ArcelorMittal

ArcelorMittal South Africa

Factor Report

May 2014

transformingtomorrow

Acknowledgements

This report has been commissioned by the Chairman of the Board and senior management of ArcelorMittal South Africa.

The execution of the ArcelorMittal South Africa Factor project was led by a dedicated team from ArcelorMittal South Africa's Corporate Affairs Division between November 2013 to February 2014, under the guidance of a steering committee consisting of the Executive Committee and selected members of the Board of Directors.

Data and insight was provided by an internal working team made up of senior ArcelorMittal South Africa experts from a wide range of functional divisions.

A team from the Boston Consulting Group (BCG), including experts from BCG's Sustainability Group, provided external expertise and independent support for assessment of ArcelorMittal South Africa's footprint. BCG is a global management consulting firm and a leading advisor on business strategy.

The World Business Council for Sustainable Development (WBCSD) sponsored the development of the Measuring Impact Framework which was used as a template to develop a tailored methodology for the ArcelorMittal South Africa factor. The WBCSD is a CEO-led global association of around 200 companies dedicated to issues of sustainable development in business

We would like to thank all those who have contributed to this company-wide assessment for their commitment to increase transparency and awareness of ArcelorMittal South Africa's footprint in South Africa.

Safety
Creating a safe environment for all to live and work in

Customer focus
Building long term win-win partnerships

Commitment
Solution focused, delivering to our best

Caring
Fostering authentic relationships, valuing everyone

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1. Executive summary

Corporate responsibility is at the core of ArcelorMittal South Africa's business strategy, with a focus on four key areas:

- People investment.
- Making steel more sustainable.
- Enriching local communities.
- Ensuring transparent governance.

ArcelorMittal South Africa has undertaken to measure and assess the social, environmental, and economic impact that it has on South African society and to communicate these findings through the ArcelorMittal South Africa factor report. Specifically, key objectives were to:

- Develop an actionable methodology for measuring the social, environmental and economic impact of ArcelorMittal's operations on South African society. The methodology should be tailored to ArcelorMittal specific context and detailed into pragmatic and actionable steps.
- Apply the full methodology (including measuring actual impact) to all local operations and generate sustainability outcomes.
- Create a report outlining the sustainability findings for distribution to key stakeholders.

The findings are presented in this ArcelorMittal South Africa Factor report.

The ArcelorMittal South Africa Factor identified six main pillars or areas of influence for ArcelorMittal South Africa, namely:

- Economic growth engine.
- Employer, job creator, and skills developer.
- Impact on local communities.
- Environmental footprint.
- Enabler of South Africa's development through supply of steel.
- Catalyst for change in South Africa.

Economic growth engine

- **R27bn (0.9 %)** in direct GDP and **R11bn (0.4 %)** in indirect GDP contribution.
- **R47m** in economic value contribution in 2013.
- **R1.5bn** in taxes contributed.
- **R2.0bn** in procurement spend on QSE and EME.

Employer, job creator and skills developer

- Over **14 800** people in direct employment due to ArcelorMittal South Africa.
- Over **120 000** training seats provided with **R138m** invested in training.
- **R42m** invested in technical training; Multiple global steel innovations introduced to South Africa.
- **R25bn** spent on over **2000** suppliers, but more emphasis on supplier development required.

Impact on local communities

- **70%** of new recruits employed locally; **16m tonnes** of material transported on local road and rail.
- **40 local community organisations** engaged in 2013, with outcomes documented.
- **24%** spent **(R5.9bn)** on local suppliers of which **R1.0bn** on QSE and EME.
- **R40m** invested in local communities in 2013.

Environmental footprint

- **125PJ** of energy **17.5bn litres** of water abstracted and **13.4m tonnes** of raw material consumed.
- **48%** improvement in water abstraction since 2005. Continuously improving effluents management.
- **15.2m** tonnes Scope 1 and 2 CO_2 emitted.
- **2.5kt** of dust and **23.5kt** of SO_2 emissions per annum.
- **1.65m tonnes** by-products disposed of; **290ha** of land under restoration.

Enabler of South Africa's development through supply of steel

- **5m tonnes** of steel produced with **~60% o**f South African steel supplied by ArcelorMittal South Africa supporting key domestic industries.
- **3.5 formal jobs created** economy-wide for every **R1m** spent by ArcelorMittal South Africa.
- Developed local steel processing industries through joint ventures. Export rebates of **R213m** paid out to local companies in 2013.

Catalyst for change in South Africa

- **8 819** received health & safety and **1 667** received anti-corruption training.
- **11%** female employment, **57%** HDSA employment and **75%** unionisation.
- **ArcelorMittal South Africa at B-BBEE Level 7.**
- **Open disclosure** of financial, environmental and social indicators.
- **Voluntary participants** in several debates at national level.

Mostly positive | Positive and negative | Mostly negative

Economic | Social | Environmental

Note: All figures as of 2013
Source: ArcelorMittal South Africa, internal data, BCG analysis
Figure 1. ArcelorMittal South Africa Factor summary.

Each pillar was assessed under a number of impact areas, and both impact areas and pillars were classified as having either mostly positive, positive and negative or mostly negative impacts.

1.1 Economic growth engine

Structural component of South Africa's economy
ArcelorMittal South Africa is South Africa's leading steel producer and contributes to GDP mainly through its steel production operations. Indirect GDP contribution results from activity related to erection of steel containing structures and steel based manufacturing as well as activities related to the supply of raw materials for steel manufacturing.

Challenging market environment
Value contributed reflects the economic value contributed directly created by ArcelorMittal South Africa and is equal to total revenues less incurred expenses. Economic value contribute in 2013 was R47m despite a challenging market environment.

Supporting national endeavours
As a major corporation citizen ArcelorMittal South Africa is a major South African taxpayer. ArcelorMittal South Africa's share of taxes contributed to SARS amounted to R1.5bn in 2013 including both corporate and employee taxes paid.

Supporting broad-based economic activity
ArcelorMittal South Africa has a potentially significant role to play in developing and supporting economic activity among South Africans. R2.0bn was spent on QSE and EME (7.9% of total spend) companies in 2013.

1.2 Employer, job creator and skills developer

Long term job provider
ArcelorMittal South Africa and its predecessor Iscor have been providing employment within South Africa for over 85 years. In 2013, nearly 9 000 people were directly employed by ArcelorMittal South Africa, the majority of whom were in skilled jobs. Including indirect employees, total employment due to ArcelorMittal South Africa amounted to over 14 800.

Focus on training and development
As a major player in a skills-based industry, ArcelorMittal South Africa recognises the importance of training and development. In 2013, ArcelorMittal South Africa provided over 120 000 seats in technical, health & safety and administrative trainings. In addition, ArcelorMittal South Africa supported development of ~1 800 learners and apprentices. In all a total investment of R138m was made in training across all levels, both within and without ArcelorMittal South Africa.

Promoting technical innovation
As a part of a global multinational ArcelorMittal South Africa leverages innovations in steel from global operations and introduces them to South Africa, thus transferring valuable new skills and expertise e.g. pre-fabricated Arval steel products.

In 2013, ArcelorMittal South Africa invested R42m in technical training of engineers, artisans and apprentices to increase the local technical skills base.

Generating jobs through economic linkages
ArcelorMittal South Africa supports the local South African economy and creates jobs through its procurement spend. A total of R25bn was spent on more than 2 000 suppliers in 2013 of which R2.0bn was on 1079 small and micro enterprises. However, opportunity exists to actively develop supplier skills and capabilities through Enterprise Development programmes..

1.3 Impact on local communities

Driver of local economy
ArcelorMittal South Africa is a focus of economic activity at all its operational locations.

The steel value chain creates a number of direct and indirect jobs, many of which are in local communities.

Local impact is not all positive. Transportation of raw materials and finished goods, while creating employment, also creates environmental and noise pollution and in particular accidents. ArcelorMittal South Africa transports 62% of all material by rail thereby helping to reduce congestion on South Africa's roads.

Committed to improving community engagement
ArcelorMittal South Africa recognises the need for strong community relationships and is continuously working to improve its community engagement.

ArcelorMittal South Africa engaged with 40 local community organisations in 2013, with key concerns documented and response provided.

Moving towards increased spend with local suppliers
While a significant business partner, ArcelorMittal South Africa currently spends 24% of its procurement budget on local suppliers (based in towns where ArcelorMittal South Africa operates). Excluding state-owned companies and iron-ore suppliers, 34% of spend is on local businesses.

ArcelorMittal South Africa supports small local businesses with R1.0bn spent on QSEs and EMEs from local communities. However, ArcelorMittal South Africa is committed to increasing this further through enterprise development.

Striving towards better social services
ArcelorMittal South Africa's commitment to supporting and developing its communities has long been in evidence.

ArcelorMittal South Africa is committed to providing education, health, social upliftment and employee volunteering in the communities it serves. It supported two schools, three science centres, and a health clinic and rehabilitated 158 houses in 2013. ArcelorMittal South Africa also provides its employees with local and international volunteering opportunities for community projects.

1.4 Environmental footprint

Intensive use of resources
Steel production is a resource intensive industry. ArcelorMittal South Africa consumed a total of 125PJ of energy, abstracted 17.5bn litres of water and used 13.4m tonnes of raw materials in 2013, making it one of South Africa's largest consumers of key resources.

Improving effluents management
Since 2005, ArcelorMittal South Africa has been able to reduce its water abstraction for steel production by 48% and now has an abstraction rate below average for global steel companies.

ArcelorMittal South Africa is also continuously working towards improvements in effluent management in compliance with South African requirements at each of its operating sites.

CO_2 emissions
CO_2 is a significant contributor to climate change and a by-product of steel production. ArcelorMittal South Africa's CO_2 emissions footprint is significant with 15.2m tonnes of CO_2 emitted in 2013.

SO_2 and particulate emissions
ArcelorMittal South Africa is working to improve its dust and SO_2 based emissions performance. ArcelorMittal South Africa has invested R500m in dust extraction systems resulting in a reduction in particulate emissions to 2.5kt.

SO_2 emissions in general increased, mainly due to the increased sulphur content in the various coals used. Some improvement is foreseen when the idle sulphur recovery plants at Vanderbijlpark Works and Newcastle Works reach stable operating conditions after various maintenance problems are addressed.

By-products disposal, recycling and restoration
ArcelorMittal South Africa generates significant by-product volumes with 1.65m tonnes disposed in 2013.

Currently 39% of total by-product is land filled. However, opportunities are continuously sought to recycle or sell by-products whenever possible.

Recycling is a key initiative at ArcelorMittal South Africa with over 973 023 tonnes of scrap steel recycled annually.

To date, R220m has been invested in rehabilitation of 290ha at 6 historic waste disposal sites and effluent storage facilities.

1.5 Enabler of South Africa's development through the supply of steel

Major provider of domestic steel
Steel is at the heart of South Africa's ambitious plan to increase capital expenditure to 30% of GDP by 2030 as laid out in the National Development Plan (NDP). ArcelorMittal South Africa currently produces 5m tonnes of steel annually, providing 57% of domestic steel requirements in 2013 and can play a role in meeting the increased demand of the future.

ArcelorMittal South Africa provides steel for a range of domestic industries with the majority of supply (71%) going towards construction, automotive, mining, energy, and chemical and water sectors. As a major supplier to domestic industries, ArcelorMittal South Africa indirectly supports 9.7% of GDP and 900 000 jobs.

Benefits of local steel
The production of local steel is beneficial to the domestic economy by adding value of over R20bn in beneficiation over exporting raw materials; creating direct and indirect jobs, providing tax revenue for government (R294 per ton); and serving as a key factor in reducing supply lead times compared to imported steel. ArcelorMittal South Africa has a major role to play as the leading producer of South African steel.

Independent economic analysis calculates that 3.5 jobs are created economy-wide for every R1 m final demand by the iron and steel industry.

Supporter of domestic industries
The creation of downstream steel industries is key to maximising beneficiation. ArcelorMittal South Africa actively participates in developing and supporting secondary steel industries.

In 2013, ArcelorMittal South Africa paid out over R200m in export rebates to support financial sustainability of steel fabrication industries including pipes and tubes; forged products and automotive components.

1.6 Catalyst for change in South Africa

Leading the way in health & safety and anti-corruption

In 2013 over 8 800 employees received health and safety training. ArcelorMittal South Africa achieved zero fatalities in 2012 and 2013 with a lost-time injury rate of 0.56 which is below average for peer South African companies. ArcelorMittal South Africa has also adopted several health initiatives to ensure employee well-being.

A robust anti-corruption training programme is in place with over 1 600 employees trained in 2013 while audits resulting in corrective action are regularly conducted.

Employment equity and representation

ArcelorMittal South Africa is making improvements in employment equity. Female workforce participation has risen to 11% in 2013 from 9% in 2010 - below South Africa mining companies but above average for global steel companies. HDSA comprise 57% of employees, lower than average for peer South African companies. ArcelorMittal South Africa also supports worker's rights with a majority (75%) of ArcelorMittal South Africa employees unionised.

Supporting broad-based economic development

ArcelorMittal South Africa is certified at B-BBEE Level 7 based on efforts in management control, preferential procurement and socio-economic development.

Key areas for improvement include employment equity and supplier & enterprise development. In 2013, 5.2% of spend was with majority black owned and less than 9% on small and micro enterprises.

Transparency and following due process

ArcelorMittal South Africa sets an example for good governance practice.
Annual reports are published disclosing financial, environmental and social indicators that are in line with Global Reporting Initiative guidelines, and are supplemented by periodic financial and other reports.

As the subject of pending litigation, ArcelorMittal South Africa is currently following due process according to South African law in four legal cases.

Participation in national strategic debates

ArcelorMittal South Africa, as a key strategic company, voluntarily participates in multiple forums on matters of national and industrial significance. These include:

- Economic Forum of the Reserve Bank.
- Manufacturing Circle.
- Advisory board to the Minister of Higher Education.
- Working groups on environmental and safety issues.
- Industry trade organisations such as SAISI (South African Iron and Steel Institute) and SEIFSA (Steel and Engineering Industries Federation of South Africa).
- Department of Water and Environmental Affairs.

2. Introduction

ArcelorMittal South Africa is proud of its heritage in one of South Africa key strategic industries. As the leading producer of steel in South Africa, ArcelorMittal South Africa is in the fairly unique position of facing both the challenges of the global steel industry, as well as those specific to South Africa, and recognises that it has a responsibility to set an example through economic, social and environmental impacting activities.

ArcelorMittal South Africa as such has recently undertaken a project to complete the ArcelorMittal South Africa Factor assessment. This project had three aims:

- Develop a tailored, sustainable, and actionable methodology for measuring the social, environmental, and economic impact of ArcelorMittal South Africa's operations on South African society.
- Apply the methodology to local operations and generate sustainability outcomes.
- Create a report outlining the sustainability findings for distribution to key stakeholders.

This report – the ArcelorMittal South Africa Factor report contains the results of the project.

The project is an attempt to create an accurate and balanced view of ArcelorMittal South Africa's footprint on South Africa from a social, economic, and environmental perspective. This means identifying and recognising positive contributions by ArcelorMittal South Africa, but also seeking out priority areas where more work can and should be done.

This initial assessment is intended to be a baseline. Not only has required data been compiled to formulate the report, but a systematic and pragmatic approach has been developed that can be leveraged on an ongoing periodic basis to generate further reports and assessment to track ongoing impact and measure progress towards objective targets.

The aim is that the tools developed and report produced will enable an improved quality and level of engagement with ArcelorMittal South Africa's numerous stakeholders and partners in a mutually beneficial and sustainable manner.

3. Context

3.1 Background on ArcelorMittal South Africa

ArcelorMittal South Africa is the leading steel manufacturer in South Africa and Africa, and part of the ArcelorMittal group, the largest steel making company in the world with steelmaking and mining operations on four continents.

ArcelorMittal South Africa operates five plants in South Africa and has a total production capacity of 6.5m tonnes of liquid steel per annum. Its products service the construction (roofing, cladding, and rainwater goods) and heavy engineering sectors (mining equipment and heavy commercial vehicles), pipe and tube manufacturers, the automotive market, as well as the furniture and appliance manufacturing industries, packaging, cabling, fencing, and fertiliser industries.

Company

The revolution of the company to finally be called ArcelorMittal South Africa in 2006, started in 1910.

ArcelorMittal South Africa is the leading steel producer in Africa with an annual capacity of 6.5m tonnes liquid steel part of the global ArcelorMittal group.

ArcelorMittal South Africa has five plants in Vanderbijlpark, Vereeniging and Pretoria in Gauteng, Saldanha in Western Cape and Newcastle in Kwazulu-Natal.

South Africa

Financials

ArcelorMittal South Africa is a large company employing almost 9000 people directly with revenues of over R30bn annually.

However due to challenging market conditions, ArcelorMittal South Africa has reported a net loss during past three years.

Revenue (R bn)

Products

ArcelorMittal South Africa produces high quality steel for domestic use and export. ArcelorMittal South Africa supplies about 60% of South Africa's steel, with the majority used in construction, automotive, mining and energy industries.

ArcelorMittal South Africa produces flat and long steel products with wide-ranging applications, and has introduced innovations in South Africa to produce lighter, stronger and more environmentally friendly steel.

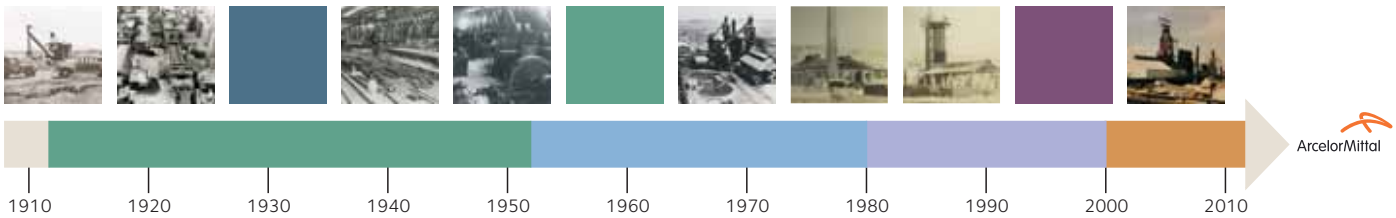
Figure 2. Overview of ArcelorMittal South Africa

Source: ArcelorMittal South Africa website.
Figure 3. ArcelorMittal South Africa operational sites

Operations include both steel operations at four major facilities producing both flat and long steel products, as well as a coke and chemicals business that produces market coke for the ferro-alloys industry. ArcelorMittal South Africa also operates coke batteries and is responsible for the processing and beneficiation of metallurgical and steel by-products, such as coal tar pitch. The company also holds a 6% stake in coal producer Coal of Africa as well as the rights to high quality iron ore reserves in mines in South Africa.

Most of ArcelorMittal South Africa's steel is used locally, with domestic sales accounting for 90% of ArcelorMittal South Africa's revenues, with the remaining 10% derived from selective export markets, particularly in Africa.

ArcelorMittal South Africa is one of South Africa's oldest industrial companies, dating back to its founding in 1928 as the parastatal Iscor. Iscor's transition to the ArcelorMittal group began in 2004 with the merger of Ispat International NV and LNM Holdings NV, the parent company of Ispat Iscor (as Iscor was known at the time). The new company operated under the new name of Mittal Steel South Africa Limited and in 2006 became ArcelorMittal South Africa following the merger of Arcelor and the Mittal Steel Company.



1912 - 1952

Beginnings of SA Steel Industry

- 1912: Union steel Co. Op South Africa formed (Vereeniging).
- 1916: Pretoria Works commissioned; Vereeniging Works commissioned. Transvaal Blast Furnace Company Limited formed.
- 1920: Newcastle works commissioned; Newcastle Iron and Steel Works, Limited formed.
- 1928: Iscor founded as a statutory parastatal.
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- 1942: Vanderbijlpark Works founded.
- 1943: Vanderbijlpark Works plate mill commissioned to support the South African war effort.
- 1947: Iscor starts trading.
- 1942 to 1952: Vanderbijlpark Works developed into a fully fledged integrated steelworks.

1952 - 1980

Expansion of production facilities

- 4 October 1952: Vanderbijlpark Works officially opened by the Gov. Gen. Dr E.G. Jansen.
- 1964 to 1969: Second development phase of Vanderbijlpark Works extends and modernise the older plant.
- 17 May 1969: Government approves construction of third fully integrated steel works at Newcastle.

1980 - 2000

Privatisation and business optimisation

- 1980's: South African government commits to privatisation of state run companies.
- Late 1980's: Capital expenditure aimed at productivity and quality improvements.
- 1989: Iscor is privatised with shares listed in the Johannesburg stock exchange.
- 1990's: Multiple process and productivity improvements across Iscor plants.
- 1998: Saldanha Steel (joint venture with IDC) commissioned.
- 1991: Iscor buys USCO's steel division.

2000 - Present

Formation of modern company

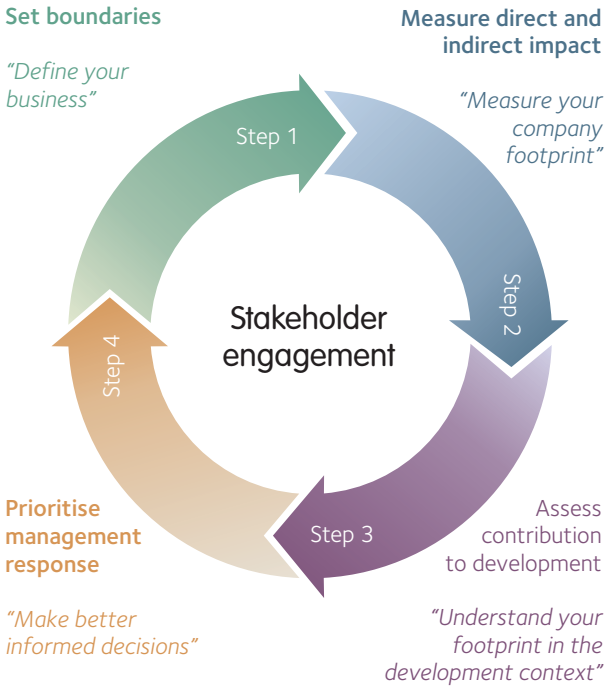
- 2001: Iscor is unbundled into Iscor and Kumba.
- 2001: Business assistance agreement signed with Anglo-Dutch steel producer, LNM holdings N.V.
- 2003: LNM offers R1.8bn buy-out.
- 17 August 2004: Iscor renamed Ispat Iscor limited.
- December 2004: Ispat International acquires LNM holdings, Ispat Iscor becomes Mittal Steel. company N.V.
- 14 March 2005: Ispat begins trading as Mittal Steel South Africa.
- 25 Jun 2006: Arcelor and Mittal Steel company announce merger to form ArcelorMittal Steel company.
- 3 October 2006: Mittal Steel South Africa begins trading as ArcelorMittal South Africa.

Source: ArcelorMittal South Africa website.
Figure 4. History of Steel and ArcelorMittal South Africa in South Africa

4. Methodology

The approach adopted in the development of the ArcelorMittal South Africa Factor report provides a template and guide for future iterations of the report. The basis for the methodology is the framework developed by the World Business Council for Sustainable Development

Four step framework underpins the methodology



Step

1. Set boundaries
2. Measure direct and indirect impact
3. Assess contribution to development
4. Prioritise management response.

Key activities

- Identify objective(s) for assessment.
- Define geographical scope of assessment.
- Collect development context information.
- Select business areas to be assessed.

- Identify sources of impact for each business activity.
- Identify relevant indicators for direct/indirect impacts.
- Measure impact.

- Determine level of stakeholder engagement.
- Engage with stakeholders to prioritise development issues[1].
- Build hypothesis of business contribution to development.
- Test hypothesis with stakeholders and refine overall assessment[1].

- Identify priority issues for action.
- Consider possible management responses and prepare recommendations for management.
- Decide on way forward.
- Develop indicators to monitor way forward.

Figure 5. WBCSD measuring impact framework methodology.

Further details on the approach can be found in the appendix.

5. The ArcelorMittal Factor summary

ArcelorMittal South Africa's impact on South Africa is summarized in six areas of impact covering social, environmental, and economic matters.

Each impact area is further broken down into a number of themes and each theme and impact area has been evaluated in terms of whether ArcelorMittal South Africa's impact or performance is mostly positive, a mix of both positive and negative, or mostly negative.

Each impact area is explored in detail in the following pages.

Economic growth engine

- **R27bn (0.9 %)** in direct GDP and **R11bn (0.4 %)** in indirect GDP contribution.
- **R47m** in economic value contribution in 2013.
- **R1.5bn** in taxes contributed.
- **R2.0bn** in procurement spend on QSE and EME.

Employer, job creator and skills developer

- Over **14 800** people in direct employment due to ArcelorMittal South Africa.
- Over **120 000** training seats provided with **R138m** invested in training.
- **R42m** invested in technical training; Multiple global steel innovations introduced to South Africa.
- **R25bn** spent on over **2000** suppliers, but more emphasis on supplier development required.

Impact on local communities

- **70%** of new recruits employed locally; **16m tonnes** of material transported on local road and rail.
- **40 local community organisations** engaged in 2013, with outcomes documented.
- **24%** spent **(R5.9bn)** on local suppliers of which **R1.0bn** on QSE and EME.
- **R40m** invested in local communities in 2013.

Environmental footprint

- **125PJ** of energy **17.5bn litres** of water abstracted and **13.4m tonnes** of raw material consumed.
- **48%** improvement in water abstraction since 2005. Continuously improving effluents management.
- **15.2m** tonnes Scope 1 and 2 CO_2 emitted.
- **2.5kt** of dust and **23.5kt** of SO_2 emissions per annum.
- **1.65m tonnes** by-products disposed of; **290ha** of land under restoration.

Enabler of South Africa's development through supply of steel

- **5m tonnes** of steel produced with **~60% of** South African steel supplied by ArcelorMittal South Africa supporting key domestic industries.
- **3.5 formal jobs created** economy-wide for every **R1m** spent by ArcelorMittal South Africa.
- Developed local steel processing industries through joint ventures. Export rebates of **R213m** paid out to local companies in 2013.

Catalyst for change in South Africa

- **8 819** received health & safety and **1 667** received anti-corruption training.
- **11%** female employment, **57%** HDSA employment and **75%** unionisation.
- **ArcelorMittal South Africa at B-BBEE Level 7.**
- **Open disclosure** of financial, environmental and social indicators.
- **Voluntary participants** in several debates at national level.

Mostly positive | Positive and negative | Mostly negative

Economic | Social | Environmental

Note: All figures as of 2013.
Source: ArcelorMittal South Africa, BCG analysis.
Figure 6. The ArcelorMittal South Africa Factor summary.

6. The ArcelorMittal South Africa Factor report

6.1 Economic growth engine

Economic growth engine examines ArcelorMittal South Africa's most direct contribution to the South African economy in terms of its impact on GDP as well as a result of the value added to the economy from capex, operations, and other operational expenditures; contribution through taxes to national revenue; and support for broad based economic development.

Structural components of South Africa's economy

ArcelorMittal South Africa is South Africa's leading steel producer and contributes to GDP mainly through its steel production operations. Indirect GDP contribution results from activity related to the erection of steel containing structures and steel based manufacturing as well as activities related to the supply of raw materials for steel manufacturing.

0.9% (R27bn) in direct GDP and **0.4% (R11bn)** in indirect GDP contribution.

Value add in a challenging market environment

Value contribution reflects the economic value directly created by ArcelorMittal South Africa and is equal to total revenues less incurred expenses . Economic value contribution in 2013 was R47m which represents an improvement over 2012, despite a continued challenging market environment.

R47m in economic contribution added in 2013.

Supporting national endeavours

As a major corporation, ArcelorMittal South Africa is a major South African taxpayer. ArcelorMittal South Africa's share of taxes contributed to SARS amounted to R1.5bn in 2013 including both corporate and employee taxes.

R1,5bn in taxes contributed.

Supporting broad-based economic activity

ArcelorMittal South Africa has a potentially significant role to play in developing and supporting economic activity among South Africans. R2.0bn was spent on QSE and EME (7.9% of total spend) companies in 2013.

R2.0Bbn procurement spent on QSE and EME.

Note: All figures as of 2013.
Source: 2013 Sustainability report, BCG analysis.
Figure 7. Economic growth engine.

6.1.1 Structural component of South Africa's economy

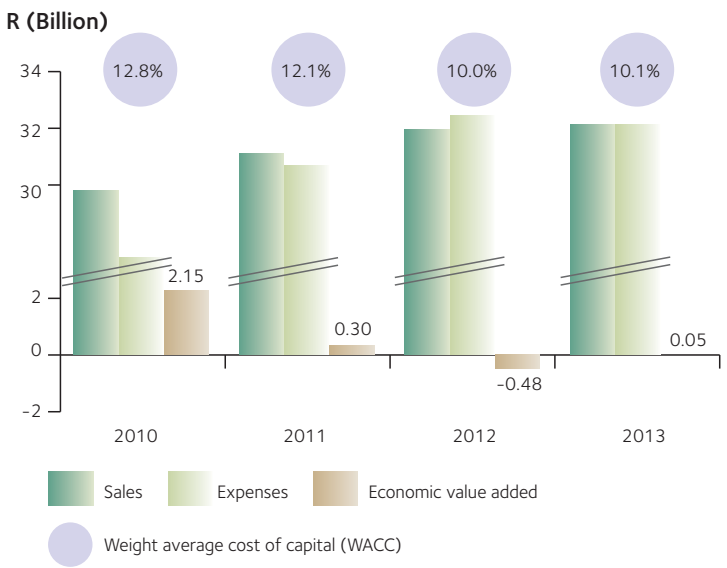
As South Africa's leading steel producer, ArcelorMittal South Africa plays a vital role in the economy. Direct GDP contribution reached R27bn or 0.9% in 2013. This contribution is based on ArcelorMittal South Africa's expenditure on raw materials, labour, capital expenditure, and services towards the production of steel at its operations throughout the country.

ArcelorMittal South Africa also has an indirect impact on GDP. This is basically the incremental value generated within the South African economy for each Rand derived from ArcelorMittal South Africa's steel production. The indirect contribution results from the GDP impact of the various suppliers, service providers, and other business that are supported by ArcelorMittal South Africa, pays taxes and employees, who in turn use their wages to purchase goods and services. The South African Institute of Steel Construction (SAISC) estimates that an additional R0.43 are generated for each Rand due to the manufacture of steel. When this indirect contribution is factored in total GDP contribution rises by a further R11bn to R38bn or approximately 1.3% of GDP.

6.1.2 Challenging market environment

In terms of economic value contributed, ArcelorMittal South Africa contributed R47m in 2013. Value contributed is calculated as the revenue remaining after deducting all operational expenses cost of labour, operations, and general administration has been deducted. This figure while positive and reversing a recent trend of negative value add, still trails the contribution from prior years and reflects the challenging market environment that ArcelorMittal South Africa found itself operating in.

Economic value contribution returned to positive in 2013 but is still below previous highs



Both domestic and international factors have contributed to low economic value contribution

Domestic factors
- Economic growth lower than anticipated in South Africa.
- Depressed building and construction industry.
- High electricity and raw materials costs.

International factors
- Influence of the Eurozone crisis.
- Slowdown in economic growth and reduced demand in China.

However, early signs indicate a potential increase in steel demand
- Vehicle sales rising.
- Increase in number of building plans passed.
- Increase in sales of construction and building materials.

Source: 2010-2013 Financial Statements, BCG analysis.
Figure 8. Economic value add for ArcelorMittal South Africa was positive in 2013.

6.1.3 Supporting national endeavours

For 2013, ArcelorMittal South Africa contributed a total of R1.5bn in taxes. Approximately a third of this amount was in the form of employee taxes paid, with another third in taxes paid to municipalities, and the remainder in net VAT payments. This figure represents a slight increase relative to 2012, due in part to the return to profitability.

Breakdown of 2013 tax contribution

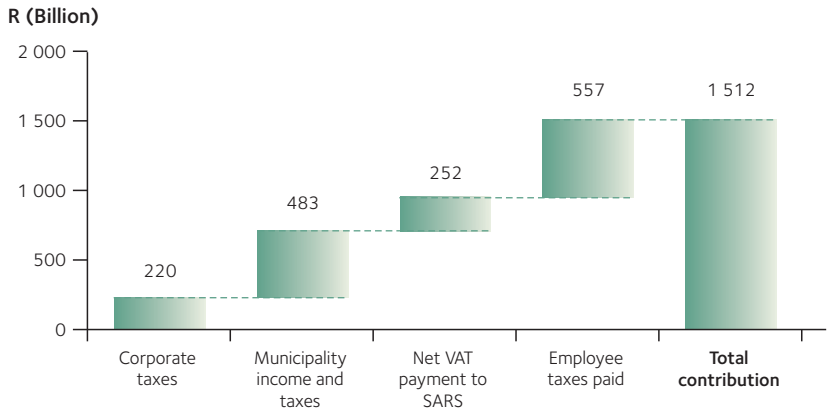
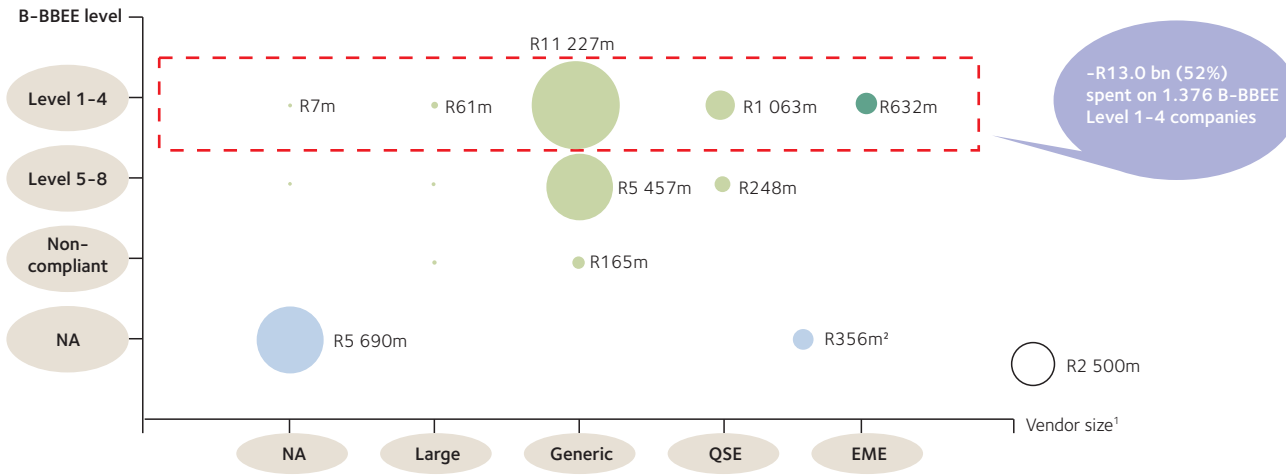


Figure 9. ArcelorMittal South Africa 2013 tax contribution.
Source: 2013 Sustainability Report

6.1.4 Supporting broad based economic development

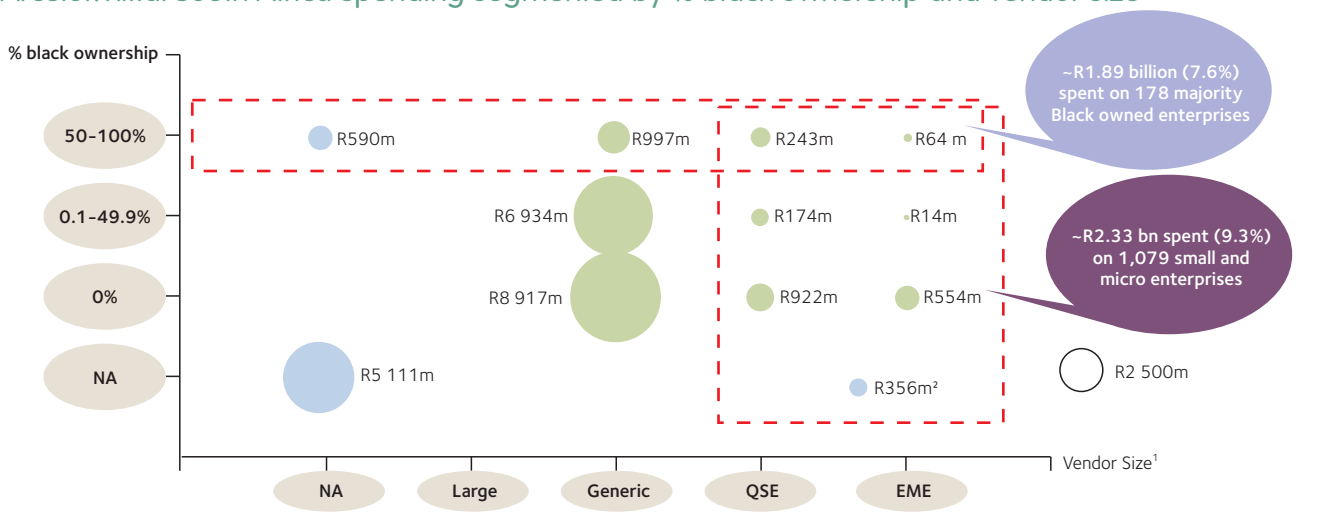
One of ArcelorMittal South Africa's key levers for impacting economic development is its procurement spend. In 2013 over 50% of ArcelorMittal South Africa's total procurement spend - approximately R13 bn - was with suppliers rated B-BBEE levels 1-4. While a portion of this spend came from the historically most disadvantaged sectors of the community, there is scope to increase this amount substantially: Currently 7.6% of procurement spend is with majority black owned enterprises (and 2.3% of spend on 30% or more black female owned companies), and 9.3% with small and micro enterprises.

ArcelorMittal South Africa spending segmented by B-BBEE level and vendor size



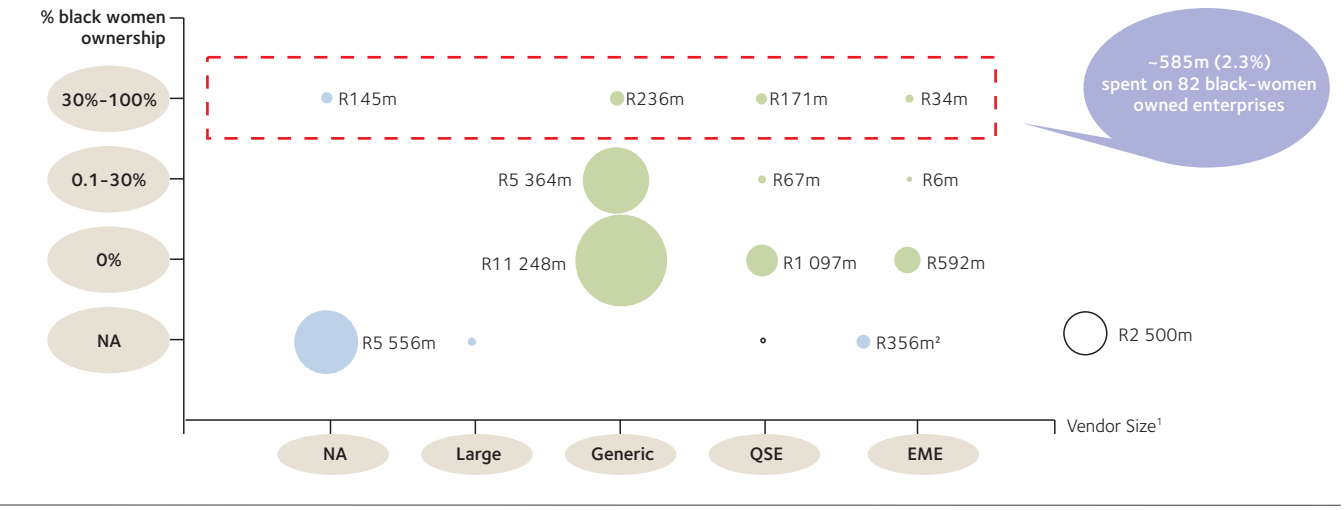
1. Using B-BBEE classification for vendor size based on annual turnover; Exempted Micro Enterprise (EME) <R5m, Qualifying Small Enterprise (QSE) between R5m and R35m and Generic with >R35m 2. B-BBEE level for R356m QSE & EME spend not available and could not be disaggregated
Source: ArcelorMittal South Africa internal data, BCG analysis
Figure 10. 52% of total procurement spend on B-BBEE Level 1-4.

ArcelorMittal South Africa spending segmented by % black ownership and vendor size



1. Using B-BBEE classification for vendor size based on annual turnover; Exempted Micro Enterprise (EME) <R5m, Qualifying Small Enterprise (QSE) between R5m and R35m and Generic with >R35m 2. Data for R356m QSE & EME spend not available to be disaggregated.
Source: ArcelorMittal South Africa, BCG analysis.
Figure 11. QSE, EME represent 9% of overall procurement spend while black owned enterprises account for 8%.

ArcelorMittal South Africa spending segmented by % black women ownership and vendor size



1. Using B-BBEE classification for vendor size based on annual turnover; Exempted Micro Enterprise (EME) <R5m, Qualifying Small Enterprise (QSE) between R5m and R35m and Generic with >R35m 2. Black ownership data for R356m of total QSE & EME spend not available and could not be disaggregated.
Source: ArcelorMittal South Africa, BCG analysis.
Figure 12. ArcelorMittal South Africa spent R585m (2.3% of total procurement) on companies with 30% or more black women ownership in 2013.

6.2 Employer, job creator and skills developer

The employer, job creator, and skills developer impact area looks at the role ArcelorMittal South Africa plays as a source of direct and indirect employment, skills development through training and education, and job creation through its suppliers and partners.

Long term jobs provider

ArcelorMittal South Africa and its predecessor Iscor have been providing employment within South Africa for over 85 years.

In 2013, nearly 9 000 people were directly employed by ArcelorMittal South Africa, the majority of which were in skilled jobs. Including indirect employees, total employment due to ArcelorMittal South Africa is over 14 900.

Focus on training and development

As a major player in a skills-based industry, ArcelorMittal South Africa recognises the importance of training and development.

In 2013, ArcelorMittal South Africa provided over 120 000 seats in technical, health & safety and administrative training. In addition, ArcelorMittal South Africa supported the development of ~1800 learners and apprentices

In all a total investment of R138m was made in training across all levels, both within and without ArcelorMittal South Africa.

Promoting technical innovation

As a part of ArcelorMittal, ArcelorMittal South Africa leverages innovations in steel from global operations and introduces them to South Africa, transferring valuable new skills and expertise e.g. pre-fabricated Arval steel.

In 2013, ArcelorMittal South Africa invested R42m for technical training of engineers, artisans and apprentices to increase the local technical skill base.

Creating jobs through economic linkages

ArcelorMittal South Africa supports the local South African economy and creates jobs through its procurement spend. A total of R25bn was spent on more than 2 000 suppliers in 2013 of which R2.0bn was on 1 079 small and micro enterprises. However, opportunity exists to actively develop supplier skills and capabilities through Enterprise development programmes.

Over **14,900** jobs in direct employment due to ArcelorMittal South Africa.

Over **120,000** training seats provided with **R138m** invested in training.

R42m invested in technical training.
Multiple global steel innovations introduced to South Africa.

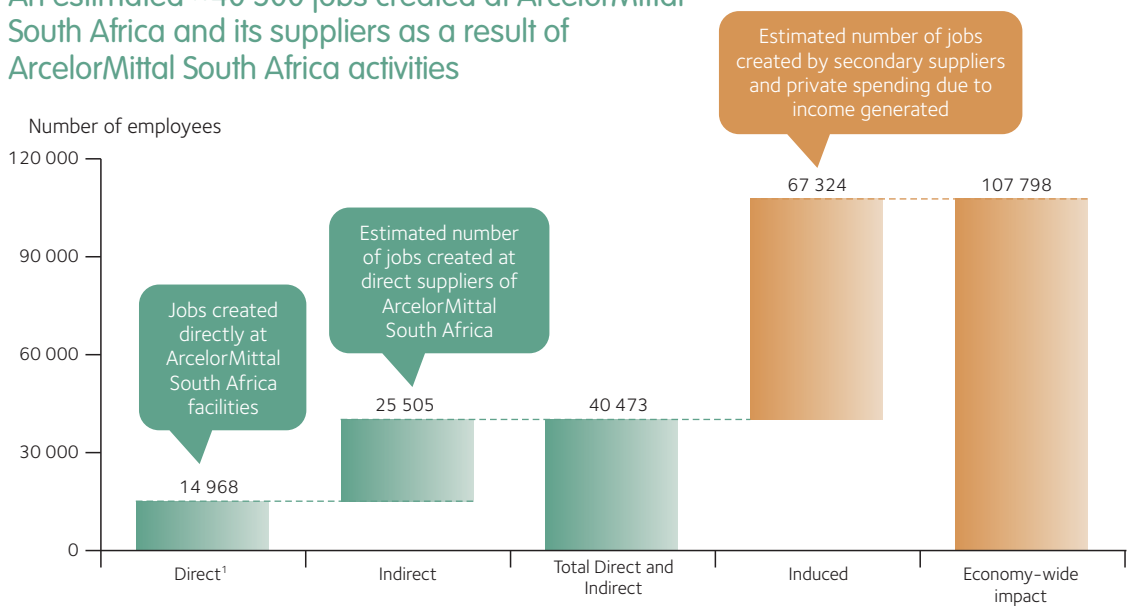
R25bn spent on over 2000 suppliers, but more emphasis on supplier development required.

Note: All figures as of 2013
Source: ArcelorMittal South Africa, BCG analysis.
Figure 13. Employer, job creator and skills developer.

6.2.1 Long term job provider

Since its founding in 1928, ArcelorMittal South Africa in various forms has been a provider of South African employment. With multiple family generations often having worked at ArcelorMittal South Africa facilities, it is in many ways a symbol of stable long term employment. In 2013 ArcelorMittal South Africa provided a total of 14 800 jobs at its various sites. Nearly 9 000 of these positions are direct or permanent employees, while just over 6 000 are comprised of hired or labour contractors. Black employees form the single largest employee group by race (49%) and the workforce is also predominately male (89%). 59% of permanent employees are in skilled roles. However, transformation in professional and management clusters is still lagging with 70% of positions filled by white employees. Specific employment equity measures have been identified to reverse this situation and increase HDSA representation.

An estimated ~40 500 jobs created at ArcelorMittal South Africa and its suppliers as a result of ArcelorMittal South Africa activities

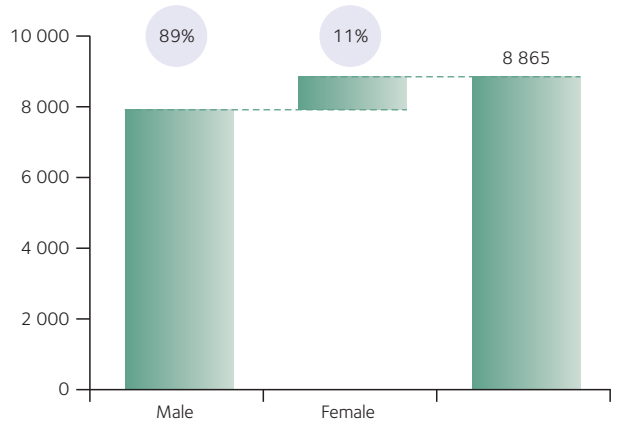


1. Includes service contractors and hired labourers working on site.

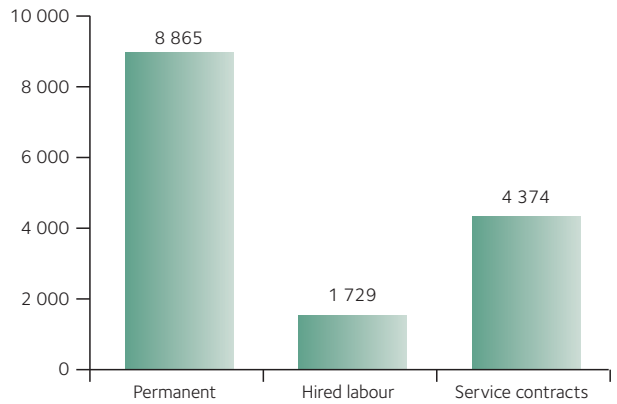
Note: Basic iron and steel multipliers for indirect employment is 0.82 jobs/R1m final demand and induced employment is 2.18 jobs/R1m final demand as estimated by Quantec Research. Multipliers include formal employment only and final demand assumed to be ArcelorMittal South Africa's operating expenditure of R3 274m in 2013.
Source: ArcelorMittal South Africa internal data, Quantec Industry Multipliers 2012, BCG analysis .

1. Includes service contractors and hired labourers working on site.
Note: Basic iron and steel multipliers for indirect employment is 0.82 jobs/R1m final demand and induced employment is 2.18 jobs/R1m final demand as estimated by Quantec Research. Multipliers include formal employment only and final demand assumed to be AMSA's operating expenditure of R32 374m in 2013.
Source: ArcelorMittal South Africa internal data, Quantec Industry Multipliers 2012, BCG analysis.
Figure 14. ArcelorMittal South Africa directly employs - 15 000 workers - but creates up to 107 800 jobs overall employs-wide employment.

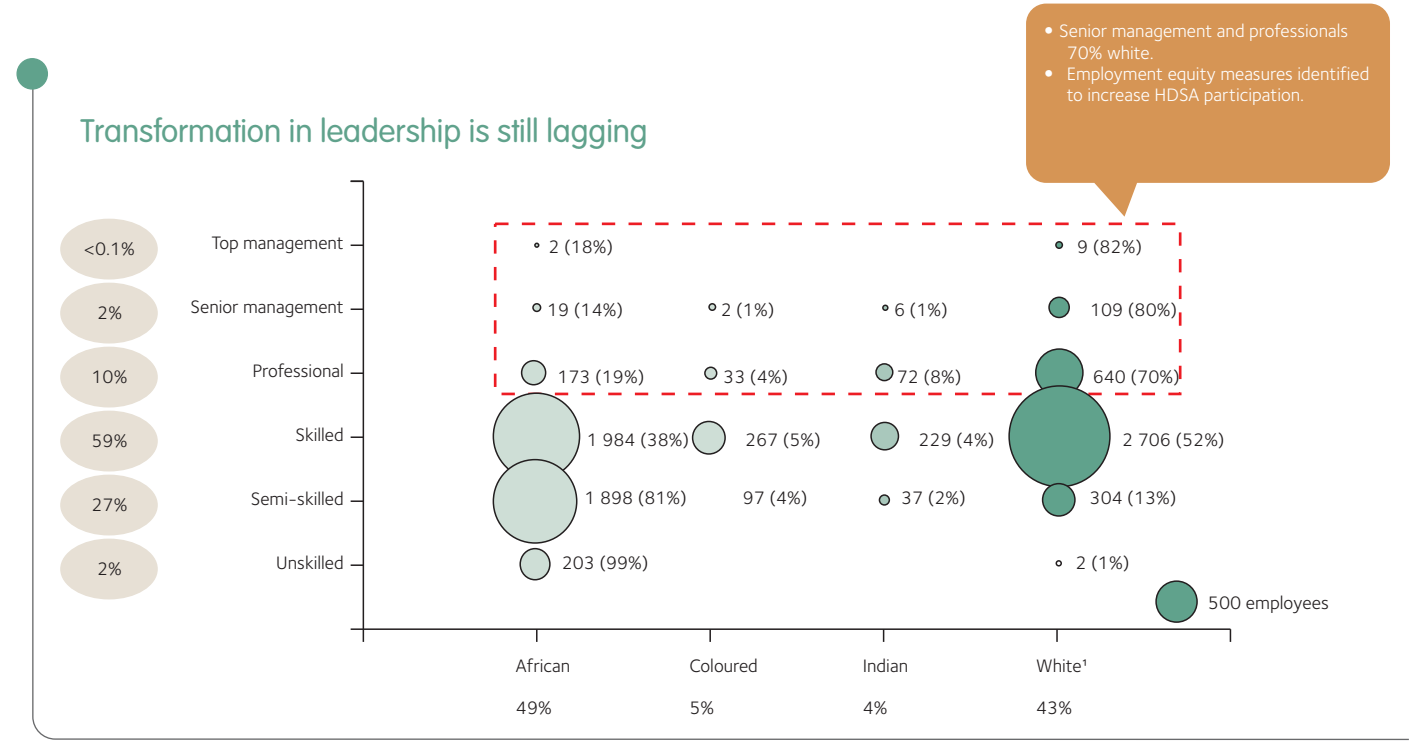
Workforce by gender



Workforce by permanent vs contracted



Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 15. Employee base is mostly male and permanent.



1. Foreign nationals designated as White.
Note: Temporary workers (n=102) excluded from analysis.
Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 16. Transformation in leadership positions still lagging but measures to increase HDSA participation have been identified.

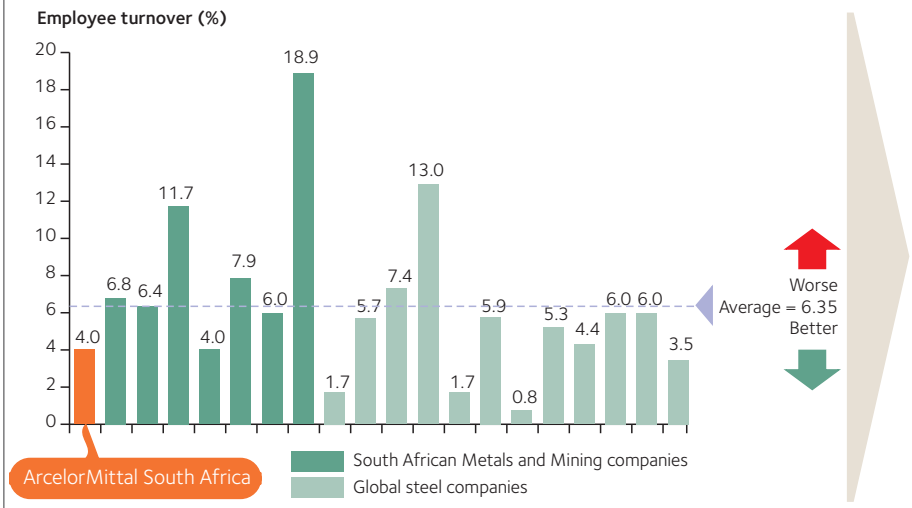
Employment impact, however, is not just limited to the direct jobs that ArcelorMittal South Africa provides. Independent economics consulting firm Quantec estimates that 0.82 jobs in indirect and 2.18 jobs in induced employment result from every R1 m of steel demand. These jobs are found in the suppliers that support ArcelorMittal South Africa (and other steel companies) directly, and in the services that develop to serve these suppliers and the employees that work for them. This means that in total, ArcelorMittal South Africa is directly or indirectly the source of approximately 107 800 jobs within South Africa. If it is assumed that each job can support a household of four, on average, the total population supported by ArcelorMittal South Africa is around 431 200.

ArcelorMittal South Africa's role as long term employer is evidenced by an employee retention rate that compares favourably, not only to fellow South African industrial companies but also to global steel companies.

Several factors contribute to low turnover. First, as a long term community citizen ArcelorMittal South Africa is often regarded as a stable employer of choice. In many cases, loyalty is developed to ArcelorMittal South Africa, with many employees opting to stay till retirement age. ArcelorMittal South Africa also is widely regarded as offering some of the best training and career development opportunities within the communities in which it operates.

At the same time it should be noted that some segments of the population are heavily desired within South Africa, and so challenges exist in trying to retain them within the organisation. In particular skilled black employees have a higher turnover rate than the overall workforce and retention strategies need to be revised to ensure essential skills that are developed remain within ArcelorMittal South Africa.

ArcelorMittal South Africa employee turnover relatively low



Perspective on low turnover

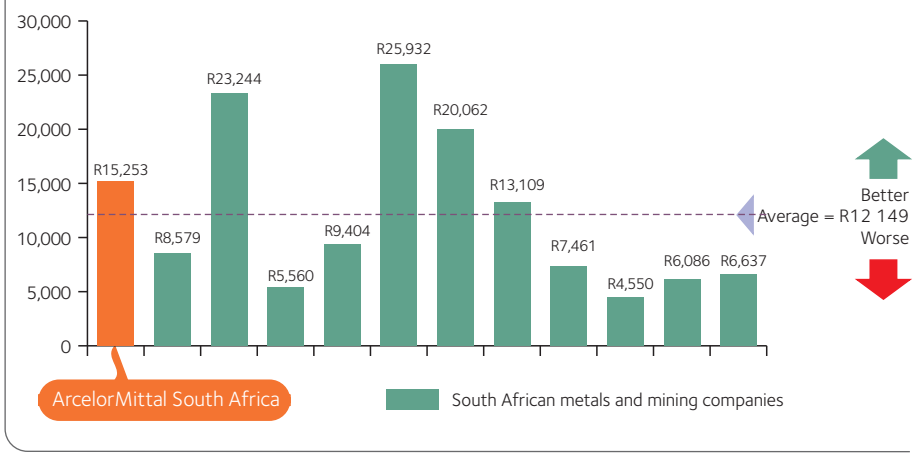
- ArcelorMittal South Africa regarded as employer of choice providing stable jobs in local communities.
- Employees develop loyalty to ArcelorMittal South Africa with many opting to stay till retirement age.
- Provides one of the best training and career development opportunities in their local communities.
- However, skilled black employees have higher turnover due to better pay offers employee retention process needs to be revised to retain essential skills or training efforts leveraged towards producing skilled black employees.

Note: Peer group companies selected include mining, metals and steel companies.
Source: ArcelorMittal South Africa internal data, company sustainability reports, BCG analysis.
Figure 17. ArcelorMittal South Africa's turnover rate is comparably low.

6.22 Focus on training and development

The production of steel requires specialised skills that are not always in plentiful supply in South Africa. ArcelorMittal South Africa recognises the need to develop skills within the labour force as vital to the sustainable production of steel and this is reflected in its commitment to skills and training, which is above most comparable peers in South Africa.

Training spend (Rand/employee)



Note: Peer group companies selected include mining, metals and steel companies.
Source: ArcelorMittal South Africa internal data, company sustainability reports, BCG analysis.
Figure 18. ArcelorMittal South Africa with above average training spend per employee.

In 2013 ArcelorMittal South Africa provided 120,800 training opportunities at a total cost of R138.1m. Significant training and career development opportunities are afforded to employees, but also ArcelorMittal South Africa provides training support at all stages in the learning and employee pipeline.

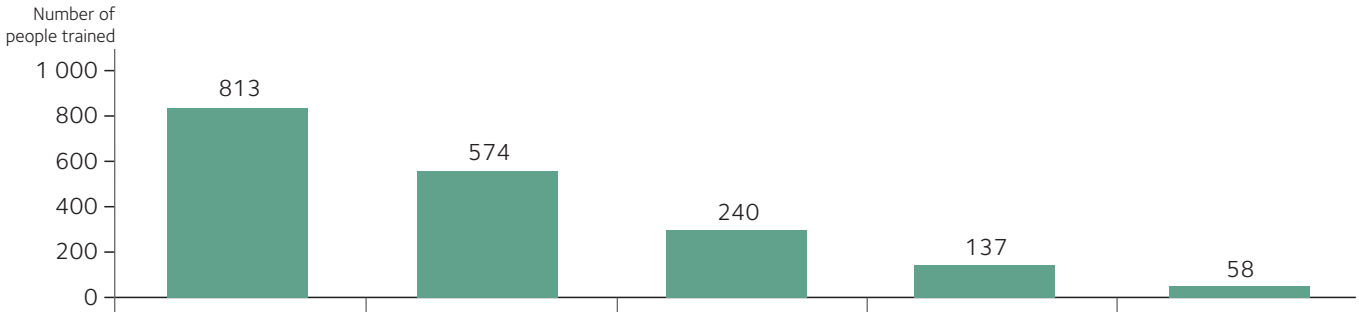
A wide range of training programmes are provided targeted at different audiences and aimed at preparing a highly competent workforce with a focus on achieving employment equity. A significant portion of trainees are comprised of HDSA groups.

Current employees are also exposed to different training programs tailored specifically to help them progress up the career ladder at ArcelorMittal South Africa.

	Employee training	Learner pipeline	Bursaries	Science Centres
Description	Training on operations, leadership, health & safety, environment, IT.	Nationally recognised training for artisans and production workers.	Sponsor talented students to obtain skills relevant for ArcelorMittal South Africa.	Additional maths and science training for high school students.
Target group	Current employees.	Apprentices and production learners.	University and technikon bursars.	Local high school students.
Training location	Production plant and corporate centre.	ArcelorMittal South Africa training facility at Vanderbijlpark Works.	South African Universities and Technikons.	ArcelorMittal South Africa Science Centres.
No. of people	14 277	1 455	137	24 800
No. of seats[1]	117 015	42 748	N/A	N/A
Rand invested	25m	62m	19m	12m

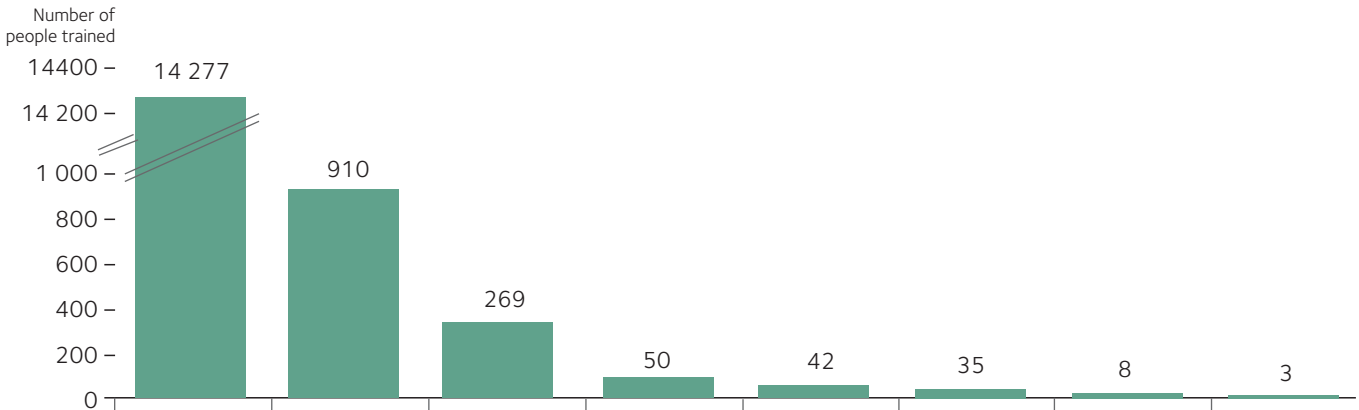
1. Number of training seats calculated as a sum of attendees at all training sessions conducted for ArcelorMittal South Africa permanent or contract employees
Source: ArcelorMittal South Africa internal data.
Figure 19. Overall ArcelorMittal South Africa with relatively strong commitment to training.

~90% of candidates in training pipeline from HDSA groups



	Production learner training	Accelerated artisan training programme	Candidate programme	Bursaries	Learner technicians
Description	A three year programme in metals manufacturing where production learners are prepared to become production employees.	18 months apprenticeship where an individual is trained to become an artisan.	One to two year internship program for candidates to acquire practical experience before becoming fully qualified.	A two or four year academic programme at a University to prepare technicians and engineers for ArcelorMittal South Africa.	One year programme where University of Technology students obtain their practical industry training to qualify for their diploma.
Target groups	• Production learners.	• Apprentices.	• Candidate engineers. • Candidate technicians. • Candidate artisans. • Graduate in training. • Artisans.	• University bursars. • Technikon bursars.	• Learner technicians.

Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 20. ArcelorMittal South Africa training programs prepare a highly competent future workforce with focus on achieving employment equity.



	Employee and contractor training	Core Leadership and Management Skills (CLMS)	Junior Management Programme	Virtual training ArcelorMittal University	ArcelorMittal South Africa career development programme	Management Advanced Programme (MAP)	Future Finance Leadership Programme (FFLP)	Women in leadership
Training description	Regular training on operational, technical, health & safety, environment and anti-corruption issues.	Training to for executives to develop their ArcelorMittal values and competencies.	A compulsory skills programme for supervisors with different NQF exit levels.	Virtual classroom training including energy, steel making, BOF and refractory training	Explore, Challenge and Pioneer programmes prepare different levels of talent for leadership positions.	An one year programme for middle managers presented by Wits Business School.	An 18-month programme to train and develop capabilities in finance.	Learning programme consisting of a three day residential session, projects and networking events.
Group training	All employees and contractors.	Executives.	Junior management.	Selected employees.	Selected employees.	Selected specialists.	Financial employees.	Selected female employees.

Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 21. ArcelorMittal South Africa provides comprehensive training and career development opportunities for its employees.

6.2.3 Promoting technical innovation

As part of the largest steel company in the world, ArcelorMittal South Africa is uniquely positioned to be able to draw on technical innovations and improvements developed in other markets and apply them to South Africa. Several innovations have been introduced or are currently in development including improvements to the steel manufacturing process, new materials, and products that improve the strength, corrosion resistance, and durability of steel produced in South Africa. This has resulted in a range of new products or applications, but has also reduced the energy and material requirements (per ton of steel) in production as well as, in some cases, usage (e.g. automobiles). ArcelorMittal South Africa has been particularly innovative in the area of steel development for the automotive industry. These developments also make steel more competitive in certain applications that have traditionally favoured aluminium. This matters because the energy required to make aluminium is significantly more than that required to make the same amount of steel.

Industry				Construction	Mining	
		Construction	Automotive	Automotive, other	Agriculture	Beverage
Innovations introduced		Arval steel	New coating materials	Automotive technology	New products	Improved tin plate/ DWI material
Benefits	Stronger steel	Less pre-fabricated steel required in construction due to higher strength.	Increased resistance to corrosion especially in coastal areas.	Higher strength steel increase range of automotive applications.		
	Lighter steel	Steel is also lighter therefore less required.	Lighter coating metal layers make steel up to 4 % lighter.	Lighter steel competes with aluminium.		Lighter steel viable competitor to Al cans.
	Product variety		Metals with less coating are up to 4% lighter.	Metals with less coating are up to 4% lighter.	Increased range of products e.g. In mining bar & wire products.	Cans with thinner walls possible, reduces steel required per can.
	Environ-mentally friendly		Chrome free organic coating are more eco-friendly.	Overall less energy used in manufacture and by vehicles.	Specialised products for specific industries now available in South Africa.	
	Energy efficient		Thinner layers require less electricity to deposit.	Less energy required to produce steel vs aluminium.		Less steel means less energy required to produce each can.

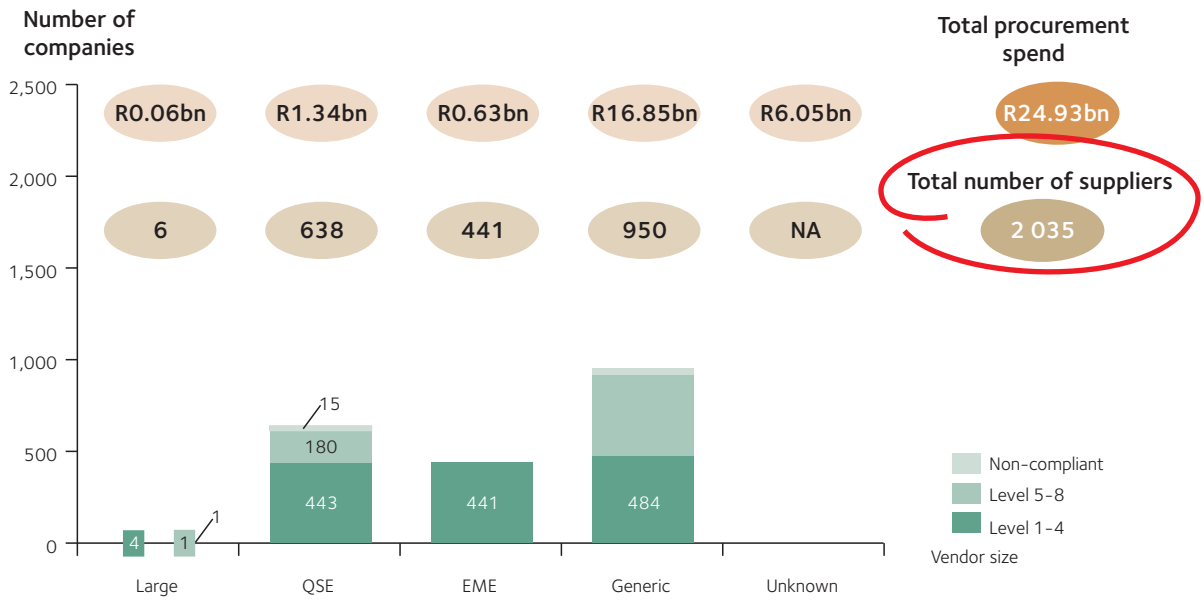
Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 22. ArcelorMittal South Africa is continuously improving its products through product and process innovations.

ArcelorMittal South Africa has also invested over R70m toward technical training, to develop the skills required to innovate in steel production locally.

6.2.4 Creating jobs through economic linkages

ArcelorMittal South Africa's commercial relationships with suppliers is a further source of jobs, skills development, and ongoing employment. In 2013, a total of 25bn was spent on more than 2 000 suppliers, of which R2.0bn was spent on over 1 000 small and micro enterprises. These suppliers represent a fraction of ArcelorMittal South Africa's database of 3,367 registered suppliers, meaning that ArcelorMittal South Africa's influence has extended even further over the years.

Most of this impact results from direct procurement spend by ArcelorMittal South Africa. On the other hand potential exists to increase the impact even further through efforts aimed specifically at supplier development - to improve the skills and capabilities of its suppliers. The benefits could be mutual as they could lead to enhanced productivity, reduced costs of business and greater quality, among other things.

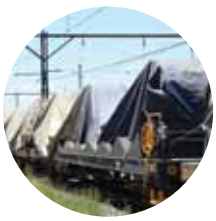


1. Using B-BBEE classification for vendor size based on annual turnover; Exempted Micro Enterprise (EME) <R5m, Qualifying Small Enterprise (QSE) between R5m and R35m and Generic with >R35m.
Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 23. ArcelorMittal South Africa's procurement spend with suppliers.

6.3 Impact on local communities

Steel making as a large resource-intensive industry can have significant impact, both positive and negative, on the local community. ArcelorMittal South Africa has a significant presence in all the local communities where its plants are located, acting as a driver of local economy by providing local employment and spending on local suppliers. ArcelorMittal South Africa engages with local communities through various forums and is committed to providing better social services such as health, education, and housing.

Local communities are defined as those located close to ArcelorMittal South Africa plants in Vanderbijlpark, Vereeniging, Newcastle, Saldanha, and Pretoria, usually within a radius of 30km. These include, aside from the major hubs themselves, communities such as Sebokeng, Evaton, Vredenburg, Osizweni, Sharpeville, Sasolburg, and others.



Long term job provider

ArcelorMittal South Africa is a focus of economic activity at all its operational locations.

The steel value chain creates a number of direct and indirect jobs, many of which are in local communities.

Local impact is not all positive. Transportation of raw materials and finished goods, while creating employment, also creates environmental and noise pollution and in particular accidents. ArcelorMittal South Africa transports 62% of all material by rail thereby reducing congestion on South Africa's roads.

70% of new employees recruited locally; 16m tonnes of material transported on local road and rail.

Committed to improving community engagement

ArcelorMittal South Africa recognises the need for strong community relationships and is continuously working to improve its community engagement.

ArcelorMittal South Africa engaged with 40 local community organisations in 2013, with key concerns documented and response provided.

40 local community organisations engaged in 2013, with key concerns recorded and response provided.

Increasing spend with local suppliers

While a significant business partner, ArcelorMittal South Africa currently spends 24% of its procurement budget on local suppliers (based in towns where ArcelorMittal South Africa is operates). Excluding state-owned companies and iron-ore suppliers, 34% of spend is on local businesses.

ArcelorMittal South Africa supports small local businesses with R1.0bn spend on QSE and EME's from local communities. However, ArcelorMittal South Africa is committed to increase this further through enterprise development.

24% spend (R5,9bn) on local content suppliers with R1,0bn on local QSE's and EME's.

Striving towards better social services

ArcelorMittal South Africa's commitment to supporting and developing its communities has long been in evidence.

ArcelorMittal South Africa is committed to providing upliftment and employee volunteering in the communities it serves. It has supported two schools and three science centres, a health clinic and rehabilitated 158 houses in 2013. ArcelorMittal South Africa also provides its employees with local and international volunteering opportunities.

R40m invested in local communities in 2013.

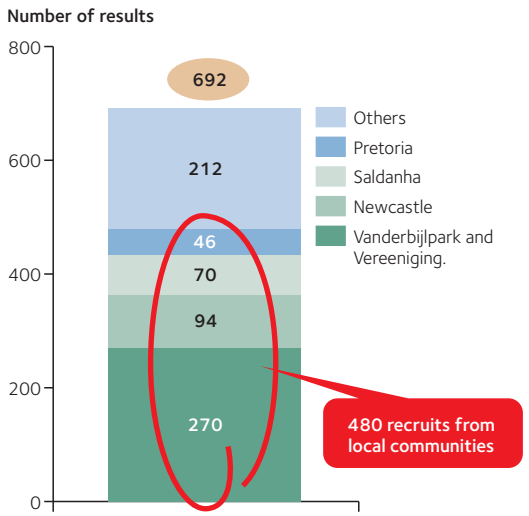
Note: All figures as of 2013 Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 24. Impact on Local Communities

6.3.1 Driver of local economy

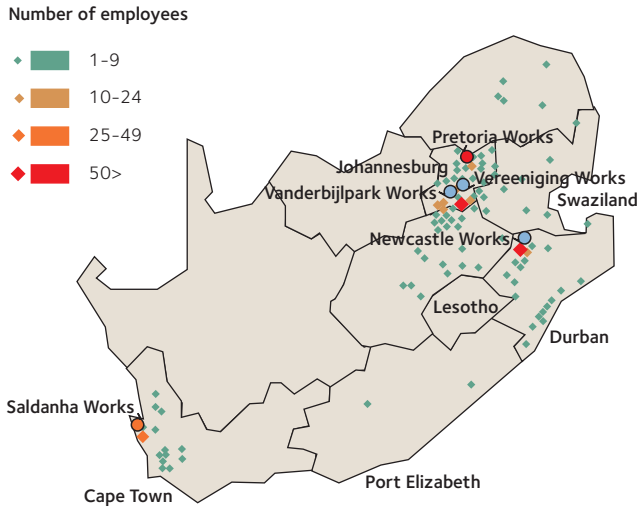
ArcelorMittal South Africa is an important centre of economic activity in the local communities where its operations are located. Out of 692 recruits in 2013, 70% or 480 people were directly employed from local communities. A key factor constraining local employment is the lack of technical skills required for steel making; therefore ArcelorMittal South Africa is committed to changing this by providing training and bursaries for artisans, production staff, technicians, and engineers.

ArcelorMittal South Africa operations have other impacts on the community, not all of which are positive. As a resource intensive company, ArcelorMittal South Africa transports over 16m tonnes of material a year, causing environmental and noise pollution in the local communities as well as traffic congestion on roads and potentially accidents. The logistics requirement is an unavoidable negative impact of a large and distributed manufacturing operation, but ArcelorMittal South Africa has mitigated this where possible by transporting the majority of its material (62%) by rail.

70% (480) of 2013 recruits from local communities around ArcelorMittal South Africa steel plants



Geographic distribution of new recruits

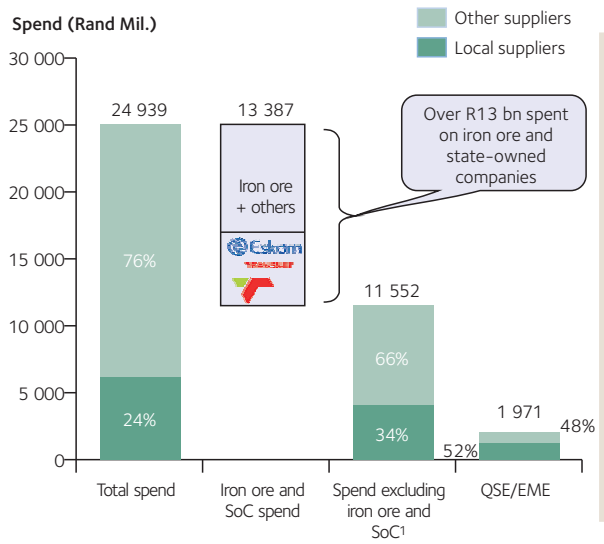


Note: Local communities are defined as those located close to ArcelorMittal South Africa plants in Vanderbijlpark, Vereeniging, Newcastle, Saldanha and Pretoria, usually within a radius of 30km. These include, together with major towns themselves, communities such as Sebokeng, Evaton, Vredenburg, Osizweni, Sharpeville, Sasolburg and others.
Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 25. Most of ArcelorMittal South Africa's 2013 recruits came from communities surrounding its operations.

6.3.2 Increasing spend on local suppliers

Procurement spend is an important lever that can be used to develop local businesses by providing sustainable revenue and employment and enabling skills development. ArcelorMittal South Africa spent R25bn in 2013 on purchasing of raw materials, capital goods, electricity, logistics, and other operating expenses. Overall, ArcelorMittal South Africa spent 24% of total procurement spend, or R5.9bn, on 659 businesses located in local communities, representing 32% of all of ArcelorMittal South Africa's suppliers. However, a large proportion of procurement is spent on iron ore and state-owned companies such as Eskom and Transnet that provide electricity and logistics. Local businesses cannot provide such services as there are no iron ore reserves in the local area or they lack investment capability and resources required to provide electricity and rail service which require a national infrastructure system. Excluding these purchases, about a third (34%) of remaining spend was with local companies. R1.0bn of procurement was spent on local small (QSE) and micro (EME) enterprises or 52% of the total QSE/EME spend.

Local procurement spend in minority ...



... but spend must be put in perspective

ArcelorMittal South Africa's total procurement spend was R24.9bn in 2013.

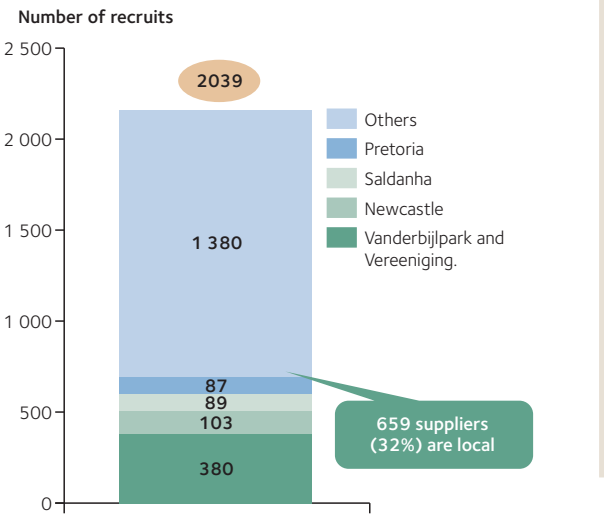
24% (R5.9bn) of spend on businesses in local communities around plants.

- Large portion of spend on state owned companies or supply of iron ore is difficult to localise.
- However, excluding these, total local spend is still 34%.

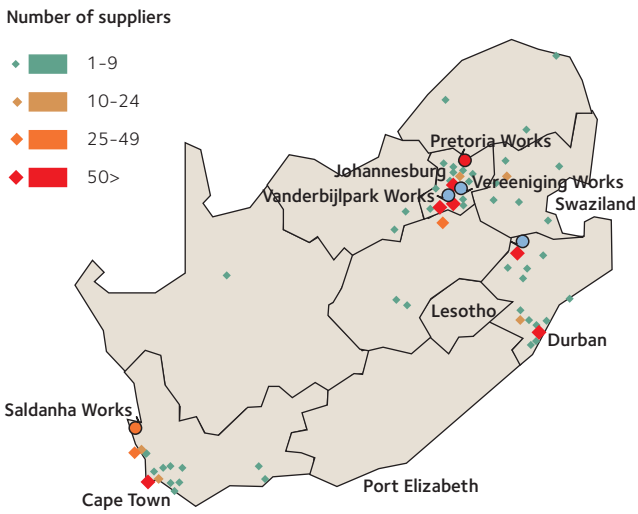
Local spend on micro enterprises is significant.
Local spend accounts for 52% (or R1.0bn) of all spend on QSE's and EME's.
ArcelorMittal South Africa is committed to increasing localisation even further through Enterprise development plan.

1. Excludes Eskom, Transnet, National Ports Authority and iron ore suppliers.
Note: Local communities are defined as those located close to ArcelorMittal South Africa plants in Vanderbijlpark, Vereeniging, Newcastle, Saldanha and Pretoria, usually within a radius of 30km. These include, together with the major towns themselves, communities such as Sebokeng, Evaton, Vredenburg, Osizweni, Sharpeville, Sasolburg and others.
Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 26. Procurement spend in local communities.

32% of ArcelorMittal South Africa's suppliers in 2013 were from local communities



Geographic distribution of suppliers



Note: Local communities are defined as those located close to ArcelorMittal South Africa plants in Vanderbijlpark, Vereeniging, Newcastle, Saldanha and Pretoria, usually within a radius of 30km. These include, together with the major towns themselves, communities such as Sebokeng, Evaton, Vredenburg, Osizweni, Sharpeville, Sasolburg and others.
Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 27. 32% of all ArcelorMittal South Africa 2013 suppliers were local to operational facilities.

6.3.3. Committed to increasing local community engagement

Engagement is important to ensure that local community organisations have a forum to express their concerns with and complaints about ArcelorMittal South Africa and to receive feedback on issues raised. ArcelorMittal South Africa regularly interacts with the different community organisations in annual forums ranging from municipality, local environmental groups, local businesses representatives, and special interest groups. In total, ArcelorMittal South Africa engaged with 40 local organisations in 2013 up from 30 in 2012. All issues raised by the local community are recorded with actions and responses developed.

ArcelorMittal South Africa will continue to keep working with local communities to identify areas to further improve engagement.

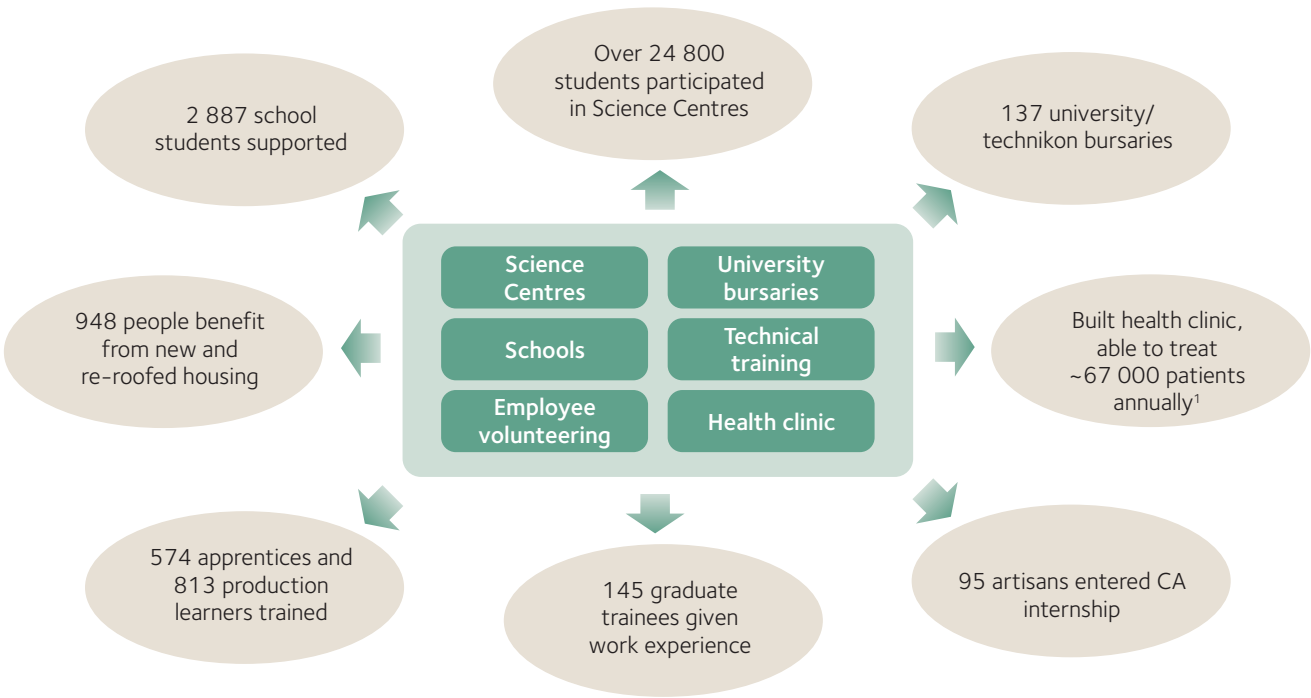
	Key issues	Detail	Actions
Environmental	Capacity building	• Training of NGO's and youth to tackle environmental challenges in their communities with ArcelorMittal South Africa.	• Partnership with North West University to train 20 people for six months to build local NGO capacity.
	Access to information	• Access to information on metrics, challenges and progress on key environmental issues.	• Two Environmental Open Days to be held at Vanderbijlpark focused on Air Emissions.
	Procurement of solutions	• Involve local NGO's during procurement of solutions to environmental challenges.	• To be addressed through Enterprise Development programme.
Social responsibility	Improve communications strategy	• Improve communications strategy and awareness of programs at ArcelorMittal South Africa. Policies and procedures to be well defined online.	• Communication strategy will be revised and improved in 2014. Regular stakeholder engagement to provide feedback.
	Increased CSI intervention	• Continue current good work. Provide more libraries and increase roofing.	• 100 houses planned for re-roofing in Boipatong, two mobile libraries to be donated, 11 houses to be built in Newcastle.
	Skills development	• Build local SMME capacity to access procurement and CSI opportunities.	• To be addressed through Enterprise Development programme.
Economic development	Enterprise development	• ArcelorMittal South Africa, little or no enterprise development and black-owned companies not supported to enter the steel market. Benchmark enterprise development of other large companies.	• To be addressed through Enterprise Development program.
	Access to Vendor registration	• Improve access to vendor registration for black owned business. Significant barriers make it difficult for black owned companies to participate.	• To be addressed through Enterprise Development programme.

Source: ArcelorMittal South Africa internal data.
Figure 28. Key issues identified by community engagement.

6.3.4 Striving towards better social service

ArcelorMittal South Africa has consistently invested in the well-being of its local communities with over R40m spent annually for the past three years. The main focus of ArcelorMittal South Africa's corporate social investment has been in the areas of education, health, and housing. In education, two schools have been built recently, Meetse-a-Bophelo in Mamelodi and Mandela Park Primary School in Umtata, which supported 2 887 students in 2013. ArcelorMittal South Africa has also funded and operates three Science Centres in Vanderbijlpark, Saldanha, and Newcastle which have served over 24 800 students, increasing interest in mathematics and science education in local communities. The science centres are also a strategic investment by ArcelorMittal South Africa in order to build the necessary science and engineering talent so that more of the skilled future workforce will come from local communities. This has already started paying dividends as a number of the students who have passed through the science centres during the past few years have now joined ArcelorMittal South Africa as trainees.

ArcelorMittal South Africa has also funded various health projects, the main being a R13m Wellness Centre in Sebokeng which has a capacity to treat 67 000 patients annually. ArcelorMittal South Africa has also contributed to construction of seven new houses and re-roofing of 150 houses which affects approximately 900 people. Aside from contributing financially to various projects, ArcelorMittal South Africa also actively encourages its employees to volunteer in social impact projects in their local communities as well as internationally.



1. ArcelorMittal South Africa sponsored construction of Sebokeng clinic handed over in November 2013. Patient output estimated based on capacity as actual data not yet available.
Source: ArcelorMittal South Africa internal data.
Figure 29. ArcelorMittal South Africa has invested in multiple aspects of social and community development.

Science Centre success stories

Lesego Kobue

About Lesego
- Newly appointed learner technician at ArcelorMittal South Africa.
- Born in Parys, Free State.

Education
- Attended North Primary School.
- Completed Matric at Suncrest High school focusing on Mathematics and Science.
- Studied mechanical engineering at Vaal University of Technology.

"I am full of gratitude to God who pulled me through my studies, ArcelorMittal South Africa for granting me this opportunity and to my parents for their support and guidance up to where I am right now".

"With ArcelorMittal being a big contributor to the community and the world as a whole, my contribution to the company gives off to the community".

Shirley Moloi

About Shirley
- Candidate Technician (aged 20) at Vanderbijlpark Works.
- Born and raised Sebokeng Zone 11 by grandparents and a single mother who passed on when she was 12 years old.

Education
- One of the top 40 learners in District 8, Sebokeng in Grade 10.
- Excelled in Matric, obtaining four distinctions.
- Studied for a diploma in Chemical Engineering at the Vaal University of Technology where she excelled again and finished her studies in record time.

Support from ArcelorMittal South Africa
- Classes at the ArcelorMittal South Africa, Science Centre in Sebokeng together with the mobile laboratory supported her daily lessons with practical experiments and helped develop a keen interest in Chemistry and Human Sciences.
- She attributes the Science Centre with helping her achieve success with activities such as monthly "meet ups" with Science Centre staff.
- Excellent Matric performance earned her bursary from ArcelorMittal South Africa to study for an engineering diploma at Vaal University of Technology.
- While at university, she also received mentoring and tutoring from ETA, a volunteer group formed by ArcelorMittal Candidate Engineers in Training. Shirley continues to give back by volunteering in her community.

"I am very content and motivated to be here, I did not dream in a million years that I would be working at ArcelorMittal South Africa, at the age of 20. I cannot wait to prove people wrong: I am not just a pretty face. I would love to showcase my capabilities and add value to the success of this Company. I am proud of women like Maggie Mopedi and Charlotte Mthimkulu who inspired me to want to be more and do more."

Source: ArcelorMittal South Africa internal data.
Figure 30. Investment in community is paying off for both ArcelorMittal South Africa and community members.

6.4 ArcelorMittal South Africa's environmental footprint

The environmental footprint examines ArcelorMittal South Africa's impact from an environmental perspective, in terms of resources utilised such as energy, water, and other raw materials; management of effluents, solid waste, and air borne emissions-particularly dust, CO^2, and SO^2 emissions; and efforts aimed at the management of by-products, recycling, and environmental restoration.

Intensive use of resources

Steel production is a resource intensive industry. ArcelorMittal South Africa consumed a total of 125 PJ of energy, 13.4m tonnes of raw materials and abstracted 17.5bn litres of water in 2013, making it one of South Africa's largest consumers of key resources.

125 PJ of energy 17.5bn litres of water abstracted and 13.4m tonnes of raw material consumed.

Improved water and effluents management

Since 2005 ArcelorMittal South Africa has been able to reduce its water intake for steel production by 48% and now has an intake rate below average for global steel companies.

ArcelorMittal South Africa is also continuously working towards improvements in effluent management in compliance with South African requirements at each of its operating sites.

48% improvement in water abstraction since 2005. Continuously improving effluents management.

CO_2 emissions

CO_2 is a significant contributor to climate change and a major by-product of steel production. ArcelorMittal South Africa's CO_2 emissions footprint is significant with 15.2m tonnes of CO_2 (Scope 1 and Scope 2) emitted in 2013.

15.2m tonnes of CO_2 emitted (Scope 1 and Scope 2).

SO_2 and particulate emissions

ArcelorMittal South Africa is working to improve its dust and SO_2 based emissions performance. ArcelorMittal South Africa has invested R500m in dust extraction systems resulting in a reduction in particulate emissions to 2.5kt per annum as of 2013.

SO_2 emissions increased from 2012 to 2013 and due to the quality of coal used in processing.

2.5kt of dust and 23.5kt of SO_2 emissions per annum.

By-products disposal, restoration and recycling

ArcelorMittal South Africa generates significant by-product volumes of which 1.65m tonnes disposed of in 2013.

Currently 39% of total by-product is land filled. However, opportunities are continuously sought to recycle or sell by-products wherever possible.

Recycling is a key initiative at ArcelorMittal South Africa with over 0.97m tonnes of scrap steel recycled annually

To date, R220m has been invested in rehabilitation of 290ha at six waste disposal sites as well as effluent storage areas.

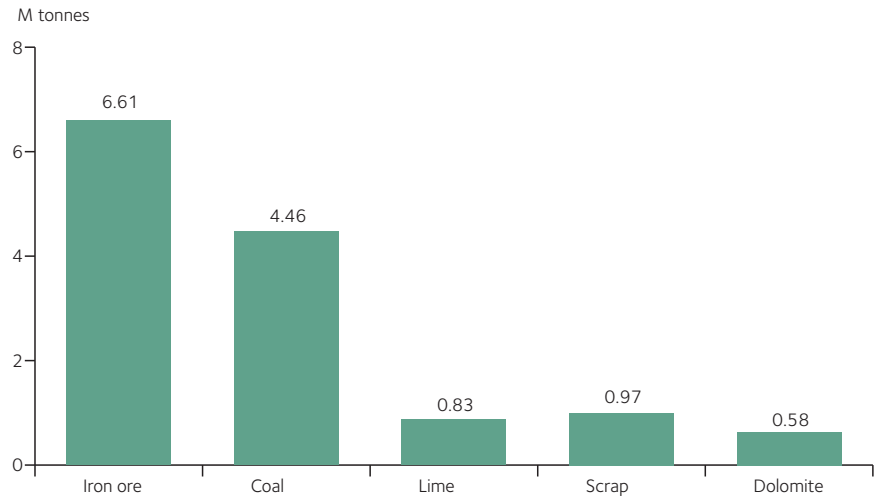
1.65m tonnes by-products disposed; 290ha of land under restoration.

Note: All figures as of 2013
Source: 2013 Sustainability Report, internal data, BCG analysis.
Figure 31. Environmental footprint.

6.4.1 Use of resources

Steel fabrication is by nature a carbon-intensive business that makes intensive use of natural resources and therefore has some effect on the environment. The inputs to the steel making process are iron ore, coke, water, limestone and dolomite, and electricity or energy. Both coal and coke – used in furnaces and iron ore – which is chemically reduced to form the steel, are obtained via mining. In 2013, ArcelorMittal South Africa consumed 125 PJ of energy, and 13.4m tonnes of raw material. In addition, 17.5bn litres of water were abstracted to produce steel. These are substantial amounts of some of South Africa's most strategic resources - in particular water, for which there is chronic shortage within South Africa. While the use of these resources cannot be completely eliminated, efficient and innovative processes and management can minimise amounts that are required to fabricate steel.

Raw materials consumption

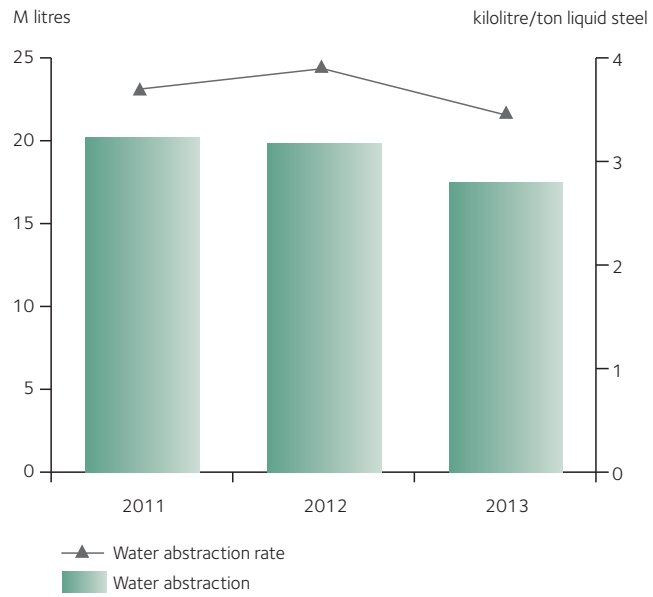


Source: 2013 Sustainability Report, BCG analysis.
Figure 32. 13.4m tonnes of raw material consumed in 2013 - iron ore and coal are primary inputs.

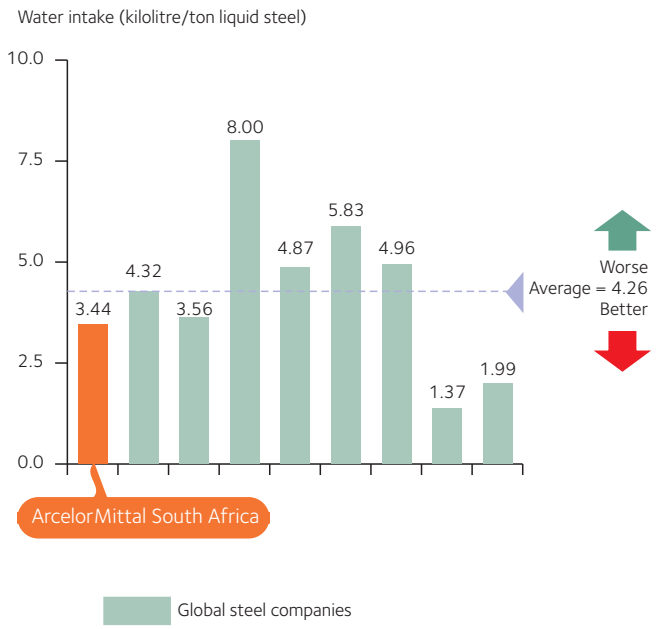
6.4.2 Improved water and effluent management

ArcelorMittal South Africa has been continuously working to improve the water efficiency of its steel making process and also the management of resultant effluents. Since 2005 water abstracted for use in the steel making process has been reduced by 48%. More recently water intake rates per ton of steel have reduced slightly. In general, ArcelorMittal South Africa water intake rates per ton of steel are low compared to some other large steel makers across the globe based on publically available data (benchmark only compares overall company performance for water intake per ton of steel irrespective of the production method used).

Water intake and abstraction rates reduced in 2013 ...



... and remain relatively low compared to global peers

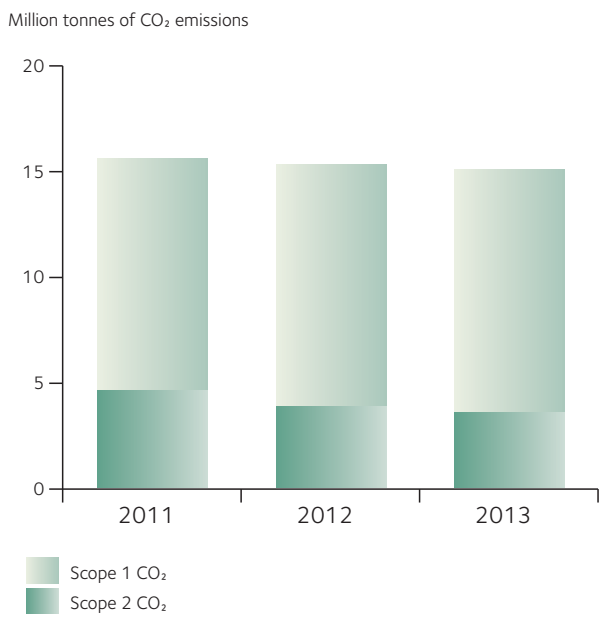


Note: Peer group companies selected include mining, metals and steel companies. Tracking and calculation methodology of reported water intake per tonne may differ between companies.
Source: 2013 Sustainability Report, company sustainability reports, BCG analysis.
Figure 33. Water intake decreased in 2013 and remains below average for comparable global peers improvements in the management of waterborne pollutants have also been made, are in progress or are being planned.

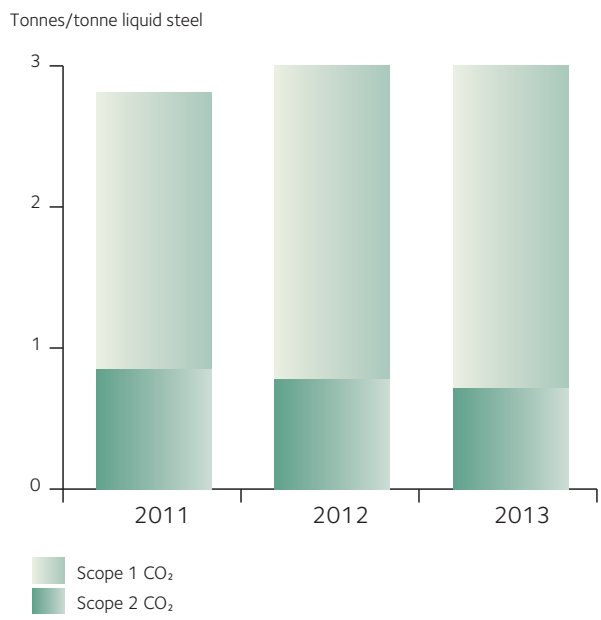
6.4.3 Carbon emissions

One of the most significant by-products of the steel production process is carbon dioxide. In 2013 ArcelorMittal South Africa emitted a total of 15.2mt of Scope 1 and Scope 2 CO_2. Carbon emissions were thus slightly reduced from previous years in absolute terms and on a per ton of steel basis. This reflects the challenges and limited opportunities available to directly reduce CO_2 emissions in the steel making process. This is an issue that ArcelorMittal South Africa takes very seriously, and continues to engage on by participating in the national debate in related topics such as the imposition of a carbon tax.

Total CO_2 emissions



CO_2 produced per tonne of liquid steel



Note: Scope 1 emissions are direct CO_2 emissions produced by ArcelorMittal South Africa, including coke production, vehicular emissions or other direct sources. Scope 2 emissions result from the generation of purchased electricity.
Source: 2013 Sustainability Report, BCG analysis.
Figure 34. Total amount of CO_2 lower in 2013 but only slight improvement in emissions per tonne of steel produced.

6.4.4 Carbon tax legislation (Callout)

A policy paper put forward by the National Treasury in May 2013 proposes that a Carbon tax of R120 per tonne of CO_2 emitted be introduced from 1January 2015; with a proposed 10% per annum increase. The aim of the tax would be to drive change in the behaviour of significant producers of carbon dioxide by forcing them to adopt more carbon efficient operations.

This could have significant implications for steel manufacturing along with other carbon intensive industries within South Africa. The tax not only represents an added cost of doing business, but in the case of the steel industry, there is limited scope for reduction of carbon emissions as there are no existing or new technologies for the production process that are significantly more carbon efficient.

ArcelorMittal South Africa is actively engaged in the debate about the design and implementation of carbon legislation in South Africa, given the potentially serious operational and economic consequences for both ArcelorMittal South Africa and its customers.

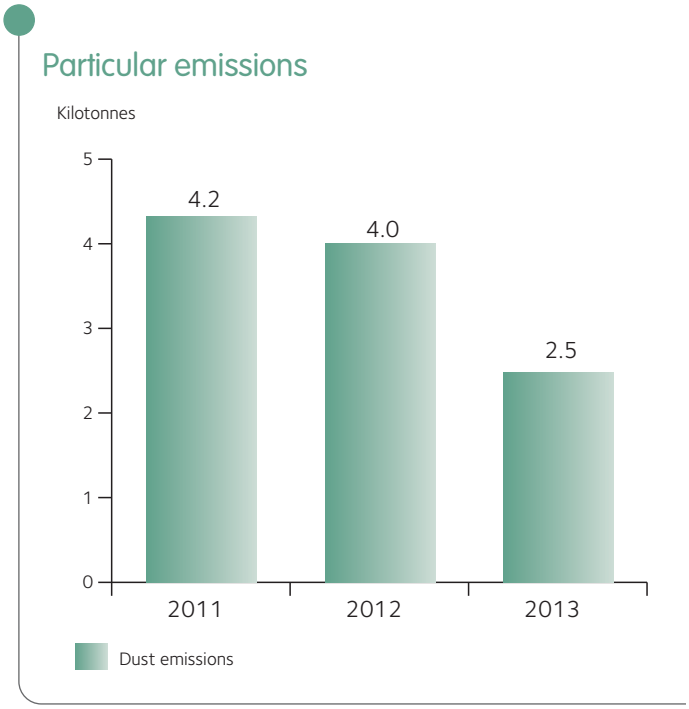
Note: In February 2014, the Minister of Finance announced in his Budget Speech that the implementation of the proposed Tax is delayed until 2016.

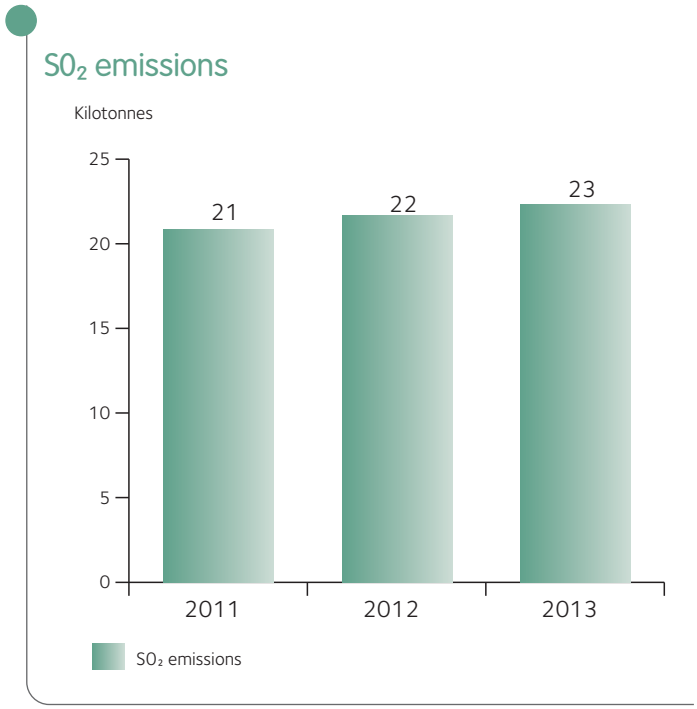
6.4.5 SO_2 and particulate emissions

Particulate emissions are one of the most significant emissions resulting from ArcelorMittal South Africa's operations. Significant effort has been taken to reduce emissions, with over R500m invested dust extraction systems in the past years. As a result, particulate emissions have reduced from 0.78kg per tonne of liquid steel in 2012 to 0.50 in 2013.

SO_2 emissions show an increase from 2012 to 2013 and this can be attributed to the quality of coal used in the process, a factor that is often beyond the control of ArcelorMittal South Africa.

Particulate emissions have decreased through 2013, though SO_2 emissions have increased.





Source: 2013 Sustainability Report, BCG analysis.
Figure 35. Particulate emissions have decreased through 2013, though SO_2 emissions have increased.

6.4.6 By-products disposal, restoration and recycling

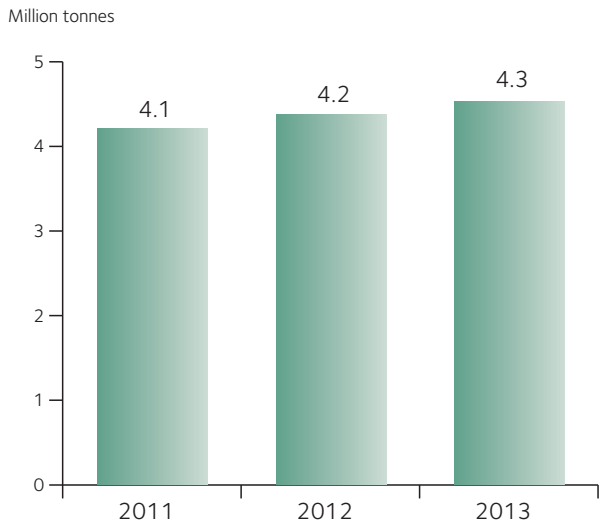
One major benefit of steel is its enormous capacity for recycling. According to the American Institute of Steel Construction, steel is the most recycled material on earth - today's structural steel can consist of 95% recycled product, is fully recyclable in the future and can be reused without further processing.

Similarly, steelmaking produces various by-products, many of which can be used, sold or recycled, although ultimately, some will remain which do not have any commercial value and must be disposed of as waste. By-products include steel and iron slag, metallurgical dusts, and sludges.

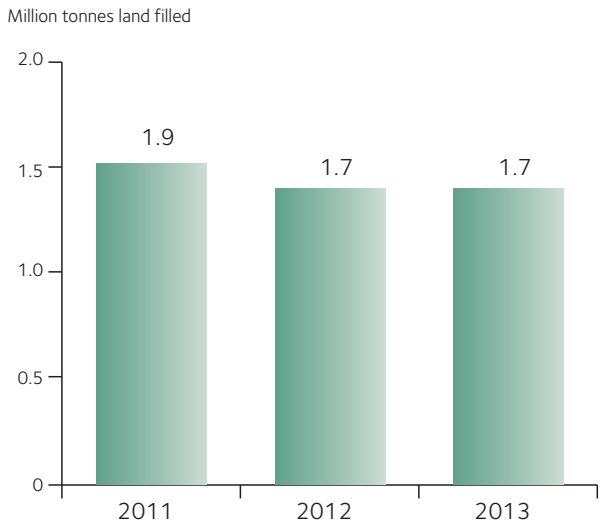
In 2013, ArcelorMittal South Africa generated 4.3m tonnes of by-products. 39% of this was disposed of as waste, 17% was recycled and 45% was sold. ArcelorMittal South Africa by-products typically find application in the cement industry, construction sector, and certain other niche applications. Slag is also highly desirable as a road-building aggregate as its strength and acoustic qualities often outperform mined aggregates. The ability to sell slag for construction and infrastructure applications is heavily dependent on the strength of the underlying construction industry, which in South Africa, has contracted substantially over the past few years.

Around 4m tonnes of by-product are produced a year; around 1.7 tonnes of this is currently land filled

By product generation



By-product land-filled



Landfill usage could be reduced by increased sale of by-products

Source: ArcelorMittal South Africa internal data.
Figure 36. Around 4m tonnes of by-product are produced a year; around 1.7 tonnes of this is currently land filled.

For the by-products that are disposed of as waste on landfills, significant efforts have been taken to ensure that waste disposal sites are managed properly.

2013 saw major progress at three rehabilitation sites.

Significant progress in rehabilitation of landfill sites

Newcastle Works

Remediation of the old legacy GSB site at Newcastle was completed at a cost of R15m. All 20 hectares of this landfill have been rehabilitated.

Vanderbijlpark Works

Two-thirds of old slag area have been remediated together with remediation of Dam 10. Current work focuses on remediating other disused maturation ponds and Dams 1-4.

Source: ArcelorMittal South Africa internal data
Figure 37. Significant rehabilitation progress at key ArcelorMittal South Africa sites in 2013.

Limiting environmental impact is taken seriously at ArcelorMittal South Africa. Investments in recent initiatives have totalled over R850m dating back to 2010.

A key challenge remains in identifying sources of capital, particularly given the current market difficulties within the steel industry.

In addition to ongoing rehabilitation, R220m have been invested in the rehabilitation of 290Ha across six historical waste disposal sites.

Emissions reduction

A number of projects aimed at reducing amount of particulate emissions have been completed recently:

- Vanderbijlpark Works coke batteries tightness project.
- Newcastle Works Meltshop roof emission.
- Vanderbijlpark Works Sinter abatement project.
- Vereeniging Works EAF dust extraction system.

R630m

Water treatment

Vanderbijlpark Coal Water Project to treat water from coke making operations.

R28m

Disposal site rehabilitation

Significant rehabilitation of old legacy disposal landfills and maturation ponds.

- Vanderbijlpark Works slag disposal site.
- Remediation of Dam 10.
- GSB Disposal site at Newcastle Works.

R200m

Source: ArcelorMittal South Africa internal data.
Figure 38. Over R850m in investments towards environmental management between 2010 and 2013.

6.4.7 ArcelorMittal South Africa proactive plant closures

ArcelorMittal South Africa's ageing facilities which were inherited from Iscor, especially at Vanderbijlpark Works and Vereeniging Works, have required considerable upgrades due to new environmental legislation. Over the past three years, over R850m has been spent in controlling emissions, water treatment and landfill rehabilitation with a large portion of this spent on old legacy sites which have not been used since ArcelorMittal South Africa assumed control of operations.

However some older facilities were not upgraded as the financial return on these did not justify the investment required. ArcelorMittal South Africa took a proactive decision to decommission specific older facilities to ensure compliance with new environmental legislation.

- Coke Battery 3 at Vanderbijlpark Works was decommissioned in January 2013 as the plant had reached its end of life and would not comply with new Air Quality Act. Investment required to meet compliance was not financially feasible
- Three Electric Arc Furnaces (EAF) at Vanderbijlpark Works were decommissioned in October 2012 as the installation of a secondary dust extraction system was not feasible and therefore the furnaces no longer complied with the Atmospheric Emission Licence issued. The EAF's were restarted for six weeks in May 2013 to compensate for capacity loss due to Basic Oxygen Furnace fire. A special short-term authorisation was given and EAF's were then promptly shut down after six weeks.

6.5 Enabler of South African development through the supply of steel

Steel is an integral part of any economy, at the core of infrastructure development and a key input in machinery, automobiles, appliances and packaging. ArcelorMittal South Africa is the leading supplier of steel in South Africa and therefore plays an essential role in the country's development.

Major provider of domestic steel

Steel is at the heart of South Africa's ambitious plan to increase capital expenditure to 30% of GDP by 2030 as laid out in the NDP. ArcelorMittal South Africa currently produces 5m tonnes of steel annually, providing 57%[1] of domestic steel requirements in 2013 and can play an even greater role in meeting the increased demand of the future.

ArcelorMittal South Africa provides steel for a range of domestic industries with the majority of supply (71%) going towards construction, automotive, mining, energy, chemical and water sectors. As a major supplier to domestic industries, ArcelorMittal South Africa indirectly supports 9.7% of GDP and 900 000 jobs.

Benefits of local steel

The production of local steel is beneficial to the domestic economy by adding value of over R20bn in beneficiation over exporting raw materials, creating direct and indirect jobs, providing tax revenues for government (R294 per tonne[2]) and serving as a key factor in reducing supply lead times compared to imported steel. ArcelorMittal South Africa has a major role to play as the leading producer of South African steel.

Independent economic analysis calculates that 3.5 jobs are created economy-wide for every R1m final demand by the iron and steel industry.

Supporter of domestic industries

Creation of downstream steel industries is key to maximising beneficiation. ArcelorMittal South Africa actively participates in developing and supporting secondary steel industries through joint ventures. Examples include CWI, Collect-a-Can and TTSAP. ArcelorMittal South Africa contributed R45m in strategic rebates for developing new market opportunities.

In 2013, ArcelorMittal South Africa paid out over R200m in export rebates to support financial sustainability of steel fabrication industries including pipes and tubes; forged products and automotive components.

5m tonnes of steel produced with ~60 % of South African steel supplied by ArcelorMittal South Africa supporting key domestic industries.

3.5 formal jobs created economy-wide for every R1m spent by ArcelorMittal South Africa.

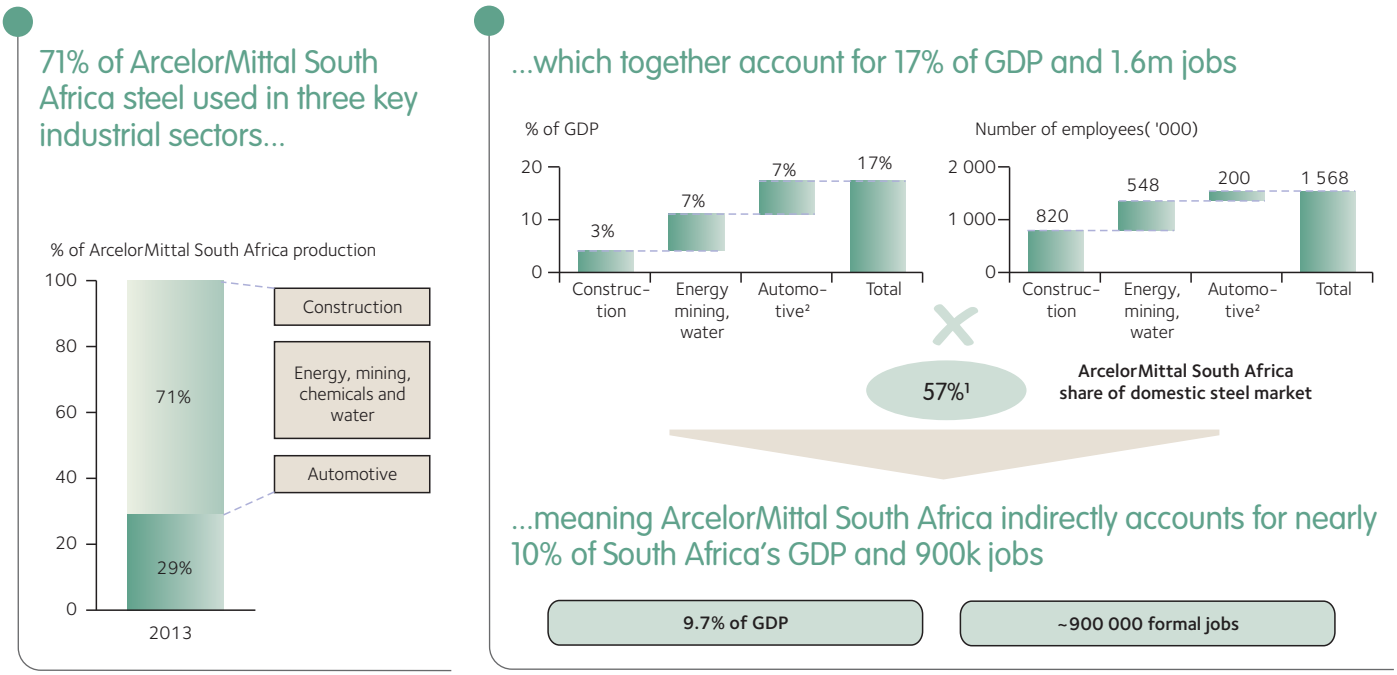
Developed local steel processing industries through joint ventures. Export rebates of R213m paid out to local companies in 2013.

1. Calculated using World Steel Association estimates for SA consumption 2. Includes corporate tax, municipal taxes, VAT and Employee PAYE taxes. Total steel production at 5.096m tonnes. 3. Quantec multipliers.
Note: All figures as of 2013 Source: WorldSteel organization, ArcelorMittal South Africa internal data, BCG analysis.
Figure 39. Enabler of SA development through the supply of steel.

6.5.1 Major provider of domestic steel

ArcelorMittal South Africa is the leading steel producer in South Africa, with a production capacity of 6.5m tonnes of steel per year (however due to reduced demand only 5.1m tonnes were produced in 2013). ArcelorMittal South Africa also supplied the majority of domestic steel in South Africa providing 57% or 3.1m tonnes of the domestic market (long-term average is ~65% of domestic market, lower in 2013 due to shutdown of Vanderbijlpark Works). This was estimated from South Africa's apparent consumption of finished steel products of around 5.4m tonnes as per estimates from the World Steel Association Year Book 2013. ArcelorMittal South Africa mainly caters for the domestic steel market with 74% of all ArcelorMittal South Africa produced steel sold in South Africa. ArcelorMittal South Africa only exports 26% or 1.1m tonnes per year of its steel.

Steel plays a vital role in a number of key South African industries: the three largest of these are construction, automotive, and mining, water and energy, which collectively account for 17% of South Africa's GDP. The majority of ArcelorMittal South Africa steel - approximately 70% - is supplied to these industries. ArcelorMittal South Africa has also introduced a number of innovations in steel, developed by the global ArcelorMittal R&D or ArcelorMittal sister companies worldwide, which enable it to more effectively support these industries. Examples include light high-strength steel for use in cars, more corrosion resistant steel for use in coastal areas and pre-fabricated steel for the construction industry. Collectively, ArcelorMittal South Africa steel is indirectly responsible for supporting approximately 900 000 jobs and 10% of the GDP.



1. Estimated at average 57% of domestic market share using estimated consumption data from World Steel Association Year Book 2013 2. Estimated by the Automotive Industry Export Council, figures for 2012.
Source: StatsSA, Automotive Industry Export Council, World Steel Association Year Book 2013, ArcelorMittal South Africa internal data, BCG analysis.
Figure 40. ArcelorMittal South Africa provides the majority of steel for the largest applications in South Africa.

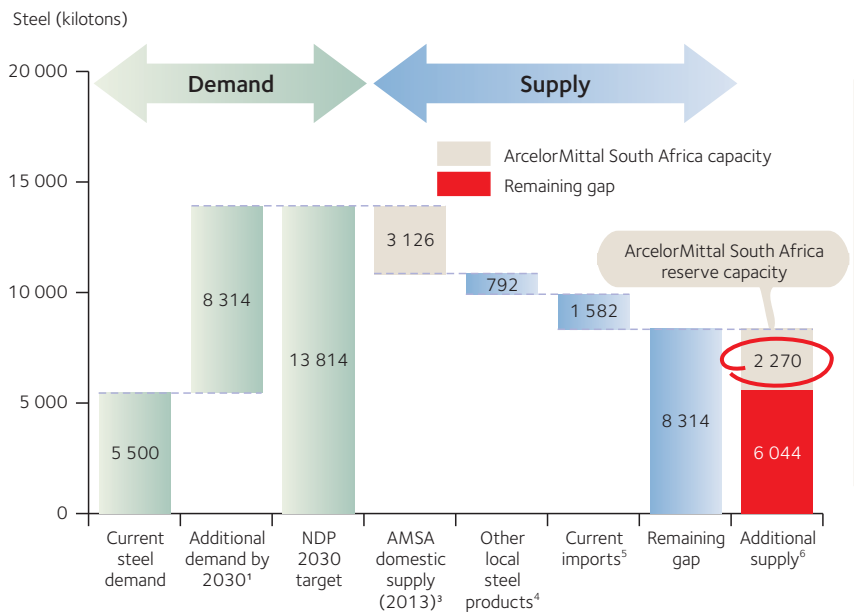
As a result of its capacity, ArcelorMittal South Africa has a strategic role to play in any plans involving the future structural development of South Africa. Consider South Africa's National Development Plan (NDP): this calls for, among other things an increased GDP growth rate, training and skills development and expanded output through research and development.

The NDP also calls for an increase in capital expenditure from 17% to 30% of GDP by 2030 and in public infrastructure spend from 8% to 10%, along with the creation of 11m new jobs. What might this mean in terms of amount of steel required?

First of all, additional steel would be required simply due to the long term average growth of the economy which is estimated by independent economists EIU to be on average over 4% until 2030. As the economy grows, more steel will be required for infrastructure development, products, etc. In addition, however, the NDP aims to accelerate development above the projected GDP linked growth through increased fixed capital formation. This would increase steel demand even further assuming that it grows with fixed capital formation. This means that to achieve the ambitious NDP plan, South Africa will require a significant increase in domestic steel with an estimated 8.3m additional tons of steel in total required.

Much of this increased demand could be met by local suppliers, led by ArcelorMittal South Africa. For instance, based on current production levels, ArcelorMittal South Africa has reserve capacity of 2.3m which could meet nearly 27% of the projected additional demand – requiring more employees and skills development for these employees. On the other hand, all the new steel required could be supplied by through imports. The scenario that plays out could depend on the individual actions of various companies, but these will in large part be determined by the decisions and level of support of the government.

Potential 2030 South African steel supply-demand scenario



ArcelorMittal South Africa and other local steel companies could help meet added demand

ArcelorMittal South Africa could lead local suppliers in providing the additional 8.3m tonnes a one year required by 2030 to support the NDP.

ArcelorMittal South Africa with capacity to supply 27% or 2.3m tonnes a year of added demand.

- Current production below full capacity due to low domestic demand and competition from cheap imports e.g. India and China.

6.0m tonnes could be supplied by imports OR increased local production resulting in local jobs and skills

Eventual supply scenario will depend on choices made by the South African government.

1. Based on NDP target of fixed capital formation at 30% of GDP, BCG Steel Demand model 2. Quantec Research multipliers for Iron and steel industry 3. 2013 Annual Financial report 4. Calculated by subtracting ArcelorMittal South Africa production and imports from current steel demand 5. Current imports from SA Customs and Excise (Jan – Nov 2013) extrapolated for 12 months 6. Reserve capacity estimated based on current capacity utilisation of 76%.
Source: National Development plan, ArcelorMittal South Africa internal data, SA Customs and Excise data on primary steel imports, Quantec Research, BCG analysis.
Figure 41. ArcelorMittal South Africa can play a key role in meeting the additional steel demand called for by the NDP.

6.5.2 Benefits of local steel

Steel in South Africa is either manufactured domestically or imported from foreign sources. In 2013, based on estimates from the World Steel Association, 70% of South Africa steel was produced locally and 30% was imported. However, producing steel locally has a number of benefits over importing foreign steel.

Firstly, producing steel locally supports South Africa's development agenda by adding significant value through beneficiation of its mineral wealth. South Africa derives substantially more value from the steel it produces than if the underlying raw materials were simply to be extracted and exported. For 2013 the additional value from processing these inputs (iron ore, coke, limestone, etc.) into steel amounted to about R20bn. This takes the form of jobs and services consumed and taxes paid, all of which add to the economy, in addition to the direct value add from ArcelorMittal South Africa itself.

NDP targets include GDP growth, new jobs and skills development

South Africa's National Development Plan targets for 2030 include:

Growing GDP by 2.7 times at a rate of 5.4% pa

- Increasing capital expenditure to 30% of GDP from current 17%.
- Increasing public infrastructure spend from 8% to 10% of GDP.

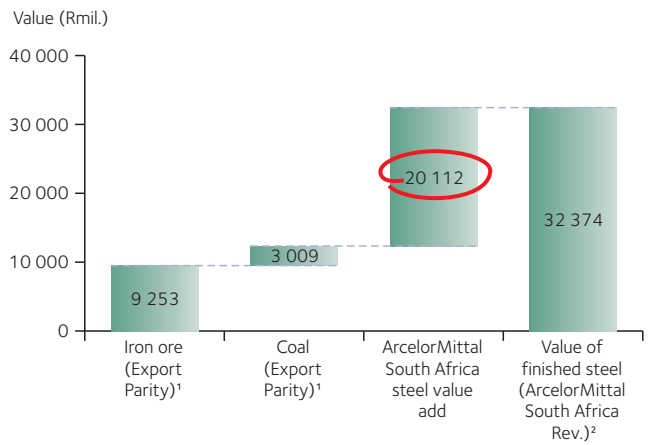
Creating 11m new jobs

- Encouraging training and skills development.
- Expanding innovation output through research and development.
- Enabling capacity expansion capacity for further mineral beneficiation.

ArcelorMittal South Africa will enable NDP by creating value through converting raw material to steel

ArcelorMittal South Africa inputs of iron ore and coal if exported would be worth R13.27**bn** at export parity prices

However, by converting raw material to steel, ArcelorMittal South Africa adds a further R20**bn** of value by creating direct and indirect local jobs; operating expenditure on electricity, logistics, capital expenditure and profit.



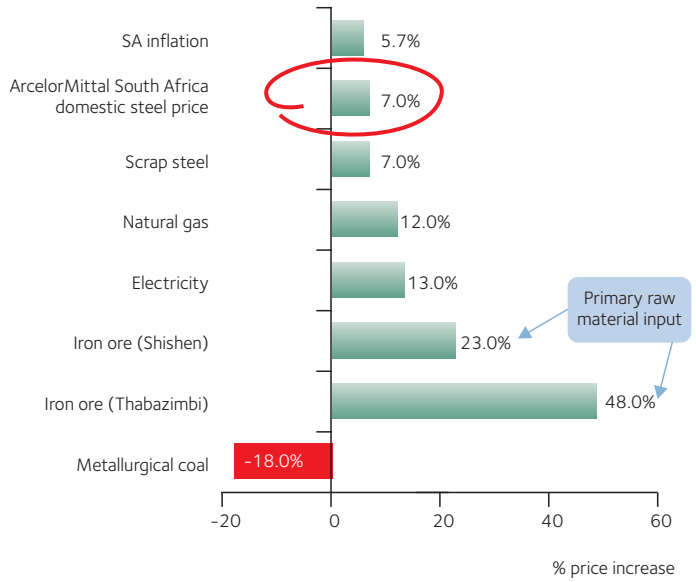
1. Raw materials considered are iron ore and coking coal (excludes limestone and dolomite), export parity price as per 2013 average estimates as reported by IMF (Iron Ore) and World Bank (South African export coal) 2. 2013 ArcelorMittal South Africa Annual Report
Source: Steel Index at IMF, World Bank, rcelorMittal South Africa internal data, BCG analysis.
Figure 42. By beneficiating raw materials to produce steel, ArcelorMittal South Africa supports key objectives of the NDP.

Another advantage is that steel production provides employment and skills development and in ArcelorMittal South Africa's case the majority of jobs created and people trained are in local communities. Estimates suggest up to 3.5 formal jobs are created economy wide for every R1m of spend in the iron and steel industry. This makes a significant contribution towards the NDP targets of creating 11m new jobs by 2030. Other benefits include reducing the lead time taken from ordering of steel to delivery, a key benefit for the construction industry. Furthermore, domestic steel production generates significant revenue for government from corporate tax, municipal taxes, VAT and employee PAYE's amounting to approximately R290/tonnes.

However, ArcelorMittal South Africa continually encounters challenges to its continued ability to be able to produce steel affordably, and competitively, threatening the contribution that it makes to South Africa.

In 2013 ArcelorMittal South Africa faced considerable pressure on its domestic pricing. ArcelorMittal South Africa steel prices increased by 7% or slightly above inflation. This was driven in part by input prices, many of which increased much more dramatically – including scrap steel, natural gas, electricity and most notably for iron ore (due to revised long term pricing contracts with Sishen and Thabazimbi mines). Only import coal prices, used for its reducing properties, decreased significantly by 18%.

Comparison of increase in ArcelorMittal South Africa steel price and major inputs



Domestic steel price increase lower than input cost increases

Domestic steel prices increased by 7% on average in 2013

- Price increase slightly above inflation of 5.7%.

Cost of iron ore and pellets, the main raw material input, increased between 23% - 49%

- Resulting from pricing review of long-term contracts with Shishen and Thabazimbi mines.

Price increases of other key inputs equal to or above domestic steel price increase

- Energy inputs of electricity and natural gas up by 12% and 13% respectively.
- 7% increase in scrap steel prices.
- Prices of import coal deceased by 18%.

Source: ArcelorMittal South Africa Annual Financial results 2013, StatsSA, BCG analysis.
Figure 43. ArcelorMittal South Africa's ability to control prices and produce steel economically is impacted by significant variations in input prices.

Unrestricted imports of foreign steel, which do not incur import duty and therefore do not provide the government with any revenue, also have an impact on ArcelorMittal South Africa's ability to compete in the market.

Other measures such as the proposed carbon tax, threaten to make the cost of steel production prohibitive given limited alternatives to reduce carbon consumption.

The benefits of local steel consumption must be carefully weighed against the perceived costs, especially given the strategic agenda of South Africa.

6.5.3 Supporter of domestic industries

Primary steel is beneficiated further by downstream fabrication industries that produce higher value finished steel products. Typical examples include wire fencing, construction frames, steel buckets and so on from primary flat and long steel products that are produced by ArcelorMittal South Africa. Apart from creating additional value, these industries also create jobs and skills in the country. ArcelorMittal South Africa is actively and directly involved in developing and supporting local steel fabrication industries through strategic investments, export rebates and skills development.

ArcelorMittal South Africa, and previously Iscor, have created a number of companies in steel processing, trading and recycling through strategic joint ventures. CWI, a South African producer of wire products, is a joint venture between ArcelorMittal South Africa and Anglo American with over 500 permanent employees. CWI produces high quality products such as mesh, wire fences and packaging material for domestic use as well as exports to countries in Africa, Europe, Middle East, Australia and Canada. The Toyota Tsusho South Africa Processing company is a JV between Toyota and ArcelorMittal South Africa to process primary steel into components for the automotive industry. This not only beneficiates primary steel further but will also provide up to 100 jobs.

Another company, Collect-a-Can Ltd was started as a not-for-profit venture with Nampak in order to increase the recovery rate of metal cans, primarily beverage cans, which can be 100% recycled. Collect-a-Can has been highly successful, contributing to an increase in South Africa's recovery rate of metal cans from 18% in 1993 when it was started to 72% currently. This greatly reduces the amount of waste sent to landfills. Collect-a-Can also pays out R20m annually to collectors, many of whom are unemployed. ArcelorMittal South Africa also provides strategic rebates for promising new market opportunities, promoting the development of these industries such as renewable energy projects. A total of R45m in rebates was given to these strategic industries in 2013.

	Toyota Tsusho SA Processing (TTSAP)	Consolidated Wire Industries (CWI)	Collect-a-Can Ltd
Description	A R147m joint venture between Toyota and ArcelorMittal South Africa to create a steel processing company based in Durban for automotive components to serve domestic industry.	Co-owned by ArcelorMittal South Africa and Anglo American and started by Iscor in 1950's. Produces nails, fencing, wire mesh and packaging material. Products used domestically and exported globally.	Co-owned by ArcelorMittal South Africa and Nampak. A not-for-profit company involved with recovery and recycling of used metal cans. Helped SA achieve best-in-class metal can recovery rate of 72%.
Benefits	• Up to 100 new jobs created. • Downstream value add to steel through processing. • Domestic components replace imported parts.	• More than 500 permanent employees. • Provide export revenue. • Value added to primary steel through processing.	• More than R20 0m paid annually to estimated 100 000 can collectors. • Reduces waste – South Africa with one of leading metal can recovery rates at 72%.

Note: Only selected examples shown
Source: ArcelorMittal South Africa internal data, TTSAP Press release 8 November 2007
Figure 44. ArcelorMittal South Africa has supported or invested in a number of domestic companies.

Collect-a-Can is a not-for-profit company established in 1993 dealing with recovery of used metal cans mainly from the beverage industry but also aerosol, food, oil and paint cans. It is a joint-venture between ArcelorMittal South Africa (60%) and Nampak (40%), established to ensure that steel cans have minimum impact on the environment. Since its formation 20 years ago, Collect-a-Can has become a highly successful operation, a prime example of how industry can contribute to corporate social responsibility in a sustainable manner.

Collect-a-Can has returned considerable value by:

- Reducing waste from metal cans in landfills. Estimates indicate that metal can share of litter has decreased from 8% of total waste to less than 1%.Beverage can recovery rate is 72% currently, which is on par with reported rates from developed countries.
- Paid over R20m to an estimated 100 000 collectors, most of whom have no other source of income.
- Raising awareness and creating a culture of recycling. Collect-a-Can organises a school recycling competition with 300-500 parliament schools annually reaching 250 000 students.

Collect-a-Can has received a number of awards and recognition over the years including:

- A Guinness World record for most cans collected in one month with over 2.5m cans in October 2010.
- Mail & Guardian Greening the Future Award for Best Environmental Practice and Sustainability
- WWF Green Trust Corporate Conservation Award.

Source: Company website.
Figure 45. Collect-a-Can has received global recognition for its efforts in steel can recycling.

ArcelorMittal South Africa supports South African exports by providing strategic rebates to its customers who export fabricated steel products in order to improve their global competitiveness. In 2013, ArcelorMittal South Africa spent R213m in providing export rebates to local companies supporting key downstream industries such as pipes and tubes, forged products and automotive components.

ArcelorMittal South Africa is the only flat steel producer in South Africa to offer these rebates. Export rebates are very important to small local industries and in some cases essential for their financial sustainability. Local demand for primary and fabricated steel products cannot meet current capacity of these products therefore increasing exports is one way to absorb the excess capacity. By providing export rebates, ArcelorMittal South Africa improves the ability of local companies to offer competitive fabricated steel products for exports and therefore increasing their volume of sales and revenue. Increased demand for its steel also benefits ArcelorMittal South Africa as utilisation of its steel plants can be improved resulting in reduced cost per ton due to scale effects.

ArcelorMittal South Africa is the only domestic flat steel manufacturer to offer export rebates...

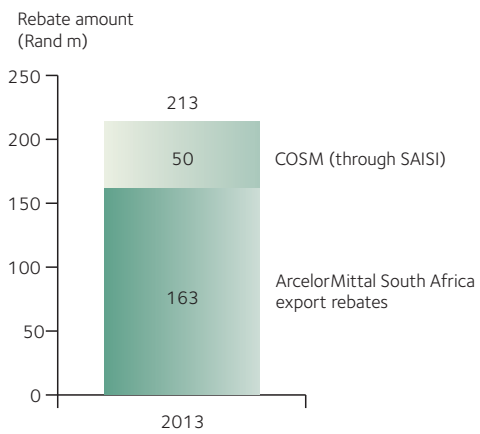
Export rebates stimulate local secondary steel industries and increases global competitiveness.

- Rebates are paid back to domestic industries on exported processed steel products.
- Rebates are offered directly by ArcelorMittal South Africa or through Committee of Secondary Manufacture (COSM) Trust at South African Iron and Steel Institute (SAISI).

Industries such as pipes and tubes, wire rods and forge products and automotive components are highly reliant on export rebates.

- Limited infrastructure development has eroded competitiveness of these industries.

...with over R200 million paid out in 2013



Source: ArcelorMittal South Africa
Figure 46.

6.6 Catalyst for change in South Africa

As the leading company in a key industry in South Africa, ArcelorMittal South Africa sets an example in important social issues and can act as a catalyst of change towards better corporate governance and citizenship.

Leading the way in health & safety and anti-corruption

In 2013 over 8 800 employees received health and safety training. ArcelorMittal South Africa achieved zero fatalities in 2012 and 2013 with a lost-time injury rate of 0.561 which is below average for peer South African companies. ArcelorMittal South Africa has also adopted several health initiatives to ensure employee well-being.

A robust anti-corruption training program is in place with over 1600 employees trained in 2013. Regular audits are conducted and actions are recorded.

8 819 received health & safety and 1 667 received anti-corruption training.

Employment equity and representation

ArcelorMittal South Africa is making improvements in employment equity. Female workforce participation has risen to 11% in 2013 from 9% in 2010 - below South African mining companies but above average for global steel companies. HDSA comprise 57% of employees, still lower than the average for peer South African companies.

ArcelorMittal South Africa also supports workers' rights with a majority (75%) of ArcelorMittal South Africa employees unionised.

11% female employment, 57% HDSA and 75% unionisation.

Supporting broad-based economic development

ArcelorMittal South Africa is certified at B-BBEE Level 7 based on efforts in management control, preferential procurement and socio-economic development.

Key areas for improvement include employment equity and supplier and enterprise development. In 2013, 5.2% of spend was with majority black owned and less than 9% on small and micro enterprises.

B-BBEE Level 7.

Transparency and following due process

ArcelorMittal South Africa sets an example for good governance practice.

Annual reports published disclosing financial, environmental and social indicators are in line with Global Reporting Initiative guidelines, and are supplemented by periodic financial and other reports.

As the subject of pending litigation, ArcelorMittal South Africa is currently following due process according to South African law in 4 legal cases.

Open disclosure of financial, environmental and social indicators.

Participation in national strategic debates

ArcelorMittal South Africa, as a key strategic company, voluntarily participates in multiple forums on matters of national and industrial significance. These include:

- Economic Forum of the Reserve Bank.
- Manufacturing Circle.
- Advisory board to the Minister of Higher Education.
- Working groups on environmental and safety issues.
- Industry trade organisations SAISI and SEIFSA.

Voluntary participant in several debates at national level.

1. Lost time injury frequency rate defined as the number of injuries resulting in loss of one shift per 1,000,000 hours worked.
Note: All figures as of 2013 Source: ArcelorMittal South Africa internal data, BCG analysis.
Figure 47. Catalyst for change in South Africa.

6.6.1 Leading the way in health and safety and anti-corruption training

ArcelorMittal South Africa has placed great emphasis on eliminating injuries and fatalities in their plants as steel making is an inherently risky industry. This is done through a combination of initiatives such as employee training, behaviour-based care (BBC), fatality prevention standards together with proactive management by tracking and managing of key safety indicators. Each incident is carefully examined and recorded with learnings shared to avoid repeat of similar accidents. All employees and contractors are given health and safety trainings prior to commencing work at any ArcelorMittal South Africa plant as well as periodic refresher trainings.

In 2013, over 8 800 people received health and safety training. These measures have paid off with ArcelorMittal South Africa achieving a target of zero fatalities in both 2012 and 2013. ArcelorMittal South Africa has also managed a reduction in lost-time injury rate (LTIFR— the number of injuries that cause an employee to miss one shift or more per 1,000,000 hours worked) from 1.64 in 2010 to a record 0.57 in 2013, a 65% reduction. This equates to a reduction in 50 injuries per year from 77 (in 2010) to 27 (in 2013). ArcelorMittal South Africa's LTIFR is far below the average compared to other large metals and mining companies in South Africa.

Fatality prevention standards

A series of standardised operating procedures aimed at reducing fatalities and injuries from activities such as working at heights, driving vehicles, cranes, etc. Processes are audited at each site against standards by external safety experts and areas of improvement identified.

Behaviour based care (BBC) Programme

The BBC programme aims to improve safety by reinforcing good safety behaviour through observation, leading by example and effective communication. BBC is implemented through safety talks before each shift and increasing management involvement in coaching on safety.

Proactive management approach

SHE management includes a board-level committee with employee representatives

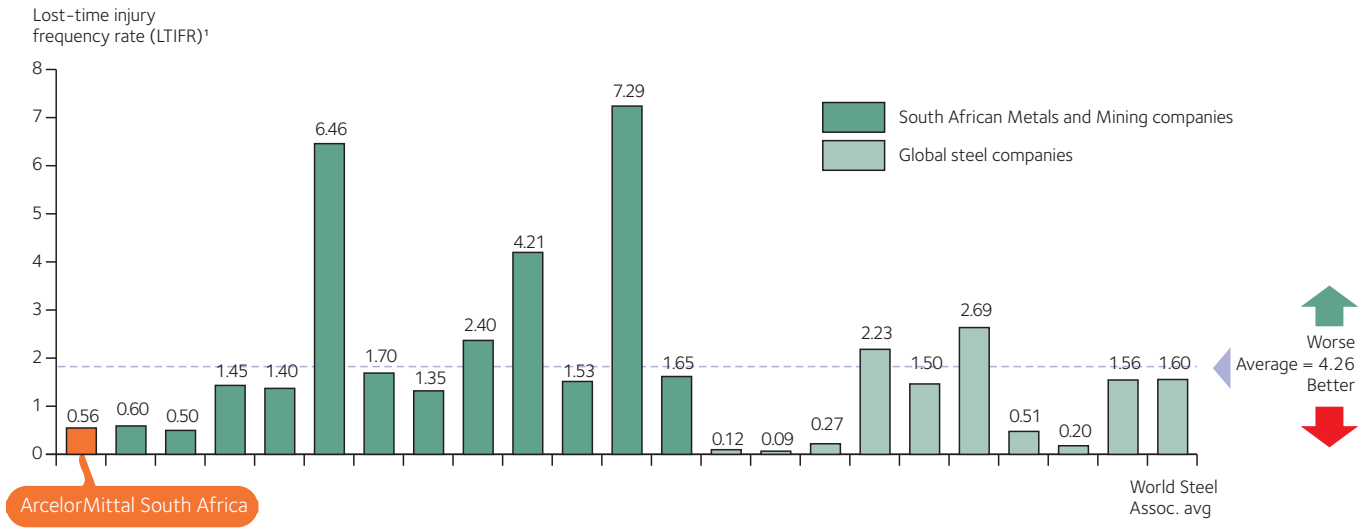
Safety, Health & Wellness is supported by the highest levels of management such as the CEO, Group Manager Safety, COO and GM's of each site.

Safety committees at the site level deal with day-to-day safety issues.

Tracking and managing key indicators

Rigorous tracking and reporting of key safety indicators such as fatalities; lost time injury frequency rate (LTIFR); severity rate; fatality prevention audit system; and fatality prevention standard. Targets of zero fatalities and a reduction in LTIFR have been set and monitored.

Source: ArcelorMittal South Africa internal data
Figure 48. ArcelorMittal South Africa initiatives cover standards, behaviour and management, and tracking.



1. Lost time Injury Frequency Rate (LTIFR) is defined as the number of occurrences resulting in fatality or loss of at least one working day/shift per 1,000,000 million hours worked
Note: Peer group companies selected include mining, metals and steel companies.
Source: 2013 Sustainability Report, company sustainability reports BCG analysis .
Figure 49. ArcelorMittal South Africa Lost-time injury frequency rate compares well against domestic and international industrial peers.

ArcelorMittal South Africa is committed to improving the health of its employees particularly with respect to HIV/AIDS prevention and treatment. A number of initiatives, such as voluntary HIV counselling and testing facilities and treatment are provided for employees to raise awareness of this deadly disease. ArcelorMittal South Africa has also recently donated a clinic to the Sebokeng community which provides HIV counselling and testing amongst other services.

HIV counselling & Testing (HCT)

Providing free HCT services for employees – 2 705 employees tested in 2013.

Know-your-status campaign

Campaign to encourage HIV testing – 3X increase in HCT attendance with regular repeat testing.

ARV access for employees

42 employees currently on HIV Support Programme provided with anti-retrovirals (ARV).

Health Week - HIV/AIDS education

Global ArcelorMittal initiative to raise awareness – employees given time to attend information sessions and health test.

HCT in local communities

Donation of a clinic in Sebokeng with HIV counselling and testing facilities.

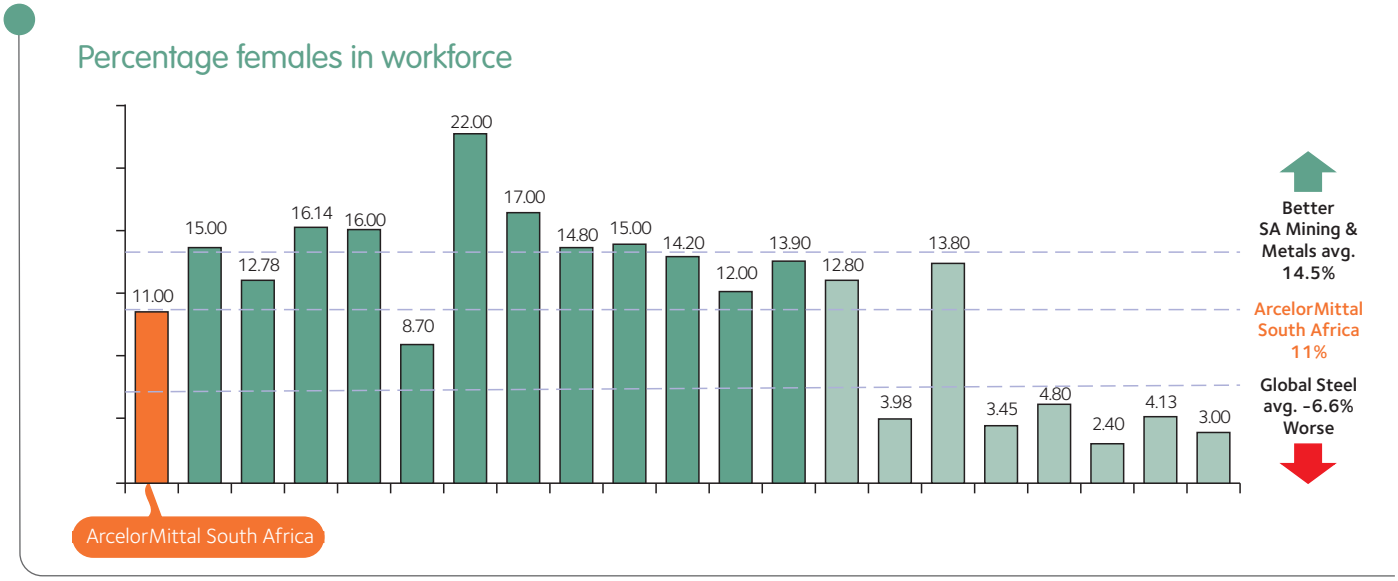
Source: ArcelorMittal South Africa internal data.
Figure 50. ArcelorMittal South Africa provides multiple tools for employees to combat HIV/AIDS.

ArcelorMittal South Africa also contributes to the fight against corruption by providing employees in key positions such as management and procurement with anti-corruption training, regular audits and recording all reported incidents of corruption with actions steps taken to address these incidents. Anti-corruption training was provided to 1 667 employees and 51 audits were conducted in 2013.

6.6.2 Employment equity and representation

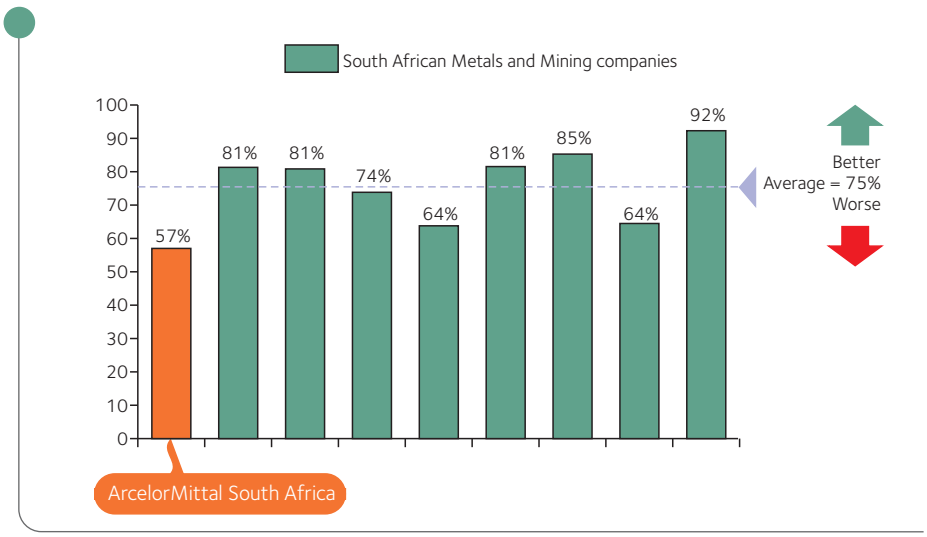
Achieving employment equity in the workplace is a key initiative for ArcelorMittal South Africa which is strategically managed through an employment equity plan. This plan covers the entire employment value chain from the training pipeline all the way to top management with overall target is for ArcelorMittal South Africa to reflect the demographics of South Africa.

Currently, ArcelorMittal South Africa has a female employment of 11% in 2013 which has been steadily rising (in 2010 it was 9%). This is lower compared to benchmarked South African mining and metals companies but is still above that of other global steel companies.



Note: Peer group companies selected include mining, metals and steel companies.
Source: ArcelorMittal South Africa, Company sustainability reports, BCG analysis.
Figure 51. % women in workforce.

57% of ArcelorMittal South Africa's workforce is made up of historically disadvantaged South Africans (HDSA) which is below that of other South African mining and metal companies benchmarked. One factor for this is the relatively high skill level required for employment within the steel industry coupled with a general shortage of technical and engineering skills. In order to help reach employment targets, ArcelorMittal South Africa invests considerably in its training pipeline where over 90% are HDSA's are trained. Still the steel industry requires a high proportion of skilled employees which takes many years to develop. Therefore over time, as the training pipeline develops into the future workforce at ArcelorMittal South Africa, it will reflect a greater percentage of HDSA's closer to the national demographics.



Source: ArcelorMittal South Africa, company sustainability reports, BCG analysis.
Figure 52. HDSA employment rate.

Employment equity is a key strategic target for ArcelorMittal South Africa and therefore a number of objectives and initiatives have been developed to achieve this. The overall objective is to ensure that ArcelorMittal South Africa's workforce is representative of the demographics of South Africa's economically active population at all levels. This will require significant investment to develop skills and retain talented employees from designated groups especially to improve representation in leadership roles. It will go together with improving the understanding of B-BBEE legislation as well as fostering a company culture that supports transformation. Several initiatives have therefore been identified to accelerate employment equity aimed at different stages such as succession planning; recruitment targeted at designated groups, particularly African, Indian, and coloured males and females, and people with disability; skills development aimed at building capability and capacity at management levels; talent management; and retention.

Employment equity objectives

- Improve demographic representation in line with national economically active population and B-BBEE scorecard.
- Improve representation of employment equity designated groups at skilled level and above.
- Retain HDSA employees including people with disabilities.
- Develop skills to prepare and promote designated groups.
- Drive the understanding and implications of employment equity and BBBEE legislation.
- Foster a culture which supports transformation.

Initiatives to reach objectives

Targeted recruitment strategy
- Developing a resource plan with defined Employment Equity targets.
- Roadshows to create awareness of potential careers at ArcelorMittal South Africa.

Talent Management strategy with succession planning
- Identifying high potential HDSA employees for succession to management roles.
- Ensuring appropriate skills transfer from retiring employees.

Skills Development Strategy geared towards producing more
- HDSA with required skills.
- Ensuring training pipeline with priority towards HDSA especially. female for skilled and professional roles – on track as currently. 91% of pipeline is HDSA.

Retention of HDSA at management levels
- Robust career management path with training programmes and incentives.
- Identifying best-practice retention strategies at other South African companies and implementing at ArcelorMittal South Africa.

Establishment a Transformation unit
- Tasked with employment equity and transformation initiatives.
- Creating awareness among employees of employment equity targets and initiatives.

Source: ArcelorMittal South Africa internal data.
Figure 53. ArcelorMittal South Africa is developing initiatives aimed at increasing.

ArcelorMittal South Africa also recognises the right of its employees to form unions and currently 75% of its workforce is unionised.

6.6.3 Supporting broad based economic development

One of the key objectives of South Africa's National Development Plan is the transformation of South African society and creating unity by reducing poverty and inequality through economic inclusion; education and skills access and redress measures. B-BBEE policy is viewed as a major tool for effecting this change.

ArcelorMittal South Africa currently has a level seven procurement rating, secured through management control, skills development, preferential procurement, and socio-economic development.

Current B-BBEE level 7

Generic scorecard

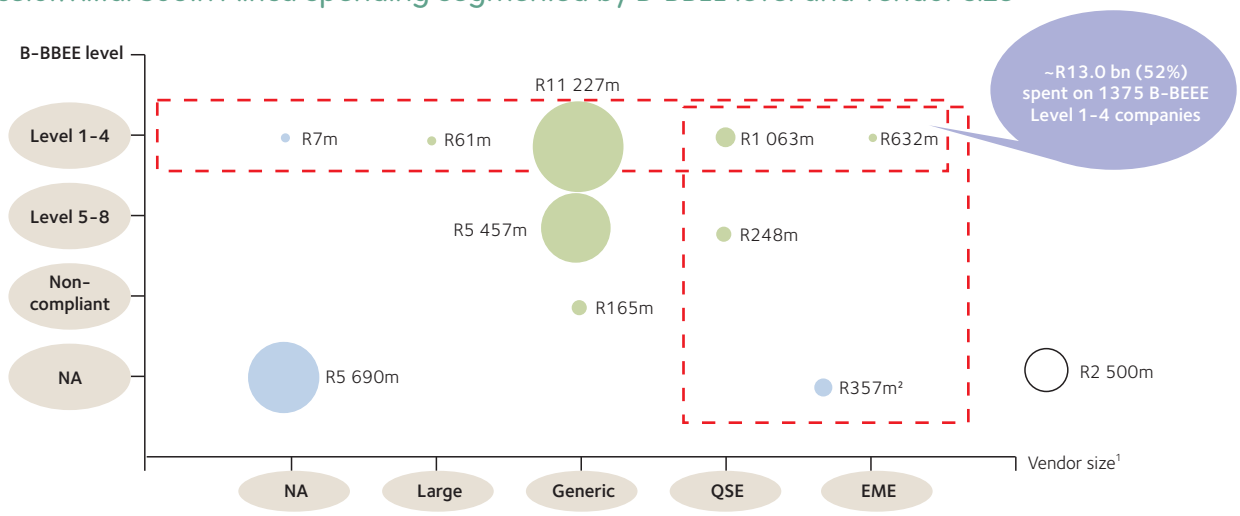
Equity ownership	0.00
Management control	8.93
Employment equity	0.00
Skills development	12.00
Preferential procurement	16.94
Supplier and enterprise development	0.00
Socio-economic development	5.00
Total	42.87

100% of target score | >80% of target score | <50% of target score

Source: ArcelorMittal South Africa internal data
Figure 54. ArcelorMittal South Africa's current B-BBEE level is 7.

ArcelorMittal South Africa's current status reflects some progress but also a number of areas where improvement is needed. In 2013 over 50% of total procurement spend or approximately R13bn was with suppliers rated B-BBEE level 1–4. While a portion of this spend came from the historically most disadvantaged sectors of the community, there is scope to increase this substantially, as currently 7.6% of this spend is with majority black owned enterprises, and 9.3% with small and micro enterprises.

ArcelorMittal South Africa spending segmented by B-BBEE level and vendor size



1. Using B-BBEE classification for vendor size based on annual turnover; Exempted Micro Enterprise (EME) <R5m, Qualifying Small Enterprises (QSE) between R5m and R35m and generic with >R35m. 2. B-BBEE level for R356m QSE & EME spend not available and could not be disaggregated.
Source: ArcelorMittal South Africa internal data.
Figure 55. > 50% of ArcelorMittal South Africa's procurement from high ranking B-BBEE companies.

Several initiatives and programme at ArcelorMittal South Africa are helping to improve overall B-BBEE contribution. Significant investments are made each year in training in order to improve skills development. Where possible and where it supports strategic and operational objectives, procurement from high ranking B-BBEE companies (thus black and minority owned and small and micro enterprises) is prioritized. Finally, through the ArcelorMittal foundation and other programmes, there are numerous activities aimed at socio-economic development, particularly of communities near ArcelorMittal South Africa operational sites.

More strategically, a co-ordinated approach is being developed into ArcelorMittal South Africa's Enterprise Development Plan in anticipation of the recent amendments and potential enactment into law of the B-BBEE codes.

6.6.4 Transparency and following due process

ArcelorMittal South Africa is a publicly listed company and as such is required to publish its financial records. ArcelorMittal South Africa currently publishes a total of eight reports annually including quarterly reports, interim reports, an annual financial statement, and an integrated annual report which contains financial and sustainability information. ArcelorMittal South Africa's sustainability report, published annually, is fully compliant with the Global Reporting Initiative (GRI) standards and reports on the main socio-economic and environmental indicators. ArcelorMittal South Africa's aim is to be transparent in reporting (except for market sensitive information) so that local communities and stakeholders are kept informed of ArcelorMittal South Africa's performance. These efforts have been recognised globally as ArcelorMittal South Africa was one of three nominees for World Steel Council's Steelie Award for Excellence in sustainability reporting in 2012. ArcelorMittal South Africa also fully discloses all litigation that it is currently facing and in 2013 there were four on-going cases with Competition Commission.

6.6.5 Participation in national strategic debates

ArcelorMittal South Africa voluntarily participates in various national debates and commissions where it provides input on important strategic initiatives such as impact of monetary, industry, and trade policy on industries in South Africa; employment and skills development and environmental policy. As a large strategic industry where government policy could significantly impact its ability to provide steel for South Africa, ArcelorMittal South Africa voluntary commits its expertise to provide industry perspective which will eventually contribute to robust government policies.

ArcelorMittal South Africa is currently involved in forums such as:

- Economic Forum of the Reserve Bank of South Africa
- Manufacturing circle.
- Industry trade organizations including SAISI (South African Iron and Steel Institute) and SEIFSA (Steel and Engineering Industries Federation of South Africa).
- Advisory Board to the Minister of Higher Education.
- Working groups on environmental and health and safety issues.

6.7 Supporting the National Development Plan

ArcelorMittal South Africa is committed to supporting the national development agenda set by the South African government. The National Development Plan (NDP) has certain key targets that are supported by ArcelorMittal South Africa activities, the key being a secure domestic supply of steel required to execute NDP's ambitious infrastructure plans. There are other social and environmental targets where ArcelorMittal South Africa contributes positively or where it could improve its contribution.

6.7.1 The National Development Agenda

The South African government recognises the need for a focused development agenda, involving public as well as private enterprise and the efforts of individual South Africans. The National Development Agenda articulates the key strategic objectives for South Africa and provides guidance on how companies and other South African citizens can and are contributing to this development agenda.

Creating jobs and livelihood

Creating an additional 11m job while reducing unemployment to 24 m.

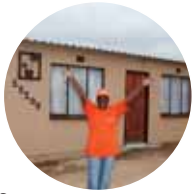
Expanding infrastructure

Prioritising investments to upgrade informal settlements; in public transport infrastructure, in key logistics systems.

Transitioning to a low-carbon economy

Promoting a low carbon economy including carbon budgeting and pricing, encouraging energy efficiency and increased usage of renewable energy, domestic energy usage reduction and independent power production.

Transforming urban and rural spaces



Improving linkages for rural communities including in education, employment, healthcare, transport and other basic services, as well as the development of viable rural based industry.

Improving education and training

Improving early childhood education access rates to >90%, improving literacy and numeracy competitiveness, supporting higher education and fostering a system of innovation.

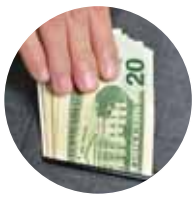
Providing quality health-care

Improving healthcare management, increasing the number of quality of health care professionals; improving patient information systems and focusing on maternal and infant health care.

Building a capable state

Enhancing social protection and welfare systems and improving public services with the participation of communities to enhance general safety and security.

Fighting corruption and enhancing accountability



Taking measures to deter, prevent and educating on corruption

Transforming society and uniting the nation

Reducing poverty and inequality through economic induction' educational and skills access.

Fostering a sense of national and civic duty and responsibility.

Source: National Development Plan
Figure 56. The National Development Plan (NDP) lays out South Africa's ambition across nine key areas.

The ArcelorMittal South Africa Factor shines light on the ways that ArcelorMittal South Africa is already contributing to the development agenda, and steps being taken to further its contribution.

ArcelorMittal South Africa is committed to supporting the national development agenda set by the South African government. The National Development Plan (NDP) has certain key targets that are supported by ArcelorMittal South Africa activities, the key being a secure domestic supply of steel required to execute NDP's ambitious infrastructure plans. There are other social and environmental targets where ArcelorMittal South Africa contributes positively or where it could improve its contribution.

6.7.2 National Development Plan (NDP)

	Source of impact	Key targets of plan	ArcelorMittal South Africa contribution to plan
1 Economic growth engine	• Impact on GDP.	• Increase GDP by 2.7 times by 2030. • Increase GDP growth to 5.4%.	+ ArcelorMittal South Africa contributes 1.3% of GDP. - ArcelorMittal South Africa revenue not growing significantly.
	• Net Exports	• Promoting exports and competitiveness. Exports to grow by 6% a year to 2030.	+ Export of R6.7bn in 2013.
2 Employer, job creator and skills developer	• Direct Employment.	• Increase number of jobs by 61 %. 11 m more jobs by 2030. • Reduce unemployment to 6 %. No. of employed to rise to 24m.	+ Provides employment to 14 874 people. - No increase in number of people employed.
	• Training.	• Encourage training and skills development. • Produce 30 000 artisans a year.	+ Spent R138m on training in 2010. + Training to produce artisans >750 artisans.
	• Investment in Community cap development.	• More people living closer to their places of work.	+ 70 % employed locally in 2010.
	• Development into skilled positions.	• Increase university enrolment by 70%. • Provide 1m learning opportunities through community education. • Increase students eligible for maths and science degrees.	+ 137 university bursaries in 2010. + Local community education via science centres. + Promotes science via science centres.
	• Investment in Innovation.	• Expand innovation output by increasing research and development.	+ Introduction of technical innovations, with lighter, stronger and environmentally friendly steel.
3 Impact on local communities	• Human settlement development	• Upgrade all informal settlements on suitable land by 2030. • Universal access to basic services, health care, education. • Universal access to clean and potable water. • Electricity access to at least 90% of households. • Improving public services and spaces, integrated housing and sports facilities. • Safety audits done for all communities.	+ Steel required for construction of houses. + Built two schools and clinic for community. + R40m for community development. + Steel for construction of electric. distribution. + Built schools, science centres and re-roofing of houses in local communities. - Safety audits for employees only.
	• New schools built.	• Eradicate school infrastructure backlog by 2030.	+ Built two schools for community.
4 Environmental footprint	• Total CO_2	• Reduce carbon footprint.	- CO_2 per tonne of steel unchanged.
	• Environmental management and Std.	• Ensure compliance with environmental regulations.	- Investments prioritised to ensure compliance.
	• Total water withdrawal. • CO_2 emissions reduction.	• Reduce water demand by 15% below business as usual. • By 2030, carbon price should be entrenched.	+ Reduced water abstraction ~40 % in 8 years. - Do not support carbon pricing for steel.
	• Recycled material use.	• Reductions in the total volume of waste disposed to landfill.	+ Optimisation of by-products a priority.
5 Enabler of S.A. development through supply of steel	• Total steel contribution.	• Increase capital expenditure to 30% of GDP. • Increase public infrastructure spending to10% of GDP. • Invest in large infrastructure projects in Health, Education, Energy and Transport. • Increase Durban port capacity from 3m to 20m containers. • Better quality public transport.	+ Provides 57% of domestic steel + Steel from ArcelorMittal South Africa critical for NDP infrastructure projects.
6 Catalyst for change in South Africa	• Employment equity.	• Effective redress by creating employment equity. • Clear targets set for expanding economic participation.	- 57% HDSA employed, no sig. increase + Targets to reflect national racial distribution.
	• Safety & Health hazards.	• Reduce prevalence of non-communicable chronic diseases. • Reduce injury, accidents and violence by 50%.	- Occupational disease frequency not significantly reduced. + Injury rate reduced >50% over last two years.
	• Employee Wellness.	• Deploy primary healthcare teams to provide care.	+ Sponsored clinic in local community.
	• External reporting.	• A set of indicators for natural resources and publication of annual reports.	+ Publishes award winning annual sustainability report with environmental indicators.
	• Anti-corruption.	• Corruption is reported on and monitored.	+ Corrupt practices monitored and reported.

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+ In support of plan.
- Currently does not support plan.

Source: National Development Plan.
Figure 57. ArcelorMittal South activities support implementation of specific NDP targets across all six pillars.

6.8 Future ArcelorMittal South Africa Factor updates

ArcelorMittal South Africa has developed a customised methodology based on the WBCSD framework to objectively assess its contribution to South Africa. Using this methodology, ArcelorMittal South Africa aims to publish a Factor report periodically to reflect internally on its progress as well as to keep external stakeholders informed. This regular assessment will therefore allow ArcelorMittal South Africa to constantly identify key areas where performance can be improved and to develop action measures.

This Factor report has been developed by ArcelorMittal South Africa to communicate its socio-economic and environmental footprint to the wider public. ArcelorMittal South Africa set out to objectively evaluate its business activities and present a fair assessment of its performance, both positive and negative. Overall, ArcelorMittal South Africa is considered to have a mainly positive impact on economic pillars as it makes a significant contribution to GDP, is important as a job creator and skills developer and supports development of South Africa by providing steel. Social pillars have a mix of positive and negative impacts where ArcelorMittal South Africa invests in funding social projects such as schools and housing, has a leading safety record but can still improve in areas such as enterprise development and procurement with black and black female owned businesses. Steel making is an inherently resource intensive industry that produces large amounts of greenhouse gases, dust and waste. ArcelorMittal South Africa acknowledges its negative contribution on environmental indicators but however continuously strives to make improvements. Examples include reducing water abstraction by 48% since 2005 and investments in CO^2 and particulate emission reduction equipment.

6.9 Appendix

Developing the ArcelorMittal South Africa Factor report
The ArcelorMittal South Africa Factor report was developed based on the WBCSD sustainability impact framework.

Four step framework underpins the methodology

Step

1. Set boundaries
2. Measure direct and indirect impact
3. Assess contribution to develop-ment
4. Prioritise manage-ment response.

Key activities

- Identify objective(s) for assessment.
- Define geographical scope of assessment.
- Collect development context information.
- Select business areas to be assessed.

- Identify sources of impact for each business activity.
- Identify relevant indicators for direct/indirect impacts.
- Measure impact.

- Determine level of stakeholder engagement.
- Engage with stakeholders to prioritise development issues[1].
- Build hypothesis of business contribution to development.
- Test hypothesis with stakeholders and refine overall assessment[1].

- Identify priority issues for action.
- Consider possible management responses and prepare recommendations for management.
- Decide on way forward.
- Develop indicators to monitor way forward.

Figure 58. WBCSD Framework for sustainability assessment.

6.9.1 The WBCSD framework consists of four steps

1. **Set boundaries**
The first step in the approach is to set the scope of the overall assessment. This includes clarifying objectives, defining the geographical and economic scope, identifying relevant business areas, and other factors for inclusion.
For the ArcelorMittal South Africa Factor, the geographic scope was limited to ArcelorMittal South Africa's South African operations and market where operations and the vast majority of its sales occur. Most of the assessment focused on ArcelorMittal South Africa's direct operations, but where possible data from sources, upstream and downstream of ArcelorMittal South Africa were considered as well. This included information from ArcelorMittal South Africa communities surrounding the operational locations and downstream manufacturing and fabrication activities of ArcelorMittal South Africa's suppliers.

2. **Measure direct and indirect impact:**
This involves identifying the sources of impact for each business activity and collecting the relevant data to measure the impact. A total of approximately 160 indicators in an initial 33 areas of impact were considered for use in the report. These data indicators were based on internally collected and reported information. The most impactful and communicative 100 were ultimately selected for use in the report and consolidated across 24 impact areas, but it is envisaged that future reports will be based on an even greater selection of data.
Other data sources were also included, measured and assessed as part of the report. These included benchmarks based on leading South African industrial companies as well as global steel companies; information derived from media publications; South African development agendas as outlined in the national development plan and information on the positions of ArcelorMittal South Africa's various internal and external stakeholders with respect to key issues.

3. **Assess the contribution to development:**
After the data has been collected and measured, the third step is to assess the impact to development.
Hypotheses are formulated on the nature of the impact (positive, negative, or both positive and negative) for each impact area using the various data sources and combinations of different aspects of operations and parts of the value chain beyond ArcelorMittal South Africa's operations different aspects from operations. Each impact is placed in context and tested from the perspective of various stakeholders to identify the most meaningful, balanced, and communicative representation for that impact.

For the ArcelorMittal South Africa Factor report, six areas or pillars of influence were chosen under which the final 23 impact areas were grouped:
- Economic growth engine.
- Employer, job creator, and skills developer.
- Impact on local communities.
- Environmental footprint.
- Enabler of South Africa development through the supply of steel .
- Catalyst for change in South Africa.

Five different perspectives were considered in assessing each impact:
- The internal data available, including trends over the last few years
- Comparison between ArcelorMittal South Africa and local South African and international company benchmarks
- Alignment between ArcelorMittal South Africa's operational objectives and strategies and the development strategies and policies for South Africa as outlined in the National Development Plan
- An analysis of the various stakeholder views of ArcelorMittal South Africa performance of the given impacts
- Assessment on the public view of the ArcelorMittal South Africa's performance as indicated by the media.

Additional context was developed by examining some of the details behind the current performance within each impact area, including mitigating factors, planned improvement, priority areas for development, etc.
Finally each impact was categorised as having mostly positive, negative, or both negative and positive impacts from a socio-economic environment and environmental context. This in turn developed the assessment for overall pillar.

4. **Prioritise management response**
Once the data has been analysed and assessed appropriate responses to the findings can be developed. High priority action areas can be developed and action plans devised to change performance in once area or another. Long term strategic goals can also be set. Best practice from one area of operations can be leveraged for implementation in another.
Many areas of impact are today carefully considered before critical decisions affecting ArcelorMittal South Africa's operations are made – for example any changes or decisions that impact on environmental and legal compliance. Current and future versions of the report will be an important tool in ensuring that ArcelorMittal South Africa's performance in these dimensions is as desired. In addition the report will be key in identifying additional priority areas or opportunities for improving ArcelorMittal South Africa's footprint, and understanding how to include these in the company's strategic and operational plans.

Data collection assessment/follow up

- What current internal data is available for given impact?
- What is the indicator trend over the past three years?

Development strategies and policies

- To what extent are ArcelorMittal South Africa's performance and objectives for the indicator aligned with relevant development agenda?

Economic growth engine

- **R27bn (0.9 %)** in direct GDP and **R11bn (0.4 %)** in indirect GDP contribution.
- **R47m** in economic value contribution in 2013.
- **R1.5bn** in taxes contributed.
- **R2.0bn** in procurement spend on QSE and EME.

Employer, job creator and skills developer

- Over **14 800** people in direct employment due to ArcelorMittal South Africa.
- Over **120 000** training seats provided with **R138m** invested in training.
- **R42m** invested in technical training; Multiple global steel innovations introduced to South Africa.
- **R25bn** spent on over **2000** suppliers, but more emphasis on supplier development required.

Impact on local communities

- **70%** of new recruits employed locally; **16m tonnes** of material transported on local road and rail.
- **40 local community organisations** engaged in 2013, with outcomes documented.
- **24%** spent **(R5.9bn)** on local suppliers of which **R1.0bn** on QSE and EME.
- **R40m** invested in local communities in 2013.

Environmental footprint

- **125PJ** of energy **17.5bn litres** of water abstracted and **13.4m tonnes** of raw material consumed.
- **48%** improvement in water abstraction since 2005. Continuously improving effluents management.
- **15.2m** tonnes Scope 1 and 2 CO_2 emitted.
- **2.5kt** of dust and **23.5kt** of SO_2 emissions per annum.
- **1.65m tonnes** by-products disposed of; **290ha** of land under restoration.

Enabler of South Africa's development through supply of steel

- **5m tonnes** of steel produced with **~60% of** South African steel supplied by ArcelorMittal South Africa supporting key domestic industries.
- **3.5 formal jobs created** economy-wide for every **R1m** spent by ArcelorMittal South Africa.
- Developed local steel processing industries through joint ventures. Export rebates of **R213m** paid out to local companies in 2013.

Catalyst for change in South Africa

- **8 819** received health & safety and **1 667** received anti-corruption training.
- **11%** female employment, **57%** HDSA employment and **75%** unionisation.
- **ArcelorMittal South Africa at B-BBEE Level 7.**
- **Open disclosure** of financial, environmental and social indicators.
- **Voluntary participants** in several debates at national level.

Mostly positive | Positive and negative | Mostly negative

Economic | Social | Environmental

Benchmarks

- How does ArcelorMittal South Africa's performance compare with local, and international peers

Media

- What does media say about ArcelorMittal South Africa's performance with respect to the relevant indicator?

Stakeholders

- To what extent are ArcelorMittal South Africa's performance and objectives for the indicator aligned with relevant development agenda?

Figure 59. Five perspectives used to assess impact

6.9.2 Data sources

- 2010-2013 ArcelorMittal South Africa Annual Financial Results.
- 2010-2013 ArcelorMittal South Africa Sustainability Reports.
- ArcelorMittal South Africa internal data (HR, Procurement and Logistics, Legal, Marketing, Environment, Investor Relations, Safety).
- BCG analysis.
- Quantec Research.
- StatsSA.
- Sustainability reports (multiple companies).
- World Steel Assoc. Yearbook 2013.
- SA Customs and Excise.
- Automotive Industry Expert Council.
- IMF.
- World Bank.
- CWI.
- Collect-a-can.
- National Development Plan.

Safety
Creating a safe environment for all to live and work in

Customer focus
Building long term win-win partnerships

Commitment
Solution focused, delivering to our best

Caring
Fostering authentic relationships, valuing everyone

For more on ArcelorMittal South Africa visit our website
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