass on the baton, it is gratifying to do so with the company on a solid path towards financial sustainability.

Joel Barker in *Leadershift* (1999) defines the role of leaders as being "...to recognise and secure the future of the enterprises they are entrusted to lead". Equally, a high-performance board is an essential ingredient for corporate success.

In my full nine-year term it has been my privilege to be chairman of this most remarkable company, a pillar of the South African economy and society. In that time, I have worked with many remarkable individuals. As a collective core of executive directors and management, together with non-executive directors, we have pulled together through a great deal of turbulence to deliver a profitable, financially sustainable future for ArcelorMittal South Africa.

## Measurable impact

Since my appointment on 5 February 2013, we have navigated several extremely tough financial year-ends where issues around going concern were often top of mind. But there has always been much more to this company than the financial bottom line. In 2014 ArcelorMittal South Africa released its first Factor Report, designed to demonstrate just how much of an impact our company has on its communities and markets and the economy. Increasingly, our (multiple award-winning) integrated reports have fulfilled the function of articulating the direct and indirect impacts of a steel manufacturing company's integrated value creation.

In 2016 we marked the tenth anniversary of the founding of the ArcelorMittal group. That milestone cast some light on how several once state-owned entities that had been bedrocks of industrialisation in their native economies had been forged together into one formidable steel maker – now the world's largest, foremost steel producer.

Leading a company such as this, which operates in a sector that has always been cyclical, requires vigilance and adaptability. Many tough decisions and hard choices have had to be made, not the least of these the decision, taken in 2019, to mothball Saldanha Works. That decision cost the West Coast community a large number of direct and indirect jobs and local revenue that supported many families; it was a tough call that had to be made to preserve the greater good and long-term viability of ArcelorMittal in South Africa.

## Taking tough decisions

I am truly delighted that, as I vacate the chair, there is a growing belief that it might be possible for us to restart operations in Saldanha. The possibility that a revived Saldanha Works could play a leading role in greening our economy – as you can read in our first ESG report, is particularly encouraging, especially in this tough climate of recovery for the South African economy.

After almost a decade at the helm of such a large, important business, there are many milestones upon which to reflect. Just one I would like to single out was our B-BBEE transaction in 2016, in which Likamva Resources acquired 17% of our shares, with the added benefit of community participation and ownership through the ArcelorMittal Community Trust, as well as employee empowerment through the Isabelo Trust. In this report, we detail how work continues to make this empowerment transaction meaningful for all concerned.

Among the many challenges we navigated in the past nine years were very large capital investments in spite of our financial difficulties, one being the major reline of Newcastle's N5 blast furnace, achieved at a cost of almost R1.8 billion in 2014 – a job so massive that we had to import scarce skills, especially in the specialised hearth carbon bricklaying area.

More recently we as a board have voted – after the utmost scrutiny and debate – amounts of over R1 billion to mitigate our environmental impacts. I am therefore delighted that, for the first time, this report and our ESG report reflect the large strides we have made in this regard over a decade and more.

# Message from the chairman continued

## Strategic direction for brighter prospects

Today we can confidently look towards supporting the group's net-zero ambitions because of our much-improved financial prospects. In 2021 we recorded our strongest EBITDA since 2008 while a headline profit of R6.8 billion contrasted sharply with the previous year's loss of R2 billion. Also very encouraging was our ability to generate cash, which we deployed to significantly strengthen our balance sheet and our industrial footprint to prepare us to face an uncertain future. This exceptional outcome was particularly encouraging given the fact that we continued to battle the challenges associated with the Covid-19 pandemic.

Our profitability in 2021 had much to do with stronger international and domestic steel prices. This favourable trading environment, combined with our successful cost-competitiveness transformation, reduced the costs of our key input materials, fixed and variable costs in line with our established global plant peer performance benchmarks across the global ArcelorMittal group's footprint.

Without the Business Transformation Programme and our transition, in line with the OneOrganisation operating model, our survival would have been in serious doubt. Today we are implementing another most important stage in our strategic evolution – our new **Value Plan Programme**, which this integrated report unpacks into detailed components on page 9. I have not the slightest doubt that the **Value Plan Programme** will further future-proof our business and its ability to unlock even greater value.

## Keep our people safe

However, one area of ongoing concern is our safety record. As I look back on my years in the chair, I remember with pride when our group chief executive and chairman, Mr Lakshmi Mittal, joined the annual health and safety day in Vanderbijlpark in 2012. It remains an aspiration for us to yet again hold the best record for safety and wellness.

We mourn the loss of life in 2021. The board wishes to express our deepest sympathy to the families of the six colleagues who died on our premises this year. One fatality is one too many! We will redouble our efforts in line with our value of Zero Harm to keep our employees safer and will strive to improve our safety performance and record.

As the president and government embark on various strategies of economic recovery aimed at putting South Africa back on a path to sustainable growth and job creation, ArcelorMittal will strive to make its fair contribution. (I believe the steel sector can and must be central to this recovery.)

## Thanks

I wish to express my deep appreciation to our CEO, Kobus Verster, and the executive team for the stellar leadership that delivered the great results we present to shareholders and all stakeholders in this report. I also wish to congratulate the team on the invaluable input they have made towards South Africa's Steel Master Plan.

In this, my outgoing message, I express my full gratitude to our group chairman, Mr Lakshmi Mittal and our group CEO Mr Aditya Mittal who have both demonstrated unwavering commitment to ArcelorMittal South Africa. I thank them both for being strong pillars of support during my tenure as chairman. All of the group representatives I have worked with on the board, namely Messrs Gonzalo Urquijo, Davinder Chugh, Ramesh Khothari, Brian Aranha and Bradley Davey were great support in our ongoing quest to ensure that ArcelorMittal South Africa was fully integrated into the operations of the ArcelorMittal group.

The Office of the President of the Republic of South Africa and various leaders of the governing party have been instrumental in helping to create an enabling policy environment, to mitigate many challenges such as steel imports and dumping that could have had a debilitating effect on local primary steel manufacturing. Ministers of trade and industry and finance provided invaluable support in various instances when we needed government assistance.

I wish to thank my fellow directors, past and present, including past CEOs and CFOs who each laid small building blocks of success towards our present state. In the first three years of my tenure, I spent a lot of quality time and had numerous engagements with the general secretaries and various senior shop stewards of our recognised trade unions, who challenged us to preserve the financial sustainability of the business; for their counsel and commitment to the future of ArcelorMittal South Africa, we are eternally grateful.

Beyond our premises, I thank our partners including investors, government and regulators, environmental activists and communities for their interest in our success, and the many parts they have played in the achievement of that success.

It was a great privilege to serve – I wish ArcelorMittal South Africa and all of you well.

**Mpho Makwana**
Chairman

# Message from the chief executive officer

"The year reviewed in this report was financially and strategically an extremely strong one for our business, but was tragically overshadowed by a painfully poor safety performance"

## Centrality of safety and health

Safety is our utmost priority and to lose colleagues in workplace accidents is devastating for everyone at the company. It is also unacceptable.

This year each fatal incident and serious injury was examined in the deepest possible detail by our safety teams and by management. We know we must keep doing more to deeply embed safety in the DNA of our business – whatever it takes. As I write, we are working intensively with our parent company and other external experts to completely eliminate fatalities at our workplaces. To keep our people safe, no effort or expense will be spared. On page 28 you can read about how we are investing in the safety of all at ArcelorMittal South Africa – to do whatever it takes.

For a second year, in 2021 we also worked hard to keep employees and contractors safe from Covid-19 infection. Pleasingly, our people have maintained their vigilance; workplace pandemic protocols are still strictly enforced, and we continue to offer those affected by the disease every assistance. Sadly, at the time of writing, 28 colleagues had succumbed to this disease in the 12 months since our previous integrated report. This brought to 45 the number we have lost so far. We are hopeful for more normal operating conditions in 2022, but we know that we cannot for a moment let down our guard against preventing workplace transmissions.

I have no doubt that in order to improve our safety performance we need to focus holistically on safety practices and behaviour, operational stability, employee wellbeing and a more sustainable organisation. And so making our workplaces safe is by no means the least of the reasons why we are working hard to reinvent ourselves.

## Transformation for growth

In my 2019 message in this space I wrote:

*"... We will therefore vigorously pursue the creation of what will be nothing less than a new company: 'OneOrganisation', a more streamlined, more nimble business which has a greater control over its own destiny. How we report in our next integrated report will reflect this new thinking and structure, with a reduced emphasis on the performance of individual plants and processes."*

This year OneOrganisation (OneOrg) became a reality. We all began to truly feel that we were entering an important new phase of our history. Across our business, teams collaborated and shared information like never before. Our Business Transformation Programme (BTP) succeeded in unlocking R2 billion in bottom-line improvements and processes were streamlined through our OneOrg – the first of the "3 Rs" of our refreshed strategy – **Restructure**. (From page 9 of this integrated report you can read why we are confident that our new **Value Plan Programme** will build on the successes of the BTP.)

While we streamlined our processes, our performance on the basics of our business – producing steel and delighting our customers – remained frustratingly poor. As you will read on page 39, our on-time delivery KPI was absolutely terrible; I can assure readers that I am personally extremely focused on this key metric and will do everything I can to improve it.

This unfortunate state of affairs had two root causes. The first was a culture which had been battered by years of uncertainty and pessimism, job losses and salary reductions. Our employees made tremendous sacrifices in 2020 and 2021 and at the same time had to deal with the fears and upheavals brought on by Covid-19.

# Message from the chief executive officer continued

While we cut back on employment costs, we were also forced to reduce expenditure on developing our people's skills. In 2022 we are going to work hard to fix our culture and empower our employees. We want to create a workplace climate in which everyone wants to do their best all of the time, one in which everyone wants to always look out for each other's safety. We explain how we will go about this on page 28. (We have similarly ambitious plans to increase our impact on local communities and suppliers and to improve our empowerment credentials.)

## Investing for growth

The second root cause of our poor performance on production and customer service this year was the state of our assets. For a second year, repeatedly stopping and restarting operations negatively affected our facilities. Internal and external factors impacted on the reliability of assets and while many of the root causes have now been attended to, we plan more actions and more capital in 2022. (More than almost any other large industrial sector, primary steel needs a regular production "rhythm" and reasonably predictable demand. Our production difficulties this year – page 38 – were shared by many of our steelmaking peers around the world.)

As well as pandemic disruptions, in recent years, despite investing in capital expenditure in excess of benchmarks related to profitability, we simply did not generate sufficient profits to reinvest as much as we would have liked in our facilities. The capital expenditure commitment had to be revised as a result of the economic circumstances. So, in 2021, when our financial prospects improved, we began spending – and budgeting for 2022 – significant amounts on responsible, well-considered capital investments in certain fixed-cost areas.

As we keep driving transformation for growth, in 2022 we will continue to address our maintenance backlog and we plan to further strengthen our balance sheet –resilience – the third of the "3 Rs".

We have gone through some very difficult times recently, but I am confident that the worst of these are behind us. We made a great many sacrifices and have now laid the groundwork for growth. However, our challenges are not behind us and we still need to address a number of critical challenges as we look forward.

In the previous three years, we spent large amounts overhauling our IT ecosystem. In 2021, for the first time, ArcelorMittal South Africa became a truly data-driven business (see page 40) and made OneOrg a reality for individuals and teams across the company.

In our external reporting to stakeholders we have never adequately highlighted the intellectual capital which we as a business possess – and which we are constantly developing. I hope that with this report we are beginning to address this historical gap in how we write about ourselves.

Primary steel is much more than a commodity product; steel is continuously evolving to make a better world for all. (As our group founder, Lakshmi Mittal, recently wrote, "half the grades of steel we are producing today didn't exist 10 years ago".) On page 39 you can read about how we are working with world-class ArcelorMittal group and local experts to make better steels and how we are using this expertise to empower our customers.

As we strive to create the low-carbon circular steel economy of the future, this scientific know-how will only become more important.

## Investing in the environment

Climate change is a key theme of this annual report. We are serious about reducing our carbon footprint and believe that, with backing from the world's foremost steel group and the support of many other willing local partners, we will prevail.

The carbon we produce is by no means our only environmental challenge. These challenges are substantial, but I am proud of the tremendous work we have done in recent years to not only minimise our environmental impacts but to address past impacts. Here I think, for instance, of the 265 hectares we have rehabilitated since 2000 and our ongoing, massive rehabilitation of the Thabazimbi iron ore mine.

Just how serious we are about our responsibility to exercise good environmental stewardship is reflected in our new ESG report in which we note how our environmental capital expenditure will increase by some 720% in 2022. In Q2 my management team hope to ask the board to approve funding for the infrastructure needed for us to receive 240MW of renewable electricity that will be generated on our premises.

## Investing in partnerships

We write extensively in this report about our involvement in exciting new multi-stakeholder initiatives to foster growth and job creation through manufacturing, the just energy transition and exports and international trade.

In the past we have often performed poorly on forging and maintaining relationships with other stakeholders. Today we are more determined than ever to work with others to overcome obstacles to growth. Despite the physical distancing imposed by Covid-19, in 2021 we doubled our involvement with multiple forums involving industry, labour and government. Working with these many partners and through the new Steel Master Plan, we are giving effect to the second of our "3 Rs" – to **reposition** our company as the backbone of South African manufacturing and as the steel partner of choice in sub-Saharan Africa.

(Our outstanding performance this year on restricting increases in our raw-material costs to just a quarter of those witnessed internationally owed a great deal to partnerships and our determination to work with like-minded suppliers to achieve win-win outcomes.)

## Outlook and thanks

We are part of what has always been a cyclical industry and we will only very rarely experience the profit uplift we enjoyed in 2021. So we have used the benefits of this latest peak to prepare us for the inevitable downturns and troughs.

We have restructured – to drive our cost competitiveness – and recapitalised through cash generation – to reduce our balance-sheet risk and give us greater financial headroom. And we are repositioning to create more meaningful value for more stakeholders.

Regrettably, as we face an inevitable downturn in the worldwide steel cycle, our prospects remain hamstrung by onerous and unfair increases in administered costs which, in the case of grid electricity, subtracts an unfair R1 billion from our financial bottom line. We are urgently seeking engagement with external parties to find creative solutions to a cost structure that threatens a pillar of South Africa's economy.

It is thanks to many partners – employees, investors, customers, contractors, suppliers and government – that we look to the future with renewed confidence. I thank them all for their continued support.

Finally, I must thank our chairman, Mpho Makwana, for his service and leadership over the past nine years. We wish him every success.

**Kobus Verster**
Chief executive officer

# Message from the interim chief financial officer

"ArcelorMittal South Africa's 2021 financial result was, by almost all measures, a quite exceptional one"

## Results for the year

In H2 of this year, we recorded our highest half-year EBITDA since 2008, and the full-year EBITDA of R8 569 million was the best since the same year.

At R39 708 million, our revenue was almost two-thirds higher than that of 2020 and similar to that of 2019 (R41 353 million), a figure that better reflected our performances in recent years.

In this space a year ago the financial director, Desmond Maharaj, wrote that the company entered 2021 "in substantially more robust shape than we had been for some time" and that the business was "much better prepared for a downturn than when we entered 2020". When Desmond wrote that message, international steel prices were continuing to make the gains which we had witnessed towards the end of 2020 and we were confident that steel prices would remain buoyant for most of 2021. Domestic demand for steel, meanwhile, was also recovering strongly from the almost unprecedented lows witnessed during the most severe episodes of the Covid-19 pandemic.

The first half of 2021 saw continued strong recovery in demand on the back of low inventories; also H1 saw the Chinese authorities reduce steel export incentives – which were positive for the rest of the world's producers and for pricing. In the second half, demand remained strong but prices came off record highs.

Elsewhere in this report, we explain how operational and stability issues – many of them related to the restrictions and closures forced on us by Covid-19 lockdowns – negatively affected our ability to consistently meet market demand. Despite these challenges, at 2.5 million tonnes, sales were 13% higher than in the previous year, contributing R629 million of our improved EBITDA performance.

Headline earnings of R6 860 million represented an extremely strong recovery from a headline loss of R2 033 million, equivalent to 615 cents per share profit against 185 cents loss for 2020.

Our operating results therefore had much less to do with sales volumes than with strong pricing and a sterling performance on managing those costs over which we have a measure of control.

## Abridged income statement

| | 2021 Rm | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Revenue** | 39 708 | 24 643 | 41 353 |
| Cost | (31 139) | (24 606) | (41 985) |
| **EBITDA** | 8 569 | 37 | (632) |
| Depreciation and amortisation | (601) | (556) | (830) |
| Exceptional items | 5 | (405) | (897) |
| Net impairments* | 3 | (39) | (1 401) |
| **Profit/(loss) from operations** | 7 976 | (963) | (3 760) |
| Net financing cost | (1 163) | (1 123) | (969) |
| Fair value adjustments on investment properties | (228) | (118) | 72 |
| Reclassification of foreign currency differences on liquidation of foreign investment | – | 280 | – |
| Equity income | 40 | 13 | (17) |
| Taxation | – | (62) | 70 |
| **Profit/(loss) for the year** | 6 625 | (1 973) | (4 604) |
| **Headline earnings/(loss)** | 6 860 | (2 033) | (3 265) |
| **Headline earnings/(loss) per share** | 615 | (185) | (297) |

** Profit/(loss) from operations has been restated to include net impairment reversal/(impairment loss) as part of continuous improvements in terms of IFRS.*

# Message from the interim chief financial officer

continued

## Managing costs and cash

In 2021 our Business Transformation Programme achieved a further R2 billion in verified savings, building on the R3.8 billion booked to the start of the year, of which R1.5 billion was banked in 2020.

This year our raw material basket represented 43% of our total cash cost (2020: 41%). Raw material costs rose by 10% – an outstanding achievement given that the international raw material basket, also measured in rand terms, recorded a 42% increase. This was despite the price of largely imported coking coal (39.5% of our raw material basket) rising by 82%.

The chief executive officer discusses on page 22 how, in future, we will seldom experience the EBITDA uplift in the same quantum we enjoyed in 2021 and that, as such, our headline earnings will mostly be very different to those reported this year. However, stripped of this year's price impact, our latest financial statements reflect a company that is, indeed, in a "substantially more robust state". Already our OneOrg model has become bedded down and unlocking synergies and savings throughout the organisation.

Extraordinary expense items this year included considerably higher maintenance activity, extra staffing required to mitigate pandemic-related risks and costs incurred to keep our people safe. As a result, fixed costs rose by R2 362 million, or 20%.

The tragic incident in February, in which a coke oven stack collapsed in Vanderbijlpark, had an approximately R16 million impact on our energy costs. These were further impacted by an average 14% increase in the cost of our Eskom-supplied electricity. Like almost all large South African industrial concerns, load shedding affected us extremely negatively.

Meanwhile, the performance of another state-owned enterprise, Transnet Freight Rail (TFR), continues to be a major concern – and a major brake on our ability to operate reliably and profitably. This year, rail difficulties – in particular, non or late delivery of raw materials – accounted for 26 000 tonnes of lost production. We remain committed to working with this key stakeholder (and others) on finding sustainable, mutually beneficial solutions to our rail challenges.

In 2021 the company was free cash flow-positive in the amount of R2 billion, with cash amounting to R6.1 billion being invested in working capital as we substantially ramped up operations. Accounts receivable and payable were all well managed throughout the year.

### Abridged cash-flow statement

| | 2021 Rm | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Cash utilised in operations before working capital** | 9 144 | (1 029) | (1 366) |
| Working capital | (6 120) | 1 896 | 1 609 |
| **Cash generated from operations** | 3 024 | 867 | 243 |
| Net financing cost | (261) | (269) | (244) |
| Income tax received | – | 24 | 130 |
| Capital expenditure | (860) | (509) | (1 491) |
| Finance lease obligations repaid | (36) | (35) | (37) |
| Borrowings raised | (650) | 1 300 | 850 |
| Other | 94 | (4) | 9 |
| **Increase/(decrease) in cash, cash equivalents and restricted cash** | 1 311 | 1 374 | (540) |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash | 1 | (22) | 3 |
| **Net increase/(decrease) in cash, cash equivalents and restricted cash** | 1 312 | 1 352 | (537) |
| Cash, cash equivalents and restricted cash | 4 652 | 3 340 | 1 988 |
| Borrowings (current and non-current) | (5 910) | (7 178) | (5 358) |
| **Net borrowings** | (1 258) | (3 838) | (3 370) |

## Strengthening our balance sheet

In the previous year rand weakness against the US dollar had a very negative effect on our financial performance. Traditionally, a weaker rand has favoured us by translating into higher rand net realised prices (NRPs). In 2020, however, as US-denominated steel prices softened, because of our very large foreign-exchange denominated payables position we incurred a net forex loss of R415 million. Interest costs were also negatively impacted. This year we used our favourable cash generation to reduce the foreign exchange denominated payable further to R650 million at 31 December 2021.

The effect of these payments was to limit our foreign-exchange exposure and to significantly de-risk our balance sheet.

This year we were also able to reduce our net borrowings from an opening balance of R3.8 billion to R1.3 billion (-R2.8 billion at the half-year point). (The previous time when net borrowings were reduced significantly was in 2018, by R2.8 billion, mainly due to the sale of our shareholding in Macsteel International BV.) Loans from the ArcelorMittal group reduced from R4.7 billion to R4.1 billion.

Pleasingly, this year our borrowing-based facility was renewed for a further three years, our total drawndown amount standing at R1.8 billion at year-end (R2.45 billion 12 months earlier). One particularly exciting development in 2020 was the extension of our supplier finance facility with Absa Bank and the International Finance Corporation. This year some 118 small and medium enterprises supplying to us benefited from this facility – an excellent example of how stakeholder partnerships can unlock real social value.

## Abridged balance sheet

| | 2021 Rm | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Current assets** | 19 541 | 12 476 | 13 739 |
| Cash balance | 4 652 | 3 340 | 1 988 |
| Inventories | 12 175 | 7 348 | 8 700 |
| Trade and other receivables | 2 712 | 1 623 | 2 837 |
| Asset held for sale | 0 | 135 | 0 |
| Other current assets | 2 | 30 | 214 |
| **Non-current assets** | 9 552 | 9 333 | 9 794 |
| Property, plant and equipment | 8 065 | 7 675 | 7 966 |
| Investment properties | 754 | 983 | 1 080 |
| Equity-accounted investments | 227 | 205 | 268 |
| Investment held by environmental trust | 412 | 378 | 348 |
| Other non-current assets | 94 | 92 | 132 |
| **Total assets** | 29 093 | 21 809 | 23 533 |
| **Current liabilities** | 14 285 | 12 792 | 12 340 |
| Trade and other payables | 10 059 | 8 420 | 9 391 |
| Provisions | 820 | 770 | 1 080 |
| Borrowings | 2 210 | 2 450 | 1 150 |
| Other current liabilities | 1 196 | 1 152 | 719 |
| **Non-current liabilities** | 5 755 | 6 673 | 6 716 |
| Provisions | 1 716 | 1 832 | 1 761 |
| Borrowings | 3 700 | 4 514 | 4 208 |
| Other non-current liabilities | 339 | 327 | 747 |
| **Shareholders' equity** | 9 053 | 2 344 | 4 477 |
| **Total liabilities and equity** | 29 093 | 21 809 | 23 533 |

## Outlook

By the end of this year we had used our strongest cash-generating performance in more than a decade to substantially strengthen our balance sheet. In 2022 we intend giving our financial position added strength by further paying down our loan with the ArcelorMittal group. Our renewed financial strength gives us a greater ability to operate on a net cash funding basis and to fund environmental and energy-efficiency capital projects.

The Business Transformation Programme and OneOrg processes have worked wonders in right-sizing and strengthening the core of our business and removing wasteful costs. We need to continue sharpening our focus on customers and living up to our aspiration of being "the champion of South Africa's manufacturing backbone". To achieve that, our production processes need to be more reliable.

In 2021 our maintenance capital expenditure (R696 million) was 228% higher than in 2020 as we focused on improving plant reliability.

We will continue to invest to ensure that we can safely produce more of the steel products our customers want more predictably, more cost-effectively and at the best possible quality while minimising our negative environmental impacts.

International and domestic inflation remains a concern and we expect commodity and steel prices to normalise. However we are confident of remaining profitable in 2022, although not necessarily to the extent achieved this year.

**Suretha van Wyk**
Interim chief financial officer

# 2021 highlights and five-year performance review

## 2021 highlights

| | | | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | Rm | 39 708 | 24 643 | 41 353 | 45 274 | 39 022 |
| EBITDA | | Rm | 8 569 | 37 | (632) | 3 608 | (315) |
| By segment: | Steel operations | Rm | 8 147 | (272) | (937) | 3 481 | (543) |
| | Non-steel operations | Rm | 820 | 385 | 323 | 368 | 356 |
| | Other | Rm | (398) | (76) | (18) | (241) | (128) |
| **EBITDA per tonne sold** | | R/t | 3 465 | 17 | (154) | 803 | (74) |
| **EBITDA margin** | | % | 21.6 | 0.2 | (1.5) | 8.0 | (0.8) |
| **Headline earnings/(loss)** | | Rm | 6 860 | (2 033) | (3 265) | 968 | (2 518) |
| **Production (tonnes of crude)** | | 000 tonnes | 3 026 | 2 257 | 4 318 | 4 967 | 4 830 |
| | Steel operations | 000 tonnes | 3 026 | 2 257 | 4 318 | 4 967 | 4 830 |
| **Sales** | | 000 tonnes | 2 473 | 2 189 | 4 112 | 4 491 | 4 257 |
| By segment: | Steel operations | 000 tonnes | 2 473 | 2 189 | 4 112 | 4 491 | 4 257 |
| **Sales by market** | | | | | | | |
| | Domestic | 000 tonnes | 2 171 | 1 871 | 2 967 | 3 337 | 3 302 |
| | Africa Overland | 000 tonnes | 218 | 148 | 200 | 221 | 204 |
| | Blue-water exports | 000 tonnes | 84 | 170 | 945 | 933 | 751 |
| **Net cash/borrowings** | | Rm | (1 258) | (3 624) | (3 370) | (475) | (3 262) |
| **Capacity utilisation (liquid steel)** | | % | 60.0* | 35.5* | 67.9 | 83.5 | 81.0 |
| **Productivity – tonnes of HRC equivalent/total FTE** | | t/FTE | 444 | 361 | 472 | 496 | 478 |

* *Saldanha included.*

## Five-year benchmarking

| | | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| **EBITDA margin** | | | | | | |
| ArcelorMittal global* | % | 25.3 | 8.1 | 7.4 | 13.5 | 12.2 |
| ArcelorMittal South Africa^ | % | 21.6 | 0.2 | (1.5) | 8 | (0.8) |
| **EBITDA per tonne production** | | | | | | |
| ArcelorMittal global* | USD/t | 308 | 62 | 61 | 122 | 99 |
| ArcelorMittal South Africa^ | USD/t | 191.5 | 1.0 | (10.1) | 54.9 | (4.9) |
| **USD/t cost (revenue less EBITDA)** | | | | | | |
| ArcelorMittal global* | USD/t | 909 | 709 | 774 | 784 | 707 |
| ArcelorMittal South Africa^ | USD/t | 851 | 683 | 707 | 701 | 601 |
| **China import prices, ArcelorMittal South Africa cost and prices** | | | | | | |
| China hot rolled coil (price)# | USD/t | 1 076 | 651 | 673 | 775 | 671 |
| Vanderbijlpark hot rolled coil (cash cost)^ | USD/t | 605 | 473 | 556 | 547 | 530 |
| ArcelorMittal South Africa hot rolled coil (domestic prices) | USD/t | 1 073 | 615 | 688 | 760 | 639 |
| China rebar (price)† | USD/t | 906 | 595 | 640 | 700 | 631 |
| Newcastle rebar (cash cost)^ | USD/t | 598 | 608 | 585 | 615 | 597 |
| ArcelorMittal South Africa rebar (domestic prices) | USD/t | 742 | 487 | 538 | 602 | 558 |
| **International raw material basket** | | | | | | |
| – Flat† | USD/t | 473 | 298 | 307 | 296 | 277 |
| **South African raw material basket (including transport)** | | | | | | |
| – Flat (Vanderbijlpark)^ | USD/t | 296 | 249 | 306 | 315 | 321 |
| – Long (Newcastle)^ | USD/t | 295 | 322 | 357 | 356 | 338 |

* *ArcelorMittal global reported figures.*
^ *ArcelorMittal South Africa's previously published results.*
# *USD/t selling price into South Africa. China import price equals China export (FOB/t) plus sea freight, trade margin, South African logistics and safeguard costs.*
† *Platts/MB.*

## 2021 Top key performance indicators

Here we list our top key performance indicators (KPIs) over the past five years including the change over the past year.

| KPI number | Key performance indicator | Unit | Year-on-year change | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|---|---|
| 1 | Work-related fatalities | Number | ^ | 6 | 1 | 1 | 1 | 3 |
| 2 | Lost time injury frequency rate (LTIFR) | Rate | ^ | 0.98 | 0.58 | 0.44 | 0.53 | 0.66 |
| 3 | Total injury frequency rate (TIFR) | Rate | ^ | 7.80 | 7.21 | 6.57 | 6.91 | 7.66 |
| 4 | EBITDA per tonne sold | R/t | ^ | 3 465 | 17 | (154) | 803 | (74) |
| 5 | Return on capital employed | % | ^ | 53.9 | (10.7) | (21.1)* | (19)* | (7.5) |
| 6 | Steel market share | % | v | 47 | 52 | 65 | 71 | 69 |
| 7 | Liquid steel production | t/y (000) | ^ | 3 096 | 2 305 | 4 411 | 5 092 | 4 910 |
| 8 | Cash generated from operations before working capital | Rm | ^ | 3 024 | 867 | 243** | 2 282 | (615) |
| 9 | Net cash/debt position | Rm | v | (1 258) | (3 624) | (3 370) | (475) | (3 262) |
| 10 | On-time deliveries | % | v | 29.1 | 34.2 | 69.7*** | 57.1 | 50.9 |
| 11 | Preferential procurement spend | Rbn | ^ | 15.4 | 10.5 | 15.4 | 15.4 | 14.8 |
| 12 | B-BBEE compliance score | Rate | ^ | 8 | 6 | 5 | 5 | 3 |
| 13 | Environmental spend | Rm | ^ | 64 | 44 | 151 | 105 | 41 |
| 14 | Total cost of employment (TCOE) | Rm | ^ | 4 875 | 3 970 | 5 404 | 5 515 | 5 152 |
| 15 | Management control (under B-BBEE codes) | Rate | v | 6.44 | 8.07 | 9.16 | 9.18 | 9.50 |

* *Restated due to change in accounting policy under which investment property is measured under its fair value.*
** *Restated as realised foreign exchange movements were reclassified to cash from operations previously classified as finance costs.*
*** *From 2019 we report our on-time deliveries, excluding Saldanha Works.*

# Strategic objective 1: Zero harm

## In 2021 six of our employees died while at work and our key safety indicators were all significantly worse than in recent years.

### Workplace safety

We believe that poor morale was the main cause of our poor safety performance in 2021, a performance which was tragically reflected in deaths and an unacceptable incidence of injuries and near misses.

In 2021 management and the board examined our safety culture, standards and process in extreme detail. They also engaged in extensive consultations with internal and external experts on how to fix this unacceptable state of affairs – immediately and sustainably.

From this urgent process flowed a new health and safety policy and a number of concrete initiatives, put in place at considerable cost in terms of both rands and hours.

In 2021 we:

- Revamped the safety training of executives and managers
- Overhauled how executives and managers personally apply safety leadership
- Collaborated extensively with ArcelorMittal Brazil (which has overcome safety challenges similar to ours)
- Appointed DuPont Sustainable Solutions to undertake a wide range of safety interventions and training
- Required all production managers and senior managers to undertake safety shopfloor interactions between 2pm and 4pm every work day. At these times they may not attend meetings but must be seen to be practically acting to improve safety
- Increased the weighting of the safety element of our short-term remuneration scheme by 50%.

### Leadership leading safety

Overhauling our company health and safety policy, we now attach the utmost importance to company leaders having an effective presence on the shopfloor.

This policy is firmly focused on measurable actions and outcomes. Our 2021 ESG report unpacks in detail what we mean by "leadership leading safety".

### Cooperation with ArcelorMittal Brazil

This year we began a close working relationship with safety professionals at our sister operation in Brazil. ArcelorMittal Brazil has many similarities to ourselves – except that their safety record is not only much better than ours but the best in the group.

Our ESG report gives some detailed insight into this new relationship and how we intend using it to improve our safety performance.

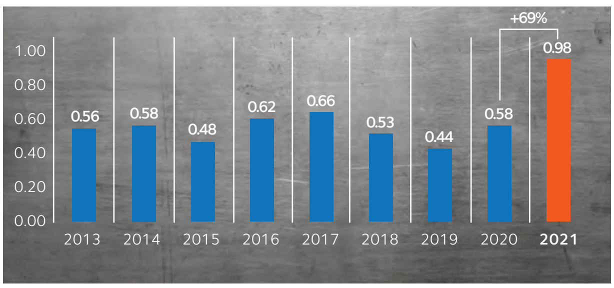
### DuPont intervention

Appointed in October 2021, DuPont experts are providing expert advice and delivering practical coaching on risk observation, identification and interaction. DuPont also facilitated an in-depth employee safety perception survey utilising the latest methodology which was made available in five languages. The results will be used to inform our safety policy and protocols.

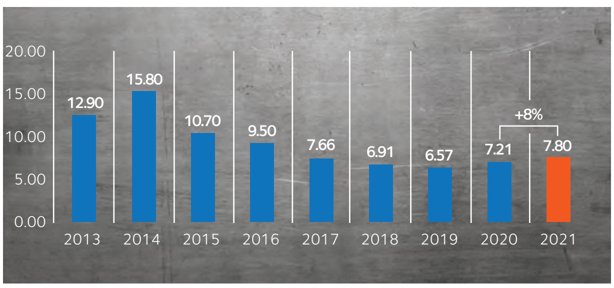
### Our top key performance indicators

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| KPI 1 Work-related fatalities (number) | **6** | 1 | 1 |
| KPI 2 Lost time injury frequency rate (LTIFR) | **0.98** | 0.58 | 0.44 |
| KPI 3 Total injury frequency rate (TIFR) | **7.80** | 7.21 | 6.57 |
| KPI 13 Environmental spend (Rm) | **64** | 44 | 151 |

### Lost time injury frequency rate




### Total injury frequency rate




The six colleagues who died in workplace incidents in 2021 were:

**† Thami Sampo Molefe (52)**
Coordinator, Vanderbijlpark, 31 years of service.
Survived by two children (17 February)

**† Lesenyeho Mofokeng (31)**
Coke maker, Vanderbijlpark, 11 years of service.
Survived by his wife and one child (17 February)

**† Mpho Meshack Madumisa (29)**
Coke maker, Vanderbijlpark, four years of service.
Survived by his wife and three children (17 February)

**† Michael Linda Magwaza (31)**
General worker, Newcastle,10 years of service.
No dependants (19 June)

**† Teboho Anthony Motloung (31)**
Senior millwright, Vanderbijlpark, 10 years of service.
Survived by his wife and two children (5 September)

**† Abram Mofokeng (45)**
Steel maker, Vereeniging, two years of service.
Survived by his wife and three children (11 September)

## Governance: Safety

Safety performance and management are discussed on an ongoing basis by the board's social, health and environment (SHE) committee where attendance includes trade union representatives. Both the SHE committee and the full board questioned management closely on reports about the year's fatal incidents and remedial action taken. Directors spent considerable time in 2021 interrogating plans and investments to improve the company's safety culture and outcomes.

### Other

In 2021 we reinvigorated pre-shift safety briefings and implemented new protocols for end-of-shift safety debriefings and record keeping. Fatality Prevention Standards (FPSs) were updated and reinforced and the identification of Potential Serious Injury or Fatalities (PSIFs) was increased and intensified with each leader to complete at least one PSIF per month and also ensure the verifications are done to ensure loop is closed.

As of July 2021, all junior managers/supervisors are required to audit each of their team members on all critical tasks at least twice a year. This is reinforced through shopfloor audits and plant checks by senior managers/managers.

From August our safety professionals began thorough audits of the FPS assessments undertaken by business units. Compliance experts now ensure that all non-conformances identified are remediated and closed out.

# Strategic objective 1: Zero harm continued

## Outlook

This year the chief operating officer (COO) reviewed the serious incidents and fatalities over the last three years. From this review it was evident that safety campaigns to improve our risk mitigation process needed to be ongoing. During these campaigns safety specialists/officers report on hazards identified and completed.

In 2022 we have budgeted for an increase in the headcount of our health and safety department. Budgets provide for the recruitment of technical and engineering personnel into our safety offices.

Safety training budgets have been increased. Our new health and safety policy – which is aligned with that of the ArcelorMittal group – will be implemented in detail and with rigour. We expect to report specific safety outcomes in our 2022 integrated report.

## Our response to Covid-19

Tragically, by the time of reporting, 28 employees had succumbed to Covid-19 since the date of our previous integrated report. This brought to 45 the number of colleagues we have lost to this disease to date. Our mortality rate is 0.5% of employees, compared to a 0.15% rate among the general population. By 31 December, 21.89% of employees had tested positive during the year.

In 2021 we were severely impacted by the second wave, and then more deadly third wave. The fourth wave witnessed a spike in infections among employees, but no deaths were recorded.

For more on our ongoing response to Covid-19, see our ESG report.

## Vaccine drive

In July and August we began administering free vaccines on site. By year-end 2 500 vaccinations had been administered on site to 1 300 employees, 1 000 contractors and nearly 200 related parties including dependants. From February 2022 the company started administering booster vaccinations.

## Workplace and occupational health

In 2021 a company-wide occupational disease rate of 0.0 was recorded. For the full year, 4 643 medical surveillance examinations were conducted (2020: 4 128).

## Environmental safety

In 2021 we continued to make very substantial progress on reducing our adverse environmental impacts. This was despite unplanned plant stoppages negatively impacting our water consumption and our emissions intensity.

For the full year, environmental capital expenditure amounted to R64 million (2020: R151 million). The majority of this spend was focused on Vanderbijlpark Works' coke oven gas plant restoration project, which is expected to be a dominant feature in the capital forecast over the next few years. In addition, we successfully commissioned a state-of-the-art mobile gas emission testing laboratory for accurate and verifiable emission data from its processes.

## Emissions to air

This year there were minor upset conditions (incidents in which there are unplanned emissions to the atmosphere). Unfortunately, there were various unforeseen incidents which required reporting to the relevant authorities. On 17 February, the relevant authorities were informed of the fatal incident at Vanderbijlpark's coke batteries, which resulted in the collapse of a significant portion of the flue-gas stack. Non-compliance of stack emissions from two of Vanderbijlpark's coke batteries as well from as a direct reduction kiln over a short period were also reported to the authority during the course of the year.

In May, Newcastle Works received a complaint from the local licensing authority regarding fugitive dust emissions from certain activities on site. Numerous mitigation measures were implemented.

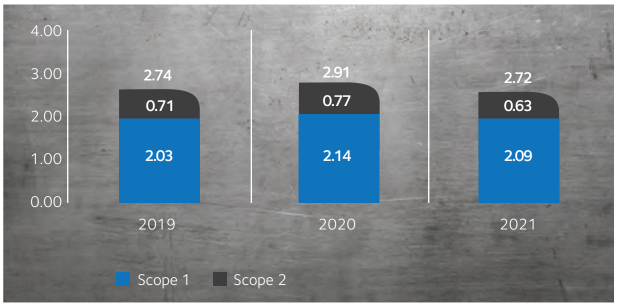
Our emissions – sulphur dioxide, carbon dioxide, particulates, nitrogen oxide and hydrogen sulphide – are all well managed within the limits imposed by our various atmospheric emissions licences (AELs).

We emitted 10 623 tonnes of sulphur dioxide ($SO_2$) in 2021, well down on 10 826 tonnes in 2020. Expressed in kilograms/tonne liquid steel (kg/tLS) $SO_2$ emissions were 3.43kg/tLS compared to 4.70 kg/tLS in the previous year.

Nitrogen oxide was 1.21 kg/tLS (3 897 ) in 2021, relative to 2.65 kg/tLS (6 106) in 2020. Particulate emissions in 2021 equated to 1 318 tonnes (0.41 kg/tLS) versus 1 209 tonnes (0.52 kg/tLS) in 2020.

Work on an approximately R1 billion upgrade of Vanderbijlpark Works' coke gas-cleaning facility, begun in 2020, progressed in 2021 until the onset of the global Covid-19 pandemic. As communicated in our previous integrated report, the anticipated commissioning of this facility has now been postponed. This postponement relates mostly to the inability of contractors to be on site because of pandemic restrictions and quantification of future $CO_2$ footprint reduction. The facility is now scheduled to be commissioned in 2024. Once fully operational, the gas-cleaning facility will reduce Vanderbijlpark's $SO_2$ emissions by approximately a third. Restoration work being carried out at Newcastle's coke gas-cleaning plant at a cost of R200 million will reduce $SO_2$ emissions by an estimated 19%.

### $CO_2$ emissions ($CO_2$ eq/t liquid steel)




*Notes:*
- *Liquid steel produced in 2021: 3 095 963 tonnes.*
- *Eskom factors applied ($tCO_2$/MWh): (2019: 1,06; 2020: 1,04; 2021: 1,06 $tCO_2$eq/MWh)*

In 2021 our carbon emissions were little changed from those of the previous year – in both absolute and intensity (tonnes per tonne of liquid steel) terms. The figures for this year were 2.09 and 0.63, respectively. It should be noted that, because of production exigencies, our consumption of natural gas rose by 18% relative to 2020 and 22% in 2019.

## Stakeholders – carbon tax and environment

This year we engaged extensively with organisations representing business and our own sector on the subject of carbon taxes. We remain convinced that the authorities must find a mechanism with which to "ring fence" such proceeds so that they are used to achieve the stated aim of applicable legislation – to decarbonise the South African economy. Our carbon tax liability was little changed this year.

Environmental groups have, in the recent past, treated us with some hostility, generally accusing us of secrecy and obfuscation. We have begun to acknowledge that their arguments have some merit and in a number of engagements this year displayed what we believe is a candour which we would not have contemplated until fairly recently. It is hoped that the publication of our carbon roadmap will further enhance these groups' belief in our commitment to environmental openness and disclosure.

## Governance: Environmental

Environmental performance and, in particular, the business's decarbonisation journey were board priorities in 2021. The board approved an increase in the company's environmental capital expenditure for 2022 and agreed that firm environmental targets should be announced in the new year.

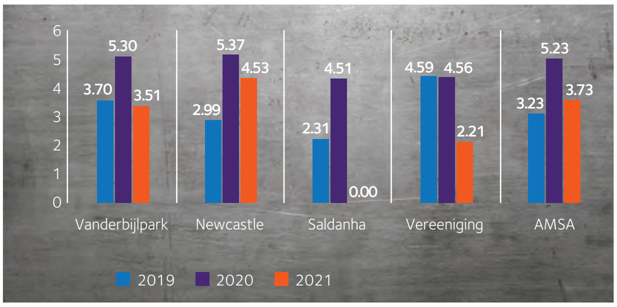
This year an Exco-level decarbonisation and energy efficiency steering committee was established to drive our net-zero aspiration.

### Water management

Production interruptions at Vanderbijlpark seriously undermined our performance on water abstraction. Since we were unable to maintain continuous production there was often no on-site offtake for process water generated. As a result, Vanderbijlpark was zero effluent discharge (ZED) non-compliant for 32% of the year. ZED-related maintenance spend in the year at Vanderbijlpark was over R1.2 million. Newcastle retained its ZED status throughout the year.

A total water abstraction of 3.73kl/tLS was recorded in 2021, in comparison to 5.23kl/tLS in 2020.

Fresh water intake (kl/t liquid steel)




### Legacy land and water

We have worked continuously to rehabilitate legacy areas and dams on our properties. In 2021, 13.4 hectares of land and 52 hectares of contaminated soil in legacy dams were remediated. To date, we have rehabilitated 211 hectares on land and 108 hectares under water. In addition, we have rehabilitated 290 hectares of the Thabazimbi iron ore mine. Work at this legacy site has translated into a rebound in biodiversity, including populations of antelope.

### Recycling and by-products

We have very high recycling rates as measured by our key natural capital inputs. By applying ZED operations at our plants, we aim to treat and recycle all water abstracted for use in production processes, bar evaporation losses. This year we hope to increase our net scrap consumption with the anticipated increase in steel demand. Increasing our scrap intake is essential to our cost competitiveness and to our environmental and carbon aspirations.

## Thabazimbi mine rehabilitation

By end-2021 we had reshaped almost 85% of the surface of our legacy Thabazimbi iron ore mine requiring reshaping.

This year we spent R76 million on the country's biggest opencast mine rehabilitation project yet. This work included reshaping 24 hectares, bringing to 290 hectares reshaped to date (out of 344 hectares needing to be reshaped). In 2021 our teams at the Limpopo site also planted 34 hectares, 13% of the area replanted so far.

In addition, some 5 250 trees and 18 500 tufts of grass were planted, 537 hectares of encroaching bush and 36 hectares of alien species were cleared, and 296 hectares were seeded to indigenous grass. In the year the cost of clearing monostands of bush and alien species and seeding exceeded R8 million.

As part of the mine's social and labour plan, this year we budgeted almost R20 million for a number of economic development projects. The largest of the allocations is R9.5 million to supply bulk water to the Regorogile township. An amount of R5 million has been budgeted to develop a cultural village and mining-tourism assets. The bulk of the budgeted funds will be disbursed in 2022.

In April 2022 we will begin production of approximately 30 000 tonnes of iron ore per month by beneficiating treated stockpiles. This three-year project will support 70 full-time jobs.

In 2021 a pre-feasibility study on restarting mining operations in Thabazimbi was approved and a feasibility study prepared. This feasibility study was submitted to ArcelorMittal group's investment allocation committee in March 2022. The submission seeks approval for a budget of some R40 million, for an approximately 18-month study.

Options being explored are for a 3 million tonne-per-annum opencast run-of-mine (Mtpa ROM) or a 5Mtpa ROM operation. Should it be decided to restart operations, we believe that mining operations could commence in 2026. A 5Mtpa ROM mine would be able to supply more than 80% of our iron ore requirement over a 20-year life of mine, sustaining some 400 jobs.

We also work hard to convert natural-capital outputs – essentially slag and tar – into financial capital by selling these as inputs which customers use to create manufactured capital. We investigate all waste recovery, recycling and re-use possibilities. In 2021 we generated 1.27Mt of by-products (1.16Mt in 2020). Of these by-products generated, 16% were disposed of in 2021 versus 12% in 2020.

As well as recycling, in 2021 we self-generated 13 124MWh energy by using own gases, reducing our consumption of grid electricity.

### Outlook

Environmental capital expenditure in 2022 is budgeted at R461 million, R397 million more than for the year reported. Spend against the legacy environmental projects provided for will amount to R370 million in 2022.

Given a return to more normal production, we are confident that Vanderbijlpark Works will sustain its ZED status for the greater part of the year.

Capturing fugitive emissions from, in particular, our blast furnaces and sinter plants and reducing the overall dust load further will be environmental priorities in 2022.

Our 2021 ESG report contains considerably greater detail on our environmental impacts and performance, as well as how we plan to improve safety at our sites.

# Strategic objective 2: Long-term sustainability

## In 2021 we experienced what was likely a watershed year for ArcelorMittal South Africa.

This year our output faltered, our employees' morale suffered, and we failed to meet our customers' expectations. Protection we had recently received against unfairly subsidised imports came to an end. Despite all of this, we achieved exceptionally buoyant profits. We do not expect to see the positive financial likes of 2021 for some years to come.

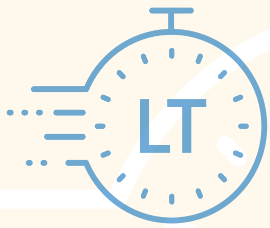
In 2021 we invested what might be described as windfall profits in future-proofing our business, in not just laying the groundwork for long-term sustainability but actually paying forward for the value-creating entity we want to become. In 2021 we embraced defined carbon-reduction strategies that will overhaul almost all of our environmental impacts and we declared ourselves, more than ever, "willing to collaborate, serve and lead" (see the CEO's message on page 21).

This section of our integrated report reflects on how in 2021 we performed on becoming a sustainable business and how the strategic plans we are putting in place will determine our future sustainability, growth and ability to create value for our many stakeholders and the natural environment.

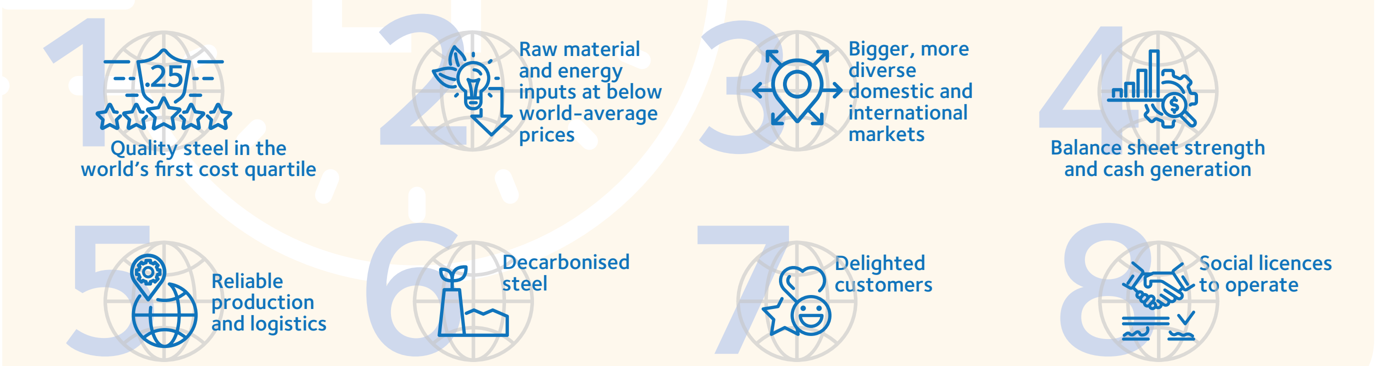
Further detail in this regarded is set out in the ESG report.

### Three-year key performance indicators

| KPI | 2021 | 2020 | 2019 |
|---|---|---|---|
| KPI 4 EBITDA per tonne sold (R/t) | 3 465 | 17 | (154) |
| KPI 5 Return on capital employed (%) | 53.9 | (10.7) | (21.1) |
| KPI 6 Steel market share (%) | 47 | 52 | 65 |
| KPI 7 Liquid steel production (000 tonne) | 3 096 | 2 305 | 4 411 |
| KPI 8 Cash generated from operations before working capital (Rm) | 3 024 | 867 | 243 |
| KPI 9 Net cash/debt position (Rm) | (1 258) | (3 624) | (3 370) |




**To ArcelorMittal South Africa, long-term sustainability will look like this:**



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Quality steel in the world's first cost quartile

Why this is important:

- Neither our flat nor long steel products today enjoy any form of protection or price support; we have to compete for every tonne of steel we sell
- Lower prices make our customers more competitive and better equip us to compete with imported products, many of which are, in fact, subsidised and are often of inferior quality
- The lower our cost of production, the more we can export profitably to price-sensitive markets.

In recent years we have made steady, sustained progress towards our objective of consistently being ranked in the world's first cost quartile – the quarter of primary steel producers with the lowest costs; we are currently in the third quartile. (According to information service, World Steel Dynamics, in 2021 we ranked 35th out of 63 companies surveyed; our ambition is to rank 16th for both flat and long by 2026.)

For both long and flat we aim to reduce our cost per tonne by some USD70 by 2026; we intend to achieve these savings on long steel products even earlier.

## Variable costs and volumes

After recently undergoing two Section 189 retrenchment processes, we have limited immediate scope to significantly further reduce our fixed-cost base. In the short and medium term, our drive towards cost competitiveness will be about variable costs and volumes; almost three-quarters of the savings we will achieve will not require capital expenditure.

The means by which we will achieve our targeted savings are markedly different for our long and flat products. For flat steel, the four most important influencers will be (in descending order of importance):

- Production efficiencies
- Energy costs
- Sales volumes
- Raw material costs.

For long steel, the four most important influencers will be (also in descending order):

- Raw material costs
- Sales volumes
- Production efficiencies
- Logistics costs.

Our BTP achieved cost savings of R3.5 billion up to and including 2020. At R2.1 billion, BTP savings in 2021 were lower than budgeted for, largely because of the severe reliability problems we experienced. Positively, however, we largely succeeded this year in preventing the "leakage" of savings previously banked.

In Q3 2021 an internal structure was created to better analyse and understand our product profitability. This new capability embarked on 26 detailed projects, which will translate into margin uplift in the medium term.

## Benchmarking

On long products we compete against a growing number of South African producers using scrap. These (mostly new) entrants are increasing output and range while (mostly) improving product quality. On long steel, we benchmark ourselves against these local producers. On flat steel, we compare our costs to international producers active in African markets as well as China, Turkey, Japan, Russia, India, Ukraine, Indonesia and Taiwan.

## Footprint

Assessments of our physical asset footprint are ongoing. The decision to put Saldanha Works under care and maintenance in 2019 was vital to avoiding ongoing EBITDA drains, which we were unable to stem. (As we report throughout this report, however, we are alive to various options to resume operations in Saldanha.)

In 2021 our Vaal Melt Shop helped to mitigate the reliability problems we encountered at our two main operations. However, this electric arc asset suffers its own reliability challenges and is expensive to run.

2020

*We are continuing to pursue negotiations into possibly increasing our investment in the Mpumalanga facility which is likely to benefit from rail localisations a key element in the Steel Master Plan. We anticipate Evraz Highveld Steel producing significantly higher sales in the new year. This has been made possible because constraints on the supply of input materials, which have hampered production to date, will be obviated by our new production and sales models. At the time of reporting, a decision had yet to be made on our application for safeguards on selected long steel products guards on select non-flat product lines. This application was made to protect Evraz Highveld Steel from a damaging surge in subsidised imports.*

This year the Highveld Steel Structural Mill (Highveld) enjoyed record profitability (in excess of R250 million), on the back of buoyant prices. However, output disappointed. This was because of poor supply of input materials by ourselves (the lifting of constraints on supply which we envisaged a year previously not being achieved) and lacklustre sales. Monthly production fell short of expectations, at approximately 8 000 tonnes.

We remain alive to the opportunity to invest in Highveld with a view to the key opportunity of securing large mainline rail contracts.

For 2022 we project substantially higher output from Highveld but with lower realised prices and, hence, profitability.

To reach the lowest end of the global cost curve will require concerted, sustained performance on production reliability **(5)** and lower priced raw materials delivered, dependably, to our plants at realistic tariffs **(2)**. We are confident that we have the human and intellectual capital to achieve this.

## Risk discussion

### – Operational stability

Incidents causing operational instability leading to a loss of production are a risk not only to the profitability of the company but will also impact customers, which may prompt them to seek alternative supply, heightening the risk of imports or loss of domestic market share. Actions to ensure stable operations include maintenance plans (including preventative plans), a critical spares programme and reliability programmes. Additional actions in process are operations and maintenance culture change (rapid ramp-up, maintenance transformation), an asset restoration plan and skills development.

# Strategic objective 2: Long-term sustainability

continued

## Governance

### – Operational stability

Production issues are closely monitored by the board, which is kept abreast of, and approves, footprint reviews and authorises capital expenditure to ensure improvements and asset integrity and performance.

In 2021 the audit and risk committee was regularly appraised of risks including those relating to maintenance, Transnet delivery challenges and blast-furnace stability.

Reporting to the CEO, the chief operating officer (COO) oversees an operational-reporting structure which includes weekly and monthly functional review meetings as well as integrated performance meetings that the COO chairs. Every week the COO briefs the executive committee on matters of operational stability and performance.

**Raw material and energy inputs at below world-average prices**

Why this is important:

- Our raw material basket (RMB) – ostensibly iron ore, coking coal and scrap – makes up 43% of our total cost
- Controlling these input costs is essential to our sustainability, especially during the steel cycle's inevitable downturns. The spread between our RMB and our net realised prices (NRPs) for HRC and rebar is among the indicators we monitor most closely
- If we are to achieve our target of global cost competitiveness we will have to maintain – and even grow – the discounts we enjoy on raw material costs relative to international prices.

### Raw material sourcing

Since 2018 the differential between our RMB and the international RMB has increased - one of the most important reasons why we are still in business. In 2021 our RMB increase was limited to 10% against a 42% rise in the international RMB in rand terms.

By diversifying our sources of raw materials, our procurement is empowering junior (several black owned) miners. We anticipate price pressure from some of these junior miners who, in 2021, were naturally attracted to the possibility of charging export parity pricing as iron ore and coking coal prices rose by 48% and 82%, respectively. This risk is likely to diminish as commodity prices soften in 2022 and, likely, beyond.

From 2022 to 2024 the Thabazimbi iron ore mine will supply the company up to 360 000 tonne of this key raw material. From 2026 this will be steadily ramped up through backward integration until 2028 when product supplied will reach 3Mtpa, equivalent to 52% of our annual requirement. The feasibility of a 5Mtpa ROM scenario is also being analysed. To ensure that we have the capital required for this scale of mining operations, it will be essential that we continue to future-proof our balance sheet **(4)**.

We are also diversifying our sources of coking coal and metallurgical coke with a growing focus on southern African suppliers. In doing so, we are uplifting less prosperous regional economies and mining communities. It is thanks to our considerably strengthened balance sheet **(4)** that we will even be in a position to help smaller miners establish new extraction opportunities – for supply and cost guarantees.

We do not believe it will be possible to source 100% of our coking coal requirement from southern Africa because of technical limitations relating to the mineral content of locally mined coal. This will mean that for at least the foreseeable future approximately a quarter of our coal blend will be from imported "blue-water" suppliers.

### Scrap strategy

Increasing our scrap intake is essential to our cost competitiveness and to our environmental and carbon aspirations. Our long products compete against steel produced by South African electric arc and induction furnaces which rely almost entirely on scrap. It is generally agreed that the quality of the "virgin" steel which we produce is better than that of products derived entirely from scrap. (This year the SA Iron and Steel Association issued a notice cautioning about the use of certain – non-ArcelorMittal South Africa – structural steels).

Our response to competition from producers which do not use the blast furnace/BOF process is to progressively "stretch" our hot metal production by using less liquid iron and more scrap.

From 2023 we expect there to be growing pressure on the price preference system which essentially subsidises the prices of locally available scrap. We are working on a number of mitigating actions (see Outlook).

### Energy efficiency

In 2021 we generated 215 868 megawatt hours (MWh) of electricity ourselves. In 2022 this will double and by 2026 we expect to be generating more than 400 000MWh annually.

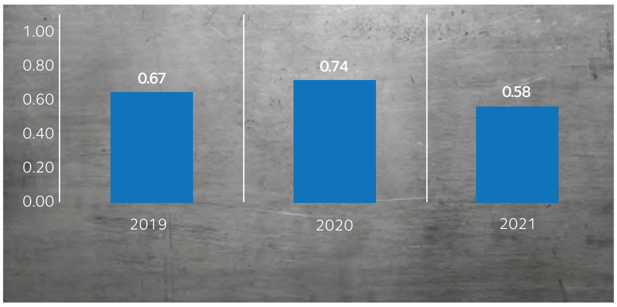
The stability issues encountered at our facilities this year, combined with repeated interruptions, badly affected our overall performance on energy efficiency.

The reliability of our own-generated energy suffered from the maintenance backlog, which manifested itself in problems of structural and mechanical integrity. In 2021, failures at gas-generating units and the coke-oven stack collapse in February deprived the business of more than 23 384 MWh of own energy. This was 12% of the energy we generated in 2018. As well as breakdowns at units using coke-oven and blast furnace gas to generate electricity, a key gas transfer pipe at Vanderbijlpark was out of commission for four months. Failure of the pipeline and stack collapse necessitated additional natural gas purchases of more than R96 million.

These shortcomings had been largely addressed by the time of reporting through our extraordinary maintenance programme (an amount of R35 million is budgeted, to 2022, for this important part of our sustainability drive).

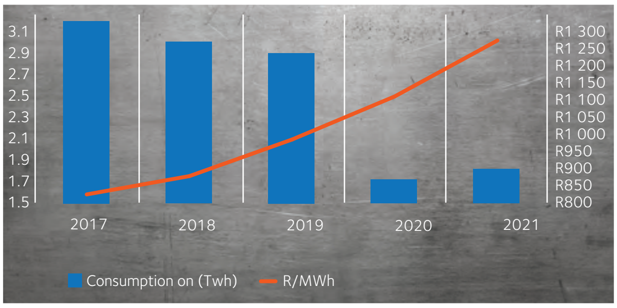
Because of these once-off difficulties, this year natural gas consumption was 7% higher per tonne of liquid steel than in 2020 and 135% more than in 2018. Bought electricity consumption, at 1.82 terra-watt hours, was 5% higher than 2020 but 38% lower relative to 2018, also per tonne of steel.

### Company electricity usage (MWh/tLS)




At 28.57GJ/tonne of liquid steel, our energy intensity is 8.5% higher than in 2019. We are determined to reduce this; greater energy efficiency and a step change in our generation of renewable energy are vital to our decarbonisation strategy. (It is worth noting, however, that in recent years we have made considerable headway on reducing our energy intensity per tonne.)

### AMSA electricity: 2017 – 2021




In 2021 we spent the following amounts on our key, bought-in energy inputs:

- **Electricity (Eskom)** R1 939 million (2018: R2 704 million)
- **Natural gas** R1 011 million (2018: R620 million)
- **Industrial gases** R603 million (2018: R883 million).

Although, in the short term, our operations became less energy efficient, because of the causes described above, in 2021 we made good progress towards delivering on our energy-efficiency agenda. Developments include the following:

- We advanced planning to run our five Vanderbijlpark coke ovens entirely on blast furnace gas from 2022. This will have a more than R10 million positive impact on our financial result as well as reducing environmental impacts through reduced purchases of natural gas
- A request for quotation was issued for the construction and installation of a blast furnace gas holder in Vanderbijlpark. This will increase the amount of own gas we are able to use to generate electricity by 10%, reducing our consumption of natural gas and increasing our embedded-generation capacity by 13 megawatts (MW) to 36MW
- Like all industrial concerns, we continued to be affected by load shedding/load reduction, but we have made progress on optimising our operational planning and scheduling (referred to internally as our production "rhythm") to better accommodate these unplanned disruptions
- In 2020 we announced a request for information for the generation of 240MW of renewable energy on our premises. Our intention is to enter into power purchase agreements with independent producers who will bear the costs of building, commissioning and running this infrastructure. In 2021, much work was done on scoping business plans to receive and distribute this new energy source. Management expects that a funding proposal, for connecting to and internally reticulating this power, will be submitted to the board in Q2 2022
- Phase 2 of our variable speed drive project was very successfully implemented at both Newcastle and Vanderbijlpark. Since 2017 this has resulted in sustained energy savings of 73 gigawatt hours (GWh) per year, R23 million per year and a cumulative 365GWh to date or R116 million in savings for the company to date. This contributed to a 4% cost saving against annual Eskom invoices relative to 2021 electricity tariffs.

## Risk discussion

### – Input material supply, availability of energy, spread risk and input costs

Several of the top risks that the company is exposed to could have an impact on the sustainability of raw material and energy inputs. The performance of SOEs (Transnet and Eskom) on the supply of raw materials and energy as well as the risks associated with high and increasing prices (raw materials and energy in particular) will continue to have a significant impact on the company's performance. The company has regular discussions with the SOEs concerned to mitigate these risks. Business continuity plans (such as road transport instead of rail transport) and opportunities around alternative supplies were also implemented. Alternative sourcing of raw materials and vertical integration is of utmost importance to address the cost and spread risk.

## Stakeholder relations

### – Suppliers

The great success we achieved in 2021 on diversifying our supply of raw materials and lessening our reliance on export parity priced inputs was and will continue to be vital to our financial sustainability. Today this success is also translating into considerable social value by empowering a number of junior (including black-owned) miners and traders (and their communities) while mitigating a near monopolistic status quo in at least one of the mining sectors on which we rely for raw materials.

At R6 billion, our total spend on goods and services in 2021 was 55% more than that of 2020. Because of Covid-19 exigencies, the need to rapidly ramp up production and our reliability issues, this year we had 80% more contractor staff on site than in the previous year.

3 Bigger, more diverse domestic and international markets

Why this is important:
- Larger sales volumes allow us to lower our fixed cost per tonne
- We need to boost revenue to withstand the negative effects of the steel cycle
- Maximising our production capacity is good for plant reliability
- Recent government and inter-governmental initiatives **(8)** have created important opportunities for us to grow sales and get closer to customers.

In 2022 we plan to ramp up production by 13% to 3.5 million tonnes, reaching 4.4 million tonnes by 2026. We will do so to dilute our fixed costs per tonne, to boost revenue, regain domestic market share and to achieve significant sales growth in export markets.

### Exports to Africa

We intend to increase annual Africa Overland (AOL) sales by more than 150 000 tonnes per annum. This will be achieved through more focused marketing efforts and by expanding the AOL footprint to include two additional markets.

On 1 January 2021 the African Continental Free Trade Area (AfCFTA) came into operation, requiring its 54 signatories to remove import tariffs on, initially, 90% of goods and services traded within the continent. Working with multiple stakeholders and facilitated by the Steel Master Plan **(7)** the AfCFTA will enable ArcelorMittal South Africa to regain its traditional continental reach, and gain entry to new markets. In the medium to long term, AfCFTA could be particularly significant for our exports of long steel.

From 2025 we estimate that with a renewed export focus we could add more than 200ktpa in long steel sales. To maximise our potential in African export markets, achievement of **(1)** will be of paramount importance. Improving our own cost competitiveness is only part of the way in which we plan to use continental integration to improve our sustainability. Through the Steel Master Plan, we are working hard with other partners to boost the overall export competitiveness of the South African steel value chain. The more export competitive our customers are, the more primary steel they will buy from us.

## Risk discussion
### – Decrease in market demand, increase in imports

Operational stability, attractive domestic and AOL markets, slow economic growth, minimal traction on infrastructure spend and local competitors all have an impact on the company's domestic market. Improved customer service, market intelligence, pursuing downstream trade protection to promote domestic manufacturing, refinement of existing products and the development and launch of new products and finding alignment with the downstream to have more stable off-take are among actions pursued to mitigate the risk.

### Domestic sales

Despite losing South African market share to levels we have not experienced in decades, we are extremely confident that we will be able to claw back these losses. We will achieve this by understanding and delivering on our customers' needs **(7)** and by supplying them reliably **(5)** with products and quality they cannot source elsewhere.

## Stakeholder relations
### – Customers

In 2021 we lost domestic market share (from 51.5% at the beginning of the year to 47% in December). This decline had a number of causes. Our inability to consistently produce steel in the quantities demanded by a resurgent downstream caused many of our customers hardship and many of them turned to alternative (often imported) sources of supply.

Despite our production, and therefore commercial, challenges, we assess that the overall quality of our relationships did not suffer as a result.

Because of our reorganisation into OneOrg we have recently become a considerably more customer-focused organisation and this stood us in good stead when we regularly disappointed the market. Our customer-facing staff and even plant general managers were able to explain to customers the nature of our production and reliability challenges and there was general understanding of our difficulties. This was especially the case when we explained the nature and quantum of the investments we were making in maintenance and plant reliability.

Customers appreciated the numerous occasions on which our commercial and production teams worked together to help customers facing particularly acute circumstances. (Newcastle has a number of, mostly, smaller customers who can only receive inputs from us; without our steel, they have to shut down their operation. This year our customer-facing teams worked hard to ensure that these customers were kept supplied – even when that meant us having to buy billets from our competitors.) Many customers also welcomed our greater willingness to work with them to develop new products, grades and specifications, even when these are extremely niche. This year we were at pains to understand the market conditions driving many of our customers to embark on vertical integration (page 6) and to develop appropriate responses.

We are under no illusions, however, about how hard we have to work to improve our levels of service to customers and to constantly deserve their trust.

Through the Steel Master Plan's various work streams we are cooperating with South African industry to realise our newly enunciated purpose of "Championing Africa's industrial ambitions through sustainable steel". To us, this means making and delivering the products our customers want to the quality time scales and prices they expect. It also means finding cooperative solutions to boost skills levels and overall competitiveness.

Balance sheet strength and cash generation

Why this is important:

- High levels of debt limit our ability to invest in assets
- The cost of debt is a drain on cash, which could otherwise be deployed to strengthen our business
- We need to remain liquid to accommodate monthly peak funding
- Raising new capital can be less costly than bank funding
- A strong balance sheet is essential to securing the preferential funding which we will need to achieve net-zero carbon emissions.

In 2021 we significantly strengthened our balance sheet by paying down our obligations to ArcelorMittal Sourcing, including debt and payables in the amount of R2.7 billion. We also restructured R404 million of our loan from the ArcelorMittal group from debt to payables, and intend making further redemptions in 2022 of R400 million. In 2022 we project positive free cash flow being in excess of R600 million (2021: R2.0 billion). This is a position we intend to jealously guard at a time when we expect higher capital expenditure by, inter alia, closely managing working capital.

## Risk discussion

### – Solvency and liquidity

Different factors such as market demand, price softening, increased imports, exposure to foreign exchange fluctuations (with a significant portion of EBITDA costs being rand-based and revenue dollar-based) and many others could lead to cash pressure with a resultant impact on the company's solvency and liquidity.

It is of the utmost importance for ArcelorMittal South Africa to stay on its journey of "transformation for growth" to address these risks. Actions such as the Value Plan Programme, hedging and others mitigate these risks.

## Stakeholder relations

### – Providers of financial capital and investors

In 2021 we undertook various interactions with lenders to renew our borrowing-based facility (BBF). These interactions were positive and the BBF was successfully renewed at R3.5 billion with a maturity date of August 2024.

Directors (including our chairman as well as the chief strategy officer) met with various investors including Ninety One, Likamva and the IDC during a governance roadshow in May. Information on the company's Covid-19 response, cost-cutting, safety and cost competitiveness, our participation in the Steel Master Plan and our carbon footprint were discussed. Board deliberations and auditor rotation were also on the agenda.

# Strategic objective 2: Long-term sustainability

continued

5 Reliable production and logistics

### Why this is important:

- If we cannot supply our customers in the timeframes and to the quality and volumes they expect, they will get their steel elsewhere
- Breakdowns and unplanned interruptions are costly in terms of lost sales, repairs and start-up costs
- Our iron- and steelmaking plants run 24/7 and cannot afford to be idle because of late, unpredictable delivery of raw materials
- To mitigate our logistics risks, we are forced to spend more on road transport.

This year we produced 3.1 million tonnes of steel (38% more than in 2020 but 42% less than in 2019). By 2022 we project total production of 3.5 million tonnes, ramping incrementally up to a sustained 4.4 million tonnes by 2026. To achieve this and to do so cost-competitively will require much improved production stability.

## Plant reliability

In 2019 and 2020 we cut back on maintenance spend because of financial challenges and an uncertain outlook. Coupled with the effects of low and interrupted production in 2020, this left us with a substantial maintenance backlog. In 2021, this backlog manifested itself in ongoing underperformance – blast furnace instability, cold-hearth incidents at both Vanderbijlpark and Newcastle, irregular and often disappointing throughput and a number of sporadic failures. Worldwide logistics logjams meant that both plants often struggled to obtain critical spares and a number of capital projects to improve reliability could not be carried out because lockdowns prevented original equipment manufacturers' technical personnel from travelling to our sites.

Remedial actions taken this year, to regain and sustain our operational "rhythm", were based on three pillars:

### Asset restoration and addressing maintenance backlogs

In 2021 the proceeds of our much-improved cash generation were used to pay down debt and to improve reliability – a total R1.6 billion being spent on maintenance in H2 with a further R1.2 billion budgeted for H1 2022.

### Restoring our reliability processes

We instituted a programme to re-establish reliability across our plants called "rapid ramp-up" and revived our maintenance transformation programme.

### Beginning to address skills shortages

The two recent Section 189 processes affected every level of our production personnel. Given staff uncertainty about the future of the company we experienced a heightened turnover of engineers and other scarce skills. At most plants, managers reported that employees were often disengaged. This had implications for their attention to the tasks at hand as well as safety culture. Also, from 2020 our technical talent pipeline was severely cut. Towards the end of the year we began implementing a number of measures to address our lack of both skills and morale.

Reliable, efficient operations are fundamental to our sustainability. Our long-steel competitors are not subject to the vagaries of international raw material cost cycles. For the short term, we anticipate a sharp rise in coking coal prices. Our procurement practices **(2)** will only partly mitigate these effects on our Newcastle operation; to remain competitive in an environment of heightened input costs, that plant will need to achieve and maintain significant production and logistics cost savings.

Throughout 2021 both flat and long built on the initial gains arising from rapid ramp-up, and although all plants spent the year essentially engaged in "catching up", there were some very encouraging signs that we were, in fact, recapturing our "operational rhythm". Vanderbijlpark ended 2021 having achieved a record quality year as measured by "non-primes" – driven by sustained improvements on our galvanising lines. Important progress was also made on improving the shapes and costs of our coating lines.  Production of thin rolled coil (transferred from Saldanha to Vanderbijlpark in 2020) continued to improve in terms of both quality and volumes produced.

## Logistics

We are extremely reliant on rail and road to move our inputs and our products. Across the world, primary steel producers receive an average 85% of their raw materials by rail. In our case this is currently only 70% - despite our facilities at Vanderbijlpark and Newcastle having all the necessary rail infrastructure both in terms of integration with the national network and onsite. Our shipping of finished products is carried out almost entirely by road.

We estimate that in 2021 we incurred costs of over R87 million because of the unreliable and unpredictable rail logistics. These costs arose because of our need to pay for transport of raw materials from where they were mined by road rather than by rail. Moving raw materials by road is destructive of our own financial capital and is also social-capital negative because of the negative impact trucks have on road infrastructure. Added to these are the effects of extra, unnecessary emissions from the thousands of trucks employed in this task.

In 2021, after more than two years of intensive discussion with the state-owned rail monopoly, Transnet, both parties launched an optimisation project to evaluate an outsourced logistics model for our unique requirements. We are delighted that we have finally come to such an understanding, which we are confident will benefit all parties concerned. Using an outsourced logistics service and a "control tower" solution, in both 2022 and 2023 we expect to achieve savings in the region of 10% annually on rail rates. For the rest of the medium term, savings will be in the region of 2% to 3% annually.

We are also hopeful that promised interventions to improve rail and ports efficiencies to support industrialisation and economic growth, under the Steel Master Plan **(8),** will deliver additional benefits for our company, our investors and customers.

## 6 Decarbonised steel

### Why this is important:

Soon we will not be able to sell carbon-intensive steel. Our majority shareholder requires us to decarbonise according to defined milestones.

### Our new decarbonisation roadmap 2022

We intend to publish a decarbonisation roadmap for ArcelorMittal South Africa by Q3 2022. This roadmap will signal to stakeholders our firm intent to achieve net-zero production by 2050, and to have reduced our $CO_2e$ outputs and impact by a quarter by 2030.

We anticipate that our 2022 advisory will explain a number of decision points, a majority of which will be dependent on technical progress in proving the commercial viability of technologies including carbon capture, use and storage (CCUS). We are obliged to work hard on our decarbonisation strategy for multiple reasons, not the least of which are strictures imposed on us by our majority shareholder, the ArcelorMittal group.

The group is intent on leading the worldwide steel industry's decarbonisation. It has considerable intellectual and manufactured capital resources to achieve this ambition. Being part of the world's foremost steel producer gives us a tremendous competitive advantage as we decarbonise, and seek to benefit from the worldwide move to lower carbon and a more circular economy.

The extensive work that has gone into mapping our decarbonisation journey and our aspirations are unpacked in our 2021 ESG report.

## 7 Delighted customers

### Why this is important:

Our customers keep us in business but, more than ever, they are spoilt for choice regarding steel suppliers.

We need to keep enhancing our cost competitiveness and product quality and safety, and deal with customers in a fair and transparent manner. We are increasingly going to bank on our intellectual capital to delight customers and to set us apart from our commodity competitors.

In 2022 we aim to have improved our market share from 49% to 59%. We have no mechanisms to achieve this other than price, delivery, quality and the ease with which customers can do business with us.

Because of extreme reliability difficulties, this year our on-time-delivery (OTD) KPI deteriorated sharply. Newcastle, which had been known for OTD rates of over 80%, struggled to reach an average 55% for the year. (We also measure on-time readiness, which distinguishes between us being ready to dispatch stock but clients being unable to accept it – this was a significant factor during the metalworkers' strike this year.)

In 2021 we identified 27 markets we will target for tailored product development, which will improve targeted customers' profitability and market reach. Most of this development will be for short-run production but will add an estimated 400 000 tonnes of annual sales by 2026. This year we also began researching the development of markets for so-called green steels, including the ArcelorMittal group's XCarb product.

### Intellectual capital

We are the single largest client of the Industrial Minerals and Metals Research Institute (IMMRI) at the University of Pretoria. This world-class research and industrial-applications institute had its origins within our company and several of its leading metallurgists, chemists and scientists are ex-employees.

In-house we employ 22 individuals in our customer technical services (CTS) and quality management departments, which are located at each of our sites. These teams liaise on an ongoing basis with the metallurgical experts at IMMRI, briefing them on our requirements to optimise process variables to improve capacity and product quality and performance.

Our CTS and quality professionals also liaise regularly with the ArcelorMittal group's R&D Global function. When new products are introduced – mostly through R&D Global – IMMRI helps to establish a sound metallurgical understanding of local production processes required for these new products and how they perform at our clients' facilities. Eight new products are currently in the pre-launch/launch phase.

In 2021 IMMRI specialists undertook almost 9 000 hours of work we commissioned. This work entailed detailed analysis and reporting on nine product parameters (including profiles, specifications and grades) and 14 studies on process improvements. IMMRI staff spent a third of these hours working with our clients on optimising our steel to support their businesses and on improving their production processes. We sponsored this additional IMMRI work, in the process creating intellectual capital for the broader steel and engineering value chain.

As an academic institution, IMMRI occasionally shares data and information obtained while working for us with university academics and under- and postgraduate students. Their research findings are shared with us (and often with the users of our steel).

We believe that IT will be central to realising our goal of consistently and predictably delighting customers.

In 2021 we reduced the time it takes to resolve customers' claims for defective/ incorrect deliveries by 90%. This was made possible by our automation and digital transformation drive, which also transformed the speed with which we are able to update product prices (particularly pertinent in an environment of volatile steel commodity pricing).

Our greater willingness to explore innovative ways to achieve greater collaboration with our customers includes proposals to help some distressed companies emerge from business rescue, by acquiring equity or establishing joint ventures or exclusive supply arrangements.

### Automation and digital transformation

2020

*Our implementation of robust IT security and defence mechanisms proved their worth when we came under an unprecedented cyber-attack which was successfully thwarted* *(see page 11.)*

*In 2020 we spent R175 million on IT, bringing to more than R470 million the amount spent on maintaining and enhancing our IT ecosystem in the past three years. These new investments – in which the board took a close interest – underpin almost all aspects of our operations and are designed to further integration, to streamline and simplify data capture and decision-making while reducing the need for repetitive, manual tasks.*

*While ArcelorMittal group experts gave invaluable advice, we became the first operation in the group to (successfully) deploy the Microsoft Azure cloud computing platform, a scalable agile solution which saved a significant amount on hardware costs. We also deployed Microsoft Azure Big Data analytics to provide a unified, scalable platform for self-servicing units and teams and for improving enterprise business intelligence reporting and report generation.*

Information technology (IT) will be vital to achieving our strategic objective of long-term financial sustainability. In 2020 we completed a three-year large-scale investment in building a technological foundation for resilience and agility – and sustainability. This year our IT function achieved conspicuous success in implementing that investment, in transforming our IT landscape, architecture and systems to underpin the objectives of OneOrg. Already by year-end, it was apparent that our IT assets are now positioned to be a key business enabler and driver of revenue and growth.

In 2021 our IT transformation strategy was aligned to make ArcelorMittal South Africa a truly data-driven business and to consolidate the various distributed IT manufacturing systems into a single, less complex IT system with the benefits of report rationalisation and reduced costs for service, infrastructure and licensing.

Our successful implementation of a cloud big data analytics solution has released multiple opportunities for self-service, improved analytics and enterprise business intelligence reporting. This has given us extremely valuable insights into how to practically optimise our operations. Since 2021 artificial intelligence (AI) and machine learning (ML) solutions have been deployed across our various functions, enabling cross-functional management systems to deliver tangible benefits, in line with our OneOrg philosophy.

By deploying "data historian" software in support of the Internet of Things at Long Products, our IT team equipped Newcastle engineers with advanced new control and optimisation, process modelling and batch analysis capabilities. Another significant milestone was implementing the first AI and ML scheduling models at downstream rolling facilities. This has already resulted in improved product quality, better yields and productivity and lower production costs – all of which improvements can be quantified.

## Risk discussion

### – Vertical integration, imports and market demand

For periods in 2021 we either could not deliver our product as per customers' needs (on time and at the right price) or they could not receive our product because of the steel strike and mid-year looting. This prompted some customers to turn to imports or resort to increased vertical integration. Our response to vertical integration is twofold. In the first instance, we are "backward" integrating by achieving greater control over the supply and cost of our raw materials. We are pursuing our other response openly and consultatively through initiatives, such as the Steel Master Plan.

## Stakeholder relations

### – Regulators

Until the end of 2018, imported steels used in South African wind-tower construction were "deemed local". Enforcing localisation has since proven extremely challenging and regulators invariably do not understand the importance of enforcing duties on steel imported for renewable energy projects. Through the Steel Master Plan and engagements with stakeholders (including SARS and others in the steel sector), we are working to educate functional regulatory officials on localisation's importance to job creation and economic growth.

Our performance on supplying to local solar power generators has been significantly better than that on wind. To date, we have delivered 146 000 tonnes of both flat and long steel to solar projects benefiting from the Renewable Independent Power Producer Programme (REIPPP). We anticipate substantial uptake for, in particular, rebar, from Bid Window 4, with earthworks beginning in 2022.

## 8 Social licences to operate

Why this is important:
Our mission commits us to creating value beyond the purely financial.

We still have a great deal of work to do to regain the trust of many of our customers and to demonstrate meaningfully that we are serious about supporting manufacturing and industrialisation. Various government initiatives, including the Steel Master Plan and the Economic Reconstruction and Recovery Plan, create considerable opportunities for us as a business. It is incumbent on us to show that we are using these opportunities for the good of all. We need to transform ourselves and our value chain.

Our sustainability hinges on a motivated, skilled workforce but our employees' morale has suffered in recent years. To preserve cash we have also cut back on investments in training and skills development. These factors have negatively affected the reliability of our operations **(4)** and our ability to delight customers **(6)**. Fixing our corporate culture and re-establishing employee engagement and motivation will be top management focuses from 2022.

As we acknowledge elsewhere in this report, in 2021 we fell well short of our ambitions for investment in our communities, suppliers and the transformation of our supply chain. From 2022 our strengthened balance sheet and our greater confidence in our ability to generate cash **(3)** will enable us to substantially lift these investments.

Our ESG report goes into considerable detail about how we are contributing to the outcomes envisaged by South Africa's Steel Master Plan – and how we believe we can make those outcomes a reality for multiple stakeholders. It also unpacks our envisaged contributions to the government's Economic Reconstruction and Recovery Plan and other initiatives to achieve broad-based positive outcomes.

In 2021 we granted our customers R308 million in strategic and export rebates (2020: R185 million). Of the rebates granted this year, R85 million were for value-adding exports. The balance was to support the downstream competitiveness. We believe that the whole steel value chain could take a leaf from our rebate book.

Safeguards/duties: In 2021 the International Trade Administration Commission (ITAC) did not extend the safeguard duties. The application for safeguards on long steel products was also terminated. In 2022 we will engage ITAC for its deliberations on the protection of other corrosive-resistant products not covered in the original application and thus creating opportunities for circumvention of the existing duties. In addition, we also filed an application for dumping on certain imports at price levels well below market value.

Competition Commission settlement agreement: ArcelorMittal South Africa has been engaging with the Competition Commission regarding payment of part of the administrative penalty, and the progress against the capital expenditure programme. In addition, since May 2021, ArcelorMittal South Africa has been engaging with the Competition Commission regarding the raw material basket methodology for determining earnings before interest and taxation (EBIT) under the Settlement Agreement, which may affect the calculation of the EBIT margin. The company has provided the Competition Commission with supporting information as requested, which is being considered by the Competition Commission.

## Risk discussion
### – Opportunities

Opportunities are hampered not only by the lack of infrastructure spend and economic growth but also by external (Transnet's poor performance) and internal (operational stability and performance issues) factors. Numerous actions, such as engaging stakeholders to mitigate the Transnet performance impact on the business, improving operational stability by conducting an interim repair of the blast furnace in Newcastle, operational and maintenance culture change, and others seek to remove barriers to leveraging opportunities in the domestic and Africa Overland markets.

## Stakeholder relations
### – Government

Despite pandemic restrictions, this year we had a greater-than-usual number of interactions with government at the local, regional and national levels.

Our managers were very involved in deliberations leading up to the promulgation of the Steel Master Plan and in giving effect to its multiple objectives.

We began working closely with the Western Cape government, the Department of Trade, Industry and Competition (DTIC), Industrial Development Corporation and the Council for Scientific and Industrial Research on the possibility of restarting economic activity at our Saldanha Works – and catalysing a green hydrogen economy. These are all stakeholder initiatives where the common national good is prioritised above the interests of any single entity. Our approach is increasingly to find ways to align our approach and continue to create value for the organisation as well as its stakeholders.

Our CEO is a member of government's Green Hydrogen Panel and the Steel Oversight Council, the latter chaired by the Minister of Trade, Industry and Competition.

After being mostly adversarial for several years, our relations with Transnet Freight Rail improved this year with the rail utility's greater openness to work with us and others on a new public-private partnership. Similarly, we are hopeful that Eskom's new leadership will display a greater understanding of our unique circumstances and how excessive electricity costs (which we calculate at more than R1 billion per year) are prejudicing our ability to create social value.

## Outlook

In the short term we expect South African GDP growth to remain positive (approximately 2.8% growth in 2022) and our near markets to achieve growth in the region of 4% per annum, with similar growth in demand for steel.

Supporting South African economic growth will be a stronger mining sector and moderate industrial, energy and automotive growth. Prospects for the construction sector are more positive than has been the case for several years. We are committed to investing considerable human and intellectual resources into realising the success of national initiatives including the Economic Recovery and Reconstruction Plan (ERRP) and Steel Master Plan **(8).**

At the time of reporting, we were close to finalising a number of agreements with other parties to give effect to our scrap strategy **(2)**. These developments are likely to include joint ventures with existing supply chains and investing in new supply chain capacity, which could have material, positive socio-economic development impacts **(8).** We also envisage creating customer buyback schemes – which will boost our supplies and further our integration with customers **(7)**.

We are confident of delivering on our ambition to reach the first cost quartile **(1)** for flat products by 2026; we believe we will achieve the same objective for long steel earlier.

Increasingly, a number of our customers **(7)** are integrating vertically with other elements of the steel value chain. This holds the possibility that some customers could become our competitors. We will counteract this by integrating with our customers ourselves. In the short term, meaningful and mutually beneficial joint ventures could support the sustainability of Newcastle Works in particular.

South Africa currently has low demand for green steel products but we expect that this will change over the medium term, beginning with the construction sector. We are actively preparing to exploit our access to ArcelorMittal group's leadership in this sphere by leading the creation of markets for certified green steels **(6).**

Maintaining tight control over raw material costs will become even more important over the short to medium term **(2)**. Between 2022 and 2026 we anticipate the spread between our RMB and NRPs narrowing from USD555/t for HRC in 2022 to USD363/t in 2023 and USD336/t in 2026. For rebar, our projections are USD270/t for 2022, USD252/t in 2023 and USD248/t in 2026.

We are confident that our drive to improve customer-centricity will be good for our customers' businesses – and for ours. By 2025 we are targeting an approximate R500 million margin uplift from closer collaboration with the downstream.

Over five years from 2022 we will spend some R1.9 billion replacing and upgrading our coke batteries at Vanderbijlpark and Newcastle Works. Among other short-term capital expenditure items approved to maximise the potential of our existing footprint, Newcastle's blast furnace N5 will undergo an interim repair starting in April 2022 for a planned duration of 69 days and a planned cost of R457 million, to extend its life to 2034 **(5)**. Ahead of this important intervention, in 2021 we spent R70 million shotcreting blast furnace N5. By March 2022 Newcastle Works had built up stockpiles ahead of the reline of 190 000 tonnes.

Our analysis shows that over the medium term the fixed cost investments in maintenance made in 2021 (and continuing in 2022) will reduce external spend on maintenance, reconditioning and services and industrial products and services **(5)**.

Our resilient balance sheet **(4)** will support a ramped up investment in social value creation and improving our B-BBEE performance, thus buttressing our social licence to operate.

# Strategic objective 3: People first

## Employment

At year-end we provided work opportunities to 10 030 individuals, either full-time, as contractor employees or hired labour. This represented a substantial (approximately 17%) increase on the prior year – a positive social-capital impact in "rustbelt" local communities where unemployment rates are mostly above the national urban rates.

Year-on-year increases were: 511 (full-time own employees), 498 (contractor employees) and 478 (hired labour).

## Remuneration and incentives

At the end of 2020 the company agreed with employee representatives to normalise remuneration after the salary sacrifices and short time endured in that year. To this end the remuneration of the package category was restored to 100% from January 2021 and an exceptional bonus payment was approved for this category of employees in recognition of the sacrifices made in the previous year. Additionally, it was shared that a benchmark and parity review would be conducted during 2021 with the aim of commencing a realignment of remuneration levels of the package category to the market in early 2022. A special remuneration review was conducted for the superintendent population with adjustments made during 2021.

The agreement reached for bargaining unit employees included a 5% adjustment in November 2020 and 2% adjustment effective 1 April 2021, the re-instatement of the monthly key performance indicator bonus scheme as well as a commitment to engage formally on the collective labour agreement in the first quarter of 2022.

## Training and development

At the beginning of 2021 directors endorsed management's assessment that the company's financial prospects were so uncertain that it was necessary to cut back on skills and other employee development. Pleasingly, as it became apparent that our financial prospects were brightening, we were able to relax the cutbacks implemented at the beginning of the annual budgeting process.

### Three-year key performance indicators

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| KPI 14 Total cost of employment (Rm) | **4 875** | 3 970 | 5 404 |
| KPI 15 Management control (under B-BBEE codes) | **6.44** | 8.07 | 9.16 |

Skills are essential to our sustainability and value creation. In 2021 we were able to double our primary skills pipeline, which includes apprentices and production learners and we have budgeted for a significantly greater investment in training and development in 2022. This was made possible by our improved financial performance and enhanced prospects in 2022.

Our 2021 ESG report details our skills-development performance and outlook.

## Risk discussion
**– Skills**

Covid-19 has exacerbated the risk of skills leaving the country as a result of the economic and governance concerns. Contractor and own skills are wanting on different levels and expertise. The constant reduction in personnel at the company also contributed towards the skills shortage. Actions are driven on different levels in the company to obtain and uplift skills to an appropriate standard. With the advantage of being part of the ArcelorMittal group, various skills were and will always be available to tap into.

## Stakeholder relations
**– Employees**

Management is determined to fix poor staff morale, to invest more in employees and in their skills and to communicate better. Frank and continuous communication at company, plant and team levels was intensified in 2021.

### Socio-economic development

As with skills development, this year we were forced to reduce our socio-economic and enterprise and supplier development investments by the pressing need to preserve cash less than a year into the world's first pandemic in a century.

We succeeded, however, in maintaining (and enhancing) our support for the science centres operating in Sebokeng, Newcastle and Saldanha, as well as offering substantial support to various community-based upliftment NGOs. This year the science centres directly reached 37 000 learners as well as 1 600 teachers and 1 022 schools plus 19 500 others, including adults.

By the end of 2021 we had placed business worth R35 million with the 23 businesses recruited to our Vanderbijlpark-based Matlafatso incubation hub in 2017 and 2019 and still registered on our supplier databases.

In 2021 we spent R15 million on corporate social investments (CSI), down from R18 million in 2019. We intend to more than double our CSI spend in 2022.

## Stakeholder relations
**– Community**

Community NGOs (often in townships) look to us to help them with upliftment through local procurement and job creation. There is often little understanding of why we need to procure and employ from beyond our fence-line communities.

Our three science centres – the flagships of our CSI efforts – continue to generate substantial local goodwill. Our investments in feeding schemes and in donations to charitable NGOs, though, are little appreciated beyond the immediate beneficiaries.

### Broad-based black economic empowerment

In 2021 we assessed that our B-BBEE compliance would deteriorate from Level 6 to Level 8.

We began this year with an extremely unfavourable financial outlook. For this reason, budgets for skills development, enterprise and supplier development and the close management of supply chain were adjusted accordingly. Inevitably, this translated into B-BBEE under-performance. However, we are determined to use our much-improved financial performance in 2021 to remedy this under-performance. These interventions will begin lifting our score from 2022 and are explained in some detail in our 2021 ESG report.

## Governance: B-BBEE

The board convened a special B-BBEE workshop in October. Input was received from internal and external experts. While directors remain concerned about the company's fluctuating performance on transformation as measured by its B-BBEE compliance, they were encouraged by actions tabled by management.

The 2021 ArcelorMittal South Africa ESG report explains how we husbanded limited resources to maximise our social impacts – and how we intend to grow these in 2022. The ESG discussion has particular focuses on our B-BBEE performance and our firm intention to use our procurement spend to advance our creation of social capital. One particular advance on our ambition to disclose meaningful value-creation impacts is our reporting on (non-raw material) procurement from black-owned and black women-owned businesses located within our neighbouring communities.

# Leadership – how the board directs our company's value creation

## Introduction

The board of directors of ArcelorMittal South Africa (board) is responsible for the overall strategic direction and leadership of the company towards the achievement of an ethical culture, good performance, effective control and legitimacy. The company is committed to adhering to good corporate governance principles and practices and to following the principles of fairness, accountability, responsibility and transparency as advocated in the King IV Report on Corporate Governance for South Africa, 2016 (King IV™*).

During 2021, the board focused extensively on ensuring the sustainability of the company, and in particular:

- Continued its focus on financial performance and operational reliability
- Intensified its efforts on the health, safety and wellbeing of employees, as well as other stakeholders, including contractors
- The development of a strategy to include a clear prioritisation of ESG issues, and the process to develop a decarbonisation plan and targets for carbon emissions commenced, with a view to announcing such plans during 2022.

Our board of directors met on eight occasions in 2021.

Directors continued to adapt to the new realities of the Covid-19 pandemic by ensuring that leadership was uninterrupted, and that management was given every support during another tempestuous year.

## Governance structure and process

### Board charter

The board is governed by a formal board charter setting out its composition, processes, role 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 its implementation of plans and strategies, as approved by the board
- Appoint the CEO and other 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, the environment and for stakeholders
- Ensure the company complies with relevant laws, regulations and codes of business practice
- Maintain oversight of succession planning and management
- Ensure that the company communicates with shareholders 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 IT 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
- Address the retirement and re-election of directors.

The board charter and terms of references for all committees, including the annual work plan were reviewed in February and March 2021. The reviews were conducted in a robust manner and ensured that these documents remain relevant, in line with regulatory requirements and the needs of the company.

## Board committees

ArcelorMittal South Africa has implemented a sound governance structure which, among other things, gives effect to the broad ranging responsibilities of the board. The Board remains responsible for leading the organisation ethically and effectively and it is supported in this by its board committees to which it delegates functions in compliance with legislation, regulation and best practice.

# BOARD

In accordance with King IV Report, the board is the custodian governance, which is the exercise of ethical and effective leadership by the governing body towards the achievement of the governance outcomes. The board is supported in its role by the following committees. The roles of the committees include, but are not limited to:

**Audit and risk committee (ARC)**

The ARC is a statutory committee in terms of the Companies Act. It performs its role as set out in the Companies Act and as contemplated in the JSE Listings Requirements. In addition to the statutory and regulatory requirements, the ARC's role includes oversight of the audit, monitoring of risks and reporting in relation to these matters. The ARC liaises with other committees in relation to the oversight and monitoring of risks.

**Human resources, remuneration and nominations committee (HRRN)**

The HRRN fulfils the role of the remuneration and nominations committee as contemplated in the JSE Listings Requirements and the King IV Report including human resources matters within ArcelorMittal South Africa.

**Transformation, social and ethics committee (TSEC)**

The TSEC fulfils the role of the social and ethics committee as contemplated in the Companies Act. This role includes oversight of the transformation and economic development, social and ethics, natural environment and workplace strategies and policies. The TSEC liaises with the other board committees where appropriate in relation to matters within its mandate.

**Safety, health and environment committee (SHE)**

The role of the SHE committee is to ensure oversight and monitoring of incidents related to health, safety and the environment and to ensure proper investigation and management of any incident. The SHE has to ensure risks are identified and mitigated and liaises with the ARC and TSEC, where appropriate. It oversees the SHE policies and strategies.

The board committees were found to be effective and to have served as critical support structures of the board, especially during the ongoing Covid-19 pandemic.

## Policy

The board regularly reviews its corporate governance policies and procedures to ensure ongoing adherence to the JSE Listings Requirements, current legislation, international best practice and the King IV Report in a fit-for-purpose manner. The board recognises that its role includes approving and monitoring the implementation of strategy that adequately considers the organisation's priorities, its impacts on the various capitals and its ability to create meaningful, sustainable value for stakeholders. The application of the principles of the King IV Report were assessed and are disclosed in the 2021 ESG report.

Through the group's governance structures, systems, processes and procedures, the board continues to further entrench and strengthen recommended good corporate governance practices.

## Ethics

The board of directors is the custodian and focal point of corporate governance at the company. Directors are mindful of the outcomes they need to achieve as set out in the King IV Report and in doing so apply 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.

We report on governance in considerably greater detail in our 2021 ESG report.

# Audit and risk committee report

The audit and risk committee (the committee) has pleasure in submitting its report for the year ended 31 December 2021 to the shareholders as required by section 94(7)(f) of the Companies Act 71 of 2008, as amended (Companies Act). The committee confirms that it has executed the responsibilities set out in section 3.84(g) of the JSE Listings Requirements.

## Membership of the committee and attendance at meetings

Mr JRD Modise resigned as a non-executive director and independent chairman with effect from 26 January 2021.

Ms NP Mnxasana, an independent non-executive director and member of the audit and risk committee has been appointed as chair of the audit and risk committee and Mr N Nicolau, an independent non-executive director was appointed as an additional member of the committee pursuant to section 94(6) of the Companies Act, both with effect from 29 January 2021.

In compliance with the Companies Act, the following committee members were elected by shareholders at the annual general meeting (AGM) of the company held in 2021 to serve until the next AGM on Thursday, 19 May 2022:

- NP Mnxasana (independent chairperson)
- LC Cele (independent non-executive director)
- N Nicolau (independent non-executive director).

The committee comprises only independent non-executive directors who are all financially literate and have the adequate relevant skills and experience to execute their duties and responsibilities effectively.

The experience and qualifications of the members and the details of the committee meetings attended by each of the members is set out on pages 16 and 17 of this report.

The committee held seven meetings during the past financial year. The CEO and CFO attend committee meetings by invitation.

## Functions of the committee

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 carried out its functions by reviewing the following matters:

- Considered and satisfied itself of the appropriateness of the expertise and experience of the interim chief financial officer
- Review and approve, for recommendation to and approval by the board, the interim reports, the integrated report and environmental, social and governance report, the annual financial statements, preliminary reports, accounting policies for the company and all subsidiaries, and other announcement regarding the company's results or other financial information that was made public
- 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
- Assessed the suitability for appointment of the audit firm and designated individual partner
- 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:
  - Top strategic risks (including credit risks, liquidity risks, market risk, human resources risks and compliance risks)
  - Operational risks
  - Information technology risks.

## Independence and effectiveness of the external auditor

Deloitte & Touch (Deloitte) was reappointed as auditor of the company until the next AGM. During the year, the committee reviewed a presentation by Deloitte and, after conducting its own review, is satisfied with the independence and objectivity of Deloitte as external auditors. The committee is satisfied that the auditor has at all times acted with unimpaired independence. Deloitte has been the auditor since 2005. A letter in terms of the Johannesburg Stock Exchange (JSE) Listings Requirements, paragraph 22.15(H) has been submitted by Deloitte. The committee is satisfied that Deloitte is compliant with the relevant external audit partner JSE qualification and the rotation rules, whereby the lead engagement partner is required to rotate every five years. The current lead partner has been the auditor since June 2021.

The committee further approved the fees paid to Deloitte and its terms of engagement. The details of the fees paid to Deloitte are disclosed in note 8 to the consolidated annual financial statements.

All non-audit services were approved by the committee during the current financial year in accordance with the board-approved policy on non-audit services performed by the external auditor. The committee meets with the auditor independently of senior management.

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

## Statutory reporting

The committee has evaluated the annual financial statements of ArcelorMittal South Africa and the group for the year ended 31 December 2021 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, the International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and the Financial Pronouncements as issued by the Financial Reporting Standards Council and applicable legislation.

### Key financial statement reporting issues

The committee reviewed the critical judgements and assumptions made by management together with the sensitivity analyses performed and the conclusions on the key financial statement reporting issues during the year. The key issues are:

- **Impairment of property, plant and equipment**
  The committee reviewed and assessed the assumptions used in determining the recoverable amount of the cash generating units (CGUs). The committee supported management's recommendation that none of the CGUs should be impaired.

- **Environmental remediation provision and asset retirement obligation**
  The committee reviewed the key assumptions and the discount rate used together with the movement in the provisions. The committee is satisfied that these provisions were externally reviewed during 2019 and the methods applied since 2019 are consistent.

  The committee had oversight and monitored the liquidity and cash management including the covenants of the Borrowing Based Facility (BBF). The committee is satisfied that the group and company have complied with all covenants as at year-end and that the liquidity position is adequate to support the going concern basis applied in preparing the financial statements.

## Internal financial controls

The committee has oversight of the group's annual 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 CEO and functionally to the chairman of the committee and head of group internal audit of the holding company, ArcelorMittal Holdings AG.

The CEO and interim CFO's evaluation of controls included the identification and classification of risks together with the determination of materiality, the testing of the design and determining the implementation of controls.

The committee, the CEO and interim CFO rely on the assurance provided by the internal audit function of the group on the system of internal financial controls. Management provides quarterly feedback on the status of the effectiveness of internal controls together with remediation action plans. The committee has discussed the impact of the internal control deficiencies together with compensating controls, including financial statement review controls with internal and external auditors as well as management.

## 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 are 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 CFO and the finance function

Mr AD Maharaj resigned as from 30 September 2021. The board has approved the appointment of Ms SM van Wyk, Senior Manager responsible for Statutory Reporting, as interim chief financial officer (CFO), effective from 1 October 2021. With her many years of experience at ArcelorMittal South Africa and extensive knowledge of our financial operations, Ms SM van Wyk will fill this role until a suitable successor has been appointed.

The committee has satisfied itself that the interim chief financial officer, Ms SM van Wyk, has the appropriate expertise and experience to carry out her duties.

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.

Based on an assessment performed annually, the committee is of the opinion that the finance function, as well as the interim CFO, are effective.

## Expertise and experience of the company secretary

The committee has satisfied itself that FluidRock Co Sec (Pty) Ltd has the appropriate competence and experience, to serve as company secretary of the company.

## Discharge of responsibilities

The company continues to prepare group accounts that comply with IFRS and the statutory requirements of the Companies Act and the JSE Listings Requirements, and these responsibilities are discharged within an acceptable timeframe.

The committee has decision-making authority with regard to its statutory duties and is accountable in this regard to both the board and the shareholders. On all responsibilities delegated to it by the board, apart from the statutory duties, the committee makes recommendations for approval by the board.

The committee determined that, during the financial year under review, it had discharged its legal and other responsibilities as outlined in terms of its terms of reference, details of which are included in the integrated report and environmental, social and governance report.

The chairman of the committee attends the AGM and is available to answer any questions in relation to matters pertaining to the committee.

**Nomavusa Mnxasana**
Chairperson

12 April 2022

# Human resources, remuneration and nominations committee report

## On behalf of the human resources, remuneration and nominations committee (HRRN), I present the 2021 ArcelorMittal South Africa remuneration report.

This report sets out the company's remuneration philosophy, policy and implementation with remuneration disclosures for non-executive directors and executive directors as well as for the organisation.

The HRRN is responsible for ensuring that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. Our aim is to give direction, assist and advise the board on remuneration-related matters for the executive, top management and senior management teams.

In accordance with the recommendations of the King IV Report, resolutions on the remuneration policy, remuneration implementation report and non-executive directors' remuneration were presented for non-binding advisory voting by shareholders at the annual general meeting held on 20 May 2021. We were extremely pleased with these outcomes and thank shareholders for their vote of support.

The results of these votes were as follows:

| Annual general meeting resolutions | 2021 % | 2020 % | 2019 % |
|---|---|---|---|
| Remuneration policy | 99.79 | 78.12 | 98.02 |
| Remuneration implementation report | 99.74 | 78.13 | 98.02 |
| Non-executive directors' fees | 93.58 | 99.95 | 99.97 |

In 2018, we embarked on a journey to return the business to sustainable profitability with the launch of the Business Transformation Programme (BTP). Along the way we have had to confront grave realities and make several difficult decisions to secure a future for our business. Notwithstanding the impact of the Covid pandemic in 2020, progress made as a result of the turnaround strategy manifested itself in a higher level of resilience as we navigated the significant about turn in economic and market conditions.

As we emerged from 2020 and the extraordinary and unique circumstances prevailing during that year, it became immediately apparent that 2021 would present both a recovery opportunity for the business as well as an equally unique set of challenges. The extent of the market rebound in 2021 on the back of a surge in demand for steel products post-pandemic required a rapid response insofar as increased output and necessary resourcing were concerned – this given the two preceding years of reorganisation and rightsizing as well as a deep adjustment to output levels made during 2020. Pleasingly, the response achieved a significant measure of success through the efforts of all employees and supporting contributions from other stakeholders.
The focus in 2021 was primarily on ensuring that the opportunities presented were capitalised upon while maintaining the discipline and rigour entrenched by the BTP and its fundamental goal of achieving sustainable profitability. The company had undergone three reorganisations of varying scope, and placed the Saldanha operations in a state of care and maintenance, the last of which reorganisations came to an end in Q1 2021. The previous two years of reorganisation created a platform from which to respond to the market demands in a much more flexible and agile manner, despite the subsequent impacts of the second, third and fourth Covid-19 waves.

Our company continues to align its remuneration policy and pay practices with the company's performance and financial results, thereby maintaining the link between performance and reward. In 2021, a process of remuneration review commenced underpinned by a comprehensive external and internal benchmark and parity assessment. The review was initiated on the back of agreements reached in November and December 2020 regarding remuneration adjustments for 2021, which afforded an opportunity to develop a longer-term strategy that would start to be deployed in the first quarter of 2022. The aim of the review is to develop a remuneration philosophy that aligns with the business strategy while addressing the need for market parity, attracting and retaining required skills in alignment with our transformation goals as well as fairly addressing the remuneration gaps that manifested due to a prolonged period of difficulty.

In acknowledgement of the importance of our ambitions to improve our performance with respect to ESG factors as well as the feedback from shareholders and other stakeholders, both our short- and long-term incentive plans will include adaptations to the measures and weighting of ESG key performance areas. The amendments aim to ensure alignment across the organisation on the urgent need to achieve tangible improvement with respect to our ESG goals, recognising that achieving these goals is integral to the business's sustainability, not only in terms of profitability but also in terms of how we do business and impact society.

The pleasing financial results achieved in 2021 are certainly a most welcome change relative to the preceding period. However this performance does not diminish the importance of staying the course with respect to the long-term business strategy. The criticality of the committee's responsibility in providing guidance and oversight remains fundamental in supporting achievement of the business strategy, balanced by the equally important need to take care of the company's people as we navigate towards building a stronger, resilient and lasting ArcelorMittal South Africa.

**Nomavusa Mnxasana**
Chairperson

12 April 2021

# Remuneration report

## Context to remuneration policy and philosophy

The start of 2021 signalled the end of the multiple reorganisation waves across the company that commenced in 2019 and the abatement of the most severe impacts of the Covid-19 pandemic experienced in 2020. 2021 also witnessed an unprecedented surge in steel demand and stronger pricing and the concomitant business challenge of rapidly ramping up output after a year in which all operations were suspended for the first time in our history. Stability in remuneration of employees was fully restored from January 2021 after a period of short time and remuneration reductions from April to December 2020.

As delegated by the board, the HRRN committee established an annual work plan which included oversight and preparation of the remuneration report and a review and implementation of the following human resource matters during 2021:

## Remuneration strategy and policy

- Determine the policy rules and amendments for retirement fund arrangements and oversee major changes to employee benefit structures
- Review and determine rules, targets for short- and long-term incentives and approve amendments as well as implementation
- Review the share incentive scheme to ensure continued contribution to shareholder value while ensuring the application of the scheme in line with rules
- Review the outcomes of remuneration policy implementation and oversee any major changes
- Review annual benchmarking results for non-executive directors and the senior management team in line with the company remuneration policy.

The HRRN committee is further responsible for ensuring a proper system of succession planning for the CEO and top and senior management while monitoring their performance.

The committee also has to consider the steps and responses needed, from a remuneration perspective, to support business sustainability.

## Remuneration policy

### Remuneration design structure

Our remuneration policy and implementation remains principally informed by performance-based remuneration aligned to key business objectives. We further continue to maintain the King IV Report principle of strengthening alignment between reward and the tangible achievement of short term and strategic objectives as manifested in our remuneration practice, notably in the case of the management and package category cadre in the setting of short- and long-term incentive performance conditions as well as remuneration adjustments. Recent years have not favoured the consistent application of certain elements of the remuneration philosophy- for example, short time and the suspension of adjustments in 2020.

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 affordable remuneration mix of fixed and variable pay which provides for differentiation between high, on-target and below-target performance. The pay mix differs according to job-family categories; generally, the more senior the employee, the higher the proportion of variable pay as part of his or her total reward package.

Our remuneration policy comprises the following pay elements:

- Cost to company (CTC)
- Basic salary plus fixed allowances
- Short-term incentive plans
- Long-term incentive plan
- Various benefit plans with company contributions
- Recognition programmes
- Retention and sign-on incentives.

## Key changes to our remuneration policy

Two amendments to the long- and short-term incentive policies include:

- The extension of a retention component of the long-term incentive grants to all participants
- An increase to the weighting of the safety measure for the short-term incentive from 10% to 15%.

## Key components of our remuneration policy

### Remuneration mix

| Remuneration component | Policy principle | Policy execution |
|---|---|---|
| | **GUARANTEED PAY** | |
| *Guaranteed pay: Cost to company (CTC) and basic salary plus guaranteed allowances* | • Non-bargaining: basic cash plus employer contributions to retirement (including disability and death risk insurance) – CTC<br>• Bargaining unit: basic salary plus guaranteed allowances<br>• Market-related broad salary bands differentiated by job family with six levels of grading<br>• Internal remuneration parity modelling and external benchmarking<br>• Increase factors: governance process, external comparable market, inflation, performance and affordability<br>• Benchmarking relative to comparable market. | • Non-bargaining: no adjustment was made to the remuneration of this category during 2021, subject to a comprehensive review with an intended implementation of changes in the first quarter of 2022<br>• Bargaining unit: an adjustment of 2% was implemented effective 1 April 2021 as agreed in 2020, with a commitment to engage in negotiations starting in the first quarter of 2022. |
| *Employee benefits and allowances* | • Retirement fund membership is a condition of employment for permanent full-time employees. Retirement funds are defined contribution<br>• Medical scheme membership for full-time employees with an option to join any of four medical schemes<br>• Leave benefits and allowances which include statutory allowances, housing, overtime, retention, etc. | • Company contribution to retirement funds is 10% of pensionable salary<br>• Medical aid company subsidy is 60% of total contribution subject to monthly cap of R3 317<br>• Fund administration was aligned with the retirement funds annuitisation changes effective 1 March 2021. |
| | **VARIABLE PAY** | |
| *Non-bargaining unit: short-term incentive plans (STIP)* | • Annual bonus plan with performance measures and targets based on financial and operational strategy. Targets are set in advance | • Given the exceptional circumstances and challenges in 2020 as well as the impact on employees, a short-term incentive was disbursed in 2021 despite the targets not having been achieved<br>• The short-term incentive plan for 2021 included an increase in the weighting of the safety measure from 10% to 15%. |
| *Bargaining unit: key performance indicator bonus scheme* | • Self-funded monthly bonus based on three broad performance themes: productivity, cost and safety. Gatekeepers are positive EBITDA and safety, team-based with absenteeism penalties. Targets are set monthly | • The scheme was reactivated in 2021 after being suspended in 2020 due to pandemic impacts on the business |
| *Long-term incentive plan (LTIP)* | • Equity-settled share-based payment transaction. Employees receive shares when the transaction vests and performance conditions are met. Performance conditions can be market-based or non-market-based<br>• No dividend or voting rights<br>• Three-year performance plan with annual allocations based on service conditions including ongoing employment, role, individual performance. Vesting is dependent on achievement of performance targets<br>• 2019 LTIP allocation split into performance stock units (PSUs) and restricted stock units (RSUs)<br>• Linear vesting scale 80% to 120%. | • An LTIP allocation was made in 2021 after being suspended in 2020<br>• 50/50 PSU/RSU split for the senior management cadre<br>• 60/40 PSU/RSU split for the executive management cadre – changed from 100% PSU in previous years after a review of current market practices as they pertain to LTIP allocation rules. |

## Remuneration implementation

### Guaranteed pay in 2021

Non-bargaining employees are remunerated according to a CTC pay structure, which includes a basic cash component as well as employer contributions to retirement. Increased contributions to retirement funding are permitted although these changes are cost neutral to the company and impact the individual's net income. No adjustments were made for this category of employees during 2021.

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 adjustments for 2018, 2019 and 2020 to be implemented in April of each year. The third agreed 7% adjustment was deferred in April 2020 and, by agreement, an adjustment of 5% was awarded in November 2020 with a further 2% adjustment implemented with an effective date of 1 April 2021. Engagement on the collective labour agreement with the two recognised trade unions, NUMSA and Solidarity, will commence in the first quarter of 2022.

### Bargaining unit agreement features and execution

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Salary and medical aid subsidy cap adjustment planned | N/A | 7% | 7% | 7% |
| Salary and medical aid subsidy cap adjustment implemented | 2% | 5% | 7% | 7% |
| Additional 0.5% once-off bonus based on achievement of liquid steel targets | N/A | Target not achieved | Target not achieved | Target not achieved |

The following table reflects the fixed remuneration for executive directors, prescribed officers and highest paid employees:

| | Cash salary[1] 2021 R | Retirement funding 2021 R | Other[2] 2021 R | Total 2021 R | Total 2020 R |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| HJ Verster | 8 458 833 | 521 151 | 272 139 | 9 252 123 | 7 163 489 |
| AD Maharaj[4] | 2 423 823 | 201 180 | 342 580 | 2 967 583 | 2 844 994 |
| **Sub-total** | 10 882 655 | 722 331 | 614 719 | 12 219 706 | 10 008 483 |
| **Prescribed officers and highest paid employees** | | | | | |
| S Achmat | 2 123 732 | 176 272 | 56 183 | 2 356 187 | 1 905 559 |
| M Adam | 3 104 684 | 257 692 | 190 433 | 3 552 809 | 2 630 968 |
| TS Didiza | 1 772 851 | 147 149 | 56 120 | 1 976 120 | 1 603 900 |
| GA Griffiths | 2 255 931 | 191 601 | 187 336 | 2 634 868 | 2 053 927 |
| C Hautz[5] | 939 036 | – | 1 332 125 | 2 271 161 | 4 118 421 |
| J Kotze | 1 846 068 | 155 472 | 143 350 | 2 144 890 | 1 650 958 |
| G Nagpal[6] | 2 631 579 | 218 424 | 302 381 | 3 152 384 | - |
| JPS Olivier | 3 324 096 | 275 904 | 91 887 | 3 691 887 | 2 954 552 |
| JF Swart | 2 149 784 | 174 500 | 73 218 | 2 397 502 | 1 739 701 |
| SM van Wyk[7] | 355 495 | 29 507 | 2 490 | 387 492 | - |
| W Venter | 2 205 205 | 183 035 | 56 151 | 2 444 391 | 1 906 295 |
| **Sub-total** | 22 708 461 | 1 809 555 | 2 491 674 | 27 009 691 | 20 564 281 |
| **Total** | 33 591 117 | 2 531 886 | 3 106 394 | 39 229 397 | 30 572 764 |

1 *Cash salary includes basic salary (cash component).*
2 *Other includes UIF, COID, monthly leave structuring, leave encashment, travel claims, telephone costs, ad hoc payments, death benefit, employer contribution to medical aid and travel allowance. Other also includes mobility benefits paid to expatriates.*
3 *Fixed remuneration 2020 was lower due to the salary sacrifices implemented from April to December 2020 as part of the measures to ensure business sustainability during the difficult and uncertain period.*
4 *AD Maharaj resigned as chief financial officer, effective 30 September 2021.*
5 *C Hautz's group mobility contract ended as chief marketing officer at end April 2021.*
6 *G Nagpal appointed as chief marketing officer, effective 1 April 2021.*
7 *SM van Wyk appointed as interim chief financial officer, effective 1 October 2021.*

Following the restructuring and implementation of the OneOrganisation principle at the end of December 2020, previously prescribed officers no longer occupied the strategic positions which qualified as prescribed officers.

The following table reflects the non-executive directors' remuneration:

| | Directors' fees 2021 R | Committee fees 2021 R | Total remuneration[1] 2021 R | Total remuneration[1] 2020 R |
|---|---|---|---|---|
| LC Cele | 202 041 | 326 800 | 528 841 | 547 566 |
| D Earp[2] | 100 608 | 130 514 | 231 122 | – |
| NP Gosa | 203 691 | 297 452 | 501 143 | 432 525 |
| G Gouws | 203 691 | 336 337 | 540 028 | 492 613 |
| PM Makwana | 1 582 776 | – | 1 582 776 | 1 345 680 |
| NP Mnxasana | 203 691 | 853 903 | 1 057 594 | 804 095 |
| JRD Modise[2] | – | – | – | 758 014 |
| KM Musonda | 203 691 | 216 745 | 420 436 | 370 203 |
| NF Nicolau | 203 691 | 696 488 | 900 179 | 638 596 |
| **Total** | 2 903 880 | 2 858 239 | 5 762 119 | 5 389 291 |

[1] *NED fees based on invoices received.*
[2] *JRD Modise resigned 26 January 2021 and D Earp was appointed 1 July 2021.*

## Variable pay – short-term incentive plan (STIP)

The short-term incentive plan is applicable to non-bargaining unit employees. Annual performance bonus payments are linked to specific organisational annual targets and objectives and individual performance is a moderating factor in the final bonus value.

### 2021 STIP measures, weighting and targets

| Measures | Weighting | Target | Condition* |
|---|---|---|---|
| Safety – LTIFR | 15% | 0.44 | EBITDA threshold gatekeeper |
| EBITDA (Rm) | 40% | 3 864 | EBITDA threshold gatekeeper |
| Free cash flow (Rm) | 25% | 1 966 | |
| Business Transformation Programme savings (Rm) | 20% | 2 283 | Fatality rate gatekeeper |

** Gatekeeper means that there will be zero bonus if the gatekeeper condition is met.*

The following table reflects the short-term incentive payment[1] for executive directors, prescribed officers and highest paid employees:

| | 2021<br>R | 2020<br>R |
|---|---|---|
| **Executive directors** | | |
| HJ Verster | 4 036 500 | – |
| AD Maharaj[4] | 918 500 | – |
| **Sub-total** | 4 955 000 | – |
| **Prescribed officers and highest paid employees** | | |
| S Achmat | 566 000 | – |
| M Adam | 827 300 | – |
| TS Didiza | 319 000 | – |
| GA Griffiths | 498 500 | – |
| C Hautz[2] | 693 100 | – |
| J Kotze | 481 500 | – |
| G Nagpal[3] | 452 500 | – |
| JPS Olivier | 885 600 | – |
| JF Swart | 514 500 | – |
| SM van Wyk[5] | – | – |
| W Venter | 568 700 | – |
| **Sub-total** | 5 806 700 | – |
| **Total** | 10 761 700 | – |

[1] *The short-term incentive relates to bonus earned for 2020.*
[2] *C Hautz's group mobility contract ended as chief marketing officer at end April 2021.*
[3] *G Nagpal appointed as chief marketing officer, effective 1 April 2021.*
[4] *AD Maharaj resigned as chief financial officer, effective 30 September 2021.*
[5] *SM van Wyk appointed as interim chief financial officer, effective 1 October 2021.*

## Variable pay – productivity and KPI bonus scheme

The KPI bonus scheme is a negotiated incentive scheme for bargaining unit employees. Lower-than-budgeted production led to a revised incentive scheme based on improved line of sight, with clear objectives related to safety, output and cost. The KPI bonus scheme was suspended in 2020 due to the financial challenges facing the business but reintroduced in 2021.

## Variable pay – long-term incentive plan (LTIP)

A share option scheme was in effect from 2005 to 2011 and was replaced by the long-term incentive plan 2012 (LTIP). Features of the LTIP award, in accordance with the approved allocation and measurement rules:

- It is a three-year performance plan
- LTIPs are equity-settled share-based payment transactions
- Employees receive shares when the transaction vests and conditions are met
- Conditions are performance and retention related
- Allocations are made annually
- Allocations are calculated on CTC times applicable % per grade times individual performance divided by the prevailing share price at the time of the grant
- 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.

The 2021 grant allocation measures which were equally weighted are:

- Performance against budgeted free cash flow (FCF) per year over the three-year period of the grant
- Year-on-year improvement in earnings per share (EPS) relative to the median of an identified, comparable peer group of companies.

The following table reflects the status of long-term incentive plans for executive directors, prescribed officers and highest paid employees:

| | 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 forfeited during the year | Number of allocations at the end of the year | Present value of invested share units at the end of the year[1] R |
|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | |
| HJ Verster | 20-06-2018 | 2 845 185 | – | – | (1 350 932) | (1 494 253) | – | – |
| | 20-06-2019 | 3 578 943 | – | (1 107 206) | – | – | 2 471 737 | 21 949 025 |
| | 27-05-2021 | – | 1 635 269 | – | – | – | 1 635 269 | 14 521 189 |
| | | 6 424 128 | 1 635 269 | (1 107 206) | (1 350 932) | (1 494 253) | 4 107 006 | 36 470 214 |
| AD Maharaj | 20-08-2019 | 1 944 447 | – | – | – | (1 944 447) | – | – |
| | | 1 944 447 | – | – | – | (1 944 447) | – | – |
| **Prescribed officers and highest paid employees** | | | | | | | | |
| S Achmat | 10-10-2016 | 25 423 | – | – | (12 711) | (12 712) | – | – |
| | 20-06-2018 | 100 522 | – | – | (74 126) | (26 396) | – | – |
| | 20-08-2019 | 1 582 356 | – | (489 528) | – | – | 1 092 828 | 9 704 313 |
| | 27-05-2021 | | 368 738 | – | – | – | 368 738 | 3 274 373 |
| | | 1 708 301 | 368 738 | (489 528) | (86 837) | (39 108) | 1 461 566 | 12 978 706 |
| M Adam | 10-10-2016 | 195 204 | – | – | – | (195 204) | – | – |
| | 20-06-2018 | 1 061 776 | – | – | (504 145) | (557 631) | – | – |
| | 20-06-2019 | 589 891 | – | (182 493) | – | – | 407 398 | 3 617 694 |
| | 27-05-2021 | – | 539 058 | – | – | – | 539 058 | 4 786 835 |
| | | 1 846 871 | 539 058 | (182 493) | (504 145) | (752 835) | 946 456 | 8 404 529 |
| TS Didiza | 27-05-2021 | – | 115 431 | – | – | – | 115 431 | 1 025 027 |
| | | – | 115 431 | – | – | – | 115 431 | 1 025 027 |
| GA Griffiths | 19-08-2019 | 548 247 | – | – | (84 795) | – | 463 452 | 4 115 454 |
| | 27-05-2021 | – | – | 180 361 | – | – | 180 361 | 1 601 606 |
| | | 548 247 | – | 180 361 | (84 795) | – | 643 813 | 5 717 060 |
| J Kotze | 19-08-2019 | 276 316 | – | (42 737) | – | – | 233 579 | 2 074 182 |
| | 27-05-2021 | | 384 258 | – | – | – | 384 258 | 3 412 211 |
| | | 276 316 | 384 258 | (42 737) | – | – | 617 837 | 5 486 393 |
| G Nagpal | 02-08-2021 | – | 581 819 | – | – | – | 581 819 | 5 166 553 |
| | | – | 581 819 | – | – | – | 581 819 | 5 166 553 |
| JPS Olivier | 20-08-2019 | 1 473 684 | – | (455 909) | – | – | 1 017 775 | 9 037 842 |
| | 27-05-2021 | | 577 154 | – | – | – | 577 154 | 5 125 128 |
| | | 1 473 684 | 577 154 | (455 909) | – | – | 1 594 929 | 14 162 970 |
| JF Swart | 10-10-2016 | 46 882 | – | – | (23 441) | (23 441) | – | – |
| | 20-06-2018 | 218 916 | – | | (161 430) | (57 486) | – | – |
| | 19-08-2019 | 250 001 | – | (38 666) | – | – | 211 335 | 1 876 655 |
| | 27-05-2021 | – | 423 617 | – | – | | 423 617 | 3 761 719 |
| | | 515 799 | 423 617 | (38 666) | (184 871) | (80 927) | 634 952 | 5 638 374 |
| SM van Wyk | 27-05-2021 | – | 92 586 | – | – | – | 92 586 | 822 164 |
| | | – | 92 586 | – | – | – | 92 586 | 822 164 |
| W Venter | 10-10-2016 | 98 769 | – | – | – | (98 769) | – | – |
| | 20-06-2018 | 644 686 | – | – | (306 106) | (338 580) | – | – |
| | 20-09-2019 | 810 947 | – | (250 880) | – | – | 560 067 | 4 973 395 |
| | 27-05-2021 | – | 370 533 | – | – | – | 370 533 | 3 290 333 |
| | | 1 554 402 | 370 533 | (250 880) | (306 106) | (437 349) | 930 600 | 8 263 728 |

*LTIP shares vest within three to five years.*

[1] *Based on the closing price as at 31 December 2021 of R8.88.*

The following table reflects the LTIP units for the executive directors, prescribed officers and highest paid employees that vested:

| | 2021<br>R | 2020<br>R |
|---|---|---|
| **Executive directors** | | |
| HJ Verster | 9 321 431 | – |
| **Sub-total** | 9 321 431 | – |
| **Prescribed officers and highest paid employees** | | |
| S Achmat | 614 008 | – |
| M Adam | 1 434 186 | – |
| JF Swart | 609 000 | – |
| W Venter | 2 134 194 | – |
| **Sub-total** | 4 791 388 | – |
| **Total** | 14 112 819 | – |

## Employee retention scheme

The company deploys a retention scheme in the interest of retaining critical and scarce skills that are vital to the business. The principles of the retention scheme include individual performance requirements, fixed calculation methodologies and a mutual contractual lock-in period. For executive management, the three-year retention payment is calculated and paid annually as 33% of annual CTC at the time of payment. For the senior management cadre, the three-tranche payments are calculated at 25% of current annual CTC and for professional/middle management the three-tranche payments are calculated at 16.7% of current annual CTC.

The following table reflects the employee retention for executive directors, prescribed officers and highest paid employees:

| | 2021<br>R | 2020<br>R |
|---|---|---|
| **Executive directors** | | |
| HJ Verster | 1 600 000 | 1 600 000 |
| AD Maharaj[1] | 583 334 | 583 334 |
| **Sub-total** | 2 183 334 | 2 183 334 |
| **Prescribed officers and highest paid employees** | | |
| J Kotze | 483 000 | 483 000 |
| G Nagpal[2] | 1 266 667 | – |
| JPS Olivier | 1 200 000 | 1 200 000 |
| **Sub-total** | 2 949 667 | 1 683 000 |
| **Total** | 5 133 001 | 3 866 334 |

[1] *AD Maharaj resigned as chief financial officer, effective 30 September 2021.*
[2] *G Nagpal appointed as chief marketing officer, effective 1 April 2021.*

# Transformation, social and ethics committee report

**ArcelorMittal South Africa is committed to continuous growth in its contribution as a good corporate citizen for the benefit of all its stakeholders. This continues to be important during the ongoing Covid-19 pandemic and lockdowns as the impact on the business, employees, communities, suppliers and all stakeholders was significant.**

## Composition

The committee consists of a majority of independent non-executive directors and is chaired by a non-executive director. The chief executive officer is a member of the committee and the general manager: human resources and transformation attends all meetings.

The composition of the committee is:

- NP Gosa (non-executive chairperson)
- D Earp (independent non-executive director)
- PM Makwana (independent non-executive director)
- NP Mnxasana (independent non-executive director)
- KM Musonda (independent non-executive director)
- N Nicolau (independent non-executive director)
- R Karol (non-executive director)
- HJ Verster (chief executive officer).

The qualifications of the members and details of the committee meetings attended by each of the members are set out on pages 16 and 17 of this report.

### Meetings

During the year under review, the committee met three times. In addition to the three committee meetings, a B-BBEE workshop was held on 15 October 2021, on transformation. The workshop was attended by the transformation, social & ethics (TSEC) and human resources, remuneration & nominations (HRRN) committees. This workshop was specifically held to focus on transformation and other items impacting the company's B-BBEE scorecard.

The outcome of the workshop was reported to the board, this included the areas for improvement and the strategy going forward to effect the improvements required. The actions agreed will be implemented by management and monitored through the TSEC.

## Responsibilities

In terms of its statutory duties, the committee has a duty to assist the board with monitoring and reporting on social, ethical, transformational and sustainability issues, including but not limited to:

- Monitoring the transformation, social, economic, governance, employment and environmental activities of the company
- Bringing matters relating to these activities to the attention of the board as appropriate
- Reporting annually to shareholders on matters within the scope of its responsibilities.

The specific activities required to be monitored by the committee include the company's adherence to legislation, regulations and codes of best practice relating to:

- Transformation, social and economic development, including the company's standing relative to the United Nations Global Compact Principles, the Organisation for Economic Cooperation and Development's recommendations regarding the combating of corruption, and South Africa's Employment Equity Act and B-BBEE Act
- Good corporate citizenship, including the company's positioning and efforts in promoting equality, preventing unfair discrimination and combating corruption, the group's contribution to the development of communities in which it operates or markets its products and the group's record of sponsorships, donations and charitable giving
- The environment, health and public safety, including the impacts of the company's activities and products on the environment and society
- Consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws
- Labour and employment, including the company's standing relative to the International Labour Organisation's Protocol on decent work and working conditions, and the company's employment relationships and contribution to the educational development of its employees.

In addition to these statutory functions, the committee's terms of reference record its role in encouraging the board to adopt leading practice in relation to social and ethics matters by progressing beyond mere compliance and adding value in its oversight function as recommended by the King IV Report. While the committee considers matters that are also dealt with by other committees, for example, environmental and social matters, the role of this committee is to ensure that it supports the board in ensuring effective direction and integration of key environmental, social and governance approaches for the company, as well as regarding the United Nations Sustainable Development Goals. The TSEC acts as the social conscience of the company and ensures that good corporate citizenship is upheld.

**Noluthando Gosa**
Chairperson

12 April 2021

# Safety, health and environment committee report

## ArcelorMittal South Africa is committed to continuous improvement in relation to the safety and wellbeing of employees and contractors as well as to the decarbonisation plans and targets that have been set.

### Composition

The committee consists of a majority of independent non-executive directors and is chaired by an independent non-executive director. The chief executive officer is a member of the committee and the standing invitees to meetings include union representatives and management across the operational areas of the business.

The composition of the committee is:

- NF Nicolau (independent non-executive chairperson)
- LC Cele (independent non-executive director)
- NP Mnxasana (independent non-executive director)
- GS Gouws (non-executive director)
- HJ Verster (chief executive officer).

The qualifications of the members and details of the committee meetings attended by each of the members are set out on pages 16 and 17 of this report.

### Meetings

During the year under review, the committee met three times. The chairperson reports back to the board on any material matters arising from the meetings, recommendations that require board approval or action and any significant matters for approval. The focus areas for 2021 and the major items dealt with by the committee are detailed below.

### Responsibilities

The committee assists the board with monitoring and reporting on SHE-related matters, including but not limited to:

- Ensuring investigation and proper management of incidents related to SHE
- Ensuring that risks relevant to SHE are identified and mitigated
- Exercising oversight over SHE policies and strategy performance with exception of monitoring the budget and implementation of capital expenditure plans which fall within the ambit of the audit and risk committee
- Bringing matters relating to these activities to the attention of the board as appropriate.

In addition to these functions, the committee's terms of reference record its role in reviewing SHE-related matters and making appropriate recommendations to the board in addition to the compliance, and adding value in its oversight function as recommended by the King IV Report. In certain respects there may seem to be an overlap between the functions of the committees although this is not necessarily the case as each committee has specific roles and responsibilities that it is charged with.

### Functions of the committee

The committee regulated its affairs in compliance with its terms of reference, and discharged all of the responsibilities set out therein. During the financial year under review, the committee carried out its functions by considering, among others, the following matters:

- Specific high-impact incidents
- Covid-19 and the associated protocols and vaccinations
- The management of safety, health and the environment in alignment with the company's strategy
- Corporate SHE-related strategies and policies
- Major SHE-related projects
- SHE-related impacts on the company
- SHE performance, progress and continuous improvement.

The committees focus areas for 2021 included:

### Safety

Workplace safety remains the committee's primary focus area. The committee supports the board and Exco in managing the performance and culture, and great focus was placed on improvement in this regard.

Key decisions on safety policy are discussed at committee meetings, which include Trade Union members as invitees. While also focusing on the appropriate strategy and culture, the major incidents that occurred during the year were also reported on and discussed to understand the root causes, the adequacy of remedial action and ongoing risks.

The benefits garnered from the ArcelorMittal group and especially the Brazilian operations in respect of safety methodology and culture have been significant and are starting to yield the desired improvements. The process of adopting the Brazilian methodology is ongoing, and specific areas have been identified which are closely monitored and reported on. More information on safety can be found from pages 28 to 31 of this report

### Health

Covid-19 continued to pose risks to the company during 2021. The pandemic and its effects were monitored by the committee. The company's facilities were made available for the administering of vaccinations and all employees and contractors are encouraged to be vaccinated. The vaccination programme has progressed well with 2 506 vaccinations being administered during the 2021 year. As at 31 December 2021, 21.89% of the workforce had tested positive for Covid-19 since the start of the pandemic.

Hygiene throughout the company's operations and general employee wellness were monitored through 2021. More information on Covid-19 and health can be found from page 30 of this report.

# Safety, health and environment committee report continued

## Environment

Environmental matters and the decarbonisation journey have been a focus area for the committee.

The ArcelorMittal group interventions include the company's decarbonisation plan which addresses a pathway to achieve a 25% reduction in group-wide carbon emissions intensity by 2030. We are aligned with the group with regard to the improvement of climate change related performance.

In this context, the environmental strategy was reviewed in 2021. The process to develop firm targets has commenced and these will be announced during 2022.

Emissions, water use, waste management and the implementation of technologies to improve environmental performance were addressed in detail throughout 2021. More information on environmental matters can be found on pages 30 and 31 of this report.

## Projects for 2022

The focus of the committee will continue in 2022 in respect of:
- Oversight of safety performance and culture
- Monitoring the company's Covid-19 response
- Monitoring the company's decarbonisation plans and progress
- Monitoring environmental compliance.

## Conclusion

The safety performance in 2021 was poor. Progress has been made in improving safety performance and culture and the primary focus of the committee will remain on this area. It is expected that the continued focus at board, committee and Exco levels along with the enhanced communication and a training and safety culture, will result in the desired level of safety performance being achieved.

The committee extends its condolences to the families and colleagues of Thami Sampo Molefe, Lesenyeho Mofokeng, Mpho Meshack Madumisa, Michael Linda Magwaza, Teboho Anthony Motloung and Abram Mofokeng who passed away during 2021.

The committee believes that the key SHE matters are being addressed by the company. Appropriate policies and programmes have been adopted to achieve high SHE standards. Accordingly, the committee confirms that it has discharged its responsibilities appropriately during the year under review, in all material respects, and has achieved its objectives for the year under review.

**Neville Nicolau**
Chairperson

12 April 2022

# Assurance over the 2021 integrated reporting process – Internal Audit

## Background, scope and work performed

Management requested Internal Audit (IA) to conduct an assurance review over the process followed to compile the company's IR for the year ending 31 December 2021.

IA received the Project Plan for the 2021 IR from management against which the process was assessed. In addition, a tracking sheet of all meetings was compiled by management and reviewed by IA on an ongoing basis to ensure it was in line with the outstanding actions from the information requested from different management teams during meetings that were also attended by IA.

A Project Plan for the IR was compiled by management, containing the purpose, process, roles and responsibilities, focus areas and initiatives. In addition, a tracking sheet was compiled by the IR reporting team to keep track of all interviews with internal stakeholders, information requests sent out 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 IR. IA attended this briefing and closely monitored the IR 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 IR team in an advisory capacity and observed the process.

## Overall conclusion

Internal Audit is satisfied that the IR 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**
Region Head: Internal Audit & SOx – Africa, Middle East and Asia

# Corporate information

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

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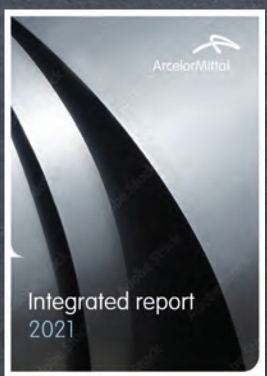


A printed copy of the ArcelorMittal South Africa integrated report can be requested by sending an email to: Veronique.Fernandes@arcelormittal.com

ArcelorMittal

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