ArcelorMittal

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

ArcelorMittal South Africa Limited (ArcelorMittal South Africa, the company or the group)
Registration number: 1989/002164/06 **Share code:** ACL **ISIN:** ZAE 000134961

This report is available on ArcelorMittal South Africa's website at:

www.arcelormittal.com/southafrica

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Salient features

Safeguard duties on hot rolled products have been approved and await implementation

Imports have continued despite duties and designation of steel

Additional sales of 6 000 tonnes of heavy sections and rails due to manufacturing agreement with Highveld Steel

Borrowing base facility of R4 500 million was concluded

ArcelorMittal South Africa improved on **B-BBEE status to level 3**

Domestic steel demand at a seven-year low

Coal prices spike at USD300 per tonne in quarter 2

Higher iron ore prices

Impacted negatively by **exchange rate volatility**

The analysis on the following pages relates to the six months ended 30 June 2017 (current year) compared to the six months ended 30 June 2016 (prior year) except where otherwise indicated.

Overview

The company's results were negatively impacted in the first half of the year by the weakening South African economy. Business confidence in South Africa declined further as a result of the recession; with a 0.7% decrease in GDP during the first quarter of 2017; the downgrade to sub-investment grade and the highest unemployment rate since 2004.

The domestic and export steel markets in which the company operates are extremely constrained because of minimal local investment and infrastructure spend, high raw material costs and the volatility of the exchange rate. Local apparent steel consumption decreased by 3.8% as a result of subdued economic growth. In addition, South Africa and key African markets continue to import large quantities of steel, especially from China. Despite the import duties and designation of steel, half a million tonnes of steel were still imported into South Africa. To address the surge in imports, safeguards on hot rolled products have been approved by government and the implementation is pending.

ArcelorMittal South Africa's operating and headline losses increased by R714 million and R1 161 million respectively in the first half of the year compared to the same period last year. This is due to the higher imported coking coal and iron ore costs, relatively strong rand/US dollar exchange rate and continued weakening of the South African economy. The company paid a premium for coke that was imported due to the refurbishment of the coke batteries at Newcastle Works. The company has restructured its balance sheet by replacing overnight facilities with a three-year borrowing base facility of R4 500 million.

Safety remains our number one priority and it is with great regret that we report three fatalities at our plants this year, all contractor employees. This is completely unacceptable and we remain committed to achieving zero harm. The lost time injury frequency rate improved from 0.90 to 0.62.

Despite the positive progress on safeguards on flat products, import duties and the designation of local steel for government infrastructure projects, the group and the local steel industry continue to be threatened by imports entering the market, primarily from China. ArcelorMittal South Africa has implemented various initiatives to return the group to profitability and to generate positive cash flows. In order to address the current challenges, the group is in the process of exploring several additional initiatives, including additional cost-saving interventions, assessing the profitability of various product lines and the implementation of structural changes (restructuring) in the next six months. Further information will be provided as soon as the necessary investigations and decisions have been finalised.

Markets

The global steel demand has shown some improvement in H1 2017, mainly attributed to the positive market environment of developed countries. However, China's steel demand has been relatively flat compared to the last half of 2016. Demand improved due to the improvement in finished steel prices in key markets such as China, Europe and particularly in the USA, where imports of steel have increased in recent months after declining in H2 2016. Hot rolled coil (HRC) and rebar prices gained 14% and 18% respectively compared to H2 2016. The cost of iron ore and coking coal increased on average by US$22 (42%) and US$95 (112%) per tonne respectively compared to H1 2016. Due to the lag in the impact of prices, as a result of stockholding, coking coal prices are expected to remain high in Q3 2017.

The overall African markets have remained positive due to the drive towards infrastructure investments in the rail, roads and energy projects, specifically in the west and east sub-Saharan regions. In the southern African region, fiscal concerns and weak commodity prices have hampered investment progress. South African producers lost sales in African markets due to cheap imports into Africa.

Despite the improvements in global steel demand and steel prices, domestically the economy continues to struggle due to a lack of investments, particularly in the construction and manufacturing sectors, and as cheap imports of primary and finished products continue to flood the local steel market.

Financial results

Revenue

Revenue increased by 12.6% to R19 151 million mainly due to an 18.9% increase in average net realised steel prices, from R6 845 per tonne to R8 138 per tonne. This was partly offset by lower sales volumes. In line with expectations, revenue from the Coke and Chemicals business decreased by 9.4% to R735 million due to scheduled but lengthy repairs to coke batteries at Vanderbijlpark and Newcastle Works. This resulted in a decrease in the quantity of coke available to sell and coke had to be imported at higher prices. Commercial coke and tar prices increased by 117.9% and 5.5% respectively.

Total steel sales volumes decreased by 95 000 tonnes. Local sales declined by 9.2% due to the difficult trading conditions. This was partially offset by export sales which improved by 15.9%. The pending implementation of safeguards is expected to improve flat product sales volumes.

Operating expenses

Cash cost per tonne of liquid steel produced increased by 27% to R8 063, raw materials, namely iron ore, coal and scrap, which accounted for 50% of total costs, increased by 43%. Consumables and auxiliaries, which represented approximately 27% of costs, increased by 15%, and fixed costs per tonne increased by 13%.

The high international coal and iron ore prices are the main contributor to the increase in raw material costs. Electricity costs also increased due to annual electricity price increases.

Loss from operations

The loss from operations increased by R714 million to R983 million, primarily due to the higher coal and iron ore prices. Depreciation decreased due to the substantial impairment of the Vanderbijlpark and Saldanha Works' cash-generating units in 2016.

Loss for the period

The loss for the period increased by R1 773 million. This was largely attributable to the loss from operations which increased by R714 million. Financing costs were R284 million higher, mainly due to the higher debt position, facility cost and exchange rate losses resulting from the volatility of the rand against foreign currencies and discounting rate adjustment on non-current provisions.

An impairment of R600 million was recognised against property, plant and equipment for the long products unit. This was primarily as a result of the strengthening of the rand against the US dollar and loss of volumes due to higher coal prices compared to scrap-based local competitors.

Income from equity-accounted investments decreased by R122 million as a result of reduced profits from joint ventures primarily due to poor economic conditions.

Cash position

The cash position deteriorated from a net cash position of R1 010 million to net borrowing position of R2 577 million, mainly due to lower operating results, higher financing costs and capex spending on the refurbishment of the coke batteries.

Operational

The company's capacity utilisation was 79% compared to 83% the previous year. Liquid steel production for the year was 2.4 million tonnes, a decrease of 146 000 tonnes (5.8%). Production at our long products business was cut back due to the increase in coking coal prices and decrease in scrap prices, making our long products more expensive due to the use of coking coal in the manufacturing process. The long products business was negatively impacted even further by the deteriorating market conditions and higher raw material prices. The restart of the Highveld Steel heavy structural mill contributed 22 000 production tonnes and 6 000 more sales tonnes of heavy sections and rails in Q2.

Flat products' liquid steel production decreased by 83 000 tonnes and plant utilisation decreased to 79% compared to 83% in 2016. This was due to a rupture of the stove at blast furnace C at Vanderbijlpark Works in Q4 2016, and the blast furnace D incident which resulted in a decrease in production of 80 000 tonnes.

The company initiated several initiatives to improve operational efficiencies, increase volumes and/or reduce costs. These initiatives include:

> The N2 battery refurbishment at Newcastle Works will be completed in Q3 2017. It is expected that the refurbishment will improve the sustainability of the coke batteries and that the batteries' coke-making capability (traditionally a significant EBITDA contributor) will be restored to 381 000 tonnes per year;
> The boiler project completed at Vanderbijlpark Works in June 2017 will enable optimal use of the power station in generating approximately 10MW additional power per annum – a R60 million annual benefit;
> Further restructuring, cost-cutting and efficiency measures have been implemented and additional measures will be considered in the next quarter; and
> The company intends to aggressively pursue the Africa Overland (AOL) market.

Sustainability

A number of steps were taken, all of them likely to have an impact on the company's sustainability and licence to operate. These included:

> Safeguard duties on hot rolled products have been approved by government and we await implementation;
> Air emissions are currently a key focus area and significant challenges regarding sinter emissions at Vanderbijlpark and blast furnace emissions at Newcastle Works are being addressed. Our newly installed water treatment facilities at Newcastle Works are performing as per our expectations;
> ArcelorMittal South Africa is a level 3 B-BBEE contributor compared to level 4 in 2016;
> Fair pricing model for flat steel products has been approved by government and continues to be monitored; and
> The company has restructured its balance sheet by replacing overnight facilities with a three-year borrowing base facility of R4 500 million. Eligible inventories and receivables are provided as security for the borrowing base facility to the extent of the draw down.

Changes to the board of directors

Mr LP Mondi resigned as non-executive director with effect from 24 May 2017.

Ms KM Musonda appointed as independent non-executive director with effect from 12 June 2017.

Dividends

No dividends declared for the six months ended 30 June 2017.

Outlook for H2 2017

Volatility in the rand/US dollar exchange rate will continue to have a material impact on our financial results. ArcelorMittal South Africa has implemented various initiatives to return the group to profitability and to generate positive cash flows. As already indicated, the company will also be looking to implement a number of interventions to address the challenges that it faces.

In the second half of the year, domestic steel demand is expected to remain subdued due to low economic growth and lack of infrastructure spend. The flat steel business will benefit from the implementation of safeguard duties in the second half of the year. The long products business could improve depending on coal and scrap prices and as the full benefit of the heavy sections and rail volumes is realised. Export markets are likely to be more resilient; however, projections are that Africa will experience a growth in demand in the order of 2.3%.

On behalf of the board of directors

WA de Klerk
Chief executive officer

D Subramanian
Chief financial officer

25 July 2017

Key statistics

	Six months ended	
	30 June 2017	30 June 2016
Unreviewed information		
Operational		
Liquid steel production	**2 374**	2 520
Total steel sales (000 tonnes)	**2 147**	2 242
Local steel sales (000 tonnes)	**1 629**	1 795
Export steel sales (000 tonnes)	**518**	447
Capacity utilisation (%)	**79**	83
Commercial coke sales (000 tonnes)	**92**	238
Average net realised price (R/t)	**8 138**	6 845
Safety		
Lost time injury frequency rate	**0.62**	0.90
Reviewed information		
Financial		
Revenue (R million)	**19 151**	17 006
Loss from operations (R million)	**(983)**	(269)
Net loss (R million)	**(2 223)**	(450)
Loss per share (cents)	**(203)**	(44)
Headline loss (R million)	**(1 619)**	(458)
Headline loss per share (cents)	**(148)**	(45)
Net cash/(borrowings) (R million)	**(2 577)**	1 010
Ratios		
Return on ordinary shareholders' equity per annum:		
– Attributable earnings (%)	**(36.1)**	(5.8)
– Headline earnings (%)	**(26.3)**	(5.9)
– Net cash (%)	**(23.2)**	5.8
Share statistics		
Ordinary shares (thousands):		
– in issue	**1 138 060**	1 138 060
– outstanding	**1 093 510**	1 093 510
– weighted average number of shares	**1 093 510**	1 025 040
– diluted weighted average number of shares	**1 093 510**	1 025 040
Share price (closing) (Rand)	**5.30**	8.39
Market capitalisation (R million)	**5 796**	9 175
Net asset value per share (Rand)	**10.15**	15.30

Reconciliation of earnings before interest, taxation, depreciation and amortisation (EBITDA)

In millions of rand	Six months ended 30 June 2017 Reviewed	Six months ended 30 June 2016 Reviewed
Loss from operations	**(983)**	(269)
Adjusted for:		
– Depreciation	**437**	518
– Amortisation of intangible assets	**12**	12
– Thabazimbi mine closure costs	**–**	(75)
– Competition Commission settlement	**–**	114
– Unclaimed dividends	**–**	(37)
– Derecognised payment in advance	**–**	19
EBITDA	**(534)**	282

Independent auditor's review report on interim financial statements

TO THE SHAREHOLDERS OF ARCELORMITTAL SOUTH AFRICA LIMITED

We have reviewed the condensed consolidated financial statements of ArcelorMittal South Africa Limited, contained in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 30 June 2017 and the condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The directors are responsible for the preparation and presentation of these interim 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 Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on these interim 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 interim 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 interim 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 financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of ArcelorMittal South Africa Limited for the six months ended 30 June 2017 are not prepared, in all material respects, in accordance with 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.

Emphasis of matter

We draw attention to note 10 of the condensed consolidated financial statements which sets out directors' plans and initiatives which, should they not materialise, indicates the existence of a material uncertainty which may cast significant doubt on the group and company's ability to continue as a going concern. Our conclusion is not qualified in respect of this matter.

Deloitte & Touche
Registered Auditor

Per: M Mantyi
Partner

27 July 2017

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Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton
2052

Condensed consolidated statement of comprehensive income

In millions of rand	Note	Six months ended 30 June 2017 Reviewed	Six months ended 30 June 2016 Reviewed
Revenue		**19 151**	17 006
Raw materials and consumables used		**(13 322)**	(9 519)
Employee costs		**(2 080)**	(1 993)
Energy		**(2 052)**	(1 965)
Movement in inventories of finished goods and work in progress		**1 012**	(405)
Depreciation		**(437)**	(518)
Amortisation of intangible assets		**(12)**	(12)
Other operating expenses		**(3 243)**	(2 863)
Loss from operations		**(983)**	(269)
Impairment of property, plant and equipment	9	**(600)**	–
Impairment of other assets		**(4)**	(6)
Finance and investment income		**24**	86
Finance costs		**(646)**	(362)
(Loss)/income from equity-accounted investments (net of tax)		**(14)**	108
Loss before tax		**(2 223)**	(443)
Income tax (expense)	7	**–**	(7)
Loss for the period		**(2 223)**	(450)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(194)**	(209)
Gains on available-for-sale investment taken to equity		**(18)**	43
Share of other comprehensive income of equity-accounted investments		**(26)**	39
Total comprehensive loss for the period		**(2 461)**	(577)
Loss attributable to:			
Owners of the company		**(2 223)**	(450)
Total comprehensive loss attributable to:			
Owners of the company		**(2 461)**	(577)
Attributable loss per share (cents)			
– basic		**(203)**	(44)
– diluted		**(203)**	(44)

Condensed consolidated statement of financial position

In millions of rand	Notes	As at 30 June 2017 Reviewed	As at 30 June 2016 Reviewed
ASSETS			
Non-current assets		**15 192**	17 567
Property, plant and equipment	9	**10 196**	12 046
Intangible assets		**91**	115
Equity-accounted investments		**4 447**	5 037
Non-current receivable		**40**	–
Other financial assets		**418**	369
Current assets		**18 837**	15 426
Inventories		**11 694**	9 436
Trade and other receivables		**3 342**	3 133
Taxation		**65**	74
Other financial assets		**13**	24
Cash and bank balances	8	**3 723**	2 759
Total assets		**34 029**	32 993
EQUITY AND LIABILITIES			
Shareholders' equity		**11 098**	17 416
Stated capital		**4 537**	4 537
Non-distributable reserves		**345**	177
Retained income		**6 216**	12 702
Non-current liabilities		**6 167**	3 463
Borrowings		**2 700**	–
Other payables		**317**	336
Finance lease obligations		**88**	159
Deferred income tax liability		**–**	4
Non-current provisions		**1 970**	2 964
Other financial liabilities		**1 092**	–
Current liabilities		**16 764**	12 114
Trade payables		**11 382**	9 134
Borrowings		**3 600**	1 749
Finance lease obligations		**70**	66
Current provisions		**269**	249
Other payables		**1 025**	835
Other financial liabilities		**418**	81
Total equity and liabilities		**34 029**	32 993

Condensed consolidated statement of cash flows

In millions of rand	Six months ended 30 June 2017 Reviewed	Six months ended 30 June 2016 Reviewed
Cash (outflow)/inflow from operating activities	**(1 596)**	191
Cash (utilised in)/generated from operations	**(1 117)**	592
Interest income	**20**	33
Finance cost	**(373)**	(226)
Income tax paid	**(7)**	(2)
Realised foreign exchange movement	**(119)**	(206)
Cash outflows from investing activities	**(599)**	(771)
Investment to maintain operations	**(474)**	(754)
Investment to expand operations	**(127)**	(42)
Investment in associates and joint ventures	**(4)**	1
Proceeds on disposal or scrapping of assets	**6**	21
Interest income from investments	**–**	3
Cash inflows from financing activities	**4 254**	1 189
Borrowings raised	**6 300**	–
Borrowings (repaid)	**(2 011)**	(3 280)
Finance lease obligation repaid	**(35)**	(31)
Proceeds from rights issue/issue of share capital	**–**	4 500
Increase in cash and cash equivalents	**2 059**	609
Effect of foreign exchange rate changes on cash and cash equivalents	**4**	(14)
Cash and cash equivalents at the beginning of the year	**1 660**	2 164
Cash and cash equivalents at the end of the year	**3 723**	2 759

Condensed consolidated statement of changes in equity

In millions of rand	Stated capital	Treasury share equity reserve	Other reserves	Retained earnings	Total
Six months ended 30 June 2016 (Reviewed)					
Balance as at 31 December 2015	37	(3 918)	4 093	13 260	13 472
Total comprehensive loss	–	–	(127)	(450)	(577)
Rights issue	4 500	–	–	–	4 500
Share-based payment reserve	–	–	21	–	21
Transfer of equity-accounted earnings	–	–	108	(108)	–
Balance as at 30 June 2016 (Reviewed)	4 537	(3 918)	4 095	12 702	17 416
Six months ended 31 December 2016					
Balance as at 30 June 2016	4 537	(3 918)	4 095	12 702	17 416
Total comprehensive loss	–	–	(427)	(4 256)	(4 683)
Cash settlement on management share trust	–	–	(32)	–	(32)
Share-based payment expense	–	–	42	–	42
B-BBEE charge	–	–	800	–	800
Transfer of equity-accounted earnings	–	–	21	(21)	–
Balance as at 31 December 2016 (Audited)	4 537	(3 918)	4 499	8 425	13 543
Six months ended 30 June 2017 (Reviewed)					
Balance as at 31 December 2016	4 537	(3 918)	4 499	8 425	13 543
Total comprehensive loss	–	–	(238)	(2 223)	(2 461)
Share-based payment expense	–	–	16	–	16
Transfer of equity-accounted earnings	–	–	(14)	14	–
Balance as at 30 June 2017 (Reviewed)	**4 537**	**(3 918)**	**4 263**	**6 216**	**11 098**

Notes to the condensed consolidated financial statements

1. Corporate information

ArcelorMittal South Africa Limited is a public company domiciled in the Republic of South Africa and listed on the JSE Limited. These condensed consolidated financial statements for the six months ended 30 June 2017 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 interim reports as well as the requirements of the Companies Act of South Africa. The condensed consolidated financial statements have been prepared in accordance with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council. It also contains, at a minimum, the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

The condensed consolidated financial statements were prepared under the supervision of Mr D Subramanian CA(SA), the chief financial officer.

3. Accounting policies

There were no new or revised accounting standards adopted that could have a material impact on the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements continued

4. Segment report

Flat Steel Products

	Six months ended	
	30 June 2017 Reviewed	30 June 2016 Reviewed
Revenue (R million)	**13 422**	11 127
– External	**13 321**	10 797
– Internal	**101**	330
EBITDA (R million) (unreviewed)	**(69)**	(118)
EBITDA margin (%) (unreviewed)	**(0.5)**	(1.1)
Average net realised price (R/t) (unreviewed)	**8 413**	6 889
Depreciation and amortisation (R million)	**(253)**	(339)
Loss from operations (R million)	**(322)**	(406)
Unreviewed information		
Liquid steel production (000 tonnes)	**1 649**	1 732
Steel sales (000 tonnes)	**1 506**	1 489
– Local	**1 167**	1 146
– Export	**339**	343
Capacity utilisation (%)	**79**	83

4. Segment report continued

Long Steel Products

	Six months ended	
	30 June 2017 Reviewed	30 June 2016 Reviewed
Revenue (R million)	**5 420**	5 593
– External	**5 130**	5 425
– Internal	**290**	168
EBITDA (R million) (unreviewed)	**(706)**	152
EBITDA margin (%) (unreviewed)	**(13.0)**	2.7
Average net realised price (R/t) (unreviewed)	**7 492**	6 758
Depreciation and amortisation (R million)	**(191)**	(188)
Loss from operations (R million)	**(897)**	(12)
Unreviewed information		
Liquid steel production (000 tonnes)	**725**	788
Steel sales (000 tonnes)	**641**	753
– Local	**462**	649
– Export	**179**	104
Capacity utilisation (%)	**77**	83

Notes to the condensed consolidated financial statements continued

4. Segment report continued

Coke and Chemicals

	Six months ended	
	30 June 2017 Reviewed	30 June 2016 Reviewed
Revenue (R million)	735	811
– External	700	784
– Internal	35	27
EBITDA (R million) (unreviewed)	191	97
EBITDA margin (%) (unreviewed)	26.0	12.0
Depreciation and amortisation (R million)	(18)	(16)
Profit from operations (R million)	173	81
Unreviewed information		
Commercial coke produced (000 tonnes)	100	157
Commercial coke sales (000 tonnes)	92	238
Tar sales (000 tonnes)	39	37

Corporate and other

	Six months ended	
	30 June 2017 Reviewed	30 June 2016 Reviewed
EBITDA (R million) (unreviewed)	50	151
Depreciation and amortisation credit (R million)	13	13
Profit from operations (R million)	63	68

5. Related party transactions

The group is controlled by ArcelorMittal Holdings AG, which effectively owns 69% (June 2016: 69%) of the group's shares. At 30 June 2017, the outstanding ArcelorMittal Holdings AG subordinated loan amounted to R2 700 million (2016: Rnil). Interest is payable at the prime lending rate (2016: three months Jibar plus 2.125%) and an amount of R139 million (2016: R37 million) was incurred for the six months ended 30 June 2017.

During the year, the company and its subsidiaries entered into sale and purchase transactions with joint ventures in the ordinary course of business at an arm's length.

6. Fair value measurements

Certain of the group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined, particularly the valuation techniques and inputs used.

Financial assets	Fair values as at period ended			
In millions of rand	**30 June 2017 Reviewed**	30 June 2016 Reviewed	**Fair value hierarchy**	**Valuation techniques and key inputs**
Available-for-sale	**61**	120	Level 1	Quoted prices in an active market
Held-for-trading assets	**–**	24	Level 1	Quoted prices in an active market
Held-for-trading liabilities	**105**	81	Level 1	Quoted prices is an active market

Level 1: Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

7. Taxation

The effective tax rate of 0% (compared to the statutory tax rate of 28%) for the six months ended 30 June 2017 is primarily as a result of not recognising the deferred tax asset on the available income tax losses. Management believes that the turnaround initiatives will result in the group returning to profitability at some point in the future. However, based on 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.

8. Restricted cash and securities

At 30 June 2017, ArcelorMittal South Africa has restricted cash of R1 583 million (30 June 2016: Rnil). This consists of R998 million regarding the True Sales Receivables (TSR) facility and R585 million for the environmental rehabilitation obligations.

Eligible inventories and receivables are provided as securities for the borrowing base facility to the extent of the draw down. At 30 June 2017, R3 350 million was drawn down on the borrowing base facility and R1 150 million was still available.

Bank accounts of R1 021 million were ceded in favour of the borrowing base and TSR facilities.

9. Property, plant and equipment

An impairment indicator assessment was performed on all cash-generating units of the group. Following this assessment, an impairment test was performed on the long steel unit.

In accordance with IAS 36 *Impairment of Assets*, an asset is impaired if the carrying amount of the asset is greater than the recoverable amount of the asset.

The result of the impairment test was that the long steel unit was impaired by R600 million (30 June 2016: Rnil) and was recognised against property, plant and equipment. This was primarily as a result of the strengthening of the rand against the US dollar and loss of volumes due to higher coal prices compared to competitors who do not use coal in their production process.

Notes to the reviewed condensed consolidated financial statements continued

9. Property, plant and equipment continued

Basis of the impairment model

The recoverable amount of the unit was determined using a discounted cash flow model and an explicit forecast period for five years. These cash flows are US dollar based. Cash flows has not taken the proposed carbon tax into account when determining the recoverable amount. To determine the terminal value, the Gordon growth model was used, year five was taken into perpetuity. The outcome of the impairment test was that the long products cash-generating unit was impaired by 9%.

The other major assumptions in arriving at present value of future cash flows are as follows:

Long products

Major assumptions	30 June 2017 Reviewed
WACC (%) (US$ denominated)	12.86
Growth rate (%)(US$ denominated)	2.0
Exchange rate (R/US$)	13.06 – 14.74
Iron ore prices (US$/ton)	41 – 47
Steel sales prices (US$/ton)	533 – 593
Sales volumes (tonnes)	1 322 – 1 649
Capex (US$) (over five years)	186

10. Going concern

The group would like to re-emphasise that, despite the positive progress on safeguards on flat products, import duties and the designation of local steel for government infrastructure projects, the local steel industry continue to be threatened by imports entering the market, primarily from China. Higher steel prices did not fully compensate for higher raw material costs, namely coal and iron ore, resulting in lower margins. Poor market conditions, operational incidents, impairments and the strengthening of the rand against the US dollar also negatively impacted the group's results.

ArcelorMittal South Africa has implemented various initiatives to return the group to profitability and to generate positive cash flows. In order to address the current challenges, the group is in the process of exploring several additional initiatives, including additional cost-saving interventions, assessing the profitability of various product lines and the implementation of structural changes (restructuring) in the next six months. Further information will be provided as soon as the necessary investigations and decisions have been finalised.

10. Going concern continued

Through the realisation of these initiatives, the board believes that the group will have sufficient funds to pay its debts as they become due over the next 12 months, and will therefore remain a going concern. The reasonableness of the initiatives and the likelihood of the initiatives being achieved have and will continue to be assessed as final decisions are made in this regard. However, should these initiatives not materialise, it could result in material uncertainty regarding the ability of the group to continue as a going concern. Processes will be established to ensure the effective and frequent monitoring of the implementation of the necessary initiatives so that appropriate and timeous action can be taken should the implementation not materialise.

11. Headline losses

	Six months ended	
In millions of rand	**30 June 2017 Reviewed**	30 June 2016 Reviewed
Loss for the period	**(2 223)**	(450)
Adjusted for:		
– Impairment charge	**604**	6
– (Profit) on disposal or scrapping of assets	**–**	(17)
– Tax effect	**–**	3
Headline loss for the period	**(1 619)**	(458)
Headline loss per share (cents)		
– basic	**(148)**	(45)
– diluted	**(148)**	(45)

12. Commitments

Commitments	**4 076**	1 162

13. Subsequent events

The directors are not aware of any matter or circumstances arising since the end of June 2017 to the date of this report that would significantly affect the operations, the results or financial position of the group.

Other information

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

Directors
Non-executive:
PM Makwana* (chairman), H Blaffart°, L Cele*, D Clarke■, NP Gosa, RK Kothari+, NP Mnxasana*, JRD Modise*, KM Musonda*^, N Nicolau*
■*Citizen of Australia* °*Citizen of Belgium* ^ *Citizen of Zambia*
+*Citizen of India* **Independent non-executive*

Executive:
WA de Klerk (chief executive officer)
D Subramanian (chief financial officer)

Company secretary
Nomonde Bam

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

Transfer secretaries
Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196, South Africa
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27 July 2017

Forward looking statement

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 whose impact 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.

Disclaimer

This document may contain forward looking information and statements about ArcelorMittal South Africa and its subsidiaries. These statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, products and services, and statements regarding future performance.

Forward looking statements may be identified by the words "believe", "expect", "anticipate", "target" or similar expressions. Although ArcelorMittal South Africa's management believes that the expectations reflected in such forward looking statements are reasonable, investors and holders of ArcelorMittal South Africa's securities are cautioned that forward looking information and statements are subject to numerous risks and uncertainties, many of which are difficult to predict and generally beyond the control of ArcelorMittal South Africa, that could cause actual results and developments to differ materially and adversely from those expressed in, or implied or projected by, the forward looking information and statements.

ArcelorMittal South Africa undertakes no obligation to publicly update its forward looking statements, whether as a result of new information, future events, or otherwise.

ArcelorMittal

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