ArcelorMittal

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

Preliminary reviewed condensed consolidated financial statements for the year ended 31 December 2017

VIEW THESE YEAR-END RESULTS ONLINE

https://www.arcelormittalsa.com/InvestorRelations/AnnualResults.aspx

Salient features

- Revenue increased 19% following a 15% increase in average net steel prices;
- Cash cost per tonne of liquid steel produced increased by 16% following higher input material prices;
- Headline loss down from R2 589 million to R2 518 million;
- Positive EBITDA of R650 million achieved in Q4 2017 – first positive quarter EBITDA since Q3 2016;
- Safeguard duties on hot rolled coil and plate implemented from August 2017, safeguards on cold rolled coil not approved;
- Imports declined by 195 000 tonnes in the year;
- 10% duties on heavy sections approved in August 2017;
- Designation of local steel in the rail sector effective from December 2017;
- B-BBEE status improved from level 4 to level 3;
- Three fatalities at our plants in the first half of this year;
- Higher lost time injury frequency rate of 0.66 from 0.62;
- Apparent steel consumption at its lowest level since 2010 from 5 137kt to 4 801kt;
- Flat steel products' market share increased to 75% while long steel products' market share decreased;
- Volatility in the rand against the US dollar continued to significantly impact the business; and
- Non-cash impairment of property, plant and equipment recognised mainly due to the weakening economic conditions and strengthening of the rand against the US dollar towards the end of Q4 2017.

The analysis below relates to the 12 months ended 31 December 2017 (current year) compared to the 12 months ended 31 December 2016 (prior year).

Overview

In 2017 the group's operating loss increased by R128 million over the prior year, driven primarily by the strengthening of the rand and higher raw material prices. Cost increases were partly offset by a 15% increase in average net realised sales prices and a 4% increase in sales volumes.

Encouragingly, in the fourth quarter the company recorded a substantial EBITDA profit with the long steel products (LSP) division reducing its losses of the first three quarters.

The domestic and export markets in which we operate continued to be constrained with minimal growth in local demand resulting from negligible local investment and infrastructural spend. In the face of subdued economic growth, apparent steel consumption decreased further to its lowest level since 2010.

Throughout 2017 primary steel products continued to flow into South Africa although there was a steady and sustained decrease in the second half of the year. Steel imports for the year amounted to 965 000 tonnes, a decrease of 195 000 tonnes compared to the corresponding period of the prior year. This decline was mainly due to poor economic conditions, merchants' high inventory levels and the imposition of safeguards on hot rolled coil and plate, effective from 11 August 2017.

However, imports of finished goods increased by 3% compared to the previous year. ArcelorMittal South Africa is still heavily involved in initiating trade protection initiatives for the key steel-consuming sectors including the downstream industry.

With effect from 2 December 2017, in order to promote the use of locally produced steel products and components, local steel was designated for permanent railway infrastructure projects by the Department of Trade and Industry (dti). This was the latest designation of local steel by the regulators and followed a similar designation of local steel for public-sector infrastructure, including rolling stock.

International coking coal and iron ore prices increased by 33% and 23% respectively in 2017; iron ore prices rose in Q4 2016 before softening in Q2 2017 but the average cost over the full year remained higher than that of 2016. Imported coking coal prices gradually reduced during 2017 but started to increase towards the end of 2017.

In 2017 flat steel production grew after the company completed a mini-reline at Saldanha Works and successfully overcame the rupture of a blast-furnace stove at Vanderbijlpark Works as well as problems with the quality of key raw materials. Considerable capital was invested to improve the reliability and efficiency of our operations in 2016.

This year the LSP division cut back on production due to a spike in coal prices, compounded by the decrease in scrap prices. This favoured manufacturers which use scrap in their production processes.

Safety remains our number one priority and it is with great regret that we reported three fatalities at our plants in the first half of this year, all contractor employees. In 2017 the lost time injury frequency rate weakened, from 0.62 to 0.66. Saldanha Works and Coke and Chemicals both achieved 365 lost time injury-free days.

A section 189 process was announced on 15 August 2017 to reduce costs and make the company more competitive and sustainable. The consultation process has been concluded and we are in the process of the implementation phase.

Despite the positive progress on safeguards on flat steel products, import duties and the designation of local steel for government infrastructure projects, the company has not yet been able to return to profitability or to generate full-year positive cash flows, due to the low economic growth and ongoing imports flowing throughout the year.

Markets

Global steel demand has shown some improvement in 2017, mainly attributed to the positive market environment in developed countries. The improvements are attributed to robust demand for steelmaking raw materials and improved finished steel prices in key markets such as China, Europe and the USA.

In the USA especially, imports of flat and long steel products decreased in 2017, though imports of pipes and tubes increased strongly, while exports have remained relatively flat. Prices for hot-rolled coil in the USA are in an upward trend after dipping at the start of fourth quarter 2017. As exports from China grew in recent years many countries reacted by imposing tariffs and other protection measures. Specifically, legal action taken by the US Commerce Department, against steel imports from countries such as Russia and China over dumping concerns, have supported the upward price movement. However, in Europe, reflecting the strengthening of the euro against the US dollar, steel prices have been stable since the start of the fourth quarter 2017.

In Africa, steel markets remained positive due to the drive towards infrastructure investments especially in rail, roads and energy projects, notably in the West and East sub-Saharan regions.

Unfortunately, African countries did not respond to the influx of imports in the same way that developed economies did and so have seen a significant dumping of cheap steel imports. As such, traditional export destinations for South African producers were filled by these imports from Asia.

Domestically, the South African economy continued to languish with weak investment performance, and was in a technical recession early in the year (two consecutive quarterly negative economic growth rates). However, towards the end of the year, a slight positive trend emerged in the economic growth pattern, although, the fundamentals such as business confidence remain weak. Of concern for the steel industry remains the poor growth experienced within the key steel market segments of construction and manufacturing.

Loss from operations

Revenue increased by 19% to R39 022 million mainly due to a 15% increase in average net realised steel prices, from R7 282 per tonne to R8 338 per tonne. Total steel sales volume increased by 170 000 tonnes with local sales rising by 1% and export sales by 18%.

Coke and Chemicals' revenue grew by 2% despite a decrease in commercial coke sales of 44%. This drop resulted from scheduled but lengthy repairs to the coke batteries at Vanderbijlpark and Newcastle Works and was partly offset by an 89% increase in the sales prices of commercial coke.

Cash cost per tonne of liquid steel produced increased by approximately 16% from R6 544 to R7 581. The cost of raw materials, mainly iron ore, coal and scrap (which accounted for 50% of total costs), increased by 32%. Consumables and auxiliaries, which represented approximately 28% of costs, rose by 4% and fixed costs per tonne by 3%.

Loss for the year

The loss for the year increased by R422 million to R5 128 million, largely due to a higher impairment charge resulting from the declining economic environment and strengthening in the rand against the US dollar towards the end of Q4 2017. Financing costs rose by R639 million as a result of a higher debt position. The weakened debt position resulted from increased cash requirements – funded mainly through the new borrowing-base facility – and exchange rate losses on financial instruments used for imports, primarily driven by movements of the rand against the US dollar.

An impairment of R2 594 million (2016: R2 143 million) was raised on property, plant and equipment. R1 007 million impairment was for the LSP cash-generating unit and R1 587 million impairment was raised for flat steel products (FSP) cash-generating unit. The additional impairment of R1 996 million raised since H1 2017 is primarily due to the strong exchange rate at year-end.

It is however important to highlight that the impairment recognised does not have a cash flow impact. In fact the performance in the last quarter of 2017 is in line with management's forecast. This reflects a turnaround of R1 billion from Q3 2017 to Q4 2017. Further information regarding the implications of the impairment is set out in notes 10 and 12 in the condensed consolidated financial statements.

Given the ongoing volatility and the current level of the rand against the US dollar, the group has identified various cash-generating initiatives which include *inter alia* procurement savings, stock liquidation, increased operational reliability and efficiencies through best practice benchmarking and sale of non-core assets.

Cash position

The net borrowing position increased from R290 million to R3 262 million mainly due to the funding requirements of business operations and capital expenditure.

Operational

The group's capacity utilisation was 81% compared to 78% the previous year. Liquid steel production for the year was 4.9 million tonnes, an increase of 139 000 tonnes (3%). This was due to a better plant performance at flat steel products (FSP), partly offset by cut-backs in production at LSP.

FSP division's liquid steel production increased by 237 000 tonnes and plant utilisation improved to 82% compared to 77% in 2016. This was mainly due to the rupture of the stove at blast furnace C at Vanderbijlpark Works and the effect of poor iron ore and import coke quality which affected production in the previous year. Production at Saldanha Works increased by 286 000 tonnes after the mini-reline in 2016. LSP division's liquid steel production declined by 98 000 tonnes due to poor market conditions, high input costs and increased competition.

In 2017 the company initiated several initiatives to improve operational efficiencies, increase volumes and/or reduce costs. These initiatives included:

- In terms of a contract with Evraz Highveld Steel which became effective in April 2017, ArcelorMittal South Africa delivered 101 000 tonnes of input material for processing into heavy steel products at Highveld Steel's heavy structural steel mill;
- The N2 battery refurbishment at Newcastle Works was completed in Q3 2017. The refurbishment improved the sustainability of the coke batteries with coke-making capability being restored to 381 000 tonnes per year;
- A 10MW, R138 million, off-gas boiler at Vanderbijlpark Works was commissioned in March 2017. The new boiler increases the electricity self-generation capacity by 40% to a projected total of 70 000MWh per year. This will represent approximately 10% of our total electricity requirement while reducing indirect CO_2 emissions by approximately 71 000 tonnes per annum; and
- In February the ArcelorMittal South Africa Distribution Centre was opened in partnership with Transnet Freight Rail, Barloworld Limited, Grindrod Limited and the Newlyn Group to address historical logistics challenges. The centre enables the rail transport of final product from Newcastle and Saldanha Works to customers in Gauteng, saving significantly on costs related to moving goods by road.

Environmental

The company continues to invest in projects to mitigate environmental impacts and to improve compliance levels. Most environmental expenditure is currently directed at air-emission abatement projects at Vanderbijlpark and Newcastle Works. Newcastle and Vanderbijlpark Works improved their zero-effluent discharge performance during 2017, thus reducing their potential impact on the environment.

Corporate and social

In 2017 a number of actions, which are likely to have profound impacts on communities, were undertaken.

- Enterprise, supplier development and preferential procurement highlights include:
  - A total of 21 vendors benefited from ArcelorMittal South Africa's supplier development programme. Altogether 11 of these vendors are now in their second year of incubation with collective spend on the programme increasing by R71 million (109%) compared to the previous year;
  - The Matlafatso Incubation Hub, the only one of its kind in the South African steel sector, was launched in Vanderbijlpark. The R30 million facility, which is co-funded by the dti, reflects the company's commitment to transform the steel and manufacturing sectors and investing in the growth of black entrepreneurs. In total 11 companies were placed in the incubation hub and the company spent R6.5 million securing goods and services from them. Further investment of R15 million, with the dti, is planned over the next two years;
  - The third phase of a industrial business park in Vanderbijlpark was in progress at year-end, while the first phase of the Newcastle business park had been concluded. The aim of these initiatives is to assist entrepreneurs with access to office infrastructure and support systems. These premises are being constructed and refurbished by local B-BBEE construction companies.

- Socio-economic development:
  - ArcelorMittal South Africa Science Centres participated in various events reaching over 40 000 people through outreach and awareness programmes. Four out of nine people selected from South Africa's 35 science centres to attend the 2017 Science Centre World Summit in Japan in November were the company funded science centre employees.

Other matters

The proposed carbon tax on which the final draft bill was published on 14 December 2017, remains a concern. The tax will have a significant financial impact on the company and the desired outcome of the tax – to effect behavioural change – cannot be achieved in our sector as no alternative methodologies exist for the production of steel without emissions.

Changes to the board of directors and company secretary

- Mr LP Mondi retired as non-executive director with effect from 24 May 2017 in terms of the rotation requirements and following serving the board for 10 years;
- Ms KMM Musonda was appointed as independent non-executive director with effect from 12 June 2017;
- Dr DG Clarke resigned as non-executive director with effect from 1 November 2017;
- Mr GS Gouws was appointed as non-executive director with effect from 1 November 2017;
- Mr WA de Klerk resigned as executive director and chief executive officer and will be replaced by Mr HJ Verster, with effect from 1 February 2018.

Ms NB Bam resigned as company secretary with effect from 1 November 2017 and Premium Corporate Consulting Services Proprietary Limited was appointed as the interim company secretary with effect from 26 January 2018.

Dividends

The company continues to make losses and, while we acknowledge the valuable contributions of our shareholders, ArcelorMittal South Africa is not in a position to declare dividends. No dividends were declared for the year ended 31 December 2017.

Outlook

In 2018 domestic steel demand is likely to remain constrained due to low economic growth and a lack of infrastructural spend. However, the optimistic view of steel pricing globally, especially China, USA and Europe, will flow through to South African pricing as well. As such, export sales are also projected to increase marginally. The FSP division should see higher local sales due to both the volume effect of safeguards on hot rolled coil and plate and the strong global prices.

The performance of the group will continue to be affected by the volatility in the rand/US dollar exchange rate, which will continue to have a material impact on our financial results. However, on the plus side, steel prices in international markets are expected to stay strong in 2018, continuing the trend seen in the second half of 2017. This is largely a result of Chinese production cuts to comply with environmental regulations and the Chinese government driving towards a sustainable domestic steel industry. The consequent reduction in Chinese export tonnages, down over 30% in 2017, is supportive of global steel prices in general.

On behalf of the board of directors

WA de Klerk
Chief executive officer

D Subramanian
Chief financial officer

28 January 2018

Key statistics

	Year ended	
	31 December 2017	31 December 2016
Unreviewed/unaudited information		
Operational		
Liquid steel production	**4 910**	4 771
Total steel sales (000 tonnes)	**4 257**	4 087
Local steel sales (000 tonnes)	**3 302**	3 275
Export steel sales (000 tonnes)	**995**	812
Capacity utilisation (%)	**81**	78
Commercial coke sales (000 tonnes)	**181**	324
Average net realised price (R/t)	**8 338**	7 282
Safety		
Lost time injury frequency rate	**0.66**	0.62
Reviewed/audited information		
Financial		
Revenue (R million)	**39 022**	32 737
Loss from operations (R million)	**(1 220)**	(1 092)
Net loss (R million)	**(5 128)**	(4 706)
Loss per share (cents)	**(469)**	(443)
Headline loss (R million)	**(2 518)**	(2 589)
Headline loss per share (cents)	**(230)**	(244)
Net borrowings (R million)	**(3 262)**	(290)
Ratios		
Return on ordinary shareholders' equity per annum:		
– Attributable earnings (%)	**(47.5)**	(34.8)
– Headline earnings (%)	**(23.3)**	(19.2)
– Net cash to equity (%)	**(40.5)**	(2.1)
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**	1 062 364
– diluted weighted average number of shares	**1 093 510**	1 062 364
Share price (closing) (Rand)	**3.87**	11.50
Market capitalisation (R million)	**4 404**	13 088
Net asset value per share (Rand)	**7.37**	12.39

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

In millions of rand	Year ended 31 December 2017 Reviewed	Year ended 31 December 2016 Audited
Loss from operations	**(1 220)**	(1 092)
Adjusted for:		
– Depreciation	**953**	1 030
– Amortisation of intangible assets	**23**	25
– Thabazimbi mine closure costs	**(41)**	275
– Competition Commission settlement	**(30)**	(30)
– Unclaimed dividends		(37)
– Derecognised payment in advance		19
EBITDA	**(315)**	190

Independent auditor's review report on condensed consolidated 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 preliminary report, which comprise the condensed consolidated statement of financial position as at 31 December 2017 and the condensed consolidated statements of comprehensive income and other comprehensive income, changes in equity and cash flows for the year then ended, and selected explanatory notes.

Directors' responsibility for the condensed consolidated financial statements

The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, as set out in note 2 to the financial statements, 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 financial statements that are free from material misstatement, whether due to fraud or error.

The Listings Requirements require condensed consolidated financial statements contained in a preliminary report to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

Auditor's responsibility

Our responsibility is to express a conclusion on these financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, which applies to a review of historical 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 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 financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries 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 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 condensed consolidated financial statements of ArcelorMittal South Africa Limited for the year ended 31 December 2017 are not prepared, in all material respects, in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, as set out in note 2 to the financial statements, and the requirements of the Companies Act of South Africa.

Material uncertainty related to going concern

We draw attention to note 12 in the condensed consolidated financial statements which indicates that the group incurred a net loss of R5 128 million (2016: R4 706 million) for the year ended 31 December 2017. Note 12 also indicates that these conditions, along with other matters, indicate the existence of a material uncertainty which 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
Registered Auditor

Per: Mandisi Mantyi
Partner
31 January 2018

National Executive: LL Bam Chief Executive*, TMM Jordan Deputy Chief Executive Officer: Clients & Industries*, MJ Jarvis Chief Operating Officer*, AF Mackie Audit & Assurance*, N Sing Risk Advisory*, NB Kader Tax*, TP Pillay Consulting, S Gwala BPS, JK Mazzocco Talent & Transformation*, MG Dicks Risk Independence & Legal, TJ Brown Chairman of the Board*

*Partner and registered auditor

A full list of partners and directors is available on request.
B-BBEE rating: Level 1 contributor in terms of DTI Generic Scorecard as per the amended Codes of Good Practice
Associate of Deloitte Africa, a member of Deloitte Touche Tohmatsu Limited

Condensed consolidated statement of comprehensive income and other comprehensive income

In millions of rand	Year ended 31 December 2017 Reviewed	31 December 2016 Audited
Revenue	**39 022**	32 737
Raw materials and consumables used	**(24 763)**	(19 454)
Employee costs	**(4 164)**	(4 175)
Energy	**(4 233)**	(3 981)
Movement in inventories of finished goods and work in progress	**346**	973
Depreciation	**(953)**	(1 030)
Amortisation of intangible assets	**(23)**	(25)
Other operating expenses	**(6 452)**	(6 137)
Loss from operations	**(1 220)**	(1 092)
B-BBEE charges		(870)
Impairment of other assets	**(10)**	(11)
Impairment of property, plant and equipment and intangible assets	**(2 594)**	(2 143)
Finance and investment income	**74**	176
Finance costs	**(1 515)**	(876)
Income from equity accounted investments (net of tax)	**139**	129
Loss before tax	**(5 126)**	(4 687)
Income tax expense	**(2)**	(19)
Loss for the year	**(5 128)**	(4 706)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(392)**	(618)
Gains on available-for-sale investment taken to equity	**(25)**	1
Share of other comprehensive income of equity accounted investments	**2**	63
Total comprehensive loss for the year	**(5 543)**	(5 260)
Loss attributable to:		
Owners of the company	**(5 128)**	(4 706)
Total comprehensive loss attributable to:		
Owners of the company	**(5 543)**	(5 260)
Attributable loss per share (cents)		
– Basic	**(469)**	(443)
– Diluted	**(469)**	(443)

Condensed consolidated statement of financial position

In millions of rand	As at 31 December 2017 Reviewed	As at 31 December 2016 Audited
ASSETS		
Non-current assets	**13 065**	15 834
Property, plant and equipment	8 474	10 670
Intangible assets	82	103
Equity-accounted investments	4 424	4 667
Non-current receivable	30	
Other financial assets	55	394
Current assets	**18 131**	14 812
Inventories	11 519	11 274
Trade and other receivables	2 988	1 774
Taxation asset	58	58
Other financial assets	428	46
Cash and bank balances	3 138	1 660
Total assets	**31 196**	30 646
Equity and liabilities		
Shareholders' equity	**8 058**	13 543
Stated capital	4 537	4 537
Non-distributable reserves	363	581
Retained income	3 158	8 425
Non-current liabilities	**5 792**	3 330
Other payables	399	311
Borrowings	2 700	
Finance lease obligations	54	124
Other financial liabilities	813	1 023
Non-current provisions	1 826	1 872
Current liabilities	**17 346**	13 773
Trade payables	11 300	10 053
Borrowings	3 700	1 950
Finance lease obligations	70	70
Current provisions	304	301
Other payables	984	878
Taxation payable	82	
Other financial liabilities	906	521
Total equity and liabilities	**31 196**	30 646

Condensed consolidated statement of cash flows

In millions of rand	Year ended 31 December 2017 Reviewed	Year ended 31 December 2016 Audited
Cash (outflow)/inflow from operating activities	**(1 518)**	90
Cash (utilised in)/generated from operations	**(712)**	873
Interest income	**65**	67
Finance cost	**(741)**	(525)
Transaction cost on B-BBEE shares		(55)
Transaction costs on borrowing base facility	**(61)**	
Income tax received/(paid)	**80**	(2)
Realised foreign exchange movement	**(210)**	(268)
Cash outflows from investing activities	**(1 313)**	(1 945)
Investment to maintain operations	**(1 002)**	(1 673)
Investment to expand operations	**(322)**	(335)
Investment in associates and joint ventures	**(11)**	(11)
Proceeds on disposal or scrapping of assets	**13**	67
Interest income from investments	**9**	7
Cash inflows from financing activities	**4 310**	1 359
Borrowings raised/(repaid)	**4 450**	(3 079)
Finance lease obligation repaid	**(70)**	(62)
Cash settlement on management share trust	**(9)**	
Transaction costs on borrowing base facility	**(61)**	
Proceeds from rights issue/issue of share capital		4 500
Increase/(decrease) in cash and cash equivalents	**1 479**	(496)
Effect of foreign exchange rate changes on cash and cash equivalents	**(1)**	(8)
Cash and cash equivalents at beginning of the year	**1 660**	2 164
Cash and cash equivalents at end of the year	**3 138**	1 660

Condensed consolidated statement of changes in equity

In millions of rand	Stated capital	Treasury share equity reserve	Other reserves	Retained earnings	Total
Balance as at 31 December 2015 (Audited)	37	(3 918)	4 093	13 260	13 472
Balance as at 1 January 2016	37	(3 918)	4 093	13 260	13 472
Total comprehensive loss			(554)	(4 706)	(5 260)
Rights issue	4 500				4 500
Cash settlement on management share trust/long-term incentive plan			(32)		(32)
Share-based payment expense			63		63
B-BBEE charge			800		800
Transfer of equity-accounted earnings			129	(129)	
Balance as at 31 December 2016 (Audited)	4 537	(3 918)	4 499	8 425	13 543
Balance as at 1 January 2017	4 537	(3 918)	4 499	8 425	13 543
Total comprehensive loss			(415)	(5 128)	(5 543)
Cash settlement on management share trust/long-term incentive plan			(9)		(9)
Share-based payment expense			67		67
Transfer of equity-accounted earnings			139	(139)	
Balance as at 31 December 2017 (Reviewed)	**4 537**	**(3 918)**	**4 281**	**3 158**	**8 058**

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 year ended 31 December 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 preliminary 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 framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. It also contains, at a minimum, the information required by IAS 34 *Interim Financial Reporting*.

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

3. Accounting policies

The accounting policies and methods of computation applied in the presentation of the condensed consolidated financial statements of the group are consistent with those applied for the year ended 31 December 2016. There were no new or revised accounting standards adopted that could have a material impact on the condensed consolidated financial statements.

4. Segment report

Flat steel products

	Year ended	
In millions of rand	**31 December 2017 Reviewed**	31 December 2016 Audited
Revenue (R million)	**27 795**	21 641
– External	**27 226**	21 144
– Internal	**569**	497
EBITDA (R million) (unreviewed/unaudited)	**264**	(392)
EBITDA margin (%)(unreviewed/unaudited)	**0.9**	(1.8)
Average net realised price (R/t) (unreviewed/unaudited)	**8 581**	7 344
Depreciation and amortisation (R million)	**(570)**	(656)
Loss from operations (R million)	**(211)**	(1 242)
Unreviewed/unaudited information		
Liquid steel production (000 tonnes)	**3 458**	3 221
Steel sales (000 tonnes)	**2 995**	2 736
– Local	**2 352**	2 097
– Export	**643**	639
Capacity utilisation (%)	**82**	77

4. Segment report continued

Long steel products

In millions of rand	Year ended 31 December 2017 Reviewed	31 December 2016 Audited
Revenue (R million)	11 791	10 609
– External	10 444	10 280
– Internal	1 347	329
EBITDA (R million) (unreviewed/unaudited)	(945)	286
EBITDA margin (%) (unreviewed/unaudited)	(8.0)	2.7
Average net realised price (R/t) (unreviewed/unaudited)	7 760	7 154
Depreciation and amortisation (R million)	(383)	(390)
Loss from operations (R million)	(1 284)	(185)
Unreviewed/unaudited information		
Liquid steel production (000 tonnes)	1 452	1 550
Steel sales (000 tonnes)	1 262	1 351
– Local	950	1 178
– Export	312	173
Capacity utilisation (%)	76	81

4. Segment report continued

Coke and Chemicals

	Year ended	
In millions of rand	**31 December 2017 Reviewed**	31 December 2016 Audited
Revenue (R million)	**1 404**	1 374
– External	**1 352**	1 313
– Internal	**52**	61
EBITDA (R million) (unreviewed/unaudited)	**365**	172
EBITDA margin (%) (unreviewed/unaudited)	**26.0**	12.5
Depreciation and amortisation (R million)	**(48)**	(35)
Profit from operations (R million)	**317**	137
Unreviewed/unaudited information		
Commercial coke produced (000 tonnes)	**190**	251
Commercial coke sales (000 tonnes)	**181**	324
Tar sales (000 tonnes)	**82**	75

Corporate and other

	Year ended	
In millions of rand	**31 December 2017 Reviewed**	31 December 2016 Audited
EBITDA (R million) (unreviewed/unaudited)	**1**	124
Depreciation and amortisation credit (R million)	**25**	26
(Loss)/profit from operations (R million)	**(42)**	198

5. Finance cost

In millions of rand	Year ended 31 December 2017 Reviewed	31 December 2016 Audited
Interest expense on bank overdrafts and loans	870	493
Interest expense on finance lease obligations	24	32
Net foreign exchange losses on financing activities	218	35
Discount rate adjustment of the non-current provisions	215	
Unwinding of discounting effect on non-current provisions	188	316
Total	**1 515**	876

6. Related party transactions

The group is controlled by ArcelorMittal Holdings AG, which effectively owns 69% (December 2016: 69%) of the group's shares. At 31 December 2017, the outstanding ArcelorMittal Holdings AG loan amounted to R2 700 million (2016: R1 200 million). Interest is payable at the South African prime lending rate and an amount of R281 million (2016: R98 million) was incurred for the year ended 31 December 2017.

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

7. 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 In millions of rand	Fair values as at period ended 31 December 2017 Reviewed	31 December 2016 Audited	Fair value hierarchy	Valuation techniques and key inputs
Available-for-sale	55	79	Level 1	Quoted prices in an active market
Held-for-trading assets	428	46	Level 1	Quoted prices in an active market
Held-for-trading liabilities	906	521	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.

8. Taxation

The effective tax rate of 0% (compared to the statutory tax rate of 28%) for the year ended 31 December 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.

9. Restricted cash, ceded cash and security

At 31 December 2017, ArcelorMittal South Africa had restricted cash of R1 386 million (2016: R161 million). This consists of R794 million (2016: R0 million) regarding the True Sales Receivables (TSR) facility and R592 million (2016: R161 million) for the environmental rehabilitation obligations.

Eligible inventories and receivables are provided as securities for the borrowing base facility to the extent of the drawdown. At 31 December 2017 R3 700 million was drawn down on the borrowing base facility and R800 million was still available.

Bank accounts of R1 014 million were ceded in favour of the borrowing base facility and TSR facilities.

10. Property, plant and equipment

An impairment test was performed on all cash-generating units of the group. 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.

In terms of this standard, the spot rate as at the 31 December 2017 needs to be used in translating the present value of foreign currency future cash flows as opposed to an average or projected rate. Therefore a significant movement in the exchange rate at a point in time may have a material impact on the impairment assessment and ultimately determine whether impairment is recognised or not. The spot rate as at 31 December 2017 was R12.40 against the US dollar resulting in an additional impairment of R1 996 million. The total impairment for the year is therefore R2 594 million on property, plant and equipment (2016: R2 143 million).

The result of the impairment assessment was that the long steel products' and flat steel products' cash-generating units were impaired by R2 594 million.

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 USD based. The proposed carbon tax has not been taken into account in the cash flow projections when determining the recoverable amount. To determine the terminal value, the Gordon growth model was used, and year five was taken into perpetuity.

10. Property, plant and equipment continued

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

Vanderbijlpark

Major assumptions	31 December 2017 Reviewed	31 December 2016 Audited
WACC (%) (USD dominated)	11.14	12.38
Growth rate (%) (USD dominated)	2	2
Exchange rate (R/USD)	13.05 to 14.40	14.68 to 15.78
Steel sales prices (USD/tonnes)	624 to 729	616 to 639
Sales volumes (tonnes)	2 169 to 2 550	2 235 to 2 621
Capex (USD)	346	426

Saldanha

Major assumptions	31 December 2017 Reviewed	31 December 2016 Audited
WACC (%) (USD dominated)	11.14	12.38
Growth rate (%) (USD dominated)	2	2
Exchange rate (R/USD)	13.05 to 14.40	14.68 to 15.78
Steel sales prices (USD/tonnes)	463 to 545	445 to 480
Sales volumes (tonnes)	956 to 1 180	1 106
Capex (USD)	116	106

Long steel products (Newcastle and Vereeniging)

Major assumptions	31 December 2017 Reviewed	31 December 2016 Audited
WACC (%) (USD dominated)	11.14	12.38
Growth rate (%) (USD dominated)	2	2
Exchange rate (R/USD)	13.05 to 14.40	14.68 to 15.78
Steel sales prices (USD/tonnes)	571 to 654	548 to 593
Sales volumes (tonnes)	1 511 to 1 744	1 483 to 1 573
Capex (USD)	94	179

11. Thabazimbi mine acquisition

On 23 October 2017, the board approved the take-over of the Thabazimbi mine from Sishen Iron Ore Company (Pty) Ltd at a price of R1 subject to section 11 approval by the Department of Mineral Resources and a positive taxation ruling by SARS, which we expect during the first quarter of 2018.

12. Going concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the group will continue operating as a going concern for the foreseeable future, ie being solvent and liquid.

The financial performance of the group is dependent upon the wider-economic environment in which the group operates. Factors which are outside the control of management can have a significant impact on the business, specifically, volatility in the rand/US dollar exchange rate as well as commodity and steel prices.

Despite the cost-saving initiatives and the initiatives to improve cash flows and operational efficiencies, undertaken by the group over the last 12 months, the declining economic environment has put the group's cash flows and profitability under pressure. The group incurred a net loss of R5 128 million (2016: R4 706 million). The directors have determined that the group needs to take further decisive measures to improve its ability to operate in the current economic environment and to enable the group to benefit from any recovery in steel prices in the medium to long term.

The directors have prepared cash flow forecasts for a period of 12 months post the year-end date. Various scenarios have been considered to test the group's resilience to changes such as the movement in the rand against the US dollar, commodity prices and steel prices.

For the next 12 months, due to the implementation of safeguards on hot rolled coil and plate, import duties and designation of local steel, ArcelorMittal South Africa expects local sales volumes to increase. The export market, however, is expected to remain flat over the same period. International steel prices increased in the fourth quarter of 2017 and they are expected to remain at those levels for the next 12 months.

The borrowing base facility (BBF) available to the group is subject to financial covenants which include a minimum level of the consolidated tangible net worth of the group being R12 108 million. Subsequent to year end, a covenant holiday was agreed with the lenders that the testing and satisfaction of the consolidated tangible net worth covenant will not be performed until May 2018. We have now determined that as a result of the impairment the group would not have been able to satisfy the consolidated tangible net worth covenant, had it been tested.

The next testing of the covenant will be at 30 June 2018. During this period, we intend to re-negotiate the levels of the covenant with the lenders.

In the event that the re-negotiations do not yield a positive result, the group has sufficient initiatives in place, and in particular, a letter of support by ArcelorMittal AG, subject to a maximum of R1 500 million, to make good the current short-fall in satisfying the covenant.

12. Going concern continued

It is however important to highlight that the impairment recognised does not have a cash flow impact. In fact the performance in the last quarter of 2017 is in line with management's forecast. This reflects a turnaround of R1 billion from Q3 2017 to Q4 2017. In addition, additional cost savings have been identified and the budget and forecasts for 2018 show an improvement relative to past trends. These cash-generating initiatives comprise procurement savings, inventory liquidation, increased operational reliability and efficiency initiatives through best practice benchmarking and sale of non-core assets.

Based on the group's 12-month funding plan, continued support from the holding company ArcelorMittal Holdings AG as set out above and cash-generating 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 therefore will remain a going concern.

Shareholders are advised that the ability of the group to generate positive cash flows will be impacted by the exchange rate, steel prices and the success of the identified cost savings. Should the cash flows be negatively impacted by the above, there remains a material uncertainty regarding the ability of ArcelorMittal South Africa Limited to continue as a going concern, without appropriate intervention.

13. Headline losses

	Year ended	
In millions of rand	**31 December 2017 Reviewed**	31 December 2016 Audited
Loss for the period	**(5 128)**	(4 706)
Adjusted for:		
– Impairment charge	**2 604**	2 154
– Loss/(profit) on disposal or scrapping of assets	**8**	(51)
– Tax effect	**(2)**	14
Headline loss for the period	**(2 518)**	(2 589)
Headline loss per share (cents)		
– Basic	**(230)**	(244)
– Diluted	**(230)**	(244)

14. Commitments

	Year ended	
In millions of rand	**31 December 2017 Reviewed**	31 December 2016 Audited
Commitments	**3 614**	4 116

15. Subsequent events

Apart from the covenant holiday obtained as detailed in note 12, the directors are not aware of any matter or circumstances arising since the end of December 2017 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 which could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward looking statements (or from past results). Any reference to future financial performance included in this announcement has not been reviewed or reported on by the group's auditors.

Corporate information

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

Directors

Non-executive directors

PM Makwana* (chairman), HMA Blaffart°, LC Cele*, GS Gouws, NP Gosa, RK Kothari+, NP Mnxasana*, JRD Modise*, KMM Musonda*^, NF Nicolau*

°Citizen of Belgium +Citizen of India ^Citizen of Zambia *Independent non-executive

Executive directors

WA de Klerk (chief executive officer), D Subramanian (chief financial officer)

Interim company secretary

Premium Corporate Consulting Services Proprietary Limited

Sponsor

Absa Bank Limited (acting through its corporate and investment banking division), 15 Alice Lane, Sandton, 2196. Private Bag X10056, Sandton, 2146

Release date: 31 January 2018

ArcelorMittal South Africa Limited

Registration number: 1989/002164/06

Share code: ACL ISIN: ZAE 000134961

(ArcelorMittal South Africa, the company or the group)

ArcelorMittal

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