ArcelorMittal South Africa Limited
Preliminary reviewed condensed consolidated financial statements for the year ended 31 December 2022

Salient features

- Considerable resources invested to improve safety and environmental performance
- International price corrections and soft local demand significantly impacted second half performance
- Business is more resilient than during other crisis or near-crisis environments of the past
- Value Plan delivered R1 561 million (2021: R2 085 million) and fixed costs were reduced by R784 million
- EBITDA down 50% at R4 274 million (2021: R8 569 million) as the negative price-cost effect affected margins
- Headline earnings down 62% at R2 607 million (2021: R6 860 million)
- Net borrowings position of R2 808 million (2021: R1 258 million) due to capital expenditure cash outflows of R1 912 million and R3 086 million increase (2021: R6 005 million) in working capital
- 13% decrease in sales volumes and 20% drop in crude steel production
- 6% increase in realised dollar steel prices
- Raw material basket (RMB) increased by 38% in rand terms (international RMB up 14% in rand terms)
- Decarbonisation roadmap announced targeting 25% reduction in carbon emissions by 2030 and 86% by 2050

The analysis below relates to the year ended 31 December 2022 (current period) compared to the 12-months ended 31 December 2021 (prior or comparable period), except where otherwise indicated. The immediately preceding six months refers to the first six months of 2022.

Overview

On 28 July 2022, at the announcement of the Company's interim financial results, it was indicated that the outlook for the second half of the year would be strongly influenced by intensified economic headwinds which threatened to significantly affect the trading environment for steel. As anticipated, the international price correction in a soft local demand environment did severely impact the financial results of the business. At that time, however, it was also indicated that the Company knows how to manage through a challenging cyclical business environment, and thus ArcelorMittal South Africa, with the support of its loyal staff, customers, and suppliers, has successfully delivered against its predicted outlook.

Globally, steel prices declined at a faster rate than raw materials as particularly evident in the second half of the year. This has led to negative price-cost effects with spreads (i.e., the difference between steel prices and raw material costs) under significant pressure. The Company could not escape the impact of the year's energy crunch, as seen in the extreme increase in the international price of coking coal (up 62% year-on-year in dollar terms). Domestically, market conditions proved to be especially challenging as customers destocked. This was particularly notable in the last quarter of the year, where market activity dissipated dramatically in certain sectors (being somewhat reminiscent of late-2008). The Value Plan and the associated improvements the business has made in recent years were firmly tested. The business is responding effectively, and thus despite the sharp weakness which characterised the second half of the year, the financial results are significantly stronger than during other crisis or near-crisis environments of the past.

Headline earnings of R2 607 million (2021: R6 860 million) were down 62% as EBITDA of R4 274 million fell by 50% (2021: R8 569 million), with the depreciation and amortisation expense increasing by 28% to R771 million (2021: R601 million) and net finance charges having decreased by 18% to R952 million (2021: R1 163 million) mainly due to a net foreign exchange profit of R218 million (compared to a net foreign exchange loss of R109 million) partly offset by higher net interest charge on bank overdrafts and loans of R104 million.

An aspect of the business which unexpectedly came under significantly more pressure than initially anticipated, was the net borrowings position. Having successfully improved average asset capacity utilisation in the second half, to 54% from 42% in the first half of the year, the sudden slowdown in market activity in the latter part of the fourth quarter was greatly aggravated by a notable shortage of readily available road trucks for sales deliveries. The well-publicised rail logistic failures in the country's coal export rail corridors, and the very attractive prices offered for that product, resulted in a dramatic and unexpected shortage of road trucks for domestic and Africa overland deliveries.

Apart from a conscious decision to (i) restore steel inventory levels after the Newcastle blast furnace's mid-life campaign restoration, and (ii) hold additional raw material inventory to counter the impact of further rail disruptions (having proved the value of this during Transnet's labour disruptions in October), the impact of the fourth quarter's events saw lower sales levels and thus more finished steel on hand, all resulting in a considerably higher investment in working capital than forecasted.

Overview cont.

Subject to market conditions, peak working capital investment is likely to begin to unwind towards the close of the first half of 2023 as the business adopts a highly flexible stance regarding its asset utilisation in response to uncertain market dynamics, all within technical limitations. Consequently, the net borrowings position was R1 550 million and R1 721 million higher at R2 808 million compared to December 2021 and June 2022 respectively.

Sales volumes were 13% down, with crude steel production 20% lower compared to the previous year. Against the immediately preceding six months, sales volumes were down 14% while crude steel production was up 29%.

ArcelorMittal South Africa's realised average steel prices increased by 17%. Its raw material basket increased by 38% with, in absolute terms, imported coking coal having increased by 117%, while iron ore decreased by 4% and scrap decreased by 2%. After accounting for conversion cost, the variable cash cost of steel increased by 36%[1].

Fixed costs reduced by R784 million (11%) to R6 644 million in response to lower addressable demand and the winding down of restorative maintenance activity which started in 2021.

After the disruptive events reported in the first half of the year, the Company's Value Plan realised improvements of R1 561 million (2021: R2 085 million) consisting of commercial-related initiatives of R839 million and cost-based initiatives of R722 million. The performance was much improved against the R577 million realised in the first half of the year.

Free cash outflow of R1 600 million (2021: R1 961 million cash inflow) was after capital expenditure of R1 912 million, the final settlement of an overdue dollar-denominated payable of R628 million in the first half of the year, deferred related party fees of R618 million in the second half of the year, and payments to the Competition Commission of R100 million in the second half of the year.

The notable increase in capital expenditure of 115% to R2 073 million (2021: R965 million) consisted of R1 077 million (2021: R658 million) sustaining (including safety and structures), R338 million environmental (2021: R64 million) and R658 million (2021: R243 million) of strategic investments. The potential annual incremental EBITDA impacts of the strategic investment is estimated at R270 million (2021: R370 million).

Sustainability

The business is responding effectively to the challenging market conditions while remaining focused on its long-term objectives.

Customers are destocking in response to lower market prices and adjusting inventory holding levels to the weaker trading conditions. Destocking is ultimately unsustainable and will end. Until then, the Company is adjusting its production to addressable demand, by idling plants, consolidating production at the most productive facilities, and reducing fixed costs. One blast furnace at Vanderbijlpark was idled in early November and only restarted in early February 2023 once commercially supported by the order book. In the Long Steel business, following the restart of the Newcastle blast furnace, the Vereeniging electric arc furnace was idled in October as the combined production of Newcastle and Vereeniging is way more than current demand. Further strategic asset footprint optimisation will take place in 2023 within the Long Steel business as certain operations in Pretoria and Vereeniging are idled con consolidated, with products from these mills moved to rolling operations in Newcastle to improve mill capacity utilisation and productivity.

The inexorable march of inflation in South Africa, which has been especially challenging for the last few quarters, progressively erodes international competitiveness. Good progress has been made in reducing and resetting fixed costs for the current year, however, more is needed. Included in the Value Plan for the next five years is an initiative to reach a more competitive fixed cost per tonne level. The own, hired and sub-contractor labour mix, pay rate levels, and productivity will be a key focus, along with ensuring maintenance effectiveness for every rand invested.

[1] Based on crude steel production.

Sustainability cont.

A consequence of effective maintenance is equipment reliability, which has shown progress. Of the 22 priority plants, eight have exceeded the reliability baseline measure and eight have improved on the prior year's performance. The remaining plants, with higher priority given to coke-making and the sinter plants, will be subject to an initiative to add skills and leverage off plant twinning with ArcelorMittal group benchmark operations.

A reliable electricity supply is vital to the sustainability of the steel value chain. Increasingly, the unreliability of electricity supply necessitates more expensive stand-by alternatives to be developed. Four notable Eskom and four municipal equipment failure events were experienced in the second half of the year. While the business was fortunate to have avoided significant damage to its equipment, the risk associated with regular fluctuations in energy levels remains high.

Extremes in energy inflation necessitated actions to optimise energy consumption, which added some R126 million to 2022's Value Plan. More needs to be done, with a particular focus on combustion efficiency and improved utilisation of the Company's own electricity generation capacity. Loadshedding is felt in the form of load curtailment of the Company's operations. Progress has been made on operational planning and scheduling to better accommodate these unplanned disruptions. However, load curtailment may still interrupt production of rolling and finishing mills, which in turn may affect production and delivery to customers, especially of high-demand products. Through careful inventory management, the Company remains committed to minimising any impact of load curtailment on its customers.

The fully-funded feasibility study into a 200MW renewable energy solution is nearing completion. Early-construction work is scheduled to start in the fourth quarter of 2023, with the objective of yielding meaningful cost reduction benefits by 2024/5. Whereas it was previously reported that one 100MW plant would be constructed at Vanderbijlpark and one at Saldanha, a more attractive solution is to construct one large 200MW plant at Vanderbijlpark, as this will yield the greatest operational and commercial benefit. Work is progressing on commercially closing power purchase agreements with third party renewable energy providers.

The year started with plant closures due to the primary impact of rail disruptions, and the year ended with the secondary impact of such disruptions affecting sales deliveries. Daily briefings to the CEOs of ArcelorMittal South Africa and Transnet Freight Rail (TFR) have seen notable benefits, however, overall performance remains well below service design. While doing its best to support TFR and Transnet Port Terminals (TPT), the Company has completed a pre-feasibility study with its specialist rail operator advisor into the commercial viability of third-party rail access. It has been agreed to progress to the definitive feasibility study stage, which includes funding solutions. The announcement in June 2022 of the country's draft Rail Policy should remain the "north star" by which South Africa's rail infrastructure is managed. On an adjacent note, the market launch on 20 October 2022 of the rebranded ArcelorMittal Rail and Structures (AMRAS) business (previously the Highveld structural mill) with its 48kg and 57kg per metre mainline rail product, was well received and supported by partners and customers alike. It is believed that this asset can meaningfully contribute to the Rail Policy's localisation aspirations.

Unsurprisingly, a common theme on all global steel cost curve benchmarking, is the importance of backward integration into raw material supply, either through physical ownership or synthetically by contracting. Throughout the steel and commodity cycle, regionally sourced materials are always preferable to sea-borne imports, and cost-linked sources are always more preferable than international benchmarked prices, on condition that inflation-busting continuous improvement practices are applied.

Hard work is going into securing further raw material opportunities, including a supportive competitively priced logistics solution. As seen with the coking coal price, more work is needed in this area. Until the Decarbonisation Roadmap is fully implemented, the business will never be completely free of the need to import premium hard coking coal (which is not regionally available). By enabling Zimbabwe-based supplies of lower quality hard coking coal, some of the sharpness of the steep increase of the international coking coal price has been removed. More work remains to be done on sourcing, development, and logistics, however, following a meeting between ArcelorMittal South Africa and the leadership in the Republic of Zimbabwe in November, the willingness to seek out and execute these opportunities is mutually strong.

High import levels from China of anomalously low priced material and of European material at prices which are insufficient to cover fixed costs of marginal producers; the announcement in South Africa of new Flat Steel capacity; new Long Steel capacity attempting to leverage off the recent scrap export ban implementation; and new Long Steel capacity in the surrounding regions, are all ominous signs of the prevalence of unfair trade practices and less than completely rational investment decisions.

Sustainability cont.

Fair competition is good for business. Localisation of value-added steel production opportunities, collaborative value chains, and improved customer centricity are prospects which ArcelorMittal South Africa will leverage off to increase its assets utilisation, which is low in the present environment.

It is broadly accepted by the parties with which ArcelorMittal South Africa is collaborating, that the Company is best placed to advance these opportunities given its existing asset base. Improved building activity, higher demand for material for truck-trailers, and increased enquires for material stretching from pipelines to wind towers should add impetus to the rebound once the current destocking cycle ends. However, a Government growth agenda is now sorely needed to add the necessary momentum.

A strong balance sheet is needed for strategic continuity. Like all other businesses, the Company generally allocates capital expenditure over periods of several years. These very strategic and often weighty decisions are based, first and foremost, on whether it is believed the investment can be afforded. Over the past six months, significant effort has been invested in rescheduling to a later date some of the major rebuilds/relines timed for the next five years. This should also provide space to introduce a large electric arc furnace at Vanderbijlpark to replace one of the blast furnaces - fundamental in terms the Decarbonisation Roadmap.

More work is required to advance the localisation of value-added steel opportunities, reduce the capital expenditure envelope over the next five-to-seven years, all while putting in place responsible funding solutions. Although delayed for the reasons noted earlier, the Company remains committed to reaching a meaningful net cash position as soon as possible, and developing capital expenditure funding solutions, before contemplating a sustainable resumption of dividends.

Safety, Environmental, Social and Governance (ESG)

Safety is the Company's highest priority as it remains committed to Zero Harm.

It is with deep regret that ArcelorMittal South Africa had two fatalities which occurred in the second half of 2022. The board and management express heartfelt condolences to the families, friends, and colleagues of Sabatha Petros Nkosi and Chris Swanepoel. Significant work is being put into understanding the root causes of the less than satisfying safety performance.

Stamping out fatalities and serious injuries starts with behavioural changes – starting at the top of the Company and cascading throughout the ranks to the shop floor. The Company spent considerable resources and time on accident-proofing its physical infrastructure – buildings and machinery – to improve safety. This is further evident in the additional capital expenditure made in 2022.

The business must assertively build on the overall improved safety performance in 2022 by focusing on thorough process risk management while continuing to cultivate a culture of care for its people. Some of the measures already implemented include engaging the services of world-renowned safety experts, weekly plant safety stops and a two-week safety visit by the Interim Chief Operating Officer to ArcelorMittal's standard-setting Brazil operation. Benchmarking and interactions with leading South African companies will start in 2023, as safety interdependency (between business, organised labour, civil society etc.) taps into the broader South African psyche.

The Company's lost-time injury frequency rate (LTIFR) improved from 0,98 to 0,87 and the total injury frequency rate (TIFR) improved from 7,80 to 5,74. Total number of injuries reduced from 215 to 171.

In January this year, ArcelorMittal South Africa released its first ever Decarbonisation Roadmap. The Company is serious about decarbonising despite the many major challenges currently faced. Around the world, the steel industry has signalled its determination to transition away from carbon-intensive production methods. That said, the Company recognises that it operates in a Sub-Saharan Africa context with its own challenges relating to poverty alleviation, economic development needs, constrained (electrical) infrastructure and others. In that regard, the opportunities offered by the deployment of carbon capture and use (CCU) technologies and the conversion of that captured carbon into sustainable synthetic fuels promise much greater opportunities in Africa. Flexibility in devising the final decarbonisation solution is an important foundational element underpinning the roadmap.

The Decarbonisation Roadmap stresses the point that the Company cannot decarbonise on its own – no steelmaker anywhere will ever be able to achieve net zero by itself. To achieve this the business will need collaborative partners.

Safety, Environmental, Social and Governance (ESG) cont.

It is pleasing that the Company is already able to point to solid progress on cementing partnerships with Government, development finance institutions and other corporates. This is very encouraging, but a great deal of work still needs to be done (and urgently) on securing the funding for the steel industry reinvention.

In many other jurisdictions, governments have already shown that they understand just how important it is for the state to support decarbonisation. In South Africa, the sentiments regarding support are very positive. However, coordinated meaningful traction (policy certainty, funding opportunities, commercialisation support etc.) to ensure that South Africa can benefit from the potential it has to be an "early mover", still needs to be demonstrated.

For example, industry requires clarity on how National Treasury plans to raise carbon taxes and at what pace. Or how, if at all, the authorities plan to incentivise lower-carbon behaviour. Clarity on incentives and taxes for good and bad carbon behaviour respectively, is very much needed as this is the reality faced by steelmakers in those countries with whom ArcelorMittal South Africa competes for steel sales.

Decarbonisation offers substantial opportunities to reindustrialise and create jobs – by producing and exporting green direct reduced iron, steel and manufactured goods, and by potentially re-employing hundreds in the areas which need it most, including the Vaal region, KwaZulu-Natal midlands, and the West Coast.

The Company's environmental commitments are by no means confined to decarbonising its operations. Very substantial strides have been made in recent years on curbing emissions like sulphur dioxide and dust, on recycling and, particularly, on rehabilitating hundreds of hectares of land. In 2022, R338 million was allocated to environmental capital expenditure - 428% more than the previous year and the highest allocation since 2013.

The Company continues to strive to build an environment in which ArcelorMittal South Africa is a place in which everyone is valued and rewarded appropriately for their contributions to the business's sustainability and success. The quarterly *SpeakUp+* employee survey is a key barometer regarding progress in this effort.

The Company has recently concluded memoranda of understandings with the Emfuleni Local Municipality and Gauteng Department of Economic Development to make a pragmatic difference to the socio-economic realities in those regions. This adds to the collaboration which is already in place with the Department of Economic Development & Tourism of the Western Cape Government, and the Growth Coalition in KwaZulu-Natal.

Markets

After increasing by 4% in 2021, global crude steel production[2] decreased by 4% or 82 million tonnes in 2022 to 1,9 billion tonnes. This reflects the slower global economic conditions prevailing in 2022 emanating from monetary tightening in response to aggressive inflation, weak demand in China and Asia due to Covid-19 outbreaks/restrictions, low consumer confidence, and the spill-over effects of the Russian invasion of Ukraine. Global crude steel production decreased by 8% in the second half of the year, compared to the immediately preceding six months.

China's crude steel production decreased by 2,0% to 1,0 billion tonnes, with its market share at 54% (2021: 53%). Europe's[3] crude steel output decreased by 9% to 217 million tonnes. North America was down by 6% to 112 million tonnes. Both Russia and Turkey continued the downward trend as production fell by 7% and 13% respectively while India succeeded in increasing production by 6% to 125 million tonnes. Africa's output decreased by 5% to 16 million tonnes due to lower production in South Africa and Egypt. South Africa's crude steel production decreased by 12% to 4,4 million tonnes.

In November 2022 China's hot rolled coil (HRC) prices reached the lowest level since June 2020. (Subsequently, prices have recovered by USD150 per tonne). International HRC prices decreased by 21% in dollar terms year-on-year, while rebar prices decreased by 3%. These HRC prices decreased by 31% compared to the immediately preceding six months, with rebar prices decreasing by 20% for the same period. The international raw material basket (iron ore, coking coal, and scrap) was 3% higher in dollar terms. In absolute terms, coking coal increased by 62%, while iron ore and scrap decreased by 26% and 7% respectively.

[2] Source: World Steel Association
[3] Europe including Turkey
[4] Year on year % sectoral growth forecast change.: Mining (-1,3%), Construction (-1,2%), Manufacturing (0%)

Markets cont.

Turning to South Africa and the regional economy, the GDP growth rate for South Africa fell from 4,9% (actual) to 2,5% (forecast) for 2022, and those for near and Sub-Saharan African markets are forecasted to be between 3,6% and 4,7%.

In South Africa, apparent steel consumption (ASC) for 2022 decreased by 12% to 4,0 million tonnes, reflecting low market activity in key steel-consuming sectors[4], high market inventory levels necessitating destocking, project delays due to rising interest rates, and overall weaker business confidence. ASC decreased by 2% compared to 2,0 million in the immediately preceding six months.

Total steel imports of primarily HRC, galvanised sheet and plates decreased by 13% to 1,2 million tonnes. This volume constituted some 30% of South Africa's ASC (2021: 30%). Imports increased significantly in the second half of the year by 55% to 720 000 tonnes compared to the immediately preceding six months, aligned with slower global market conditions and thus a higher propensity to offset surplus production through exports to countries such as South Africa.

A concerning trend is the increasing number of contraventions of import duties by certain steel industry participants, as is clear from data released by the South African Revenue Service. Such corrupt behaviour is eroding the future growth potential of the country in the interest of short-term gains for a few.

In the past seven years, the country's ASC has reduced by 20%. South Africa's available steelmaking capacity far outstrips demand, but the country has lost just less than a third of its ASC in 2022 to imported steel. Imported steel products from countries subsidising their respective steel production continue to affect the viability of the South African steel industry and it is for this reason that protection measures aligned with World Trade Organisation (WTO) rules are in place.

South Africa is also not alone in applying customs duties. Most steel-producing countries have taken significant steps to protect their steel sectors against imports, consistent with internationally agreed WTO rules. Normal customs duties on steel imports are seen in more than 150 out of 200 countries worldwide, and in almost all major steel-producing countries. About 135 countries have an average of 10% duty on South African exports to them, including China, which has a duty of 5% on South African steel imports.

The Company's total sales volumes decreased by 13%, or 313 000 tonnes, to 2,2 million tonnes compared to 2021, due to a 14% fall in domestic sales to 1,9 million tonnes while exports decreased by 14 000 tonnes. The regional mix of exports weakened as Africa overland sales fell to 132 000 tonnes, being a decrease of 40%. Total sales volumes decreased by 14% compared to the immediately preceding six months.

The Company's overall realised steel price in dollar terms increased by 6%. In rand terms, this represented a 17% increase as the average dollar/rand exchange rate weakened by 11%. Realised dollar steel prices decreased by 15% compared to the immediately preceding six months, with rand prices down by 4% for the same period. This trend reflects the lag-effect of steel price movements which characterise the Company's order intake.

The Company is the only primary producer in South Africa which supports the downstream industry through a formal export support programme. This industry support totalled R149 million (2021: R196 million) in value-added export and strategic rebate assistance during 2022.

Operations

The Company's average capacity utilisation decreased from 60% in 2021 to 47% in 2022. The reduction in capacity utilisation reflects, in addition to the 12% reduction in apparent steel demand, the impact of the delivery complexities associated with rail service unavailability, labour disruptions and electricity loadshedding, which characterised the South African operating environment in 2022. Current capacity utilisation is 79%.

Crude steel production decreased by 20%, or 618 000 tonnes, from 3,0 million in 2021 tonnes to 2,4 million tonnes in 2022. Crude steel production increased by 29% to 1,35 million tonnes compared to 1,05 million tonnes in the immediately preceding six months.

Operations cont.

Strong focus remains on reliability and the restoration programmes. Other priorities include improvement of efficiencies and operating costs, reducing energy and other conversion costs and the debottlenecking of key rolling mills to target import replacement.

For 2022, commercial coke production was 51% lower at 78 000 tonnes, with sales volumes down by 43% at 176 000 tonnes due to the continuing restoration of the coke batteries, and the use of more coke internally due to intermittent production interruptions arising out of the rail service unavailability and labour disruptions. Sales decreased by 53% to 56 000 tonnes compared to 120 000 tonnes in the immediately preceding six months. Plans are progressing to enable ArcelorMittal South Africa to improve its servicing of the important commercial coke market. An improvement is expected in 2023, with a meaningful impact from 2024 onwards.

Financial results

ArcelorMittal South Africa reported an EBITDA of R4 274 million against R8 569 million in 2021, while its operating profit decreased from R7 976 million to R3 499 million. The headline earnings of R2 607 million fell from R6 860 million, amounting to a 234 cents per share profit against 615 cents for prior year. EBITDA decreased by 81% to R683 million compared to R3 591 million in the immediately preceding six months.

Revenue increased by 3% to R40 771 million due to a 17% rise in net realised steel sales prices, despite a 13% decrease in total steel sales volumes. Revenue decreased by 16% to R18 596 million compared to R22 175 million in the immediately preceding six months.

The Company's raw material basket (iron ore, coking coal, and scrap), representing 44% (2021: 43%) of cash cost per tonne, was 38% higher in rand terms, compared to a 14% increase in the international basket. The local basket was 20% lower (2021: 34% lower) in rand terms against the international basket. The increase in price of the local basket's imported coal prices exceeded that of the international basket, reflecting a temporary delay in the consumption of the more expensive coal inventory due to a slower steel market, especially in the fourth quarter.

Consumables and auxiliaries, represents 31% of cash cost per tonne[4] (2021: 31%). Electricity tariffs increased by 11%, while dollar-denominated commodity-indexed consumables increased by 51%.

Fixed costs decreased from R7 428 million in 2021 to R6 644 million in 2022, a decrease of 11%. Fixed costs decreased to R3 196 million (7%) compared to R3 448 million in the immediately preceding six months.

Net financing charges were substantially down at R952 million (2021: R1 163 million) mainly due to a net foreign exchange profit of R218 million (compared to a net foreign exchange loss of R109 million) partly offset by higher net interest charge on bank overdrafts and loans of R104 million.

Cash flow and borrowing position

Cash generated from operations of R1 174 million decreased by R1 850 million in 2022, due to lower profit from operations of R4 477 million, the final settlement of an overdue dollar-denominated payable of R628 million in the first half of the year, deferred related party fees of R618 million in the second half of the year, remeasurement of the Competition Commission penalty payable added back R314 million and payment to the Competition Commission of R100 million partly offset by lower operating working capital requirements of R4 165 million.

Net finance charge outflows increased by 190% or R497 million to R758 million due to deferred interest of R234 million and current interest of R255 million on group borrowings.

The net capital expenditure cash outflow was R1 912 million against R860 million in 2021, reflecting activities related to the Newcastle blast furnace mid-life campaign restoration of R334 million, the Coke making by-product plant project of R159 million and the structures and infrastructure programme of R120 million.

[4] Based on crude steel production

Financial results cont.

The net borrowing position of R2 808 million at 31 December 2022 increased by R1 550 million from R1 258 million at 31 December 2021, mainly due to free cash outflow of R1 600 (2021: R1 961 million inflow). At 30 June 2022, the net borrowing position was R1 087 million.

Legal and regulatory matters

Competition Commission (the Commission)

As announced during September 2022, a payment plan was agreed with the Commission, on the terms and conditions set out therein. Aside from the above, the remaining provisions of the Settlement Agreement and ArcelorMittal South Africa's compliance obligations under the agreement, relating, amongst others, to capital expenditure and the EBIT Margin Percentage Cap, concluded in November 2021. ArcelorMittal South Africa has provided the Commission with all requested information and supporting documents throughout the settlement period, and submitted the final annual compliance report in March 2022, including information on the EBIT margin percentage. The Commission has not raised any objection to the information, methodology and calculations submitted.

Changes to the board of directors

No changes since the last Annual General Meeting.

Dividends

No dividends were declared for the year ended 31 December 2022.

Outlook for the first half of 2023

Safety remains ArcelorMittal South Africa's priority.

Internationally, the World Steel Association expects a recovery in steel demand.

The pressure on price-cost spreads is proving to be unsustainable and consequently there has been some positive movements on international pricing in early 2023, the sustainability of which remains untested.

According to the South African Reserve Bank, 2023 GDP is expected at 0,3%.

A better local trading environment is expected in the first half of 2023.

As it did in 2022, the Company will react swiftly and decisively to the difficult market conditions. ArcelorMittal South Africa will increase volumes through targeting import replacement and Africa overland volumes, adopt a flexible approach to operating plants in reaction to the available order book, adjusting fixed cost levels accordingly, and following an assertive cash management process.

Exchange rates will continue to have an impact as will rail service and electricity reliability.

The business is positioned to navigate the immediate and near-term challenging market conditions while remaining focused on its longer-term objectives, namely, to leverage off the long-term investment case for steel and the vital role it will play in the re-industrialisation of the South African economy and the transition to a low carbon, circular economy.

On behalf of the board of directors

HJ Verster
Chief Executive Officer

S van Wyk
Chief Financial Officer (Interim)

9 February 2023

KEY STATISTICS

	Year ended	
	31 December 2022	31 December 2021
Unreviewed/unaudited information		
Operational		
Crude steel production	**2 408**	3 026
Total steel sales (Thousand tonnes)	**2 160**	2 473
Local steel sales (Thousand tonnes)	**1 872**	2 171
Export steel sales (Thousand tonnes)	**288**	302
Capacity utilisation (%)	**47**	60
Average steel net realised price (R/t)	**16 919**	14 470
Commercial coke sales (Thousand tonnes)	**176**	308
Safety		
Lost time injury frequency rate	**0.87**	0.98
Reviewed information		
Financial		
Revenue (R million)	**40 771**	39 708
Profit from operations (R million)	**3 499**	7 976
Net profit (R million)	**2 634**	6 625
Earnings per share (cents)	**236**	594
Headline earnings (R million)	**2 607**	6 860
Headline earnings per share (cents)	**234**	615
Return on ordinary shareholders' equity per annum:		
- Attributable earnings (%)	**25.4**	116.3
- Headline earnings (%)	**25.2**	120.3
Ebitda margin	**10.5**	21.6
Net borrowings (R million)	**2 808**	1 258
Net borrowings to equity (%)	**24.1**	13.9
Share statistics		
Ordinary shares (thousands):		
- in issue	**1 138 060**	1 138 060
- outstanding	**1 114 612**	1 114 612
- weighted average number of shares	**1 114 612**	1 114 612
- diluted weighted average number of shares	**1 114 612**	1 114 612
Share price (closing) (Rand)	**4.74**	8.88
Market capitalisation (R million)	**5 394**	10 106
Net asset value per share (Rand)	**10.47**	8.12

Reconciliation of earnings before interest, taxation, depreciation, amortisation and restructuring cost

	Year ended	
In millions of Rands	**31 December 2022 Reviewed**	31 December 2021 Audited
Profit from operations	**3 499**	7 976
Adjusted for:		
- Depreciation	**760**	589
- Amortisation of intangible assets	**11**	12
- Net impairment (reversal)	**-**	(3)
- Restructuring cost	**4**	(5)
Earnings before interest, taxation, depreciation, amortisation and restructuring cost	**4 274**	8 569

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE CONDENSED CONSOLIDATED PRELIMINARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

TO THE SHAREHOLDERS OF ARCELORMITTAL SOUTH AFRICA LIMITED

We have reviewed the condensed consolidated preliminary financial statements of ArcelorMittal South Africa Limited in the accompanying preliminary report on pages 11 to 24, which comprise the condensed consolidated statement of financial position as at 31 December 2022, the condensed consolidated statement of comprehensive income and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the year then ended, and selected explanatory notes.

Directors' Responsibility for the Condensed Consolidated Preliminary Financial Statements

The directors are responsible for the preparation and presentation of these condensed consolidated preliminary financial statements in accordance with International Financial Reporting Standard (IAS) 34, Interim Financial Reporting, the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council as well as the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these condensed consolidated preliminary financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated preliminary financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of condensed consolidated preliminary financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures performed in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these condensed consolidated preliminary financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated preliminary financial statements of ArcelorMittal South Africa Limited for the year ended 31 December 2022 are not prepared in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

Other matter

The annual financial statements of ArcelorMittal South Africa Limited for the year ended 31 December 2021, were audited by another auditor who expressed an unmodified audit opinion on those annual financial statements on 12 April 2022.

DocuSigned by:
Ernst & Young Inc
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Ernst & Young Inc.
Director - Michiel (Mike) Christoffel Herbst
Registered Auditor
Chartered Accountant (SA)

9 February 2023

ArcelorMittal

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In millions of Rands	Note	Year ended 31 December 2022 Reviewed	Year ended 31 December 2021 Audited
Revenue		**40 771**	39 708
Raw materials and consumables used		**(22 054)**	(19 634)
Employee costs		**(3 828)**	(3 786)
Energy		**(4 536)**	(4 476)
Movement in inventories of finished goods and work in progress		**(260)**	2 955
Depreciation		**(760)**	(589)
Amortisation of intangible assets		**(11)**	(12)
Impairment reversal/(loss) of trade and other receivables		**1**	(14)
Other operating expenses		**(5 824)**	(6 179)
Impairment reversal on financial assets	6	**-**	3
Profit from operations		**3 499**	7 976
Finance and investment income	7	**283**	165
Finance costs	8	**(1 235)**	(1 328)
Fair value adjustment on investment property	11	**57**	(228)
Share of profit from equity accounted investments (net of tax)		**30**	40
Profit before tax		**2 634**	6 625
Income tax expense	9	**-**	-
Profit for the year		**2 634**	6 625
Other comprehensive income/(loss)			
Items that will not be reclassified to income or loss (net of tax):			
Fair value adjustment on equity instruments		**17**	(5)
Items that may be reclassified subsequently to income or loss (net of tax):			
Exchange differences on translation of foreign operations		**6**	(1)
Share of other comprehensive (loss)/income of equity-accounted investments		**(2)**	1
Other comprehensive income/(loss) for the year		**21**	(5)
Total comprehensive income for the year		**2 655**	6 620
Profit attributable to:			
Owners of the company		**2 634**	6 625
Total comprehensive income attributable to:			
Owners of the company		**2 655**	6 620
Earnings per share (cents) attributable to owners of the company			
- basic		**236**	594
- diluted		**236**	594

ArcelorMittal

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of Rands	Note	As at 31 December 2022 Reviewed	31 December 2021 Audited
Assets			
Non-current assets		**11 070**	9 552
Property, plant and equipment		**9 570**	8 065
Investment properties	11	**737**	754
Intangible assets		**71**	67
Equity accounted investments		**251**	227
Investment in environmental trust		**408**	412
Other receivables		**10**	21
Other financial assets		**23**	6
Current assets		**18 851**	19 541
Inventories		**11 973**	12 175
Trade and other receivables		**3 486**	2 712
Other financial assets		**-**	2
Cash, bank balances and restricted cash	13	**3 392**	4 652
Assets held for sale	12	**80**	-
Total assets		**30 001**	29 093
Equity and Liabilities			
Shareholders' equity		**11 675**	9 053
Stated capital		**4 537**	4 537
Non-distributable reserves		**(3 576)**	(3 594)
Retained income		**10 714**	8 110
Non-current liabilities		**5 547**	5 755
Borrowings	14	**2 700**	3 700
Provisions		**1 784**	1 716
Trade and other payables		**262**	279
Lease obligations		**176**	60
Other financial liabilities	15	**625**	-
Current liabilities		**12 779**	14 285
Borrowings	14	**3 500**	2 210
Provisions		**862**	820
Trade and other payables		**8 184**	10 059
Taxation payable		**112**	112
Other financial liabilities	15	**95**	1 055
Lease obligations		**26**	29
Total equity and liabilities		**30 001**	29 093

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of Rands	Note	Year ended 31 December 2022 Reviewed	Year ended 31 December 2021 Audited
Cash flows from operating activities		**416**	2 763
Cash generated from operations	16	**1 174**	3 024
Interest income		**65**	66
Finance cost		**(823)**	(327)
Cash flows from investing activities		**(1 909)**	(688)
Investment to maintain and expand operations		**(1 912)**	(860)
Proceeds on disposal of assets		**1**	17
Proceeds from equity-accounted investments		**2**	17
Dividend from equity-accounted investment		**-**	3
Proceeds from asset held for sale	12	**-**	135
Cash flows from financing activities		**183**	(764)
Borrowings Borrowing base facility raised/(repaid)		**700**	(650)
Borrowings Loan from holding company repaid		**(410)**	-
Lease obligation repaid		**(33)**	(36)
Settlement on long term incentive plan		**(74)**	(78)
(Decrease)/increase in cash, cash equivalents and restricted cash		**(1 310)**	1 311
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash		**50**	1
Cash, cash equivalents and restricted cash at the beginning of the year		**4 652**	3 340
Cash, cash equivalents and restricted cash at the end of the year		**3 392**	4 652

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of Rands	Stated Capital	Treasury share equity reserve	Other Reserves	Retained earnings	Total
Year ended 31 December 2021 (Audited)	4 537	(2 065)	(1 650)	1 522	2 344
Total comprehensive income	-	-	(5)	6 625	6 620
Share-based payment expense	-	-	30	-	30
Settlement of long-term incentive plan	-	-	(78)	-	(78)
Deemed equity contribution	-	-	137	-	137
Transfer between reserves	-	-	37	(37)	-
Balance as at 31 December 2021 (Audited)	4 537	(2 065)	(1 529)	8 110	9 053
Total comprehensive income	**-**	**-**	**21**	**2 634**	**2 655**
Share-based payment expense	**-**	**-**	**41**	**-**	**41**
Settlement of long-term incentive plan	**-**	**-**	**(74)**	**-**	**(74)**
Transfer between reserves	**-**	**-**	**30**	**(30)**	-
Balance as at 31 December 2022 (Reviewed)	**4 537**	**(2 065)**	**(1 511)**	**10 714**	**11 675**

NOTES TO THE PRELIMINARY REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Corporate information

ArcelorMittal South Africa Limited is a public company incorporated and domiciled in the Republic of South Africa and listed on the JSE Limited. These condensed consolidated financial statements for the year ended 31 December 2022 comprise the company and its subsidiaries (together referred to as the Group). The Group is one of the largest steel producers on the African continent.

2. Basis of preparation

The condensed consolidated financial statements were prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports as well as the requirements of the Companies Act of South Africa. The condensed consolidated financial statements were prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and Financial Pronouncements as issued by the Financial Reporting Standards Council. It also contains, at a minimum, the information required by IAS 34 *Interim Financial Reporting*.

The condensed consolidated financial statements were prepared under the supervision of Mrs. SM van Wyk CA (SA), the interim chief financial officer.

The auditor's conclusion does not necessarily report on all of the information contained in this announcement. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the group's auditors. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should read the auditor's conclusion together with the accompanying financial information contained in this announcement.

3. Accounting policies

The accounting policies and methods of computation applied in the presentation of the condensed consolidated financial statements of the group are consistent with those applied for the year ended 31 December 2021.

4. Significant judgement, estimates, assumptions

The preparation of the financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect amounts reported in the financial statements. Actual results may differ from these estimates. Judgements, estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which they were revised and in any further periods affected.

Key judgements, estimates and assumptions which have the most significant effect on the financial statements include:

- Valuation of investment properties - refer to note 17, the fair value measurement note
- Expected credit loss assessment
  The exposure to credit risk is insured and mainly underwritten by the Credit Guarantee Insurance Corporation of South Africa. The insurance excess ranges from 0% to 10%. The credit limits of customers were monitored and adjusted where applicable throughout the period. Goods were dispatched to customers in line with the approved credit limits. The assessment of expected credit losses was reperformed as at 31 December 2022 and the impairment loss on trade and other receivables decreased by R1 million (2021: R14 million increase) compared to December 2021.
- Going concern basis – refer to note 21, the going concern note.
- The residual value and useful life of property, plant and equipment were re-assessed as required by IAS16, *Property, plant and equipment.*
- Impairment assessment of property, plant and equipment – an impairment assessment was done as at 30 September 2022 using a discounted cash flow model with an explicit forecast period for five years. These cash flows are USD based. To determine the terminal value, the Gordon growth model is used and year five free cash flow is taken in perpetuity. The value in use for all the cash-generating units (CGU's) was higher than the carrying amounts. Based on the assumptions illustrated below, it was concluded that none of the CGU's carrying amount exceeded its recoverable amount, no impairment loss recognised in the current financial year.

Since the establishment of the OneOrg operating model, the executive committee of ArcelorMittal South Africa (chief operating decision makers) has been in charge of monitoring and managing the Newcastle and Vereeniging operations. The Electric Arc Furnace at Vereeniging was placed under care and maintenance at end of October 2022, and as a result, Vereeniging is now receiving material from Newcastle's steel production. The cash flow for sale of products by Newcastle and Vereeniging operations are contingent on the steel production at Newcastle.

The following major assumptions were used:

	Vanderbijlpark		Long Products***		Vereeniging***		Coke and Chemicals	
	2022	2021	2022	2021	2022	2021	2022	2021
Major assumptions								
Total Pre-tax WACC/discount rate (%USD-based)**	21.62	19.43	21.19	20.56		16.55	15.92	16.08
Company specific premium (%USD-based)**	3.05	2.75	3.45	3.85		1.05	0.85	0.95
Growth rate (%USD-based)	2.00	2.00	2.00	2.00		2.00	2.00	2.00
Exchange rate range (R/USD)*	17.00 – 20.18	15.00 - 17.27	17.00 – 20.18	15.00 - 17.27		15.00 - 17.27	17.00 – 20.18	15.00 - 17.27
Steel sales price range (average USD/t)*	714 – 853	625 - 922	612 – 717	564 - 663		819 - 1029	31 – 50	31 - 33
Sales volume range (kt)*	1 884 – 2 521	2 103 - 2 624	1 304 – 1 377	1 076 - 1220		185 - 207	1 127 – 1 471	1 352 - 1 394

** Lowest to highest range over period of 2023 to 2027 (2021: 2022 to 2026).*
*** Decarbonisation risk is incorporated in company specific premium of 2022.*
**** From 2022 Long Products consist of Newcastle and Vereeniging. Previously Long Products consisted of Newcastle only.*

5. Segment report

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the Chief Operating Decision Maker, in order to allocate resources to the segment and to assess its performance.

The group's reportable segments are:
- Steel Operations consisting of Vanderbijlpark plant, Newcastle plant, Vereeniging plant and Highveld plant.
- Non-Steel Operations consisting of Coke and Chemicals undertaking the processing and marketing of by-products and the production and marketing of commercial grade coal and Saldanha plant, decommissioned Maputo plant, Pretoria Works and Thabazimbi Iron Ore Mine.
- Corporate and other, consisting of commercial functions, procurement and logistics activities, shared services, investments and the results of the non-trading consolidated subsidiaries and consolidated structured entities.

Segment profit/(loss) from operations represents the profit/(loss) earned/(incurred) by each segment without the allocation of after-tax profits of equity-accounted investments.

All assets and liabilities are allocated to the operating segments, other than for the following items that are allocated exclusively to the corporate and other segment, reflecting the manner in which resource allocation is measured.

Assets not allocated to operating segments:
- Investments in equity-accounted entities
- Financial investments
- Cash and cash equivalents
- Income tax, capital gains tax and value added tax related assets, as applicable.

Liabilities not allocated to operating segments are income tax and value added tax-related liabilities, as applicable.

NOTES TO THE PRELIMINARY REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 *continued*

	Steel Operations R'm	Non-Steel Operations R'm	Corporate and other R'm	Adjustments and eliminations R'm	Total reconciling to the consolidated amounts R'm
For the year ended 31 December 2022					
Revenue					
- External customers	38 765	2 006	-	-	40 771
- Internal customers	-	43	-	(43)	-
Total revenue	38 765	2 049	-	(43)	40 771
Results					
Earnings before interest, tax, depreciation and amortisation	3 748	614	(86)	(2)	4 274
Restructuring cost	(3)	-	(1)	-	(4)
Depreciation and amortisation	(686)	(60)	(25)	-	(771)
Net impairment	-	-	(97)	97	-
Profit/(loss) from operations	3 059	554	(209)	95	3 499
Finance and investment income	28	9	248	(2)	283
Finance costs	(462)	(163)	(612)	2	(1 235)
Fair value adjustment on investment properties	2	52	3	-	57
Share of profit after tax from equity-accounted investments	-	-	30	-	30
Profit/(loss) before taxation	2 627	452	(540)	95	2 634
Income taxation expense	-	-	-	-	-
Profit/(loss) for the year	2 627	452	(540)	95	2 634
Segment assets (excluding investments in equity-accounted entities)	23 018	2 982	4 446	(696)	29 750
Investments in equity-accounted entities	-	-	251	-	251
Segment liabilities	8 413	2 067	8 508	(662)	18 326
Unreviewed information					
Crude steel production ('000 tonnes)	2 408	-	-	-	2 408
Steel sales ('000 tonnes)	2 160	-	-	-	2 160
- Local	1 872	-	-	-	1 872
- Export	288	-	-	-	288
Capacity utilisation (%)	47	-	-	-	47
Average net realised price (R/t)	16 919	-	-	-	16 919
EBITDA margin (%)	9.7	-	-	-	10.5

NOTES TO THE PRELIMINARY REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 *continued*

	Steel Operations R'm	Non-Steel Operations R'm	Corporate and other R'm	Adjustments and eliminations R'm	Total reconciling to the consolidated amounts R'm
For the year ended 31 December 2021					
Revenue					
- External customers	37 250	2 458	-	-	39 708
- Internal customers	-	50	-	(50)	-
Total revenue	37 250	2 508	-	(50)	39 708
Results					
Earnings before interest, tax, depreciation and amortisation	8 147	820	(397)	(1)	8 569
Restructuring cost	7	(6)	4	-	5
Depreciation and amortisation	(518)	(56)	(27)	-	(601)
Net impairment	-	-	385	(382)	3
Profit/(loss) from operations	7 636	758	(35)	(383)	7 976
Finance and investment income	70	43	52	-	165
Finance costs	(337)	(102)	(889)	-	(1 328)
Fair value adjustment on investment properties	-	(228)	-	-	(228)
Profit after tax from equity-accounted investments	-	-	40	-	40
Profit/(loss) before taxation	7 369	471	(832)	(383)	6 625
Income taxation expense	-	-	-	-	-
Profit/(loss) for the year	7 369	471	(832)	(383)	6 625
Segment assets (excluding investments in equity-accounted entities)	20 597	2 918	5 901	(550)	28 866
Investments in equity-accounted entities	-	-	227	-	227
Segment liabilities	7 972	1 862	10 593	(387)	20 040
Unreviewed information					
Crude steel production ('000 tonnes)	3 026	-	-	-	3 026
Steel sales ('000 tonnes)	2 473	-	-	-	2 473
- Local	2 171	-	-	-	2 171
- Export	302	-	-	-	302
Capacity utilisation (%)	60	-	-	-	60
Average net realised price (R/t)	14 470	-	-	-	14 470
EBITDA margin (%)	21.9	-	-	-	21.6

Information about major customers

	Steel Operations R'm	% of group revenue
2022		
Revenue of major customers		
Customer 1	**5 192**	**12.73**
Total	**5 192**	**12.73**
2021		
Revenue of major customers		
Customer 1	5 374	13.53
Total	5 374	13.53

NOTES TO THE PRELIMINARY REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 *continued*

In million of Rands	Group 2022	Group 2021
Revenue from major products		
Steel operations		
Hot rolled	**11 735**	12 581
Uncoated	**6 558**	5 139
Coated	**7 564**	7 500
Merchant bars	**7 508**	8 108
Wire rod	**3 587**	3 343
Seamless	**1 814**	579
	38 766	37 250
Non-steel operations		
Coke and tar	**1 750**	2 188
Other	**255**	270
	2 005	2 458
Total	**40 771**	39 708
Revenue to external customers		
Local	**35 057**	35 317
Export	**5 714**	4 391
Africa	**3 429**	3 561
Asia	**471**	262
Europe	**1 043**	395
America	**761**	161
Other	**10**	12
Total	**40 771**	39 708

6. Impairment reversal on financial assets

In million of Rands	Year ended 31 December 2022 Reviewed	Year ended 31 December 2021 Audited
Impairment reversal of investment	**-**	3

The impairment reversal of R3 million for 2021 relates to loans advanced to Microsteel (Pty) Ltd that was recovered following the liquidation process of the company.

7. Finance and investment income

In million of Rands	Year ended 31 December 2022 Reviewed	Year ended 31 December 2021 Audited
Finance income		
Bank deposits and other interest income	**65**	66
Net foreign exchange profit and net gains from foreign exchange contracts	**218**	-
Discount rate adjustment of provisions and financial liabilities	**-**	99
Total	**283**	165

NOTES TO THE PRELIMINARY REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 *continued*

8. Finance costs

In million of Rands	Year ended 31 December 2022 Reviewed	31 December 2021 Audited
Interest expense on bank overdrafts and loans	**724**	620
Interest expense on lease obligations	**10**	7
Net foreign exchange and foreign exchange contracts losses	**-**	109
Discount rate adjustment of provisions	**94**	-
Unwinding of discounting effect on borrowings, provisions and financial liabilities	**407**	592
Total	**1 235**	1 328

9. Taxation

The group only recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences. However, based on the considerations presented, management believes it is premature to conclude at this stage that it is more likely than not for sufficient future taxable profits to be available against which the full proposed deferred tax asset can be utilised. Therefore deferred tax assets have been recognised to the extent of taxable temporary differences.

10. Headline earnings

In millions of Rands	Year ended 31 December 2022 Reviewed	31 December 2021 Audited
Profit for the year	**2 634**	6 625
Adjusted for:		
- Fair value adjustment on investment properties	**(57)**	228
- Loss on disposal or scrapping of property, plant and equipment*	**30**	7
- Total tax effect of adjustment	**-**	-
Headline earnings for the year	**2 607**	6 860
Headline earnings per share (cents)		
- basic	**234**	615
- diluted	**234**	615

* Adjustment for headline earnings are shown pre-tax and the tax effect of adjustment separately.

11. Investment properties

In millions of Rands	31 December 2022 Reviewed	31 December 2021 Audited
Carrying amount at the beginning of the year	**754**	983
Fair value adjustment	**57**	(228)
Investment property held for sale	**(76)**	-
Exchange rate movement	**2**	(1)
Carrying amount at the end of the year	**737**	754

12. Asset held for sale

In millions of Rands	31 December 2022 Reviewed	31 December 2021 Audited
Balance at the beginning of the year	**-**	135
Investment property – non core office property – Maputo	**76**	-
Exchange rate movement	**4**	-
Proceeds received	**-**	(135)
Balance at the end of the year	**80**	-

The decision was taken to sell one of the investment properties in Maputo (level 3 in the fair value hierarchy), this property forms part of the Group's non-core property disposal strategy. The sale is reported to be completed within the next six months. The investment property was part of the non-steel operations segment.

Refer to note 17 for details on the measurement, valuation techniques and inputs used for this investment property.

The R135 million relates to the disposal of the 25% interest in Coza Mining (Pty) Ltd through its wholly-owned subsidiary, Oakwood Trading (Pty) Ltd to Afrimat which was announced in 2020 and finalised in 2021.

13. Cash, bank balances and restricted cash

At 31 December 2022, the group had restricted cash of R737 million (2021: R1 419 million). This consists of R433 million (2021: R767 million) regarding the True Sales Receivables (TSR) facility, R302 million (2021: R302 million) for the environmental rehabilitation obligations, Rnil (2021: R350 million) in respect of cash collateral for standby letter of credit issued to foreign suppliers, R2 million in respect of litigation.

Eligible inventories and receivables are provided as securities for the borrowing base facility to the extent of the draw down. At 31 December 2022 the balance of the borrowing base facility was R2 500 million (2021: R1 800 million) with R1 000 million (2021: R1 700 million) still available.

Bank accounts of R1 091 million (2021: R1 277 million) were ceded in favour of the borrowing base facility.

14. Borrowings

	Year ended	
In millions of Rands	**31 December 2022 Reviewed**	31 December 2021 Audited
Banks	**2 500**	1 800
Loan from holding company	**3 700**	4 110
Total loans	**6 200**	5 910
Non-current	**2 700**	3 700
Current	**3 500**	2 210

The bank loan relates to the borrowing base facility with various financial institutions. The loan from holding company was decreased by R410 million during 2022 as a result of the repayment. R2 700 million of the group loan is sub-ordinated (2021: R2 700 million).

15. Other financial liabilities

	Year ended	
	31 December 2022 Reviewed	31 December 2021 Audited
Competition Commission penalty	**720**	1 055
Total other financial liabilities	**720**	1 055
Non-current	**625**	-
Current	**95**	1 055

A payment plan was agreed with the Competition Commission in the current period.

NOTES TO THE PRELIMINARY REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

16. Cash generated from operations

In millions of Rands	Year ended 31 December 2022 Reviewed	 31 December 2021 Audited
Profit before tax*	**2 634**	6 625
Adjusted for:		
- Finance and investment income	**(283)**	(165)
- Finance cost	**1 235**	1 328
- Fair value adjustment on investment property	**(57)**	228
- Share of profit from equity accounted investments	**(30)**	(40)
- Depreciation and amortisation of intangible assets	**771**	601
- Impairment reversal of financial assets	**-**	(3)
- Unrealised profit on sales to joint ventures	**2**	1
- Equity-settled share-based payment expense	**41**	30
- Non-cash movement in provisions and financial liabilities	**118**	17
- Write-down/(reversal of write-down) of inventory to net realisable value	**139**	283
- Movement in trade and other receivable allowances	**(2)**	36
- Reconditionable spares usage	**-**	1
- Loss on disposal or scrapping of property, plant and equipment	**30**	7
- Fair value adjustment on environmental trust	**4**	(34)
- Realised foreign exchange movements	**44**	60
- Other payables raised, released and utilised relating to employees	**28**	54
- Changes in financial assets and liabilities	**(414)**	-
- Operating working capital movements:		
- Decrease/(Increase) in inventories	**61**	(5 110)
- Increase in trade and other receivables	**(870)**	(1 126)
- (Decrease)/increase in trade and other payables	**(1 933)**	381
- Utilisation of provisions	**(344)**	(150)
Cash generated from operations	**1 174**	3 024

** In terms of IAS 7 the reconciliation of the cash generated from operations should start either with profit or loss before tax or after tax. The reconciliation has been restructured to comply with this requirement, previously the reconciliation was started from profit from operations. The update had no impact on any reported totals, or on any amounts presented in the statement of cash flows.*

17. Fair value measurements

In millions of Rands	31 December 2022 Reviewed	31 December 2021 Reviewed	Fair Value hierarchy	Classification
Assets				
Investment properties	**737**	754	Level 3	FV
Other forward exchange contracts	**-**	2	Level 2	FVTPL
Equity securities	**23**	6	Level 1	FVTOCI
Equity securities	**408**	412	Level 1	FVTPL

NOTES TO THE PRELIMINARY REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 *continued*

FV – Fair value FVTPL – Fair value through profit or loss FVTOCI – Fair value through other comprehensive income		
Fair value hierarchy		
Level 1: Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.		Other financial assets valued at closing share price of R3.75 (2021: R1.06)
Level 2: Fair value measurements are those derived from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).		Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.
Level 3: Inputs for the assets or liability that are unobservable.		The valuation policy adopted by management is to revalue investment property externally at financial year-end. The investment properties can be divided between industrial sector, residential vacant land sector and farm land. The fair value of the property in the industrial sector was determined adopting the income capitalisation method or the market value approach. The income capitalisation method requires a market-derived projection of economic net annual income for the property, which is then capitalised into perpetuity using a market-related capitalisation rate to determine the market value estimate. Gross market rentals have been applied to the accommodation elements and then normal landlord outgoings were deducted and a management fee to arrive at a net annual income figure. The following key assumptions were applied: Expense ratio 17.4% - 19.9% (2021: 17.5% - 19.7%) Vacancy provision 7.5% (2021: 5% - 7.5%) Exit capitalisation rate 12.8% - 13.5% (2021: 12.5% - 13.5%) A 2.5% (2021: 2.5%) increase or decrease in the vacancy provision will impact the fair value by R2 million (2021: R2 million). A 1% increase or decrease in the exit capitalisation rate will impact the fair value by R39 million (2021: R37 million). The depreciable replacement cost approach is based on the economic theory of substitution and it involves comparing the asset being valued with another. This approach was applied to the conference facilities on the farm land.

NOTES TO THE PRELIMINARY REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 *continued*

		The fair value of properties in the residential vacant land sector has been determined by applying the market approach, which is based on comparing the subject assets with identical or similar assets for which price information is available, such as a comparison with market sales transactions in the same, or closely similar, type of asset within an appropriate time horizon. In assessing the value of the farm, the sales comparison approach was followed, whereby comparable sales were researched together with asking current prices in the surrounding areas. The market value for the improvements on the farm was determined by using the depreciated replacement cost method of valuation. Included in asset held for sale, is a Maputo property for which a promissory sale and purchase agreement to the value of USD5 200 000 was signed. The price is subject to conditions, with a possible reduction of $500 000. The value of USD4 700 000 was used as fair value for this property.

18. Commitments

In millions of Rands	Year ended 31 December 2022 Reviewed	 31 December 2021 Audited
Capital commitments on property, plant and equipment		
Capital commitments authorised and contracted for	**1 101**	1 483
Capital commitments authorised but not contracted for	**801**	1 166

Included in the capital commitments above is an amount of R826 million (2021: R969 million) to address emissions at Vanderbijlpark Works over the next year.

19. Related party transactions

The group is controlled by ArcelorMittal Holdings AG, which effectively owns 69% (December 2021: 69%) of the group's shares. At 31 December 2022, the outstanding ArcelorMittal Holdings AG loan amounted to R3 700 million (2021: R4 110 million). The loan from the holding company was repaid by R410 million. The interest expense for the year was R353 million (2021: R231 million).

The group purchased products and services to the value of R950 million (2021: R3 385 million) from and sold goods to the value of R17 million (2021: R55 million) to other companies in the greater ArcelorMittal Group.

The Company and its subsidiaries entered into sale and purchase transactions with joint ventures in the ordinary course of business. These transactions were concluded at arm's length.

20. Subsequent events

On 31 January 2023, the settlement date of the unsubordinated portion of the loan from the holding company, amounting to R1 000 million, was extended from 31 January 2023 to 1 April 2024. This portion of the loan was classified as a current borrowing as at 31 December 2022.

The directors are not aware of any material matters or circumstances arising since 31 December 2022 to the date of this report that would significantly affect the operations, the results or financial position of the group.

21. Going concern

A strong start was enjoyed by ArcelorMittal South Africa in the first half of 2022 however the impact of the conflict between Russia and Ukraine, coupled with economic slowdown in China and other global economic factors, had a significant impact from the second half of the year with demand and sales prices declining and the cost of material increasing, resulting in the group recognising a net profit after tax of R2 634 million for the 2022 financial year. This is R3 991 million lower than the profit after tax of R6 625 million reported in 2021

The Group's solvency and liquidity saw an improvement, as at 31 December 2022 current assets exceed current liabilities by R6 072 million (2021: current assets exceed current liabilities by R5 256 million). The group generated negative cash flow of R1 260 million with cash, bank balances and restricted cash at year end being R3 392 million (2021: R4 652 million), and net debt increased to R2 808 million at year end 2022 (2021: R1 258 million).

The Group was in compliance with all covenants as it pertains to the borrowing-based facility, and continues to work closely with all lenders to ensure the required facility remains in place. The balance of the borrowing-based facility was R2 500 million as at 31 December 2022 (2021: R1 800 million).

ArcelorMittal Holdings AG continues to demonstrate their support through its sub-ordinated group loan of R2 700 million as at 31 December 2022 (2021: R2 700 million) in favour of the lenders of the borrowing-based facility.

As required, the Directors have prepared cash flow forecasts for a period of twelve months from the end of the reporting period, based on the most recent forecast and all available information. The forecast takes in account amongst other initiatives, the Company's Value Plan, which realised improvements of R1 561 million (2021: R2 085 million) composed of commercial-related initiatives of R839 million and cost-based initiatives of R722 million.

Shareholders are advised that the group's and company's financial performance is dependent upon the wider economic environment in which the group and company operate. Factors beyond the control of management, such as volatility of the Rand/US dollar exchange rate, steel demand, and commodity and steel prices, can all have an impact on the business. The directors and management continue to evaluate, develop and improve business plans and liquidity models in order to effectively deal with the effects of these factors.

The Directors are not aware of any other matters or circumstances that the Group and Company faces and concluded that there are no other matters that may impact the Group's and Company's ability to continue as a going concern.

Based on group's 12-month funding plan and taking banking facilities into consideration, together with the ongoing support from the holding company, ArcelorMittal Holdings AG, the Directors believes that the Group has sufficient funds to pay debts as they become due over the next 12 months, and therefore will remain a going concern.

FORWARD-LOOKING STATEMENTS

Statements in this announcement that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to risks and uncertainties which could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Any reference to future financial performance included in this announcement has not been reviewed or reported on by the group's auditors.

CORPORATE INFORMATION

Registered Office
ArcelorMittal South Africa Limited
Room N3-5, Main Building
Delfos Boulevard, Vanderbijlpark, 1911

Non-executive directors
B Mohale (Chairman) appointed 19 May 2022)
PM Makwana* (Chairman) (retired 19 May 2022)
LC Cele*
B Davey º
D Earp*
GS Gouws
NP Gosa
R Karol+
NP Mnxasana* (retired 19 May 2022)
KMM Musonda*^
NF Nicolau*
A Thebyane (appointed 19 May 2022)

º Citizen of Canada
+ Citizen of India
^ Citizen of Zambia
* Independent non-executive

Company secretary
FluidRock Co Sec (Pty) Ltd
Registration number: 2016/093836/07
Registered address: Monument Office Park, Suite 5-201, 79 Steenbok Avenue, Monument Park, 0181

Sponsor
Absa Bank Limited (acting through its Corporate and Investment Banking division)
15 Alice Lane, Sandton, 2196
Private Bag x10056, Sandton, 2146

Auditor
Ernst and Young Inc (appointed 19 May 2022)
102 Rivonia Road
Sandton

Executive directors
HJ Verster (chief executive officer)
SM van Wyk (interim chief financial officer)

Release date: 9 February 2023

ArcelorMittal South Africa Limited
Registration number 1989/002164/06
Share code: ACL ISIN: ZAE 000134961
("ArcelorMittal South Africa", "the Company" or "the Group")