# ArcelorMittal South Africa Limited
Reviewed condensed consolidated financial statements for the six months ended 30 June 2020

## Salient features

- Extraordinary cash management and cost control measures implemented to ensure liquidity in response to disrupted and seized supply chains
- 54% lower liquid steel production at 1,1 million tonnes and 47% lower sales volumes at 1,1 million tonnes
- Overall plant utilisation reduced from 76% to 35% or 39% after normalising for Saldanha Works' being placed under care and maintenance in late quarter 1 2020
- Average international steel prices fell by 13%
- 45% reduction in revenue to R12 014 million
- Raw material basket (RMB) decreased by 6% in rand terms
- Volume-affected cash cost per tonne of liquid steel increased by 21% despite R663 million savings achieved through the Business Transformation Programme
- R1 601 million reduction (-38%) in total fixed costs (including R341 million of BTP savings)
- R1 256 million EBITDA loss (2019: R167 million profit)
- Headline loss of R2 613 million (2019: R638 million loss)
- Net debt of R3 702 million (Dec 2019: R3 370 million)
- 2020 strategic asset footprint review resulted in temporary idling of Vanderbijlpark Blast Furnace C from quarter 2 2020 and Vereeniging Electric Arc Furnace from quarter 3 2020, until demand recovers

*The analysis below relates to the six months ended 30 June 2020 (current period) compared to the six months ended 30 June 2019 (prior or comparable period) except where otherwise indicated.*

## Overview and sustainability

Following an already demanding 2019, the first half of 2020 proved to be an incredibly difficult and extraordinary period, the likes of which has never been witnessed in terms of the widespread social and business impact as wrought by the global COVID-19 pandemic. The impact on economic activity was abrupt and, therefore, the business response needed to be sharp and decisive.

Taking lessons from the international ArcelorMittal group, ArcelorMittal South Africa was able to craft a rapid response plan to protecting its people, assets and financial lifelines.

In protecting its people – employees and subcontractors alike – World Health Organisation (WHO) and government guidelines were implemented with very strict hygiene and personal protective equipment (PPE) practices, while remote working became the norm.

The unprecedented and rapid shutdown of the Company's assets tapped into the world-class skills of the local operational team and global knowledge base of the ArcelorMittal group in order to affect the process safely and in a manner that would enable a swift but well controlled restart.

In addition to substantial and sustainable cost improvements implemented to date, extraordinary cash management and cost control measures were implemented to ensure sufficient liquidity in response to disrupted and seized supply chains due to the pandemic.

ArcelorMittal South Africa commends the collaborative efforts of customers, suppliers and funders as the Company worked to keep liquidity flowing within the steel supply chain despite the erosion, to varying degrees, of revenue streams during the lockdown. Relative to the major disruptions which characterised quarter 2 2020, it is anticipated that a semblance of normality should return to receipt and payment cycles during the second half of 2020.

The Company also acknowledges the support of its employees during the lockdown and the subsequent restart of operations.

With all but small volumes of commercial market coke sales to ferro-alloy producers possible in the first month of the lockdown (starting on 27 March 2020), reducing the fixed cost structure of the Company became critical to rescale cash outflows to dramatically reduced cash inflows.

## Overview and sustainability continued

With the advent of lockdown Level 4 on 1 May 2020 and the ability to operate a 50% of normal labour levels, the Company was able to avoid restarting its iron and steel melting operation by focusing on completing (rolling and packing) its work-in-process inventories and dispatching its finished inventories.

On 1 June 2020, Level 3 allowed for a return to unrestricted operations, however, the return to full operational capacity is only expected as demand improves. Although more customers began operating, the vast majority operated on reduced shift patterns, impacting demand levels.

Consequently, having reassessed the Company's strategic asset footprint, the following modifications have been implemented until such time as demand begins to recover:

- Vanderbijlpark Works: single blast furnace operation with temporary hot idling of one of five coke batteries.
- Newcastle Works: blast furnace operating at reduced volumes with temporary hot idling of one of three coke batteries.
- Vereeniging Works: from quarter 3, placing of the melting operations under temporary care and maintenance.
- Saldanha Works: successfully in care and maintenance, and progress made on the establishment of a logistics hub using available land and infrastructure.

2020 remains the year of the 6Cs - cash, cost, customers, collaboration, climate, and communication. They are even more relevant in the context of the pandemic realities. ArcelorMittal South Africa will be steadfast in making the difficult decisions to position the business for sustainability through these future-shaping events. All alternatives need to be explored and the Company continues to engage with the Competition Commission regarding the payment of the administrative fine.

With an anticipation that, for the foreseeable future, steel demand will remain at best between 70% to 75% of levels prior to the lockdown, ArcelorMittal South Africa announced a large-scale labour reorganisation in terms of Section 189(3) of the Labour Relations Act 66 of 1995 on 18 June 2020, in response to economic consequences of the pandemic.

Although the final outcome and number of positions affected is subject to a formal consultation process, the Company aims to negotiate a multi-faceted, flexible solution in response to the idling of those operations that will remain under-utilised for the foreseeable future while reducing its total cost of employment. The business is firmly committed to expeditiously securing significant cost savings while being very cognisant of the dire unemployment situation the country faces.

ArcelorMittal South Africa will accelerate the implementation of its *OneOrganisation* single operating model initiative in response to the pandemic. *OneOrganisation* aims to:

- simplify and de-clutter management mechanisms;
- adopt a common information technology infrastructure for planning, scheduling and production; and
- improve the customer service experience through a more flexible sales and marketing organisation.

The lockdown and its consequences overpoweringly defined the first half of the year, and specifically the second quarter, however, the following should be noted regarding the first quarter:

- Demand remained weaker than anticipated as the bad news regarding the spread of COVID-19 and the anticipated (and now realised) sovereign downgrades depressed business sentiment.
- Significant production interruptions resulted from (i) electricity load shedding, and (ii) raw material train cancellation and delays due to a major increase in cable thefts. The combined negative impact of these uncontrollable events on earnings amounted to some R272 million. These events and the consequential stop-start shocks are beginning to materially affect the reliability of plant and equipment and are consequently diluting the improved underlying performance of the business.

## Overview and sustainability continued

Regarding the second quarter, the following was apparent:

- Total steel sales volumes fell by 54% (425 000 tonnes) to 361 000 tonnes compared to quarter 1 2020.
- Liquid steel production was limited to 153 000 tonnes with the blast furnaces being idled for the months of April and May 2020.
- Additional externally purchased energy costs of R328 million were incurred during the lockdown due to the idling of the blast furnaces and the hot idling of certain of the coke-making batteries. These costs related to an increase in the consumption of gases which are internally produced under normal operating conditions.
- Fixed costs reduced by 35% (R540 million) compared to quarter 1 2020.

Positively, the Business Transformation Programme (BTP) contributed R663 million (2019: R635 million) in earnings improvements for the first half of the year, adding to the R2,1 billion of improvements since the programme started in the second half of 2018. This performance was achieved despite the interruptions which characterised the economic lockdown.

Compared to the previous year, exchange rates between the South African rand and the US dollar weakened significantly. Ordinarily, a weakening exchange rate has a positive impact on the financial results of the Company. However, with the severe erosion of revenue during the lockdown, and given the large foreign-denominated payables position, the Company reported a net foreign exchange rate loss of R977 million for the period (2019: R96 million profit).

Having embarked on a process to seek a joint venture partner to establish a logistics hub using the available land and infrastructure of the Saldanha Works, the business has received offers and short-listed parties to advance to the next stage of this project. This is consistent with previously announced strategic intent to both develop its core properties and dispose of its non-core assets. To better reflect the inherent economic benefit of the property portfolio, the qualifying investment property has been revalued to fair value. An amount of R1,1 billion has been recognised in equity.

ArcelorMittal South Africa continues to make good progress with its intended acquisition of the Highveld Structural Mill.

The business is making progress in identifying opportunities to improve the cost structure of certain strategic raw materials, while monetising its by-products streams through joint venture arrangements.

Although taking longer than intended due to complexities relating to the pandemic, the project to seek a co-investor for the commercial market coke business continues. Further announcements regarding progress on these initiatives will be made in due course.

ArcelorMittal South Africa appreciates the leadership role taken by the South African government in developing the steel industry masterplan. Like many in the industry, the Company has contributed to the development of this important document. The masterplan takes on even greater relevance considering the challenges faced by the industry following the devasting economic impact of the pandemic and as an ever-increasing number of steel consuming companies are entering business rescue or liquidation.

While thankful for the stimulus package announced by the South African government in response to the pandemic, the economic challenges facing the country cannot be addressed by government alone. Government's creation of an enabling environment which encourages private sector solutions is needed more than ever.

In support of surrounding communities, the ArcelorMittal Foundation, through Thusong Projects, is providing 800 litres of soup and 445 loaves of bread per day to local community members. ArcelorMittal South Africa provided 600 food parcels to the vulnerable farm communities of Overvaal. The Company's requirement of 15 000 face masks was awarded to a local B-BBEE SMME using local skills. A thousand masks were donated to NGO workers who care for vulnerable members of the community.

## Safety

As re-emphasised by its response to the COVID-19 pandemic, the safety and wellbeing of its employees remain the Company's number one priority, and creating a consistent safety culture with clear accountability is sacrosanct.

For suspected positive COVID-19 infections, the business provides first line care internally and refers the more severe suspected positive cases to external medical experts.

Although the lost-time injury frequency rate (LTIFR) increased to 0.55 from 0.38, the total injury frequency rate (TIFR) of 6.56 reflects an improvement from 7.31 in the comparative period.

## Markets

After slower than anticipated growth in 2019 due to the deep manufacturing recession in developed economies, a further decline in global steel demand in the second quarter of 2020 occurred as global lockdowns were enforced to contain the spread of the virus.

Global crude steel production[1] decreased to 874 million tonnes for the first half of 2020 due to the impact of the global pandemic, which is 6% lower than the comparable period. China's market share in global crude steel output increased from 53% to 57% in the first half of 2020. The EU's crude steel output declined by 16% whilst the USA fell by 15% year-on-year.

EU steel demand dropped by some 50% since March 2020, forcing many furnaces to temporarily idle. However, the tariff-free import quota has recently been further raised which is being opposed by Eurofer[2]. Turkey and India have significantly increased their levels of exports. Africa's output decreased by 20% due to lower production in South Africa and Egypt.

Turning to South Africa, the country's 2020's real GDP growth is anticipated to fall to -10.7%. The country was in a technical recession at the beginning of 2020; this continued through quarter 1 as GDP contracted by a further 2% quarter-on-quarter. This peaked in quarter 2 due to the extended lockdown which hampered market activity.

Apparent steel consumption for the first half of 2020 decreased by 26% to 1,8 million tonnes as the pandemic negatively impacted all key steel-consuming sectors. The government-imposed national lockdown led to a complete production halt in steel making activities at ArcelorMittal South Africa.

The Company's customer survey results suggest a domestic market size reduction of about 27% in 2020 compared to 2019's full- year levels. Agriculture, packaging, DIY and infrastructure are foreseen to be less impacted, while the construction, automotive and machinery and equipment sectors expect to be more severely affected.

Total steel imports for the six months to 30 June 2020 amounted to 340 000 tonnes[3], which constituted some 19% of South Africa's apparent steel consumption (2019: 20%). Disruptions to global supply chains, combined with domestic production closures and logistical restrictions, were contributing factors.

For the first half of 2020, the Company's total sales volumes fell by 47% (1,0 million tonnes) to 1,1 million tonnes compared to the same period in 2019, mainly due to a 40% reduction in domestic sales (640 000 tonnes). Flat steel products decreased by 426 000 tonnes (38%), while long steel products decreased by 214 000 tonnes (45%). Export sales, comprising Africa Overland and seaborne volumes, decreased by 375 000 tonnes (65%).

Total steel sales volumes for quarter 2 2020 fell by 54% (425 000 tonnes) to 361 000 tonnes compared to quarter 1 2020. This is a clear indication of the impact the nationwide lockdown had on the Company's sales volumes.

## Markets continued

Benchmark China export hot rolled coil (HRC) and Rebar steel prices fell by 13.1% and 12.6% respectively[4], while the Company's overall realised steel price in dollars fell by 11%. In rand terms, realised steel prices were flat as the average dollar / rand exchange rates weakened by 17%.

Despite contending with extremely difficult operating conditions with lower volumes and prices, the Company provided R56 million in value added export assistance to the downstream industry in the period, compared to R134 million in 2019.

ArcelorMittal South Africa made the following import safeguard submissions during the first half of the year: (i) an extension application on hot rolled products, as the existing safeguard arrangements are due to expire in August 2020; and (ii) an application on heavy beams manufactured at Highveld Structural Mill.

## Operational

The Company's capacity utilisation reduced from 76% in 2019 to 35%. Liquid steel production fell by 54% or 1,4 million tonnes, from 2,5 million tonnes to 1,1 million tonnes during the first half of 2020.

Flat steel products' liquid steel production decreased by 849 000 tonnes reflecting its lower plant utilisation of 37% against 78% in the comparative period, which included the placement of Saldanha Works under care and maintenance. Long steel products' liquid steel production was lower by 488 000 tonnes. Similarly, its utilisation fell to 31%.

Commercial market coke production was 75% higher at 117 000 tonnes, though sales volumes were 142% higher at 120 000 tonnes as lower internal metallurgic coke demand could be routed to those ferro-chrome producers who continued production in terms of the lockdown regulations.

## Financial results

### Financial performance

ArcelorMittal South Africa's EBITDA decreased from a profit of R167 million to a loss of R1 256 million, while the operating loss increased from R222 million to R1 528 million. Headline losses increased from a loss of R638 million to a loss of R2 613 million, amounting to a 239 cents per share loss against 58 cents loss for the comparative period.

Revenue decreased by 45% to R12 014 million due to a 47% reduction in total sales volumes. Net realised steel prices in rand terms remained flat against the comparative period. Market coke sales volumes increased by 142% while market coke sales prices decreased by 13%. Against the first quarter, the 54% drop in sales volumes contributed to the 50% decrease in revenue in the second quarter.

The Company's raw material basket (iron ore, coking coal, and scrap), which represented 47% (2019: 53%) of total production costs, was 6% lower in rand terms. Consumables and auxiliaries, which represented approximately 31% of total production costs (2019: 27%), increased by 36%.

Beyond the previously mentioned additional cost consequences of supply interruptions experienced in quarter 1, increases in electricity, port and rail tariffs have had a detrimental impact on the Company's international competitiveness. These unaffordable increases, off an already inflated base, resulted in R138 million of additional costs against compared to last year.

Despite significant cost savings from BTP initiatives, the Company's cash cost per tonne of liquid steel increased by 21%, largely driven by lower liquid steel production of 54% as a result of the lockdown, and unreliable service delivery from Transnet and Eskom in the first quarter.

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[1] Worldsteel; [2] European Commission; [3] Q2 2020 estimated; [4] Metal Bulletin

## Financial results continued

Total fixed costs for the Company decreased by a substantial R1 601 million or 38%, in response to the need to variabilise these costs given the impact of the lockdown. The reduction includes R341 million of BTP-related improvements, with just less than R1,3 billion in new actions to variabilise these costs.

Additional externally purchased energy costs incurred during the lockdown due to the idling of the blast furnaces and hot idling of certain of the coke-making batteries, amounted to R328 million. These costs are related to an increase in the consumption of externally purchased gases which are internally generated under normal operating conditions.

Finance costs increased by 83% or R518 million to R1 145 million, mainly due to net foreign exchange losses of R977 million, of which R758 million is unrealised.

**Cash flow and borrowing position**
Cash generated from operations of R78 million was R355 million better than in 2019, due to lower working capital requirements of R1 863 million.

Net financing expenses were 8% higher (R126 million) at R136 million.

The net capital expenditure cash outflow was R248 million against R862 million in 2019 reflecting the interruption in projects due to the impact of the lockdown.

The net borrowing position of R1 741 million in the comparable period weakened to R3 702 million at 30 June 2020, due to financing activities, capital expenditure and the capitalisation of interest and group payables of R1 508 million to the loan from ArcelorMittal Holding AG. The position is R332 million higher compared to 31 December 2019.

## Legal and regulatory matters

- COVID-19: The Company had to manage in compliance with the Regulations pursuant to the Disaster Management Act 2002 during Levels 4 and 5, and more recently through Level 3, which has allowed the progressive reopening of the economy. This has included the development, implementation and ongoing monitoring of safety and health management protocols to maintain a safe working environment for all employees who were required to return to work on site, while remote working became the norm.
- Environmental Criminal Matter: It was announced during the reporting period that the matter has been finalised.
- Competition Commission: The Company has been engaging with the Competition Commission regarding the payment of the administrative fine.
- Protection of Private Information Act (POPIA): The Company has been implementing the requirements of POPIA for some time.
- Safeguards: The Company has applied to the International Trade Administration Commission (ITAC) for an extension of the safeguards on hot rolled coil.

## Changes to the board of directors

No changes to the board of directors for the six months ended 30 June 2020. As previously announced, Fluidrock Co Sec (Pty) Ltd was appointed as company secretary, effective 1 March 2020.

## Dividends

No dividends were declared for the six months ended 30 June 2020.

## Outlook for the second half of 2020

The health and wellbeing of employees during these unprecedented and difficult times will receive significant attention.

Considering the high pandemic infection rates in South Africa, the Company is carefully balancing the need to meet real, demonstrable and sustainable demand levels against the need to responsibly restore production levels, while avoiding the risk of a major infection event in the operations.

Barring a reversion to more restrictive lockdown regulations, it is anticipated that sales volumes should improve relative to the deeply pandemic-impacted first half. Even so, these levels will be notably below historic levels.

There will be vigorous focus on the BTP, the *OneOrganisation* implementation and the finalisation of the large-scale labour reorganisaton to ensure the Company's cost structures are meaningfully recalibrated to the current economic realities.

The volatility of ZAR/USD exchange rate is also likely to continue to have an impact on the Company's results.

On behalf of the board of directors

**HJ Verster**
Chief Executive Officer
30 July 2020

**AD Maharaj**
Chief Financial Officer

# ArcelorMittal South Africa Limited

Reviewed condensed consolidated financial statements for the six months ended 30 June 2020

## KEY STATISTICS

| | Six months ended | |
|---|---|---|
| | **30 June 2020** | 30 June 2019 |
| **Unreviewed information** | | |
| **Operational** | | |
| Liquid steel production (000 tonnes) | **1 123** | 2 460 |
| Total steel sales (000 tonnes) | **1 147** | 2 162 |
| Local steel sales (000 tonnes) | **946** | 1 586 |
| Export steel sales (000 tonnes) | **201** | 576 |
| Capacity utilisation (%) | **35** | 76 |
| Commercial coke and tar sales (000 tonnes) | **143** | 93 |
| Average net realised price (R/t) | **9 338** | 9 337 |
| **Safety** | | |
| Lost-time injury frequency rate | **0.55** | 0.38 |
| **Reviewed information** | | |
| **Financial** | | |
| Revenue (R million) | **12 014** | 21 743 |
| Loss from operations (R million) | **(1 528)** | (222) |
| Loss for the period (R million) | **(2 304)** | (644) |
| Loss per share (cents) | **(211)** | (59) |
| Headline loss (R million) | **(2 613)** | (638) |
| Headline loss per share (cents) | **(239)** | (58) |
| Net borrowings (R million) | **(3 702)** | (1 741) |
| **Ratios** | | |
| Return on ordinary shareholders' equity per annum: | | |
| - Attributable loss (%) | **(153.2)** | (14.8) |
| - Headline loss (%) | **(173.7)** | (14.7) |
| - Net borrowings (%) | **(240.4)** | (20.6) |
| **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** | 1 093 510 |
| - diluted weighted average number of shares | **1 093 510** | 1 093 510 |
| Share price (closing) (Rand) | **0.62** | 2.41 |
| Market capitalisation (R million) | **678** | 2 635 |
| Net asset value per share (Rand) | **1.41** | 7.72 |

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

| | Six months ended | |
|---|---|---|
| | **30 June 2020** | 30 June 2019 |
| **In millions of Rands** | **Reviewed** | Reviewed |
| Loss from operations | **(1 528)** | (222) |
| Adjusted for: | | |
| - Depreciation | **266** | 384 |
| - Amortisation of intangible assets | **6** | 5 |
| **EBITDA** | **(1 256)** | 167 |

## INDEPENDENT AUDITOR'S REVIEW ON INTERIM FINANCIAL STATEMENTS

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**INDEPENDENT AUDITOR'S REVIEW 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 2020 and the condensed consolidated statement of comprehensive income and other 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 2020 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.

**Material Uncertainty related to Going Concern**

We draw attention to note 20 in the condensed consolidated financial statements which indicates that the group incurred a net loss after tax of R2 304 million (2019: R644 million) for the period ended 30 June 2020. As stated in Note 20, these events or conditions, along with other matters as set forth in Note 20, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte + Touche

Deloitte & Touche
Registered Auditor

Per: SI. Rajcoomar
Partner
30 July 2020

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# ArcelorMittal South Africa Limited

Reviewed condensed consolidated financial statements for the six months ended 30 June 2020

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| In millions of Rands | Notes | Six months ended<br>30 June 2020<br>Reviewed | Six months ended<br>Restated<br>30 June 2019 |
|---|---|---|---|
| **Revenue** | | **12 014** | 21 743 |
| Raw materials and consumables used | | **(6 276)** | (13 900) |
| Employee costs | | **(1 677)** | (2 309) |
| Energy | | **(1 841)** | (2 316) |
| Movement in inventories of finished goods and work in progress | | **(1 453)** | 474 |
| Depreciation | | **(266)** | (384) |
| Amortisation of intangible assets | | **(6)** | (5) |
| Impairment loss on trade and other receivables | | **(5)** | (48) |
| Other operating expenses | | **(2 018)** | (3 477) |
| **Loss from operations** | | **(1 528)** | (222) |
| Impairment of other assets | | **-** | (7) |
| Finance and investment income | 6 | **68** | 155 |
| Finance costs | 7 | **(1 145)** | (627) |
| Impairment reversal of property, plant and equipment | 8 | **29** | - |
| Reclassification of foreign currency differences on liquidation of foreign investment | 9 | **280** | - |
| Loss after tax from equity accounted investments | | **(2)** | (5) |
| **Loss before taxation** | | **(2 298)** | (706) |
| Income tax | 12 | **(6)** | 62 |
| **Loss for the period** | | **(2 304)** | (644) |
| **Other comprehensive profit/(loss)** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Fair value adjustment on equity instrument | | **(32)** | (13) |
| Revaluation of property, plant and equipment | 13 | **30** | - |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | | **6** | (1) |
| Cash flow hedges – effective portion of changes in fair value | | **(271)** | 215 |
| Reclassification of cash flow hedges to profit or loss | | **(96)** | (51) |
| Reclassification of foreign currency differences on liquidation of foreign investment | 9 | **(280)** | - |
| Related tax | | **-** | (58) |
| **Total comprehensive loss for the period** | | **(2 947)** | (552) |
| **Loss attributable to:** | | | |
| Owners of the Company | | **(2 304)** | (644) |
| **Total comprehensive loss attributable to:** | | | |
| Owners of the Company | | **(2 947)** | (552) |
| **Attributable loss per share (cents)** | | | |
| - basic | | **(211)** | (59) |
| - diluted | | **(211)** | (59) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| In millions of Rands | Notes | As at 30 June 2020 Reviewed | Restated 30 June 2019 | Restated 31 December 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | **9 665** | 10 949 | 9 794 |
| Property, plant and equipment | | **7 830** | 9 268 | 7 966 |
| Investment Properties | 11 | **1 139** | 1 008 | 1 080 |
| Intangible assets | | **65** | 70 | 70 |
| Equity accounted investments | | **265** | 201 | 268 |
| Investment held by environmental trust | | **348** | 348 | 348 |
| Non-current receivable | | **9** | - | 22 |
| Other financial assets | | **9** | 54 | 40 |
| **Current assets** | | **12 948** | 20 596 | 13 739 |
| Inventories | | **6 856** | 12 704 | 8 700 |
| Trade and other receivables | | **2 454** | 4 747 | 2 837 |
| Taxation | | **25** | 132 | 21 |
| Other financial assets | | **7** | 254 | 193 |
| Cash, bank balances and restricted cash | 14 | **3 606** | 2 759 | 1 988 |
| **Total assets** | | **22 613** | 31 545 | 23 533 |
| **Equity and Liabilities** | | | | |
| **Shareholders' equity** | | **1 540** | 8 443 | 4 477 |
| Stated capital | | **4 537** | 4 537 | 4 537 |
| Non-distributable reserves | | **(4 203)** | (3 545) | (3 568) |
| Retained income | | **1 206** | 7 451 | 3 508 |
| **Non-current liabilities** | | **8 911** | 5 955 | 6 716 |
| Borrowings | | **4 208** | 2 700 | 4 208 |
| Other payables | | **2 492** | 722 | 373 |
| Finance lease obligations | | **60** | 86 | 74 |
| Provisions | | **1 851** | 1 875 | 1 761 |
| Other financial liabilities | | **300** | 572 | 300 |
| **Current liabilities** | | **12 162** | 17 147 | 12 340 |
| Trade payables and other payables | | **7 502** | 14 484 | 9 391 |
| Taxation | | **103** | 94 | 93 |
| Borrowings | | **3 100** | 1 800 | 1 150 |
| Finance lease obligations | | **27** | 24 | 26 |
| Provisions | | **563** | 364 | 1 080 |
| Other financial liabilities | | **867** | 381 | 600 |
| **Total equity and liabilities** | | **22 613** | 31 545 | 23 533 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | | Six months ended | |
|---|---|---|---|
| **In millions of Rands** | **Notes** | **30 June 2020 Reviewed** | Restated* 30 June 2019 |
| **Cash flows from operating activities** | | **(58)** | (396) |
| Cash generated/(utilised in) from operations | 15 | **78** | (277) |
| Interest income | | **68** | 52 |
| Finance cost | | **(204)** | (178) |
| Income tax refund | | **-** | 7 |
| **Cash flows from investing activities** | | **(248)** | (850) |
| Investment to maintain and expand operations | | **(248)** | (862) |
| Investment in associates and joint ventures | | **-** | 3 |
| Dividend from equity-accounted investments | | **-** | 8 |
| Proceeds on disposal or scrapping of assets | | **-** | 1 |
| **Cash flows from financing activities** | | **1 929** | 1 481 |
| Borrowings raised | | **1 950** | 1 500 |
| Finance lease obligation repaid | | **(18)** | (19) |
| Cash settlement on long term incentive plan | | **(3)** | - |
| **Increase in cash, cash equivalents and restricted cash** | | **1 623** | 235 |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash | | **(5)** | (1) |
| **Cash, cash equivalents and restricted cash at beginning of the period** | | **1 988** | 2 525 |
| **Cash, cash equivalents and restricted cash at end of the period** | | **3 606** | 2 759 |

*Amounts previously classified as realised foreign exchange movements were reclassified to cash from operations, refer to note 15.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| In millions of Rands | Stated Capital | Treasury share equity reserve | Other Reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| **Six months ended 30 June 2019** | | | | | |
| Balance as at 31 December 2018 - restated | 4 537 | (3 919) | 260 | 8 083 | 8 961 |
| As previously reported | 4 537 | (3 919) | 260 | 7 083 | 7 961 |
| Change in accounting policy - Fair value adjustment of Investment properties | - | - | - | 1 000 | 1 000 |
| Total comprehensive income/(loss) | - | - | 92 | (644) | (552) |
| Share-based payment reserve | - | - | 34 | - | 34 |
| Transfer of equity accounted earnings | - | - | (12) | 12 | - |
| Settlement of long-term incentive plan | - | - | - | - | - |
| **Balance as at 30 June 2019 – restated** | 4 537 | (3 919) | 374 | 7 451 | 8 443 |
| **Six months ended 31 December 2019** | | | | | |
| Balance as at 30 June 2019 - restated | 4 537 | (3 919) | 374 | 7 451 | 8 443 |
| As previously reported | 4 537 | (3 919) | 374 | 6 451 | 7 443 |
| Change in accounting policy - Fair value adjustment of Investment properties | - | - | - | 1 000 | 1 000 |
| Total comprehensive loss - restated | - | - | (25) | (3 960) | (3 985) |
| As previously reported | - | - | (25) | (4 032) | (4 057) |
| Change in accounting policy - Fair value adjustment of Investment properties | - | - | - | 72 | 72 |
| Share-based payment reserve | - | - | (3) | - | (3) |
| Settlement of long-term incentive plan | - | - | 22 | - | 22 |
| Transfer between reserves | - | - | (17) | 17 | - |
| **Balance as at 31 December 2019 – restated** | 4 537 | (3 919) | 351 | 3 508 | 4 477 |
| **Six months ended 30 June 2020 (Reviewed)** | | | | | |
| Balance as at 31 December 2019 - restated | 4 537 | (3 919) | 351 | 3 508 | 4 477 |
| As previously reported | 4 537 | (3 919) | 351 | 2 436 | 3 405 |
| Change in accounting policy - Fair value adjustment of Investment properties | - | - | - | 1 072 | 1 072 |
| Total comprehensive loss | - | - | (643) | (2 304) | (2 947) |
| Share-based payment reserve | - | - | 10 | - | 10 |
| Transfer between reserves | - | - | (2) | 2 | - |
| **Balance as at 30 June 2020 (Reviewed)** | **4 537** | **(3 919)** | **(284)** | **1 206** | **1 540** |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 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 2020 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

### 2. Basis of preparation

The condensed consolidated interim financial statements for the period ended 30 June 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) 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 and 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 were prepared under the supervision of Mr AD Maharaj CA(SA), the chief financial officer.

The auditor's conclusion, which contains a paragraph on material uncertainty relating to going concern, does not necessarily report on all of the information contained in this announcement. 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 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, except for the change in accounting policy relating to Investment properties.

As part of the review of the group's property portfolio in light of its revised strategic focus, certain properties were identified which had historically been classified as investment property, measured using the cost model, but were incorrectly included in the property, plant and equipment line item in the statement of financial position. Further, previous financial statements lacked disclosures required by IAS 40 for these properties measured under the cost model.

3.1 Prior period error

In assessing the level of significance of the prior period error for the purposes of the related financial statement presentation, management considered guidance in IAS 8. This analysis indicated that, given that the cost model was applied under both IAS 16 and IAS 40, this incorrect classification had no impact on the consolidated results of operations, or on basic or diluted earnings per share for the year ended 31 December 2019 and period ended 30 June 2019.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued***

In light of the above, the group has corrected the classification of these properties in the statement of financial position. The impact of the restatement on Statement of financial position is shown in the table below:

| In millions of Rands | Previously reported 30 June 2019 | Impact | Restated Amount 30 June 2019 | Previously reported 31 December 2019 | Impact | Restated Amount 31 December 2019 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Non-Current Assets** | | | | | | |
| Property, plant and equipment | 9 276 | (8) | 9 268 | 7 974 | (8) | 7 966 |
| Investment Property | - | 8 | 8 | - | 8 | 8 |
| **Total** | **9 276** | **-** | **9 276** | **7 974** | **-** | **7 974** |

The fair value of these investment properties at 31 December 2019 totalled R1 080 million (31 December 2018 : R1 008 million).

3.2 Change in accounting policy

During the current year, ArcelorMittal South Africa voluntarily changed its accounting policy related to the measurement of investment property. The group now applies the fair value model, under which investment property is subsequently measured at its fair value. Prior to this change in policy, the group applied the cost model to measure investment property.

After the decision in 2019 to cease production at the Saldanha Works, ArcelorMittal South Africa undertook a phased strategic asset footprint review to evaluate various potential uses of its property portfolio, the results of which suggested that a greater focus should be placed on the active management of properties to derive value either through rental or development for future sale. The strategic rationale supporting the intensified focus on the property portfolio corresponds with the significant increase in the portion of the group's portfolio that has been decommissioned and is no longer employed for production purposes. Given the results of this review, management have concluded that the fair value model for investment property is a more appropriate measurement basis than the previously applied cost model, providing relevant and more reliable information to users of the financial statements, aligned to both the current market value and use of its investment property portfolio.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued***

The impact on each line item of the financial statements is shown in the table below:

| | As previously reported | | Adjustment | | Restated | |
|---|---|---|---|---|---|---|
| **In millions of Rands** | **31 December 2017** | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** | **31 December 2018** |
| **Statement of comprehensive income** | | | | | | |
| Fair value adjustment on investment properties | - | - | - | 24 | - | 24 |
| Income tax* | - | - | | - | - | - |
| Net (loss)/profit | (5 128)- | 1 370 | - | 24 | (5 128) | 1 394 |
| **Statement of Financial Position** | | | | | | |
| Investment properties | | | 984 | 1 008 | 984 | 1 008 |
| Total assets | 31 196 | 28 560 | 984 | 1 008 | 32 180 | 29 568 |
| Deferred tax* | | | | | | |
| Retained earnings | 3 158 | 7 083 | 976 | 1 000 | 4 134 | 8 083 |

| | As previously reported | | Adjustment | | Restated | |
|---|---|---|---|---|---|---|
| **In millions of Rands** | **31 December 2019** | **30 June 2019** | **31 December 2019** | **30 June 2019** | **31 December 2019** | **30 June 2019** |
| **Statement of comprehensive income** | | | | | | |
| Fair value adjustment on investment properties | - | - | 72 | - | 72 | - |
| Income tax* | - | - | - | - | - | - |
| Net loss | (4 032) | (644) | 72 | - | (3 960) | (644) |
| **Statement of Financial Position** | | | | | | |
| Investment properties | - | - | 1 080 | 1 008 | 1 080 | 1 008 |
| Total assets | 22 461 | 30 545 | 1 072 | 1 000 | 23 533 | 31 545 |
| Deferred tax* | | | | | | |
| Retained earnings | 2 436 | 6 451 | 1 072 | 1 000 | 3 508 | 7  451 |

- Income tax and deferred tax, the group has an unrecognised deferred tax asset, refer to note 12.

The impact on earnings per share and diluted earnings per share for the year ended 31 December 2019 is 6.6 cents (December 2018: 92.2 cents). The impact on headline earnings per share for the period ended 31 December 2019 is 0.0 cents (December 2018: 0.0 cents).

## 4. Significant judgement, estimates, assumptions and Covid-19 impact

4.1 Significant judgement, estimates and assumptions

The preparation of interim 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 18, the fair value measurement note
- Impairment assessment of property, plant and equipment
  An impairment indicator assessment was performed, and adjustments were made to the impairment model used at 31 December 2019. The discount rate was reassessed and adjusted together with the exchange rates, lower sales volumes and lower sales prices, higher input costs were also included in the assessment. The value in use for all the cash-generating units was higher than the carrying amounts.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued***

| | Vanderbijlpark | | LSP Kwazulu* Natal Operations | | LSP Gauteng* Operations | | Coke and Chemicals | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| **Major assumptions** | | | | | | | | |
| Post-tax WACC/discount rate(%USD-based)** | 10,20% | 9,69% | 9,98% | 9,50% | 10,97% | 9,97% | 10,69% | 9,69% |
| Company-specific premium (%USD-based) | 2,25% | 2,25% | 2,75% | 2,75% | 1,50% | 1,50% | 2,25% | 2,25% |
| **Total Post-tax WACC/discount rate(%USD-based)**** | **12,45%** | **11,94%** | **12,73%** | **12,25%** | **12,47%** | **11,47%** | **12,94%** | **11,94%** |
| Growth rate(%USD-based) | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Exchange raterange(R/USD)* | 17.91 - 19.17 | 14.65 - 16.32 | 17.91 - 19.17 | 14.65 - 16.32 | 17.91 - 19.17 | 14.65 - 16.32 | 17.91 - 19.17 | 14.65 - 16.32 |
| Steel sales price range(average USD/t)* | 559 - 625 | 620 - 637 | 487 - 541 | 535 - 573 | 709 - 833 | 789 - 818 | 234 - 252 | 236 - 270 |
| Sales volume range (kt)* | 897 - 2 497 | 2 346 - 2 497 | 560 - 1 469 | 1 016 - 1 469 | 79 - 198 | 193 - 198 | 172 - 642 | 290 - 469 |

* LSP is split between Long Steel Products (LSP) Kwazulu Natal operations and Long Steel Products Gauteng Operations as separate CGUs
** Lowest to highest range over period of June 2020 to 2024 (2019: 2020 to 2024).
*** While a pre-tax WACC/discount rate is required per IAS 36 Impairment of Assets, the standard also accepts that discounting post-tax cash flows at a post-tax discount rate and discounting pre-tax cash flows at a pre-tax discount rate should give the same result, as long as the pre-tax discount rate is the post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows. Such consideration has been applied in determining the discounted post-tax cash flows.

Coke and Chemicals: price and volumes quoted relates to market coke

- 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 30 June 2020 and the impairment loss on trade and other receivables increased with R5 million compared to December 2019.

4.2 Covid-19

The Company considered the Covid-19 impact and whether or not income and expenses can be determined on a non-arbitrary basis, in order to provide relevant and reliable information. Only income and expenses that are incremental and directly attributable to Covid-19 were considered. In this regard the following expenses were incurred and are not expected to recur:

- Additional energy costs of R328 million due to the shutdown of the blast furnaces and the hot idling of some of the coke batteries. These costs are mostly related to an increase in the consumption of gases which are internally produced under normal operating conditions.
- Consumables related to sanitisers, masks and equipment of R1 million.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

### 5. Segment report

Flat Steel Products

| | Six months ended | |
|---|---|---|
| | **30 June 2020 Reviewed** | **30 June 2019 Reviewed** |
| Revenue (R million) | **8 072** | 14 843 |
| - External | **7 673** | 14 262 |
| - Internal | **399** | 581 |
| EBITDA (R million) (unreviewed) | **(674)** | 86 |
| EBITDA margin (%) (unreviewed) | **(8.3)** | 0.6 |
| Average net realised price (R/t) (unreviewed) | **9 613** | 9 659 |
| Depreciation and amortisation (R million) | **(131)** | (190) |
| Loss from operations (R million) | **(805)** | (104) |
| ***Unreviewed information*** | | |
| Liquid steel production ('000 tonnes) | **764** | 1 613 |
| Steel sales ('000 tonnes) | **756** | 1 410 |
| - Local | **682** | 1 108 |
| - Export | **74** | 302 |
| Capacity utilisation (%) | **37** | 78 |

Long Steel Products

| | Six months ended | |
|---|---|---|
| | **30 June 2020 Reviewed** | 30 June 2019 Reviewed |
| Revenue (R million) | **4 177** | 7 722 |
| - External | **3 571** | 6 950 |
| - Internal | **606** | 772 |
| EBITDA (R million) (unreviewed) | **(717)** | (66) |
| EBITDA margin (%) (unreviewed) | **(17.2)** | (0.9) |
| Average net realised price (R/t) (unreviewed) | **8 807** | 8 734 |
| Depreciation and amortisation (R million) | **(93)** | (150) |
| Loss from operations (R million) | **(810)** | (216) |
| ***Unreviewed information*** | | |
| Liquid steel production ('000 tonnes) | **359** | 847 |
| Steel sales ('000 tonnes) | **391** | 752 |
| - Local | **264** | 478 |
| - Export | **127** | 274 |
| Capacity utilisation (%) | **31** | 74 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

Coke and Chemicals

| | Six months ended | |
|---|---|---|
| | **30 June 2020 Reviewed** | 30 June 2019 Reviewed |
| Revenue (R million) | **788** | 576 |
| - External | **770** | 531 |
| - Internal | **18** | 45 |
| EBITDA (R million) (unreviewed) | **70** | 108 |
| EBITDA margin (%) (unreviewed) | **8.9** | 18.8 |
| Depreciation and amortisation (R million) | **(35)** | (35) |
| Profit from operations (R million) | **35** | 73 |
| ***Unreviewed information*** | | |
| Commercial coke produced ('000 tonnes) | **117** | 67 |
| Commercial coke and tar sales ('000 tonnes) | **143** | 93 |

Corporate and other

| | Six months ended | |
|---|---|---|
| | **30 June 2020 Reviewed** | 30 June 2019 Reviewed |
| EBITDA (R million) (unreviewed) | **65** | 39 |
| Depreciation and amortisation credit (R million) | **(13)** | (14) |
| Loss from operations (R million) | **52** | 25 |

### 6. Finance and investment income

| **In millions of Rands** | **30 June 2020 Reviewed** | 30 June 2109 Reviewed |
|---|---|---|
| **Finance income** | | |
| Bank deposit and other interest income | **68** | 52 |
| Net foreign exchange gains on financing activities | **-** | 96 |
| **Investment income** | | |
| Interest received from jointly controlled entities | **-** | 7 |
| | **68** | 155 |

### 7. Finance cost

| **In millions of Rands** | **30 June 2020 Reviewed** | 30 June 2019 Reviewed |
|---|---|---|
| Interest expense on loans | **387** | 440 |
| Reversal of interest on supplier | **(385)** | - |
| Interest expense on finance lease obligations | **5** | 6 |
| Net foreign exchange losses on financing activities | **977** | - |
| Discount rate adjustment of the provisions | **(20)** | 32 |
| Unwinding of the discounting effect on provisions | **181** | 103 |
| Unwinding of the discounting effect on financial liabilities | **-** | 46 |
| | **1 145** | 627 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

### 8. Impairment reversal

| In millions of Rands | **30 June 2020 Reviewed** | 30 June 2019 Reviewed |
|---|---|---|
| Impairment reversal on property, plant and equipment | **29** | - |

The reversal is the result of the transfer of the property at Saldanha Works from property, plant and equipment to investment property. In previous years the property, plant and equipment of Saldanha Works was impaired.

### 9. Reclassification of foreign currency translation differences

| In millions of Rands | **30 June 2020 Reviewed** | 30 June 2019 Reviewed |
|---|---|---|
| Reclassification of foreign currency translation differences | **280** | - |

ArcelorMittal Investment BV, a 100%-owned subsidiary, registered in the Netherlands with a functional currency of US dollars, was deregistered during the period.

Due to the deregistration, the balance in the foreign currency translation reserve had to be reclassified through profit and loss.

### 10. Reconciliation of Headline loss

| | **Six months ended** | |
|---|---|---|
| **In millions of Rands** | **30 June 2020 Reviewed** | 30 June 2019 Reviewed |
| Loss for the period | **(2 304)** | (644) |
| Adjusted for: | | |
| - Impairment charge | **-** | 7 |
| - Impairment reversal | **(29)** | - |
| - Profit on disposal or scrapping of assets | **-** | (1) |
| - Reclassification of foreign currency differences on liquidation of foreign investment | **(280)** | - |
| - Tax effect | **-** | - |
| **Headline loss for the period** | **(2 613)** | (638) |
| Headline loss per share (cents) | | |
| - basic | **(239)** | (58) |
| - diluted | **(239)** | (58) |

### 11. Investment properties

| In millions of Rands | **30 June 2020 Reviewed** | Restated 30 June 2019 | Restated 31 December 2019 |
|---|---|---|---|
| Balance at beginning of the period | **1 080** | 1 008 | 1 008 |
| Fair value adjustment | **-** | - | 72 |
| Transfer from property, plant and equipment | **59** | - | - |
| **Balance at end of the period** | **1 139** | 1 008 | 1 080 |

The valuation policy adopted by management is to revalue investment property externally at financial year-end and internally for interim reporting purposes. Refer note 18 for detail on the fair value measurements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

### 12. Taxation

The effective tax rate of 0.3% (compared to the statutory tax rate of 28%) for the six months ended 30 June 2020 is primarily as a result of not recognising the deferred tax asset on the available income tax losses, and the derecognition of a deferred tax liability that originated from unrealised gains from cash flow hedges. The deferred tax asset was only recognised to the extent of available deferred tax liabilities. 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.

### 13. Revaluation of property, plant and equipment

The property of Saldanha Works and more specifically the Distribution Centre and Conference centre were transferred from property, plant and equipment to investment property following the wind down of Saldanha. These properties are held for long term capital appreciation and to earn rental income.

### 14. Cash, bank balances and restricted cash

At 30 June 2020, ArcelorMittal South Africa has restricted cash of R414 million (2019: R1 252). This consists of R70 million (2019: R941 million) regarding the True Sales Receivables (TSR) facility and R344 million (2019: R311 million) for environmental rehabilitation obligations.

Eligible inventories and receivables are provided as securities to the lenders of the borrowing base facility to the extent of the draw down. At 30 June 2020, R3 100 million (2019: R1 800 million) was drawn down on the borrowing base facility.

Bank accounts of R1 185 million (2019: R481 million) were ceded in favour of the lenders of the borrowing base and TSR facilities.

### 15. Cash generated from/(utilised in) operations

| In millions of Rands | Six months ended<br>30 June 2020<br>Reviewed | Six months ended<br>Restated*<br>30 June 2019 |
|---|---|---|
| Loss from operations | **(1 528)** | (222) |
| Adjusted for: | | |
| Depreciation and amortisation | **272** | 389 |
| (Reversal of write-down)/write-down of inventory to net realisable value | **(128)** | 98 |
| Other non-cash movements | **30** | 52 |
| Realised foreign exchange movement | **(219)** | (33) |
| Changes in: | | |
| Decrease/(increase) in inventories | **1 960** | (602) |
| Decrease/(increase) in trade and other receivables | **368** | (849) |
| Changes in financial assets and liabilities | **23** | - |
| (Decrease)/increase in trade and other payables | **(465)** | 873 |
| Other payables raised, released and utilised relating to employee benefits | **108** | 86 |
| Utilisation of provisions | **(343)** | (69) |
| | **78** | (277) |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

### 16. Wind-down of Saldanha Works

The operations at Saldanha Works were subject to an orderly wind-down during the period, following the announcement on 4 November 2019 that it will be placed into care and maintenance.

The accounting impact for the six months ended 30 June 2020, is as follows:

| **Statement of comprehensive income** | **Six months ended** | |
|---|---|---|
| **In millions of Rands** | **30 June 2020** | 30 June 2019 |
| Revenue | **1 140** | 4 354 |
| Expenses | **(1 372)** | (4 594) |
| Loss from operations before impairment and other expenses | **(232)** | (240) |
| Impairment reversal | **29** | - |
| Finance cost | **(70)** | 38 |
| Loss before taxation | **(273)** | (202) |
| Taxation | **(9)** | - |
| Net loss for the period | **(282)** | (202) |

### 17. Related party transactions

The group is controlled by ArcelorMittal Holdings AG, which effectively owns 69% (June 2019: 69%) of the group's shares. At 30 June 2020, the outstanding ArcelorMittal Holdings AG subordinated loan amounted to R4 208 million (2019: R2 700 million). Interest is payable on an amount of R3 178 million at a market-related interest rate. An amount of R149 million (2019: R137 million) was incurred for the six months ended 30 June 2020. No interest is being charged on the remaining loan amount of R1 030 million.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

### 18. Fair value measurements

| In millions of Rands | 30 June 2020 Reviewed | Restated 30 June 2019 | Restated 31 December 2019 | Fair Value hierarchy | Classification |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investment properties | **1 139** | 1008 | 1 080 | Level 3 | FVTPL |
| Hedging instruments designated for hedge accounting | **-** | 220 | 189 | Level 2 | FVTOCI |
| Other forward exchange contracts | **7** | 34 | 4 | Level 2 | FVTPL |
| Equity securities | **9** | 54 | 40 | Level 1 | FVTOCI |
| Equity securities | **348** | 348 | 348 | Level 1 | FVTPL |
| **Liabilities** | | | | | |
| Hedging instruments designated for hedge accounting | **202** | 6 | - | Level 2 | FVTOCI |
| Other forward exchange contracts | **4** | 1 | - | Level 2 | FVTPL |

FVTPL – Fair value through profit or loss.
FVTOCI – Fair value through other comprehensive income.

Valuation techniques

| | | |
|---|---|---|
| Level 1: Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. | | Observable market data |
| 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 are not based on observable market data (unobservable inputs) | | The valuation policy adopted by management is to revalue investment property externally at financial year-end and internally for interim reporting purposes. The changes in the fair value for the periods from 1 January to 30 June 2019 and 1 January to 30 June 2020 were analysed by management and considered to not being material to the fair values reported as at 31 December 2018 and 31 December 2019. The impact of the COVID-19 pandemic on the fair value of the investment properties are uncertain. Based on the interactions with the tenants over the period since April 2020 to July 2020, no material adjustment or payment plans to the rental contracts had to be made. The investment properties can be divided between industrial sector and residential vacant land sector.<br><br>The fair value of the property in the industrial sector was determined adopting the income capitalisation method or the depreciable replacement cost approach.<br>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 |

| In millions of Rands | 30 June 2020 Reviewed | Restated 30 June 2019 | Restated 31 December 2019 | Fair Value hierarchy | Classification |
|---|---|---|---|---|---|
| | | market-related capitalisation rate to determine the market value estimate.<br>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.<br>The following key assumptions were applied:<br>Expense ratio 35%<br>Vacancy provision 5% - 7,5%<br>Vacancy period 6 months<br>Exit capitalisation rate 13%-15%<br><br>A 2,5% increase or decrease in the vacancy provision will impact the fair value by R16 million. A 1% increase or decrease in the exit capitalisation rate will impact the fair value by R39,4 million.<br><br>The depreciable replacement cost approach is based on the economic theory of substitution and it involves comparing the asset being valued with another.<br><br>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<br>identical or similar assets for which price information is available, such as a comparison with market<br>sales transactions in the same, or closely similar, type of asset within an appropriate time horizon.<br><br>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. | | | |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

### 19. Commitments

| In millions of Rands | Six months ended **30 June 2020 Reviewed** | 30 June 2019 Reviewed |
|---|---|---|
| Capital expenditure authorised and contracted for | **1 066** | 1 102 |
| Capital expenditure authorised but not contracted for | **772** | 1 751 |
| Total | **1 838** | 2 853 |

Included in capital expenditure is an amount of R908 million for equipment to address emissions at Vanderbijlpark operations over the next three years. The installation and construction phase of this project has not yet been approved nor contracted.

### 20. Going concern

Following an already demanding 2019, the first half of 2020 proved to be an incredibly difficult and extraordinary period, the likes of which has never been witnessed in terms of the widespread social and business impact as wrought by the global COVID-19 pandemic.  The impact on economic activity was abrupt and, therefore, the business response needed to be sharp and decisive.

Extraordinary cash management and cost control measures were implemented to ensure liquidity in response to disrupted supply chains.

The unprecedented and rapid shutdown of the Company's assets were affected safely and in a manner that would enable a swift but well controlled restart.

Payment plans have been agreed with customers and suppliers as ArcelorMittal South Africa attempted to keep liquidity flowing in the steel supply chain despite the evaporation of its revenue stream during this time.  It is anticipated that a semblance of normality should return to the payment cycles during the second half of 2020.

2020 remains the year of the 6Cs - cash, cost, customers, collaboration, climate and communication.  They are even more relevant in the context of the pandemic realities.  ArcelorMittal South Africa will be steadfast in making the difficult decisions to give the business a better than good chance of surviving these future-shaping events. Consequently, having reassessed the Company's strategic asset footprint, the following modifications have been implemented until such time as demand begins to recover:

- Vanderbijlpark Works: single blast furnace operation with temporary hot idling of one of five coke batteries.
- Newcastle Works: blast furnace operating at reduced volumes with temporary hot idling of one of three coke batteries.
- Vereeniging Works: from quarter 3, placing of the melting operations under temporary care and maintenance.
- Saldanha Works: successfully in care and maintenance, and progress made on the establishment of a logistics hub using available land and infrastructure.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

With an anticipation that steel demand will remain at best between 70% to 75% of pre-pandemic levels for the foreseeable future, ArcelorMittal South Africa announced a large-scale labour reorganisation in terms of Section 189(3) of the Labour Relations Act 66 of 1995 on 18 June 2020, in response to economic consequences of the pandemic. Although the final outcome and number of positions affected is subject to a formal consultation process, the Company aims to negotiate a multi-faceted and flexible solution in response to the idling of those operations that will remain underutilised for the foreseeable future, while reducing its total cost of employment.

ArcelorMittal South Africa will accelerate the implementation of its *OneOrganisation* single operating model initiative in response to the pandemic in those areas where it is feasible. *OneOrganisation* aims to:

- simplify and de-clutter management mechanisms;
- adopt a common information technology infrastructure for planning, scheduling and production; and
- improve the customer service experience through a more flexible sales and marketing organisation.

At the beginning of 2020, the group announced its increased focus on bringing its property portfolio to book. Consequently, to better reflect the economic benefit represented by the qualifying properties, the carrying amount of these investment properties have been restated from historical cost to fair value.

As at 30 June 2020, the balance of borrowing base facility drawn amounted to R3,1 billion (31 December 2019: R1,15 billion). At the reporting date, the tangible net worth of the company was below the required minimum threshold of the borrowing base facility. Subsequent to 30 June 2020, this was increased to above the minimum threshold level through the capitalisation of the holding company's interest payable and other intercompany balances of R405 million. The group continues to work closely with all lenders to ensure the required facilities remain in place.

ArcelorMittal Holding AG continues to demonstrate its support though its subordinated group loan. This loan remains subordinated for the duration of the borrowing base facility.

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

Shareholders are advised that factors which are outside the control of management have had a significant impact on the business, specifically the market demand, supply chain interruptions and commodity and steel prices. The volatility in the rand/US dollar exchange rate remains an uncontrollable factor that will continue to have an impact on the business.

The unpredictable effects of the COVID-19 pandemic are casting uncertainty over the world and local steel markets. In response, the group has assessed and continues to regularly monitor the following additional steps in considering the impact on the group's operations. These include:

- Assessment of the potential operational disruption and the safeguarding of our assets.
- Considered legal and contractual consequences.
- Assessment of liquidity and working capital requirements to ensure cash preservation.
- Access to cash through the borrowing-based facility which remains in place.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *continued*

Should the cash flows be negatively impacted by these factors, there remains a material uncertainty that may cast significant doubt regarding the ability of ArcelorMittal South Africa to continue as a going concern, without appropriate additional cost containment measures and interventions such as further business transformation focus areas which have been identified to reduce controllable costs even further as well as continued support from the holding company.

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

### 21. Subsequent events

Subsequent to 30 June 2020, the holding company increased its shareholder loan by R405 million as a result of the capitalisation of accrued interest of R229 million and intercompany payables of R176 million. The loan from the holding company is subordinated to the borrowing-base facility. This adjustment to the loan from the holding company is a non-adjusting event and is required as part of the ongoing liquidity and cash management focus of ArcelorMittal South Africa.

The directors are not aware of any other matters or circumstances arising since the end of June 2020 to the date of this report that would significantly affect the operations, the results or financial position of the group.

## 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 whose impact could cause actual results and group 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

**Company secretary**
FluidRock Co Sec (Pty) Ltd appointment with effect 1 March 2020

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

**Non-executive directors**
PM Makwana* (Chairman)
BE Aranhaº
LC Cele*
GS Gouws
NP Gosa
R Karol+
NP Mnxasana*
JRD Modise*
KMM Musonda*^
NF Nicolau*

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

**Executive directors**
HJ Verster (Chief executive officer)
AD Maharaj (Chief financial officer)

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

**Auditors**
Deloitte & Touche
5 Magwa Crescent
Waterfall City, 2090

**Release date**
30 July 2020

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