ArcelorMittal

Audited Annual Financial Statements 2016

Together

creating value for all

Contents

Feedback

We value feedback from our stakeholders and use it to ensure that we are reporting appropriately on the issues that are most relevant to them.

Please take the time to give us your feedback on this report.

Visit the web link: **www.arcelormittalsa.com/investorrelations/emailus.aspx**

Directors' responsibility and approval of the group and company annual financial statements

To the shareholders of ArcelorMittal South Africa Ltd

The board of directors (directors) is required to maintain adequate accounting records and is responsible for the content and integrity of the group and company annual financial statements (annual financial statements) and related financial information included in this report. It is their responsibility to ensure that the annual financial statements, comprising the statements of financial position as at 31 December 2016, the statements of comprehensive income, cash flows, changes in equity for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, are prepared in accordance with International Financial Reporting Standards, the requirements of the Companies Act No 71 of 2008 (Companies Act) and JSE Listings Requirements. In addition, the directors are responsible for preparing the directors' report. The annual financial statements and directors' report have been prepared by the finance staff of ArcelorMittal South Africa Ltd headed and supervised by D Subramanian, the group's chief financial officer CA(SA).

In order for the directors to discharge their responsibilities, management has developed and continues to maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. The directors, primarily through the audit and risk committee, which consists of independent non-executive directors, meet periodically with the external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The group's internal auditors independently evaluate the internal controls. The external auditors are responsible for reporting on the financial statements. The external and internal auditors have unrestricted access to all records, property and personnel as well as to the audit and risk committee. The directors are not aware of any material breakdown in the functioning of these controls and systems during the period under review.

The directors are of the opinion, based on the information and explanations given by management and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the group and company annual financial statements. However, any system of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

The directors have reviewed the group and company's financial budgets for the year to 31 December 2017. In light of their review of the current financial position and existing borrowing facilities, they consider it appropriate that the annual financial statements continue to be prepared on the going concern basis. Refer to note 36 for further details.

The financial statements for the year ended 31 December 2016 have been audited by Deloitte & Touche, the company's independent external auditors, whose report can be found on page 7.

The directors of the company accept responsibility for the annual financial statements which were approved by the board of directors on 27 February 2017 and are signed on its behalf by:

W de Klerk
Chief executive officer

D Subramanian
Chief financial officer

Certificate by company secretary

In terms of section 88(2)(e) of the Companies Act, I certify that, to the best of my knowledge and belief, the company has, in respect of the financial year reported upon, lodged with the Companies Intellectual Property Commission all returns and notices required of a public company and that all such returns are true, correct and up to date.

Nomonde Bam
Company secretary
27 February 2017

Directors' report

The directors have pleasure in submitting their report together with ArcelorMittal South Africa Ltd's annual financial statements for the year ended 31 December 2016.

Nature of business

ArcelorMittal South Africa Ltd and its subsidiaries (together, the group) manufacture and sell long and flat steel products and beneficiated by-products. The group's operations are primarily concentrated in South Africa with sales focus domestically and internationally, with specific emphasis on sub-Saharan Africa.

The company is a public company incorporated and domiciled in South Africa. The address of the registered office is detailed on the inside back cover of this report.

The company is listed on the main board of the JSE Ltd in Johannesburg, South Africa, and is a subsidiary of ArcelorMittal Holdings AG, which is part of the ArcelorMittal group, and the functional and reporting currency is the South African rand (ZAR).

Financial results and activities

The contents of the annual financial statements adequately address the financial performance of the group for the financial year ended 31 December 2016.

Further detailed reports on the activities and performance of the group and the various segments of the group are contained in the integrated annual report.

At 31 December 2016 the group had a net asset value per share of 1 239 cents (2015: 3 358 cents). The net asset value per share was calculated using a net asset value of R13 543 million (2015: R13 472 million).

Refer to note 10 of the annual financial statements for information on loss and headline loss per share.

Dividends

Consistent with the group's dividend policy, no dividends were declared for the 2016 and 2015 financial years.

Property, plant and equipment

Details of capital expenditure are provided in note 26 and in the statements of cash flows.

Authorised and issued share capital

Details of the authorised and issued share capital are set out in note 20 of the annual financial statements.

Shareholders

ArcelorMittal Holdings AG, as controlling shareholder, held 53.05% (2015: 46.8%) of the shares in issue and had an effective shareholding of 69.2% (2015: 52.02% prior to the rights issue which took place in January 2016). Details of the registered and beneficial shareholders of the company are set out in the integrated annual report. Details of beneficial shareholders in excess of 3% are disclosed in note 20.

Directors' interests

The details of the beneficial direct and indirect interests of executive directors in the shares of the company are set out in note 32 of these annual financial statements.

Details of the direct and indirect interests of non-executive directors in the shares of the company are set out below:

	2016			2015		
Director	**Direct**	**Indirect**	**Total**	Direct	Indirect	Total
DCG Murray*	–	14 667	14 667	–	5 557	5 557
JRD Modise	5 025	–	5 025	5 025	–	5 025
NP Gosa**	–	97 296 110	97 296 110	–	–	–
Total	**5 025**	**97 310 777**	**97 315 802**	5 025	5 557	10 582

** DCG Murray has retired as a director.*
*** Interest via Likamva Resources.*

Directors' report continued

No other director holds any direct or indirect beneficial interest in the share capital of the company since the end of the financial year ended 31 December 2016.

Nomavuso Mnxasana, a non-executive director of the ArcelorMittal South Africa group, made a declaration of interest regarding the relationship between Noma Namuhla Trading and Projects Proprietary Ltd, a company owned by Nomavuso Mnxasana, and ArcelorMittal South Africa. In terms of the arrangement, Noma Namuhla Trading and Projects Proprietary Ltd will participate in ArcelorMittal South Africa's enterprise and supplier development initiatives. ArcelorMittal South Africa, under its enterprise development programme, provided quality system development support, to the value of R12 500, to Noma Namuhla Trading and Projects Proprietary Ltd and, as a consequence, will be permitted to tender and potentially supply products and services to ArcelorMittal South Africa. Further to this, Noma Namuhla Trading and Projects Proprietary Ltd qualified for an interest-free loan under the terms of the supplier development initiative. Noma Namuhla Trading and Projects Proprietary Ltd has since applied for a loan of R350 000 which was granted at the end of the year.

Investments in joint ventures, associates and subsidiaries

The financial information in respect of interests in jointly controlled entities, associates and subsidiaries of the company is disclosed in notes 14 and 15 of the annual financial statements.

Borrowing powers

In terms of clause 34 of the Memorandum of Incorporation, the borrowing powers of the company and its subsidiaries are subject to any limitations imposed by the directors on the borrowing powers of the company.

Directorate

The names of the directors who presently hold office and served on the various committees of the board are set out in the integrated annual report.

The following changes in directorate have taken place:

- LC Cele was appointed as a non-executive director effective 4 January 2016.
- P O'Flaherty announced his resignation as chief executive officer (CEO) effective 4 February 2016. He was subsequently appointed as a non-executive director on 1 March and subsequently resigned as a non-executive director on 20 July 2016.
- DCG Murray retired as a non-executive director effective 25 May 2016.
- WA de Klerk was appointed as CEO and executive director of the company with effect from 1 July 2016.
- D Chugh and M Vereecke both resigned as non-executive directors with effect from 15 July 2016.
- H Blaffart and D Clarke were appointed as non-executive directors to the ArcelorMittal South Africa board with effect from 19 July 2016.
- NP Gosa was appointed as a non-executive director with effect from 1 December 2016. She has an interest in Likamva Resources and was nominated for appointment by Likamva Resources in accordance with the terms of the broad-based black economic empowerment (B-BBEE) transaction agreements.

Retirement by rotation

In terms of clause 27 of the Memorandum of Incorporation, the following directors are required to retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting:

- PM Makwana
- RK Kothari
- NF Nicolau
- LC Cele

Shareholders will be requested to confirm the following directors' appointment as directors at the forthcoming annual general meeting:

- WA de Klerk
- H Blaffart
- D Clarke
- NP Gosa

Directors' report continued

Going concern

Due to the strengthening of the rand/US dollar exchange rate, weak local market demand and influx of cheap imports into the country, ArcelorMittal South Africa Ltd expects sales volumes to remain flat for the next 12 months, which will be mitigated by import substitution and new products, namely heavy structural products from Evraz Highveld. Export markets are likely to be more resilient, namely Africa Overland; however, authoritative projections being that Africa will experience demand growth in the order of 4%.

While the group continues to benefit from the full support of ArcelorMittal Holdings AG, ArcelorMittal South Africa Ltd has invested in various initiatives to return the company to profitability. These initiatives include improvement in capital expenditure projects, restructuring the balance sheet by converting short-term borrowing facilities to medium-term debt and new products and markets.

Based on the group's 12-month funding plan, a letter of support from ArcelorMittal Holdings AG and the initiatives detailed above, 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. The group would like to re-emphasise that the local steel industry continues to be threatened by imports entering the market, primarily from China, hence safeguard measures are important despite the positive progress on designation initiatives to date. Shareholders are cautioned that certain management initiatives as well as other government initiatives, including the fair pricing mechanism, safeguards, and designation are key to ensure the sustainability of the group, and should these initiatives not materialise in improved sales growth in the next 12 months, there remains a material uncertainty regarding the ability of ArcelorMittal South Africa Ltd and the local steel industry to continue operating without significant structural changes.

Independent auditors

Deloitte & Touche continued in office as auditors of the group. At the forthcoming annual general meeting to be held on 24 May 2017, shareholders will be requested to reappoint Deloitte & Touche as the independent auditors of the group and the appointment of M Mantyi as the individual designated auditor who will undertake the audit of the company for the ensuing year, terminating at the conclusion of the next annual general meeting of the company.

Litigation

During the year, an agreement was reached with the Competition Commission and was later accepted by the Competition Tribunal, regarding all outstanding competition matters. In accordance with the settlement agreement, an administrative penalty of R1 500 million is payable in equal instalments over the next five years. ArcelorMittal South Africa also committed to an earnings before interest and tax (ebit) cap of 10% on flat products and R4 600 million on capital expenditure for the next five years, subject to certain conditions.

Other details on litigation and claims are detailed in note 33 of the annual financial statements.

Subsequent events

The directors are not aware of any matter or circumstances arising since the end of the financial year to the date of this report, not otherwise dealt with in this report or in the annual financial statements that would significantly affect the operations, the results and the financial position of the group and company.

Audit and risk committee report

The audit and risk committee (the committee) has pleasure in submitting its report to the shareholders as required in terms of section 94(7) of the Companies Act No 71 of 2008.

Membership of the committee

The committee comprised the following members at the date of this report:
- JRD Modise (chairman)
- LC Cele
- NP Mnxasana

Each member is an independent director and has the adequate relevant knowledge, the financial expertise and experience to equip the committee to properly execute its duties and responsibilities.

The experience and qualifications of the members are set out in the integrated annual report.

DCG Murray retired effective 25 May 2016 and JRD Modise was elected chairperson at the annual general meeting (AGM) by the company's shareholders.

Functions of the committee

During the year under review, six meetings were held. Details of attendance are set out in the corporate governance section of the integrated annual report.

The committee reports that it has adopted appropriate formal terms of reference as its mandate, and has regulated its affairs in compliance with this mandate, and has discharged all of the responsibilities set out therein. During the financial year under review, the committee reviewed the following matters:
- The quarterly and half-yearly financial reports, the integrated annual report, the annual financial statements and accounting policies for the company and all subsidiaries
- The effectiveness of the combined assurance model
- The reports of the internal audit function on the state of internal control including its forensic reports regarding fraud prevention and detection
- The effectiveness of the internal audit function
- The auditor's findings and recommendations
- Statements on ethical standards for the company and considered how they are promoted and enforced
- Significant cases of unethical activity by employees or by the company itself
- Reports on the risk management process in the company and assessed the company's exposure to the following risks:
  - Top strategic risks (including credit and market risks, human resources risks and compliance risks)
  - Operational risks
  - Information technology risks

Independence of auditor

The committee reviewed a presentation by the external auditor and, after conducting its own review, is satisfied with the independence and objectivity of Deloitte & Touche as external auditors and M Mantyi, as the designated auditor. The committee further approved the fees to be paid to Deloitte & Touche and its terms of engagement and pre-approved each proposed contract with Deloitte & Touche for the provision of non-audit services to the company.

Statutory reporting

The committee has evaluated the annual financial statements of ArcelorMittal South Africa Ltd and the group for the year ended 31 December 2016 and, based on the information provided to the committee, considers that the company and group comply, in all material respects, with the requirements of the Companies Act of South Africa, the International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and applicable legislation and financial pronouncements as issued by the Financial Reporting Standards Council.

Audit and risk committee report continued

Internal financial controls

The committee agendas provide for confidential meetings between committee members and both the internal and independent external auditors.

The committee has oversight of the group's financial statements and reporting process, including the system of internal financial control. It is responsible for ensuring the group's internal audit function is independent and has the necessary resources, standing and authority in the organisation to discharge its duties. The committee oversees cooperation between internal and external auditors, and serves as a link between the board of directors and these functions. The head of internal audit reports administratively to the chief executive officer and functionally to the chairman of the committee and head of group internal audit of the holding company ArcelorMittal Holdings AG.

The committee is of the opinion, after having considered the assurance provided by the internal audit function, that the group's system of internal financial controls in all key material aspects is effective and provides reasonable assurance that the financial records may be relied upon for the preparation of the annual financial statements. This is based on the information and explanations given by management and the group internal audit function.

Expertise and experience of the chief financial officer and the finance function

The committee has satisfied itself that the chief financial officer, D Subramanian, has the appropriate expertise and experience to carry out his duties.

The committee has assessed the competency, skills and resourcing of the group's finance function, and is satisfied as to the overall adequacy and appropriateness of the finance function.

Expertise and experience of the company secretary

The committee has satisfied itself that the company secretary has the appropriate competence and experience and has maintained an arm's length relationship with directors.

Recommendation of the annual financial statements and integrated annual report

The committee, having fulfilled the oversight role regarding the reporting process for both the annual financial statements and the integrated annual report and having regard to material factors that may impact the integrity of these reports, recommends the integrated annual report and the annual financial statements for approval by the board of directors.

JRD Modise
Chairman
27 February 2017

Report of the independent auditor

To the shareholders of ArcelorMittal South Africa Ltd

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of ArcelorMittal South Africa Ltd and its subsidiaries (the group) set out on pages 12 to 84, which comprise the statements of financial position as at 31 December 2016, and the statements of other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 December 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 36 of the consolidated and separate financial statements which states that the group has continued support from ArcelorMittal Holdings AG in the form of a signed letter of support. In addition, note 36 sets out specific directors' initiatives and some pending government initiatives, which should they not materialise, indicate the existence of a material uncertainty which may cast significant doubt on the company's and group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. All key matters relate to consolidated and separate financial statements.

Report of the independent auditor continued

Key audit matter	How the matter was addressed in the audit
Impairment of property, plant and equipment	
As disclosed in note 12 of the consolidated and separate financial statements, an impairment to property, plant and equipment was recognised in the current year based on the assumptions disclosed in the note. The recoverable amount of a group of assets, or cash-generating unit (CGU), is to be measured whenever there is an indication that the value of the group of assets or the CGU may be impaired. Significant judgement is required by the directors in assessing the impairment of the group of assets or the CGUs, which is determined with reference to fair value less cost to sell or the value in use, based on the cash flow forecast for each CGU. Impairment indicators were existing as a result of the depressed trading conditions and weaker than expected economic growth. The key assumptions with the most significant impact on the cash flow forecast were: ➜ Revenue growth (including market share and volume growth). ➜ The discount rate, which is based on the weighted average cost of capital. The determination of the weighted average cost of capital is highly complex. ➜ Exchange rate forecasts. ➜ Projected sales and input cost prices, as both are linked to commodity prices which are volatile. A further key consideration includes whether the value in use calculation and valuation method used complies with the requirements of IAS 36: *Impairment of Assets.* The CGUs where indicators of impairment were identified, are the Vanderbijlpark Works and Long Steel Works at a company level and Saldanha Works at a group level. The complexity of the above results in complex accounting considerations and this was determined as a key audit matter.	In evaluating the impairment of property, plant and equipment within the applicable CGUs, we reviewed the value in use calculations prepared by the directors, with a particular focus on the assumptions with the most significant impact. We performed various procedures, including the following: ➜ Testing of the key entity's controls relating to the preparation and review of the cash flow forecasts. ➜ Subjecting the key assumptions to sensitivity analyses. ➜ Testing of inputs into the cash flow forecast, including the assumptions relating to revenue growth and input prices, against historical performance and in comparison to the directors' strategic plans in respect of the applicable CGUs. ➜ Consideration of the directors' ability to accurately forecast, based on a comparison of historical actual performance against previous respective forecasts. ➜ We engaged our internal valuation specialists to: • Critically evaluate whether the value in use calculation used by the directors to calculate the value in use of the individual cash-generating units complies with the requirements of IAS 36. • Compare the growth rates used to historical data regarding economic growth rates for the regions included in the CGUs. • Assess of the weighted average cost of capital (discount rate) and the determination of this rate. • Assess the exchange rates used in the model to ensure that they comply with the requirements of IAS 36 in relation to the valuation method used. ➜ Analysis of the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current macro-economic climate and expected future performance of the applicable CGUs, against external market data, historical performance and forecasts. ➜ Comparison of the forecast commodity prices used in determining the sales prices and input costs against independent third-party sources. ➜ Recalculation of the value in use of all CGUs. Based on our overall assessment, the key assumptions used in the determination of the impairment charge were within our expected ranges. We found that the resultant accounting impact was materially correct. We considered the related disclosures to be appropriate.

Report of the independent auditor continued

Key audit matter	How the matter was addressed in the audit
Environmental remediation obligations	
The group's environmental compliance has been under scrutiny in the past. Furthermore, the determination of environmental remediation obligations are subject to significant estimates and judgement. The key assumptions that affect the measurement of the related provisions include: ➜ The discount rates applied to the forecast cash flows relating to environmental remediation. ➜ The escalation rates applied in determining the forecast cash flows. ➜ The determination of the completeness of all projects and related costs to be incurred. The most significant estimates and areas of judgement have been disclosed by the directors in note 22 of the consolidated and separate financial statements. Due to the magnitude of the environmental remediation obligations, the environmental footprint of the group and the impact that environmental non-compliance could have on the group, this is considered a matter of key importance.	➜ We tested the entity's key controls relating to the preparation and review of the cash flow forecasts. ➜ We obtained the group's environmental models which are used to determine the value of the environmental remediation obligations. Through a consultative and corroborative process, including the review of minutes of meetings of the directors, of the audit and risk committee, and safety, health and environment committee together with discussions held with the directors' environmental specialists and environmental legal counsel, we gained sufficient evidence that all required exposures have been provided for. ➜ Our assessment included inspection and analysis of existing rehabilitation plans as well as communication between the group and environmental regulators and local authorities. ➜ We made use of our specialists to assess the environmental cash flow forecasts as well as for the assessment of the applied discount rates by comparing the discount rate used to an independently determined rate based on external market data. ➜ The environmental specialists further assessed the completeness of the provisions by assessing the current provisions against latest legislation to ensure all areas of exposure have been considered and recorded appropriately. They also assessed the nature of the costs included within the cash flow forecasts. We furthermore assessed the key assumptions and inputs in the models, which included: ➜ Comparing estimated cash flows of significant projects against related project plans and anticipated costs. ➜ An assessment of the escalation rates applied in the forecast cash flows to ensure these are in line with market forecasts. ➜ Assessing the impact of changes in the applied discount rate as well as scope changes. ➜ We assessed the adequacy of the group's disclosures in relation to the judgement and estimation applied to these balances. We found the operation of the key controls relating to the cost modelling to be effective. Our substantive testing did not reveal any material misstatements and overall the directors had adequately factored in risks and the impact of macro-economic factors into the forecast costs. We considered the disclosures to be balanced and appropriate.
Broad-based black economic empowerment (B-BBEE) transaction	
As disclosed in note 20 of the consolidated and separate financial statements, the company concluded the B-BBEE transaction with Likamva Resources Proprietary Limited during the year. This is considered a significant transaction which results in material financial impacts. The IFRS 2: *Share-based Payment* charge, that arises is dependent on various key assumptions, was determined by an independent third-party expert. The complexity of such transactions results in complex accounting considerations and this was determined as a key audit matter.	We obtained and assessed the resultant accounting impact arising from this transaction. We consulted with our accounting specialists to determine whether the financial impact arising from the transaction was appropriate. We furthermore engaged with our internal valuation specialists to determine whether the IFRS 2 charge, and assumptions used therein, were appropriate. We found that the resultant accounting impact and assumptions used in determining the IFRS 2 charge to be materially correct. We did not identify any significant concerns relating to the B-BBEE transaction. We considered the related disclosures to be appropriate.

Report of the independent auditor continued

Key audit matter	How the matter was addressed in the audit
Thabazimbi environmental obligation	
As disclosed in note 22 of the consolidated and separate financial statements, in terms of the amended settlement and supply agreement (supply agreement) between the company and Sishen Iron Ore Company Proprietary Limited (SIOC), the company is liable for the costs relating to the rehabilitation of SIOC's Thabazimbi iron ore mine. The mine ceased to be a captive mine on 1 January 2014. The company is required to fund its obligation through bank guarantees and/or cash in a trust fund maintained by SIOC. The company increased the related provision, based on a revised assessment of the expected rehabilitation costs received from SIOC, following the potential closure of the mine, subject to the company's efforts to take over the mine. The company has performed an independent assessment of the expected rehabilitation costs, which does not agree to that determined by SIOC. Due to the conclusion of the interim agreement between the company and SIOC, the difference in expected rehabilitation costs, and the nature of the agreements in place, this was considered a key audit matter that required additional attention.	➜ We read and understood the terms of the supply agreement and the interim agreement, in order to determine the effects arising therefrom. We have considered the company's obligations in terms of the agreements. We also made enquiries of our internal environmental rehabilitation specialists based on the available rehabilitation assessment reports. ➜ We held discussions with and made enquiries of the directors in order to determine the view of the company, as well as the proposed response and courses of action that they intend to follow in this regard. While the directors' experts have a different valuation regarding the obligation, after consideration of the contractual obligations included in the settlement agreement, the directors have increased the liability. Based on our overall assessment, we have not identified any material errors with regard to the increase in the provision. We considered the related disclosures to be appropriate.
Current and deferred tax	
There are various complexities relating to the treatment and recognition of current and deferred taxation, in particular: ➜ The taxation consequences arising from significant or unusual transactions may be ambiguous and thereby require legal opinion. ➜ The determination of whether to recognise deferred taxation assets is dependent on the directors' assessment of the utilisation of the historical taxation losses and the timing of realising temporary differences, which requires significant judgement. With respect to uncertain taxation positions, the directors make provision for taxation based on the most probable outcome. As a result, taxation is considered a key audit matter due to the complexities and judgement arising from the considerations relating to the calculation, recognition, and classification of current and deferred taxation balances and the significance of the balances in relation to the consolidated and separate financial statements as a whole. The disclosures relating to taxation and deferred taxation are contained in note 9 and note 24 of the consolidated and separate financial statements.	We involved our taxation specialists to evaluate the taxation provisions and potential exposures. This included: ➜ Analysing the taxation consequences arising on significant or unusual transactions to determine if the treatment adopted is appropriate under the circumstances, and/or based on appropriate legal counsel opinion obtained by the directors. ➜ Analysing the current and deferred taxation calculations for compliance with relevant taxation legislation. ➜ Evaluating the directors' assessment of the estimated manner in which the timing differences, including the recoverability of the deferred taxation assets, would be realised by comparing this to evidence obtained in respect of other areas of the audit, including cash flow forecasts, minutes of directors' meetings and evidence obtained in other areas during the performance of our audit procedures. ➜ Critically evaluating the assumptions made by the directors for uncertain current and deferred taxation positions to assess whether appropriate current and deferred taxation provisions have been recognised and are based on the most probable outcome. ➜ We assessed the disclosures to ensure that this was accurately and appropriately recognised. We assessed the presentation and disclosure in respect of taxation-related balances and considered whether the disclosures reflected the risks inherent in the accounting for the taxation balances. We found the disclosures relating to the current and deferred tax balances to be appropriate.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the audit and risk committee's report and the certificate by the company secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this report and the annual report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report of the independent auditor continued

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of ArcelorMittal South Africa Ltd for 12 years.

Deloitte & Touche.

Deloitte & Touche
Registered auditors
Per: Mandisi Mantyi
Partner

6 March 2017

Deloitte & Touche
Registered Auditors
Buildings 1 and 2, Deloitte Place
The Woodlands, Woodlands Drive
Woodmead, Sandton

Group and company statements of comprehensive income

for the year ended 31 December 2016

		Group		Company	
	Notes	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Revenue		**32 737**	31 141	**29 412**	27 160
Raw materials and consumables used		**(19 454)**	(19 183)	**(17 738)**	(16 792)
Employee costs		**(4 175)**	(4 027)	**(4 174)**	(4 026)
Energy		**(3 981)**	(3 824)	**(2 888)**	(2 766)
Movement in inventories of finished goods and work-in-progress		**973**	(457)	**804**	(566)
Depreciation		**(1 030)**	(1 346)	**(959)**	(986)
Amortisation of intangible assets		**(25)**	(23)	**(22)**	(20)
Other operating expenses		**(6 137)**	(7 017)	**(4 877)**	(7 494)
Loss from operations	5	**(1 092)**	(4 736)	**(442)**	(5 490)
B-BBEE charges		**(870)**	–	**(870)**	–
Finance and investment income	6	**176**	175	**322**	284
Finance costs	7	**(876)**	(1 208)	**(837)**	(1 161)
Impairment of other assets	8	**(11)**	(310)	**(1 165)**	(2 260)
Impairment of property, plant, equipment and intangible assets	12, 13	**(2 143)**	(3 944)	**(1 723)**	(370)
Income after tax from equity-accounted investments		**129**	195	**–**	–
Loss before taxation		**(4 687)**	(9 828)	**(4 715)**	(8 997)
Income tax (expense)/credit	9	**(19)**	1 193	**(11)**	106
Loss for the year		**(4 706)**	(8 635)	**(4 726)**	(8 891)
Other comprehensive (loss)/income		**(554)**	1 330	**3**	20
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations		**(618)**	1 232	**–**	–
Income on available-for-sale investment taken to equity		**1**	19	**3**	20
Share of other comprehensive income of equity-accounted investments		**63**	79	**–**	–
Total comprehensive loss for the year		**(5 260)**	(7 305)	**(4 723)**	(8 871)
Loss attributable to:					
Owners of the company		**(4 706)**	(8 635)	**(4 726)**	(8 891)
Total comprehensive loss attributable to:					
Owners of the company		**(5 260)**	(7 305)	**(4 723)**	(8 871)
Attributable loss per share (cents)					
– Basic	10	**(443)**	(2 152)		
– Diluted	10	**(443)**	(2 152)		

Group and company statements of financial position

as at 31 December 2016

		Group		Company	
	Notes	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Assets					
Non-current assets					
Property, plant and equipment	12	10 670	11 859	10 191	11 269
Intangible assets	13	103	112	102	108
Equity-accounted investments	14	4 667	5 090	168	169
Investments in subsidiaries	15	–	–	1 277	1 096
Other financial assets	16	394	573	387	564
		15 834	17 634	12 125	13 206
Current assets					
Inventories	17	11 274	9 385	10 196	8 503
Trade and other receivables	18	1 774	1 666	1 568	1 342
Taxation		58	75	53	64
Other financial assets	16	46	38	46	32
Cash and bank balances	19	1 660	2 164	1 651	2 150
		14 812	13 328	13 514	12 091
Total assets		30 646	30 962	25 639	25 297
Equity and liabilities					
Equity					
Stated capital	20	4 537	37	4 537	37
Reserves		581	175	892	58
Retained income		8 425	13 260	4 326	9 052
		13 543	13 472	9 755	9 147
Non-current liabilities					
Finance lease obligations	21	124	193	57	109
Provisions	22	1 872	2 895	1 853	2 865
Other financial liabilities	25	1 023	–	1 023	–
Other payables	23	311	236	310	236
		3 330	3 324	3 243	3 210
Current liabilities					
Trade payables	23	10 053	7 761	8 971	6 587
Other financial liabilities	25	521	14	515	14
Borrowings	24	1 950	5 029	1 950	5 029
Finance lease obligations	21	70	63	51	47
Provisions	22	301	541	290	515
Other payables	23	878	758	864	748
		13 773	14 166	12 641	12 940
Total equity and liabilities		30 646	30 962	25 639	25 297

Group and company statements of cash flows

for the year ended 31 December 2016

		Group		Company	
	Notes	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Cash generated from/(utilised in) operations	26.1	**873**	(264)	**1 754**	(1 643)
Interest income		**67**	9	**66**	9
Finance cost		**(525)**	(554)	**(504)**	(536)
Income tax paid	26.2	**(2)**	(40)	**1**	(4)
Transaction costs on B-BBEE share transaction		**(55)**	–	**(55)**	–
Realised foreign exchange movements		**(268)**	(258)	**(225)**	(258)
Cash flows from operating activities		**90**	(1 107)	**1 037**	(2 432)
Investment to maintain operations	26.3	**(1 673)**	(1 164)	**(1 291)**	(1 045)
Investment to expand operations	26.4	**(335)**	(92)	**(335)**	(84)
Investment in associates and joint ventures		**(11)**	(8)	**–**	(8)
Proceeds on disposal or scrapping of assets		**67**	2	**67**	5
Dividend from equity-accounted investments/subsidiaries		**–**	114	**–**	114
Interest income from investments		**7**	8	**1**	1
Cash flows from investing activities		**(1 945)**	(1 140)	**(1 558)**	(1 017)
Borrowings (repaid)/raised		**(3 079)**	4 029	**(3 079)**	4 030
Proceeds from rights issue/issue of share capital		**4 500**	–	**4 500**	–
Finance lease obligation repaid		**(62)**	(92)	**(48)**	(79)
(Decrease)/increase in loans to subsidiaries		**–**	–	**(1 346)**	1 352
Cash flows from financing activities		**1 359**	3 937	**27**	5 303
(Decrease)/increase in cash and cash equivalents		**(496)**	1 690	**(495)**	1 854
Effect of foreign exchange rate changes on cash and cash equivalents		**(8)**	20	**(3)**	11
Cash and cash equivalents at the beginning of the year		**2 164**	454	**2 150**	285
Cash and cash equivalents at the end of the year	19	**1 660**	2 164	**1 652**	2 150

Group and company statements of changes in equity

for the year ended 31 December 2016

			Reserves					
	Stated capital[1] Rm	Retained income Rm	Treasury share equity reserve[2] Rm	Management Share Trust reserve[3] Rm	Share-based payment reserve[4] Rm	Attributable reserves of equity-accounted investments Rm	Other reserves[5] Rm	Total equity Rm
Group								
Balance at 1 January 2015	37	21 979	(3 918)	(285)	269	1 251	1 389	20 722
Total comprehensive (loss)/income for the year	–	(8 635)	–	–	–	79	1 251	(7 305)
Loss	–	(8 635)	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	79	1 251	–
Transfer between reserves		(84)	–	–	–	84	–	–
Transactions with owners								
Share-based payment expense	–	–	–	–	55	–	–	55
Balance at 31 January 2015	**37**	**13 260**	**(3 918)**	**(285)**	**324**	**1 414**	**2 640**	**13 472**
Total comprehensive (loss)/income for the year	–	(4 706)	–	–	–	63	(617)	(5 260)
Loss	–	(4 706)	–	–	–	–	–	–
Other comprehensive income/(loss)	–	–	–	–	–	63	(617)	–
Transfer between reserves	–	(129)	–	–	–	129	–	–
Transactions with owners								
Rights issue	4 500	–	–	–	–	–	–	4 500
A1 ordinary shares issued to Amandla*	–	–	–	–	–	–	–	–
A2 ordinary shares issued to Isabelo*	–	–	–	–	–	–	–	–
Share-based payment expense	–	–	–	–	63	–	–	63
B-BBEE charge	–	–	–	–	800	–	–	800
Cash settlement on management share trust/long-term incentive plan	–	–	–	(32)	–	–	–	(32)
Balance at 31 December 2016	**4 537**	**8 425**	**(3 918)**	**(317)**	**1 187**	**1 606**	**2 023**	**13 543**

Footnotes relate to notes 1 to 5 on page 16.

			Reserves					
	Stated capital[1] Rm	Retained income Rm	Treasury share equity reserve[2] Rm	Management Share Trust reserve[3] Rm	Share-based payment reserve[4] Rm	Attributable reserves of equity-accounted investments Rm	Other reserves[5] Rm	Total equity Rm
Company								
Balance at 1 January 2015	37	17 943	–	(285)	269	–	(1)	17 963
Total comprehensive loss for the year	–	(8 891)	–	–	–	–	20	(8 871)
Loss	–	(8 891)	–	–	–	–	–	
Other comprehensive income	–	–	–	–	–	–	20	
Transactions with owners								
Share-based payment expense	–	–	–	–	55	–	–	55
Balance at 31 January 2015	**37**	**9 052**	**–**	**(285)**	**324**	**–**	**19**	**9 147**
Total comprehensive loss for the year	–	(4 726)	–	–	–	–	3	(4 723)
Loss	–	(4 726)	–	–	–	–	–	
Other comprehensive income	–	–	–	–	–	–	3	
Transactions with owners								–
Rights issue	4 500	–	–	–	–	–	–	4 500
A1 ordinary shares issued to Amandla*	–	–	–	–	–	–	–	–
A2 ordinary shares issued to Isabelo*	–	–	–	–	–	–	–	–
Share-based payment expense	–	–	–	–	63	–	–	63
B-BBEE charge	–	–	–	–	800	–	–	800
Cash settlement on management share trust/long-term incentive plan	–	–	–	(32)	–	–	–	(32)
Balance at 31 December 2016	4 537	4 326	–	(317)	1 187	–	22	9 755

** Value less than R1 million shown as an asterisk*

Footnotes relate to notes 1 to 5 on page 16.

Dividends per share (cents)

2016: Rnil

2015: Rnil

Group and company statements of changes in equity continued

for the year ended 31 December 2016

In the context of the statement of changes in equity, the following equity reserves are of relevance:

1. Stated capital

A successful rights offer for R4 500 million was concluded and implemented on 18 January 2016. The company issued 692 307 693 new ordinary shares. These shares were issued at a value of R6.50 per share

At the special general meeting (SGM) of the shareholders of ArcelorMittal South Africa Ltd held on 18 November 2016, the shareholders approved the increase in the authorised share capital of ArcelorMittal South Africa through the creation of new ordinary class shares (ArcelorMittal South Africa empowerment shares) for the purposes of the broad-based black economic empowerment (B-BBEE) ownership scheme.

The scheme is part of ArcelorMittal South Africa's initiatives to transform the company and achieve sustainable ownership by black people. In terms of the scheme, ArcelorMittal South Africa issued empowerment shares to Amandla we Nsimbi Proprietary Limited (A1 ordinary shares) and Isabelo Empowerment Share Trust (A2 ordinary shares) representing 17% and 5.1% respectively of the voting rights in ArcelorMittal South Africa through a notional loan. These shares were issued at a nominal value of R0.0000001 per share for both the A1 and A2 shares.

2. Treasury share equity reserve

In 2009 the company implemented a share buy-back arrangement and acquired 9.995% of the shareholding of each shareholder. In the current year the Ikageng Broad-Based Employee Share Trust was created to hold in trust, the shares for the Employee Share Ownership Plan, and purchased 4.7% of the shareholding through a contribution from ArcelorMittal South Africa. The trust is controlled by ArcelorMittal South Africa Ltd and, therefore, the trust is consolidated in accordance with IFRS 10: *Consolidated Financial Statements*. The shares will continue to remain in issue as treasury shares.

3. Management Share Trust reserve

The Management Share Trust reserve represents the net outflow from the purchase of treasury shares in order to meet obligations in terms of the ArcelorMittal South Africa equity-settled share option plan housed in the Management Share Trust. The trust is consolidated as a consolidated structured entity in compliance with IFRS 10: *Consolidated Financial Statements*.

4. Share-based payment reserve

The share-based payment reserve represents the accumulated charge for share options and long-term incentive plan units in terms of IFRS 2: *Share-based Payments*, which are all equity-settled. Included in the current year was an IFRS 2 charge of R800 million and R1 million relating to the issue of ArcelorMittal South Africa A1 and A2 ordinary shares under the B-BBEE ownership scheme.

5. Other reserves

Other reserves consist of the following:

Capital redemption reserve of R23 million (2015: R23 million) for the group and company. The capital redemption reserve was created in terms of the South African Companies Act No 61 of 1973, following the redemption of shares during the year ended 30 June 2000, out of profits that would otherwise be available for distribution to ordinary shareholders.

Available-for-sale investment reserve of R1 million credit (2015: R1 million debit) for the group. The available-for-sale reserve relates to the unrealised fair value gains/(losses) relating to the group's investment in Hwange Colliery Company Ltd and Coal of Africa Ltd.

Translation of the foreign operation reserve of R1 999 million (2015: R2 618 million) for the group. The translation of the foreign operation reserve consists of:

- Reserves relating to equity-accounted investments of R1 719 million (2015: R2 276 million)
- Other group-related translation reserves of R280 million (2015: R342 million)

Notes to the group and company annual financial statements

for the year ended 31 December 2016

1. General information

ArcelorMittal South Africa Ltd (the company) and its subsidiaries consolidated in these annual financial statements to reflect "the group", is one of the largest steel producers on the African continent. The company is domiciled in South Africa and it is a public limited company listed on the Johannesburg Stock Exchange.

2. Standards and interpretations not yet effective for December 2016

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these annual financial statements. Those which may be relevant to the group and company are set out below. The group and company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective for the financial year commencing 1 January 2017

IFRS 12: *Disclosure of Interests in Other Entities*

Disclosure of Interests in Other Entities IFRS 12

Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities that are classified as held-for-sale, as held for distribution or as discontinued operations in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations.*

The amendments are effective for annual periods commencing on or after 1 January 2017.

IAS 7: *Cash Flow Statement*

Disclosure Initiative (Amendments to IAS 7)

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities. The impact of these amendments have not yet been adopted by the group.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

IAS 12: *Income Taxes*

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

Effective for the financial year commencing 1 January 2018

IFRS 2: *Share-based Payments*

Clarifying share-based payment accounting (amendments to IFRS 2). Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2: *Share-based Payment.*

The amendments cover three accounting areas:

- Measurement of cash-settled share-based payments –The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.
- Classification of share-based payments settled net of tax withholdings –The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.
- Accounting for a modification of a share-based payment from cash-settled to equity-settled – The amendments clarify the approach that companies are to apply.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are effective for annual periods commencing on or after 1 January 2018.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

2. Standards and interpretations not yet effective for December 2016 continued

Effective for the financial year commencing 1 January 2018 continued

IFRS 9: *Financial Instruments*

On 24 July 2014, the IASB issued the final IFRS 9: *Financial Instruments Standard*, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39: *Financial Instruments*: *Recognition and Measurement.*

This standard will have an impact on the group, which will include changes in the measurement bases of the group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which could increase the provision for bad debts recognised in the group.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

IFRS 15: *Revenue from Contracts with Customers*

This standard replaces IAS 11: *Construction Contracts*, IAS 18: *Revenue*, IFRIC 13: *Customer Loyalty Programmes*, IFRIC 15: *Agreements for the Construction of Real Estate*, IFRIC 18: *Transfer of Assets from Customers* and SIC-31: *Revenue – Barter of Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. This new standard will most likely have an impact on the group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The group is currently in the process of performing a more detailed assessment of the impact of this standard on the group. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS.

Effective for the financial year commencing 1 January 2019

IFRS 16: *Leases*

IFRS 16: *Leases* supersedes IAS 17: *Leases*; IFRIC 4: *Determining whether an Arrangement contains a Lease*; SIC-15: *Operating Leases – Incentives*; and SIC-27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 introduces a single lessee accounting model and requires all entities to reassess whether a contract is, or contains, a lease at the date of initial application. Lessees will have to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7: *Statement of Cash Flows*.

This standard will have an impact on the group's results; however, it is not expected to be material. The group is currently in the process of performing a more detailed assessment of the standard and the extent to which contracts currently accounted for as operating leases will result in additional assets and liabilities being recognised in the statement of financial position.

3 Significant accounting policies

The principal accounting policies applied in the preparation of the group and company financial statements are set out on the following pages. These policies have been consistently applied from the comparative year presented.

3.1 Statement of compliance

The annual financial statements are prepared in compliance with International Financial Reporting Standards (IFRS), the Companies Act 71 of 2008, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and financial pronouncements as issued by the Financial Reporting Standards Council relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2016.

3.2 Basis of preparation

The annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of:

- investments in equity instruments classified as available-for-sale.

3.3 Investments in subsidiaries, joint ventures and associates by the company

The company accounts for all investments in subsidiaries, jointly controlled entities and associates at cost.

Dividends received from subsidiaries, jointly controlled entities and associates are recognised in profit or loss when the company has the right to receive the dividend.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.4 Basis of consolidation – subsidiaries

The group annual financial statements incorporate financial statements of the company and its subsidiaries.

Subsidiaries are all investees (including structured entities) over which the group has control. The group controls an investee when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

3.5 Interests in joint ventures

A joint venture is a contractual arrangement whereby the parties that have joint control over the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when the decision about the relevant activities requires the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The assets and liabilities of jointly controlled entities are incorporated in the group's annual financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations.*

Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost and adjusted for post-acquisition changes in the group's share of the net assets of the joint venture, less any impairment in the value of individual investments.

The group's share of its jointly controlled entities' post-acquisition profits or losses and other comprehensive income is recognised in the statement of comprehensive income and statement of other comprehensive income respectively and its share of post-acquisition movements in reserves is recognised as reserves of the group. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investment.

Losses of a jointly controlled entity in excess of the group's interest in that entity (which includes any long-term interests that, in substance, form part of the group's net investment in the jointly controlled entity) are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

Where a group entity transacts with a jointly controlled entity of the group, profits and losses are eliminated to the extent of the group's interest in the relevant jointly controlled entity.

3.6 Investments in associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the annual financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations.*

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost and adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.6 Investments in associates continued

The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income and its share of post-acquisition movements in reserves is recognised as reserves of the group. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate) are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a group entity transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

3.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee of the group.

3.8 Foreign currency translation

Functional and presentation currency

Items included in the annual financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (its functional currency). The group's financial statements are presented in South African rand, which is the company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as gains or losses in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges.

For available-for-sale financial assets, changes in the fair value of such monetary securities denominated in foreign currency are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the statement of comprehensive income. Changes in carrying amounts on non-monetary securities are recognised in equity.

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency of the group as follows:

- Assets and liabilities for each reporting date presented are translated at the closing rate at the date of the statement of financial position
- Income and expenses for each reporting period are translated at average exchange rates for the reporting period
- All resulting exchange differences are recognised as a separate component of equity, within the translation of foreign operations reserve

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are disclosed in the statement of comprehensive income and are taken to shareholders' equity.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.9 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment. Cost includes professional fees and, for assets constructed by the group and company, any related works to the extent that these are directly attributable to the acquisition or construction of the asset. Property, plant and equipment, except land, are depreciated using the straight-line method over the useful lives of the related assets.

Major improvements, which are expected to generate future economic benefits over more than one reporting period, are capitalised, while repairs and maintenance are charged as an expense when incurred. Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items.

Property, plant and equipment under construction are recorded as assets under construction until they are ready for their intended use; thereafter they are transferred to the related category of property, plant and equipment and depreciated over their estimated useful lives. Qualifying borrowing costs incurred during construction are capitalised. Gains and losses on retirement or disposal of assets are reflected in the statement of comprehensive income.

3.10 Accounting for finance leases as lessee

Finance lease arrangements consist of those transactions that are:

- Leases in both economic substance and legal form
- Those that arise out of commercial arrangements that in economic substance represent leases, though not in legal form

The group and company lease certain property, plant and equipment. Leases of property, plant and equipment where the group and company have substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased property, plant and equipment and the present value of the future minimum lease payments of the lease.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the capital balance outstanding, using the effective interest rate method. The corresponding rental obligations, net of finance charges, are shown as finance lease obligations. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Finance lease obligations with settlement tenures greater than 12 months after the statement of financial position date, are classified as non-current finance lease obligations, while those to be settled within 12 months of the statement of financial position date are classified as current finance lease obligations.

3.11 Intangible assets

Internally generated intangible assets – research and development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the criteria of IAS 38: *Intangible Assets* are met.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred.

Development assets are tested for impairment annually, in accordance with IAS 36: *Impairment of Assets.*

Purchased intangible assets other than goodwill

Patents

The cost of acquisition of patents, is capitalised at their historical cost as intangible assets, and amortised over the right-of-use period. This period is reviewed at least annually. Amortisation, gains and losses on disposals and impairment losses are reflected in the statement of comprehensive income.

Non-integrated computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives.

Computer software development costs recognised as assets are amortised over their estimated useful lives, typically not exceeding seven years.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.12 Impairment of tangible and intangible assets excluding goodwill

At each statement of financial position date, the group and company review the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In order to ensure completeness of the impairment assessment of individual assets, all tangible assets and intangible assets are allocated to the cash-generating unit to which they belong. An impairment assessment is then undertaken on the individual cash-generating units.

"Recoverable amount" is defined as the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects the weighted average cost of capital of the company.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

3.13 Financial assets

Financial assets are recognised and derecognised on the trade date where the purchase or sale of the asset is under a contract whose terms require delivery within the timeframe established by the market concerned. These assets are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit-or-loss (FVTPL), which are initially measured at fair value.

Financial assets are classified into the following specified categories:
- Financial assets at FVTPL
- Available-for-sale (AFS) financial assets
- Loans and receivables

Financial assets at FVTPL

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income.

AFS financial assets

Listed shares and similar securities held by the group and company that are traded in an active market are classified as being AFS and are stated at fair value.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are measured at amortised cost using the effective interest rate method less any impairment.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.13 Financial assets continued

Impairment of financial assets

A financial asset is considered to be impaired if there is objective evidence that one or more events has/have had a negative effect on the estimated future cash flows of that asset.

Estimated future cash flows are determined using various assumptions and techniques, including comparisons with published prices in an active market, comparative price-earnings multiples and discounted cash flow projections using projected growth rates, weighted average cost of capital and inflation rates.

In the case of AFS listed equity instruments, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for these financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in the statement of comprehensive income, is removed from equity and recognised in the statement of comprehensive income.

If objective evidence indicates that cost-method investments need to be tested for impairment, calculations are based on information derived from business plans and other information available for estimating their value-in-use. Any impairment loss is charged to the statement of comprehensive income.

An impairment loss related to financial assets is reversed if and to the extent that there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. Reversals of impairment are recognised in the statement of comprehensive income except for reversals of impairment of AFS equity securities, which are recognised in equity.

3.14 Financial liabilities and equity instruments issued by the group and company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings and finance lease obligations, are initially measured at fair value, net of transaction costs. Subsequently these are measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.15 Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The group and company designate certain derivatives as either hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges). Hedges are accounted for as prescribed in IAS 39: *Financial Instruments: Recognition and Measurement*.

3.16 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method or weighted average cost method. Work-in-progress and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. Raw materials, qualifying spare parts and consumables are valued at cost inclusive of freight, shipping and handling costs.

Net realisable value represents the estimated selling price at which the inventories can be realised in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and for the cost of marketing, selling and distribution.

Costs incurred when production levels are abnormally low are partially capitalised as inventories and partially recorded as a component of cost of sales in the statement of comprehensive income.

3.17 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less, which are subject to an insignificant risk of changes in value, less any bank overdrafts.

3.18 Stated capital

Equity instruments issued by the company and group are classified according to the substance of the contractual arrangements entered into and the definition of an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the company and group after deducting all liabilities.

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or portions are shown in equity as a deduction, net of tax effects, from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised in an equity reserve attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the company's equity holders.

Capital distributions to shareholders through capital reduction programmes are credited against stated capital.

Income tax consequences of such and similar transactions are charged to profit or loss and not stated capital.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.19 Borrowings

Borrowings are recognised initially at cost, which typically reflects the fair value of the funding transaction. Borrowings are subsequently measured at amortised cost.

Borrowings are classified as current liabilities unless the group and company have an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

3.20 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the group and company annual financial statements. Deductible temporary differences are therefore recognised to the extent that taxable temporary differences exist or it is probable that taxable economic benefits will flow to the entity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3.21 Employee benefits

Short-term employee benefits

Services rendered by employees during a reporting period, are recognised as the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability, after deducting any amount already paid; and as an expense, unless included in the cost of inventory or property, plant and equipment. The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions is recognised during the period in which the employee renders the related service.

Short-term compensated absences (leave pay benefits)

The expected cost of short-term employee benefits in the form of compensated absences are recognised (i) in the case of accumulating compensated absences, when the employees render service that increase their entitlement to future compensated absences; and (ii) in the case of non-accumulating compensated absences, when the absences occur. The leave pay benefits of the group and company are accumulative in nature and entail automatic encashment of the benefits once the entitlements reach an accumulation limit.

Retirement benefits

Defined contribution plans are plans where fixed contributions to pension funds for certain categories of employees are paid. Contributions are paid in return for services rendered by the employees during the period. Such payments are expensed as they are incurred in line with the treatment of short-term employee benefits. No provisions are established in respect of defined contribution plans, as they do not generate future commitments.

Defined benefit plans are those plans that provide guaranteed benefits to certain categories of employees, by way of contractual obligations. The group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of significant defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling are recognised immediately in other comprehensive income. The group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in comprehensive income.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.21 Employee benefits continued

Retirement benefits continued

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in comprehensive income. The group recognises gains and losses on the settlement of a defined plan when the settlement occurs.

Medical benefits

No contributions are made to the medical aid of retired employees, except for a closed group of early retirees in respect of whom contributions are made. The present value of the post-retirement medical aid obligation for such early retirements is actuarially determined annually on the projected unit credit method and any deficit or surplus is immediately recognised in profit or loss.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The group and company recognise termination benefits when demonstrably committed to either:

- Terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or
- Provide termination benefits as a result of an accepted offer made to encourage voluntary redundancy in exchange for these benefits

3.22 Provisions and contingent liabilities

Provisions

Provisions for asset retirement obligations, environmental remediation obligations, onerous contracts, restructuring costs, legal claims and similar obligations are recognised when:

- A present legal or constructive obligation exists as a result of past events
- It is probable that an outflow of resources will be required to settle the obligation
- The amount has been reliably estimated

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in provisions due to the passage of time is recognised as accretion expenses within finance charges. Changes in the discount rate are recognised as finance charges, except for asset retirement obligations which are capitalised to property, plant and equipment.

Contingent liabilities

Legal claims are assessed to determine whether a present obligation exists and whether the obligations are measurable.

A present obligation, classified as a provision, is recognised as probable and is measured at the estimated loss of the outcome if it is more than 50% likely to occur.

For claims that are reasonably possible, being between 20% and 50% likely, the facts and circumstances of the possible loss and an estimate of the amount, if determinable, are disclosed.

Remote claims, being less than 20% likely, are not disclosed or provided for; however, voluntary disclosure may be made if the matter is significant.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.23 Revenue recognition

Sale of goods

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the group and company's activities. Revenue is shown net of value added tax, returns, rebates, discounts and, in the case of the group accounts, after eliminating sales within the group.

All amounts invoiced to a customer in a sale transaction related to distribution and handling costs are classified as revenue, with the costs related thereto shown as distribution and handling costs within other operating expenses.

The group and company recognise revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group and company's activities as described below.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group and company base such estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods are recognised based on the relevant delivery terms at which point the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract or the group and company have objective evidence that all criteria for acceptance have been satisfied.

3.24 Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred and are not straight-lined.

3.25 Borrowing costs

Qualifying borrowing costs calculated in accordance with the effective interest rate method and directly attributable to the acquisition, construction or production of qualifying assets, for those assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the statement of comprehensive income in the period incurred.

3.26 Share-based payments

Equity-settled share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

Fair value determination of equity-settled share-based transactions is measured using the share price as reference point.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group and company's estimate of the number of equity instruments that will eventually vest. At each statement of financial position date, the group and company revise their estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

Cash-settled share-based payments

For cash-settled share-based payments, a liability equal to the portion of goods or services received is recognised as the current fair value at each date of the statement of financial position.

Vesting conditions

Vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. Features of a share-based payment that are not vesting conditions are included in the grant date fair value of the share-based payment. The fair value also includes market-related vesting conditions.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

3. Significant accounting policies continued

3.27 Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The current tax is based on taxable income or loss for the year. Taxable income or loss differs from income or loss as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible (deferred tax). The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

Withholding tax on dividends

Dividends received subject to withholding tax are shown inclusive of any withholding tax. The withholding tax amount is included in the tax charge for the reporting period.

3.28 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are approved by the company's board of directors.

3.29 Offset

Where a legally enforceable right to offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

4. Segment report

Segment information is presented only at group level, where it is most meaningful. Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision-makers (the executive committee) in order to allocate resources to the segment and to assess its performance.

The group's reportable segments are:

- Flat steel products consisting of the Vanderbijlpark Works and Saldanha Works
- Long steel products consisting of the Newcastle Works, Vereeniging Works and the decommissioned Maputo Works
- Coke and Chemicals undertaking the processing and marketing of by-products and the production and marketing of commercial-grade coking coal
- Corporate and other, consisting of sales and marketing functions, procurement and logistics activities, shared services, centres of excellence, the decommissioned Pretoria Works site, available-for-sale investments and the results of the non-trading consolidated subsidiaries and consolidated structured entities

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

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

Assets not allocated to operating segments:

- Results of consolidated subsidiaries and consolidated structured entities, other than for Saldanha Works which is a subsidiary allocated to the Flat steel products segment
- Investments in equity-accounted entities
- Available-for-sale investments
- Cash and cash equivalents
- Income tax, capital gains tax and value added tax-related assets, as applicable

Liabilities not allocated to operating segments:

- Income tax
- Capital gains tax
- Value added tax-related liabilities, as applicable

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

4. Segment report continued

For the year ended 31 December 2016

	Flat steel products Rm	Long steel products Rm	Coke and Chemicals Rm	Corporate and other Rm	Adjustments and eliminations[1] Rm	Total reconciling to the consolidated amounts Rm
Revenue						
External customers	21 144	10 280	1 313	–	–	32 737
Intersegment customers	497	329	61	–	(887)	–
Total revenue	21 641	10 609	1 374	–	(887)	32 737
Revenue to external customers distributed as:						
Local	16 988	8 964	1 313	–	–	27 265
Export	4 156	1 316	–	–	–	5 472
Africa	3 768	925	–	–	–	4 693
Asia	386	285	–	–	–	671
Other	2	106	–	–	–	108
Total	21 144	10 280	1 313	–	–	32 737
Results						
Earnings before interest, tax, depreciation and amortisation	(392)	286	172	140	(16)	190
Depreciation and amortisation	(656)	(390)	(35)	(22)	48	(1 055)
Thabazimbi mine closure costs	(194)	(81)	–	–	–	(275)
Competition Commission settlement	–	–	–	30	–	30
Derecognised payment in advance	–	–	–	(19)	–	(19)
Unclaimed dividends	–	–	–	37	–	37
(Loss)/profit from operations	(1 242)	(185)	137	166	32	(1 092)
B-BBEE charges	–	–	–	(870)	–	(870)
Impairment	(2 141)	(2)	–	(11)	–	(2 154)
Finance and investment income	17	40	–	119	–	176
Finance costs	(117)	(146)	(7)	(605)	–	(876)
Profit after tax from equity-accounted investments	–	–	–	129	–	129
(Loss)/profit before taxation	(3 483)	(293)	130	(1 073)	32	(4 687)
Income tax expense	–	–	–	(19)	–	(19)
(Loss)/profit for the year	(3 483)	(293)	130	(1 092)	32	(4 706)
Segment assets (excluding investments in equity-accounted entities)	13 862	9 123	1 074	2 449	(528)	25 979
Investments in equity-accounted entities	–	–	–	4 667	–	4 667
Segment liabilities	6 028	2 972	231	7 870	2	17 103
Cash (utilised in)/generated from operations	(395)	(371)	402	1 082	155	873
Capital expenditure	1 278	453	347	(69)	–	2 008
Number of employees at the end of the year	5 290	2 844	259	838	–	9 231

[1] *Adjustments and eliminations comprise intergroup eliminations and fair value adjustments on consolidation of subsidiaries.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

4. Segment report continued

For the year ended 31 December 2015

	Flat steel products Rm	Long steel products Rm	Coke and Chemicals Rm	Corporate and other Rm	Adjustments and eliminations[1] Rm	Total reconciling to the consolidated amounts Rm
Revenue						
External customers	19 483	9 949	1 709	–	–	31 141
Intersegment customers	424	923	90	–	(1 437)	–
Total revenue	19 907	10 872	1 799	–	(1 437)	31 141
Revenue to external customers distributed as:						
Local	14 797	7 763	1 709	–	–	24 269
Export	4 686	2 186	–	–	–	6 872
Africa	4 386	1 503	–	–	–	5 889
Asia	247	390	–	–	–	637
Other	53	293	–	–	–	346
Total	19 483	9 949	1 709	–	–	31 141
Results						
Earnings before interest, tax, depreciation and amortisation	(1 269)	(348)	427	(1 131)	1 512	(809)
Depreciation and amortisation	(973)	(391)	(35)	(20)	50	(1 369)
Thabazimbi mine closure costs	(429)	(253)	–	–	–	(682)
Provision for Tshikondeni mine closure costs	–	–	–	23	–	23
Vereeniging closure costs	–	(86)	–	–	–	(86)
Competition Commission settlement	–	–	–	(1 245)	–	(1 245)
Payment in advance	(420)	(148)	–	–	–	(568)
(Loss)/profit from operations	(3 091)	(1 226)	392	(2 373)	1 562	(4 736)
Impairment	(3 574)	(370)	–	(2 570)	2 260	(4 254)
Finance and investment income	2	1	–	172	–	175
Finance cost	(117)	(38)	(2)	(1 051)	–	(1 208)
Profit after tax from equity-accounted investments	–	–	–	195	–	195
(Loss)/profit before taxation	(6 780)	(1 633)	390	(5 627)	3 822	(9 828)
Income tax credit	–	–	–	1 193	–	1 193
(Loss)/profit for the year	(6 780)	(1 633)	390	(4 434)	3 822	(8 635)
Segment assets (excluding investments in equity-accounted entities)	14 414	8 236	960	3 262	(1 000)	25 872
Investments in equity-accounted entities	–	–	–	5 090	–	5 090
Segment liabilities	4 877	2 647	186	9 782	(2)	17 490
Cash generated from operations	(1 270)	140	554	312	–	(264)
Capital expenditure	601	625	57	(27)	–	1 256
Number of employees at the end of the year	5 570	3 104	254	598	–	9 526

[1] Adjustments and eliminations comprise intergroup eliminations and fair value adjustments on consolidation of subsidiaries.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

4. Segment report continued

	2016 Rm	2015 Rm
4.1 Revenue from major products and services		
The group's revenue from its major products sold to external customers was:		
Flat steel products	21 144	19 483
Plate	1 570	985
Hot rolled coil	10 943	10 266
Cold rolled coil	1 660	1 475
Galvanised sheet	4 072	3 618
Coated sheet	1 288	1 132
Tin plate	1 121	1 411
Other	490	596
Long steel products	10 280	9 949
Billets and blooms	94	282
Bars and rebars	3 664	2 486
Wire rod	3 087	3 024
Sections	2 038	2 524
Rails	151	62
Seamless tubular products	412	503
Forged	807	1 043
Other	27	25
Coke and Chemicals	1 313	1 709
Coke	872	1 129
Tar	296	398
Other	145	182
Total consolidated revenue	32 737	31 141

4.2 Geographical information

The group operates principally in South Africa. Export sales are primarily sold into sub-Saharan Africa and Asia.

	2016 Rm	2015 Rm
4.3 Information about major customers		
Segmentation of the group's top three customers, as measured on total revenue, is:		
Flat steel products	9 418	8 737
Long steel products	2 371	3 021
Total revenue attributable to top three customers	11 789	11 758
Expressed as a % of total consolidated revenue (%)	36	38
Of these top three customers only, Macsteel contributes more than 10% to total revenue	4 795	4 902
Expressed as a % of total consolidated revenue (%)	15	16

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
5. Loss from operations				
Loss from operations has been arrived at after charging:				
Amortisation of intangible assets	**(25)**	(23)	**(22)**	(20)
Depreciation	**(1 030)**	(1 346)	**(959)**	(986)
Employee costs	**(4 175)**	(4 027)	**(4 174)**	(4 026)
Salaries and wages	**(3 620)**	(3 284)	**(3 619)**	(3 283)
Termination benefits	**(14)**	(232)	**(14)**	(232)
Pension and medical costs	**(478)**	(456)	**(478)**	(456)
Share-based payment expense	**(63)**	(55)	**(63)**	(55)
Profit/(loss) on disposal or scrapping of property, plant and equipment	**51**	(5)	**52**	(2)
Operating lease rentals	**(50)**	(50)	**(48)**	(49)
Railage and transport	**(1 069)**	(994)	**(968)**	(887)
Repairs and maintenance	**(2 530)**	(2 358)	**(2 032)**	(1 876)
Research and development costs	**(143)**	(152)	**(143)**	(152)
Reversal/(write-down) of inventory to net realisable value	**59**	(187)	**(60)**	(57)
Auditors' remuneration	**(16)**	(15)	**(15)**	(13)
Audit fees	**(15)**	(12)	**(14)**	(11)
Other services and expenses	**(1)**	(3)	**(1)**	(2)
Allowance for doubtful debts recognised on trade receivables	**(2)**	10	**(2)**	10
Other allowances on trade receivables	**(39)**	(48)	**(39)**	(48)

Included in raw materials and consumables used is R176 million relating to the estimated impact of discounting.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
6. Finance and investment income				
Finance income				
Bank deposit and other interest income	**67**	9	**66**	9
Discount rate adjustment of the provisions	**101**	160	**101**	160
Investment income				
Dividends received	**–**	–	**154**	114
Interest received from jointly controlled entities	**8**	6	**1**	1
Total	**176**	175	**322**	284
7. Finance costs				
Interest expense on bank overdrafts and loans	**(493)**	(515)	**(487)**	(514)
Interest expense on finance lease obligations	**(32)**	(39)	**(17)**	(22)
Net foreign exchange losses on financing activities	**(35)**	(437)	**(22)**	(412)
Unwinding of the discounting effect on provisions	**(316)**	(217)	**(311)**	(213)
Total	**(876)**	(1 208)	**(837)**	(1 161)

No borrowing costs qualified for capitalisation during the current or comparative year.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
8. Impairment of other assets				
Impairment of equity-accounted investments	**(11)**	(8)	**(3)**	(8)
Impairment of investment in subsidiaries	**–**	–	**(1 326)**	(3 611)
Impairment of non-current asset held-for-sale	**–**	(302)	**–**	(308)
Reversal of impairment	**–**	–	**164**	1 667
Total	**(11)**	(310)	**(1 165)**	(2 260)

Impairment of equity-accounted investments

The impairment loss of R11 million at group represents R8 million relating to the write off of loans advanced to Coza Mining Proprietary Limited that are not recoverable and R3 million relating to the impairment of the investment in Microsteel Proprietary Limited. In 2015 the investment in ArcelorMittal Analytical Laboratories Proprietary Limited, a joint venture with Coal of Africa Ltd of R8 million was impaired.

Impairment of investment in subsidiaries

The impairment reversal of R164 million (2015: R1 667 million), relates to the investment in Vicva Investments and Trading Nine Proprietary Limited that was measured at fair value and reverses a previously recognised impairment loss. In 2015, 4.7% of the treasury shares held by Vicva were sold during the year for the purposes of the employee share ownership plan. In total, R1 667 million became recoverable and the impairment previously recognised was reversed.

The investment in Saldanha Steel Proprietary Limited was impaired by R1 320 million (2015: R2 731 million) to the value in use of the cash-generating unit which was its recoverable amount (refer to note 12 for significant judgements made).

Impairment losses of R6 million (2015: R6 million) relate to the impairment of the loan to subsidiary Oakwood Trading Proprietary Limited that is not recoverable.

Non-current asset held-for-sale

In 2015, the investment in Coza Mining Proprietary Limited of R308 million at company and R302 million at group was written down to its recoverable amount (value-in-use) of Rnil. The investment was impaired primarily due to depressed iron ore prices. The investment was subsequently reclassified to equity-accounted investments because it no longer met the definition of a non-current asset held-for-sale in terms of IFRS 5: *Non-current Assets Held for Sale.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
9. Income tax credit				
Income tax recognised in profit or loss				
Current tax expense	**(4)**	–	**–**	2
Adjustments recognised in the current year in relation to the current tax of prior years	**(15)**	–	**(11)**	–
	(19)	–	**(11)**	2
Deferred tax income relating to the origination and reversal of temporary differences	**–**	1 265	**–**	175
Adjustment recognised in the current year in relation to the deferred tax of prior years	**–**	(61)	**–**	(66)
Withholding tax on foreign dividend and securities transfer tax	**–**	(11)	**–**	(5)
Total	**(19)**	1 193	**(11)**	106
The total charge for the year can be reconciled to the accounting profit as follows:				
Loss before taxation	**(4 687)**	(9 828)	**(4 715)**	(8 997)
Income tax credit calculated at 28%	**1 312**	2 752	**1 320**	2 519
Effect of income that is non-taxable/exempt	**98**	519	**141**	32
Ferrosure Isle of Man income received	**98**	–	**43**	–
Other exempt income	**–**	519	**98**	32
Effect of expenses that are not deductible	**(365)**	(445)	**(695)**	(983)
Broad-based black economic empowerment deal	**(257)**	–	**(257)**	–
Competition Commission administrative penalty	**(22)**	(349)	**(22)**	(349)
Environmental provisions	**(107)**	3	**(107)**	3
Other non-deductible expenses	**21**	(99)	**(309)**	(637)
Effect of taxable income imputed from controlled foreign companies	**(76)**	(16)	**(76)**	(16)
Effect of (i) equity-accounted investments disclosed net of tax on the statement of comprehensive income; and (ii) the effect of different tax rates of subsidiaries operating in other jurisdictions	**36**	17	**–**	–
Adjustments recognised in the current year in relation to the current tax and deferred tax of the prior year	**(15)**	(61)	**(11)**	(66)
Deferred tax income relating to the origination and reversal of temporary differences	**(346)**	–	**(291)**	–
Effect of timing differences not recognised in the current year in relation to unrecognised deferred tax asset	**(663)**	(1 564)	**(399)**	(1 378)
VAT interest and penalties	**–**	2	**–**	3
Withholding tax on foreign dividend and securities transfer tax	**–**	(11)	**–**	(5)
Total income tax (expense)/credit	**(19)**	1 193	**(11)**	106
Taxation as a percentage of loss before taxation (%)	**0.40**	(12.10)	**0.20**	(1.20)

The effective tax rate of 0.4% (compared to the statutory rate of 28%) for the year ended 31 December 2016 is primarily as a result of not recognising the deferred tax asset on the available income tax losses and the impact of income tax recognised in relation to foreign controlled companies. This reduces the effective tax rate by approximately 98.6%. Management believes that the turnaround initiatives will result in the company 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.

The effective tax rate of negative 12.1% (compared to the statutory rate of 28%) for the year ended 31 December 2015 is primarily as a result of not recognising the deferred tax asset on the available tax losses reducing the effective tax to a receivable position.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

9. Income taxation credit continued

Deferred income tax liability

Deferred tax liabilities/(assets) arise from the following:

Group	Temporary differences							
	Property, plant, equipment and intangible assets Rm	Employee costs Rm	Provisions Rm	Doubtful debts Rm	Finance lease obligations Rm	Other Rm	Unused tax losses and credits Rm	Total Rm
2016								
Temporary differences								
At the beginning of the year	**2 050**	**(653)**	**(467)**	**(9)**	**(72)**	**(144)**	**(705)**	**–**
Charged to income	**(468)**	**493**	**25**	**(3)**	**18**	**(434)**	**370**	**–**
At the end of the year	**1 582**	**(160)**	**(442)**	**(12)**	**(54)**	**(578)**	**(336)**	**–**
2015								
Temporary differences								
At the beginning of the year	3 153	(40)	(546)	(7)	(97)	(32)	(1 227)	1 204
Charged to income	(1 103)	(613)	79	(2)	25	(112)	522	(1 204)
At the end of the year	2 050	(653)	(467)	(9)	(72)	(144)	(705)	–

Company	Temporary differences							
	Property, plant, equipment and intangible assets Rm	Employee costs Rm	Provisions Rm	Doubtful debts Rm	Finance lease obligations Rm	Other Rm	Unused tax losses and credits Rm	Total Rm
2016								
Temporary differences								
At the beginning of the year	**1 969**	**(654)**	**(451)**	**(7)**	**(44)**	**(84)**	**(730)**	**–**
Charged to income	**(414)**	**494**	**17**	**(5)**	**14**	**(427)**	**322**	**–**
At the end of the year	**1 555**	**(160)**	**(434)**	**(12)**	**(30)**	**(511)**	**(408)**	**–**
2015								
Temporary differences								
At the beginning of the year	1 996	(40)	(537)	(7)	(66)	(11)	(1 227)	108
Charged to income	(27)	(614)	86	–	22	(73)	497	(108)
At the end of the year	1 969	(654)	(451)	(7)	(44)	(84)	(730)	–

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Unrecognised deferred tax losses	**9 202**	5 599	**7 454**	4 921

Management believes that the turnaround initiatives will result in the company and group returning to profitability but also considers the timing and uncertainty of these initiatives. With the difficulty of accurately measuring the possible future effects, management believes it is premature to conclude at this stage that it is more likely than not for sufficient future taxable profits to be available against which the full proposed deferred tax asset can be utilised. Therefore, the recognition of the deferred tax asset is capped to the availability of deferred tax liabilities at the reporting date.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group	
	2016 Rm	2015 Rm
10. Loss per share		
Basic loss per share is calculated by dividing loss attributable to the owners of the company by the weighted average number of ordinary shares, after taking the effects of the rights issue and the B-BBEE transaction into account. Where appropriate adjustments are made in calculating diluted loss, headline and diluted headline loss per share		
Loss attributable to owners of the company (Rm)	**(4 706)**	(8 635)
Weighted average number of shares	**1 062 364 285**	401 201 877
Basic loss per share (cents)	**(443)**	(2 152)
Diluted loss per share is calculated by dividing the loss attributable to the owners of the company by the weighted average number of ordinary shares, held by third parties increased by the number of additional ordinary shares that would have been outstanding assuming the conversion of all outstanding share options/long-term incentive plan units representing dilutive potential ordinary shares. The B-BBEE transaction does not have a dilutive impact on the ArcelorMittal South Africa group shareholding.		
Loss attributable to owners of the company	**(4 706)**	(8 635)
Weighted average number of diluted shares	**1 062 364 285**	401 201 877
Diluted loss per share (cents)	**(443)**	(2 152)
The calculation for headline loss per share is based on the basic loss per share calculation, reconciled as follows:		
Headline loss per share		
Gross		
Loss before tax	**(4 687)**	(9 828)
Add: Impairment charges of property, plant and equipment	**2 143**	4 254
Add: Impairment of investments in joint ventures and associates	**11**	
Add: Loss on disposal or scrapping of property, plant and equipment	**–**	5
Less: Profit on disposal or scrapping of property, plant and equipment	**(51)**	–
Headline loss before tax	**(2 584)**	(5 569)
Net of tax		
Loss attributable to owners of the company	**(4 706)**	(8 635)
Add: Impairment charges of property, plant and equipment	**2 143**	3 261
Add: Impairment of investments in joint ventures and associates	**11**	
Add: Loss on disposal or scrapping of property, plant and equipment	**–**	4
Less: Profit on disposal or scrapping of property, plant and equipment	**(37)**	–
Headline loss net of tax	**(2 589)**	(5 370)
Headline loss per share (cents)		
Basic	**(244)**	(1 338)
Diluted	**(244)**	(1 338)
The weighted average number of shares used in the computation of diluted earnings per share was determined as follows:		
Shares in issue held by third parties		
Weighted average number of shares	**1 062 364 285**	401 201 877
Weighted average number of diluted shares	**1 062 364 285**	401 201 877

11. Dividend per share

Consistent with the group's dividend policy (payment of any dividend is subject to the discretion of the board. It will depend upon our earnings, financial condition, cash availability and capital requirements to sustain the business and support future growth). No dividends were declared for the 2016 and 2015 financial years.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

12. Property, plant and equipment

	Group							
	Land and buildings Rm	Buildings and infra-structure Rm	Machinery, plant and equipment Rm	Site preparation Rm	Asset retirement obligation Rm	Leased assets Rm	Con-struction in progress Rm	Total Rm
For the year ended 31 December 2016								
Carrying amount at the beginning of the year	**74**	**738**	**10 038**	**20**	**8**	**188**	**793**	**11 859**
Additions	**–**	**8**	**1 143**	**–**	**–**	**–**	**842**	**1 993**
Disposals	**(6)**	**–**	**(12)**	**–**	**–**	**–**	**–**	**(18)**
Depreciation	**–**	**(48)**	**(925)**	**(1)**	**(2)**	**(54)**	**–**	**(1 030)**
Impairment	**(16)**	**(159)**	**(1 959)**	**–**	**–**	**–**	**–**	**(2 134)**
Other movements	**–**	**15**	**302**	**–**	**(2)**	**–**	**(315)**	**–**
Carrying amount at the end of the year	**52**	**554**	**8 587**	**19**	**4**	**134**	**1 320**	**10 670**
At 31 December 2016								
Cost	**71**	**2 470**	**32 650**	**102**	**208**	**5 048**	**1 325**	**41 874**
Accumulated depreciation and impairment	**(19)**	**(1 916)**	**(24 063)**	**(83)**	**(204)**	**(4 914)**	**(5)**	**(31 204)**
Net carrying amount	**52**	**554**	**8 587**	**19**	**4**	**134**	**1 320**	**10 670**
For the year ended 31 December 2015								
Carrying amount at the beginning of the year	75	937	14 033	22	2	245	687	16 001
Additions	–	34	813	–	–	–	304	1 151
Disposals	–	–	(12)	–	–	–	–	(12)
Depreciation	–	(76)	(1 210)	(2)	(1)	(57)	–	(1 346)
Impairment	(1)	(177)	(3 752)	–	–	–	(5)	(3 935)
Other movements	–	20	166	–	7	–	(193)	–
Carrying amount at the end of the year	74	738	10 038	20	8	188	793	11 859
At 31 December 2015								
Cost	77	2 455	31 534	102	210	5 048	798	40 224
Accumulated depreciation and impairment	(3)	(1 717)	(21 496)	(82)	(202)	(4 860)	(5)	(28 365)
Net carrying amount	74	738	10 038	20	8	188	793	11 859

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

12. Property, plant and equipment continued

	Company							
	Land and buildings Rm	Buildings and infra-structure Rm	Machinery, plant and equipment Rm	Site preparation Rm	Asset retirement obligation Rm	Leased assets Rm	Con-struction in progress Rm	Total Rm
For the year ended 31 December 2016								
Carrying amount at the beginning of the year	**61**	**667**	**9 691**	**22**	**–**	**146**	**682**	**11 269**
Additions	**–**	**8**	**835**	**–**	**–**	**–**	**769**	**1 612**
Disposals	**(6)**	**–**	**(11)**	**–**	**–**	**–**	**–**	**(17)**
Depreciation	**–**	**(45)**	**(866)**	**(1)**	**–**	**(47)**	**–**	**(959)**
Impairment	**(12)**	**(150)**	**(1 552)**	**–**	**–**	**–**	**–**	**(1 714)**
Other movements	**–**	**16**	**153**	**–**	**–**	**–**	**(169)**	**–**
Carrying amount at the end of the year	**43**	**496**	**8 250**	**21**	**–**	**99**	**1 282**	**10 191**
At 31 December 2016								
Cost	**55**	**2 041**	**21 984**	**102**	**198**	**4 838**	**1 287**	**30 524**
Accumulated depreciation and impairment	**(12)**	**(1 545)**	**(13 734)**	**(81)**	**(198)**	**(4 739)**	**(5)**	**(20 333)**
Net carrying amount	**43**	**496**	**8 250**	**21**	**–**	**99**	**1 282**	**10 191**
For the year ended 31 December 2015								
Carrying amount at the beginning of the year	61	714	10 040	24	–	196	605	11 640
Additions	–	34	753	–	–	–	209	996
Disposals	–	–	(11)	–	–	–	–	(11)
Depreciation	–	(73)	(861)	(2)	–	(50)	–	(986)
Impairment	–	(22)	(343)	–	–	–	(5)	(370)
Other movements	–	14	113	–	–	–	(127)	–
Carrying amount at the end of the year	61	667	9 691	22	–	146	682	11 269
At 31 December 2015								
Cost	61	2 021	21 235	102	198	4 838	687	29 142
Accumulated depreciation and impairment	–	(1 354)	(11 544)	(80)	(198)	(4 692)	(5)	(17 873)
Net carrying amount	61	667	9 691	22	–	146	682	11 269

Land register and asset pledges

A register of land is available for inspection at the registered office of the company.

The group and company have not pledged property, plant and equipment to secure banking facilities granted.

Critical judgements and estimates

Useful lives and residual values of property, plant and equipment and intangible assets

The estimates of depreciation and amortisation rates and the residual lives of the assets are reviewed annually taking cognisance of:

- Forecast commercial and economic realities
- Benchmarking within the greater ArcelorMittal group

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

12. Property, plant and equipment continued

The useful lives of the classes of machinery, plant and equipment reflect current estimated life over which the group has the ability and intention to use such assets.

Useful life range	
Land	Not depreciated
Buildings	10 to 50 years
Steel plant equipment	15 to 30 years
Other facilities	15 to 30 years
Vehicles and general equipment	5 to 20 years
Non-integrated software	1 to 50 years
Patents	20 years

These useful lives represent management's current best estimates.

Impairment of assets

An impairment indicator assessment was performed on all cash-generating units (CGUs) of the group. Following this assessment, an impairment test was performed on all CGUs. In accordance with IAS 36: *Impairment of Assets*, an asset is impaired if the carrying amount of the asset is greater than the recoverable amount of the asset.

The recoverable amount of the unit was determined using a discounted cash flow model and an explicit forecast period of five years. These cash flows are US dollar-based with the resultant enterprise value being converted to ZAR at reporting date. To determine the terminal value the Gordon Growth Model was used and year five was taken into perpetuity. The outcome of the impairment test was that the Vanderbijlpark and Saldanha CGUs were impaired due to the strengthening of the rand/US dollar exchange rate which had a material impact on the terminal value when calculating the recoverable amount of the CGUs.

Included in profit and loss is an impairment of R2 143 million (2015: R3 935 million) for group and R1 723 million (2015: R370 million) for company allocated as follows:

- An impairment of R1 721 million (2015: Rnil) relating to the Vanderbijlpark CGU; R1 712 million was allocated to property, plant and equipment and R9 million intangible assets (refer to note 13)
- An impairment of R420 million (2015: R3 574 million) relating to the Saldanha CGU; R420 million (2015: R3 565 million) was allocated to property, plant and equipment and Rnil (2015: R9 million) to intangible assets (refer to note 13)
- An impairment of R2 million (2015: R370 million), was recognised for redundant assets of the Vaal Meltshop and certain assets of the Forge at Vereeniging Works being placed under care and maintenance

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

	Saldanha		Long products		Vanderbijlpark	
	2016	2015	**2016**	2015	**2016**	2015
Major assumptions						
Post-tax Wacc/discount rate (% USD-based)**	**12.38**	10.98	**12.38**	10.98	**12.38**	10.98
Growth rate (% USD-based)	**2**	2	**2**	2	**2**	2
Exchange rate range (ZAR/USD)*	**14.68 – 15.78**	13.50 – 18.44	**14.68 – 15.78**	13.50 – 18.44	**14.68 – 15.78**	13.50 – 18.44
Steel sales price range (average – USD/t)*	**445 – 480**	404 – 454	**548 – 593**	521 – 622	**616 – 639**	563 – 689
Sales volume range (kt)*	**1 106**	548 – 1 080	**1 483 – 1 573**	1 458 – 1 588	**2 235 – 2 621**	2 320 – 2 455
Capex accumulated (2017 – 2021), USDm*	**106**	167	**179**	295	**426**	439

* *Lowest to highest range over the initial period of 2017 to 2021 (2015: 2016 to 2020).*
** *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.*

The Vanderbijlpark and Saldanha CGUs were impaired primarily due to the strengthening of the rand against the US dollar.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

12. Property, plant and equipment continued

Sensitivities relating to the Saldanha and Vanderbijlpark CGUs

	Saldanha		Long products		Vanderbijlpark	
	2016		2016		2016	
	Coverage* %	Impact on coverage %	Coverage* %	Impact on coverage %	Coverage* %	Impact on coverage %
Coverage on the base – basket pricing	62		104		82	
Impact on coverage – % change from the base model						
5% stronger exchange rate per annum from 2018	–	(62)	104	–	37	(45)
10% decrease in forecast sales volumes	–	(62)	104	–	33	(49)
5% reduction in basket pricing	–	(62)	104	–	24	(58)

** Coverage represents the recoverable amount as a % over the carrying amount.*

13. Intangible assets

	Group		
	Patents Rm	Non-integrated computer software Rm	Total Rm
For the year ended 31 December 2016			
Carrying amount at the beginning of the year	2	110	112
Additions	–	25	25
Other movements	–	–	–
Amortisation	(2)	(23)	(25)
Impairment	–	(9)	(9)
Carrying amount at the end of the year	–	103	103
At 31 December 2016			
Cost	38	411	449
Accumulated amortisation and impairment	(38)	(308)	(346)
Net carrying amount	–	103	(103)
For the year ended 31 December 2015			
Carrying amount at the beginning of the year	9	126	135
Additions	–	11	11
Other movements	–	(2)	(2)
Amortisation	(2)	(21)	(23)
Impairment	(5)	(4)	(9)
Carrying amount at the end of the year	2	110	112
At 31 December 2015			
Cost	38	386	424
Accumulated amortisation and impairment	(36)	(276)	(312)
Net carrying amount	2	110	112

No intangible assets have restricted titles or have been pledged as security in the current year.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

13. Intangible assets continued

Intangible assets

An impairment of R9 million (2015: Rnil) was allocated to the intangible assets of Vanderbijlpark Works and Rnil (2015: R9 million) for Saldanha, relating to the impairment of the Vanderbijlpark and Saldanha cash-generating units (refer to note 12).

	Company	
	Non-integrated software Rm	Total Rm
For the year ended 31 December 2016		
Carrying amount at the beginning of the year	**108**	**108**
Additions	**25**	**25**
Other movements	**–**	**–**
Amortisation	**(22)**	**(22)**
Impairment	**(9)**	**(9)**
Carrying amount at the end of the year	**102**	**102**
At 31 December 2016		
Cost	**396**	**396**
Accumulated amortisation and impairment	**(294)**	**(294)**
Net carrying amount	**102**	**102**
For the year ended 31 December 2015		
Carrying amount at the beginning of the year	120	120
Additions	11	11
Other movements	(3)	(3)
Amortisation	(20)	(20)
Impairment	–	–
Carrying amount at the end of the year	108	108
At 31 December 2015		
Cost	371	371
Accumulated amortisation and impairment	(263)	(263)
Net carrying amount	108	108

No intangible assets have restricted titles or have been pledged as security in the current year.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

14. Equity-accounted investments

Details of the company's material associates and jointly controlled entities are as follows:

Name of the entity	Principal activity	Place of incorporation	Proportion ownership interest and voting power	
Joint venture			**2016**	2015
Macsteel International Trading BV	Steel trading and shipping	Netherlands	**50%**	50%

Summarised financial information

Associates

	Other associates	
Aggregate information of associates not individually material		
Profit after tax	**4**	3
Share of total comprehensive income	**4**	3
Aggregate carrying amount		
Group	**38**	33
Company	**16**	16

Summarised financial information

Joint venture

The summarised financial information below is in respect of the group's only material joint venture. The summarised financial information below represents amounts shown in the entity's annual financial statements for the year ended 31 December, adjusted by the group for equity accounting purposes.

	Macsteel International Trading BV	
	2016 Rm	2015 Rm
Current assets	**8 633**	11 016
Non-current assets	**5 082**	5 717
Current liabilities	**(4 247)**	(6 164)
Non-current liabilities	**(554)**	(776)
Net assets	**8 915**	9 793
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**1 043**	2 058
Current financial liabilities (excluding trade, other payables and provisions)	**(1 924)**	(3 768)
Current non-financial liabilities (excluding trade, other payables and provisions)	**(4)**	(43)
Revenue	**32 584**	34 723
Profit after tax	**212**	411
Other comprehensive income	**138**	116
Total comprehensive income	**350**	527
Profit for the year includes the following:		
Depreciation and amortisation	**(16)**	(13)
Interest income	**165**	169
Interest expense	**(124)**	(124)
Income tax expense	**(54)**	(69)
Reconciliation of the net assets to the carrying amount		
Net assets of the joint venture	**8 915**	9 793
Ownership interest	**50%**	50%
Carrying amount	**4 458**	4 896

Comprehensive income items were converted from USD to ZAR using the average exchange rate of the year while financial position items were converted using the closing exchange rate at year-end.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

14. Equity-accounted investments continued

Summarised financial information continued

Joint venture continued

	Other joint ventures	
	2016 Rm	2015 Rm
Aggregate information of joint ventures not individually material		
Profit/(loss) after tax	**7**	(4)
Share of other comprehensive income	**–**	–
Dividend paid	**–**	–
Share of total comprehensive income	**7**	(4)
Aggregate carrying amount	**172**	160
Total carrying amount of equity-accounted joint ventures and associates		
Group	**4 667**	5 090
Company	**168**	169

No significant judgements and assumptions have been made in determining whether ArcelorMittal South Africa had joint control or significant influence for any of its investments in joint ventures and associates. This was determined through direct shareholding and joint venture agreements where applicable.

15. Investments in subsidiaries

	Company	
	2016 Rm	2015 Rm
Shares at cost	**241**	241
Indebtedness	**1 036**	855
by subsidiaries	**1 036**	949
to subsidiaries	**–**	(94)
Total	**1 277**	1 096
Aggregate attributable after tax losses	**(1 147)**	(3 376)

The carrying value of the company's investment in subsidiaries consists largely of its investment in Saldanha Steel Proprietary Limited, being the cost of shares and indebtedness, at the initial and subsequent acquisition dates.

Critical judgements and estimates

Consolidation of structured entities

Certain non-core services and corporate social development activities of the company are managed via two associations not for gain, namely the Vesco group and Vesco Community Enterprises. While the company has de facto control over both entities, these entities are not consolidated within the group accounts because they are not material to the group.

Likewise, the results of the ArcelorMittal Foundation Trust, a public benefit organisation, are not included in the consolidated results of the group.

Iscor Management Share Trust is consolidated into the group results, with the cost of open-market share purchases being included as a debit to the group's equity.

Ikageng Broad-Based Employee Share Trust

In 2015 the Ikageng Broad-Based Employee Share Trust (Ikageng) was created to give effect to the Employee Share Ownership Plan (ESOP). Ikageng holds the investment in shares in ArcelorMittal South Africa for the benefit of the company's employees, until such time that they vest. The ESOP was created by ArcelorMittal South Africa to facilitate black economic empowerment and meaningful wealth for its employees. The trust is controlled by ArcelorMittal South Africa and is therefore consolidated in accordance with IFRS 10: *Consolidated Financial Statements.*

In the prior year, the shares in ArcelorMittal South Africa Ltd were obtained from the treasury shares (4.7%) held by Vicva Trading Nine Investments Proprietary Limited (Vicva), through a contribution from the company. Ikageng, subsequent to the rights issue owns 1.45% of ArcelorMittal South Africa Ltd.

Isabelo Empowerment Share Trust and Amandla we Nsimbi Proprietary Limited

In 2016 the Isabelo Empowerment Share Trust and Amandla we Nsimbi Proprietary Limited were created as part of the company's initiative to transform ArcelorMittal South Africa in order to achieve sustainable ownership by black people. In terms of the scheme ArcelorMittal South Africa issued empowerment shares to Amandla we Nsimbi Proprietary Limited and the Isabelo Share Trust (representing 17% and 5.1%, respectively, of the voting rights in ArcelorMittal South Africa through a notional loan. Both the trust and company are controlled by ArcelorMittal South Africa and are therefore consolidated in terms of IFRS 10: *Consolidated Financial Statements.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

15. Investments in subsidiaries continued

				Interest of company			
	Country of incorporation[1]	Reporting currency	Number of ordinary shares issued	Shares at cost 2016 R	Shares at cost 2015 R	Indebtedness 2016 R	Indebtedness 2015 R
Property							
Yskor Landgoed (Pty) Ltd[2]	RSA	ZAR	4 000	**4 000**	4 000	**–**	(94)
Manufacturing							
Iscor Building Systems (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	–
Saldanha Steel (Pty) Ltd[3]	RSA	ZAR	2 000	**1 009**	1 009	**689**	766
Mining							
Oakwood Trading 21 (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	–
Service							
MSSA Investments BV	NEH	USD	134 669	**241 105 200**	241 105 200	**–**	–
Pybus Fifty-Seven (Pty) Ltd	RSA	ZAR	1	**1 000**	1 000	**–**	1
Vicva Investments and Trading Nine (Pty) Ltd	RSA	ZAR	1	**1 000**	1 000	**270**	106
Dombotema Mining Investments (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	–
ArcelorMittal South Africa Distribution (Pty) Ltd	RSA	ZAR	100	**100**	100	**77**	76
ArcelorMittal African Investments	Mauritius	USD	100	**716**	716	**–**	–
ArcelorMittal South Africa Operations (Pty) Ltd	RSA	ZAR	1	**1**	1	**–**	–
Total				**241 113 326**	241 113 326	**1 036**	855

[1] *RSA – Republic of South Africa and NEH – The Netherlands.*

[2] *In the current year, Yskor Landgoed Proprietary Limited distributed the loan receivable balance of R94 million to ArcelorMittal South Africa as a liquidation dividend.*

[3] *The indebtedness amount includes the shareholders' loan of R3 462 million (2015: R4 922 million) and intercompany balances in favour of Saldanha Steel Proprietary Limited of R2 773 million (2015: R4 156 million).*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
16. Other financial assets				
Non-current				
Available-for-sale (AFS) investments carried at fair value				
Equity instruments	**79**	78	**72**	69
Loans and receivables				
Amortised cost				
Ferrosure Isle of Man Insurance Captive	**315**	495	**315**	495
Total	**394**	573	**387**	564
Current				
Financial assets carried at FVTPL				
Held-for-trading	**46**	38	**46**	32
Total	**46**	38	**46**	32

Critical judgements and estimates

AFS investments

Hwange Colliery Company Ltd

The company holds 10% of the ordinary share capital of Hwange Colliery Company Ltd, a coal, coke and by-products producer in Zimbabwe. The shares of Hwange Colliery Company Ltd are traded on the dollarised Zimbabwe Stock Exchange. The carrying amount of the investment represents its market value at the reporting date of R7 million (2015: R9 million).

Coal of Africa Ltd

The company holds 126 133 423 shares (6.54%) in Coal of Africa Ltd, a company primarily listed on the Australian Stock Exchange and dually listed on the Johannesburg Stock Exchange. The shares are valued at a fair value of R0.57 per share and therefore are valued at the market value of R72 million (2015: R69 million).

Amortised cost

Ferrosure Isle of Man

The investment in Ferrosure Isle of Man represents the company's insurance captive situated in the Isle of Man.

Held-for-trading

Foreign exchange contracts

Financial instruments classified as "held-for-trading" represent gains on foreign exchange contracts (FECs).

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
17. Inventories				
Finished products	**2 975**	2 665	**2 648**	2 370
Work-in-progress	**4 323**	3 773	**4 137**	3 603
Raw materials	**3 028**	2 091	**2 637**	1 844
Plant spares and consumable stores	**948**	856	**774**	686
Total	**11 274**	9 385	**10 196**	8 503

Vereeniging Works

In 2015, inventory, mainly consumable stock of R51 million was written down to its net realisable value of Rnil due to the Vaal Meltshop and certain areas of the forge being placed under care and maintenance.

Thabazimbi run of mine stock

Due to the closure of the Thabazimbi mine in 2015, the company and group adjusted the run of mine stock of R297 million to its net realisable value of R64 million resulting in an impairment of Rnil (2015: R233 million). Included in the inventory balance in the current year was run of mine stock carried at its net realisable value of R51 million.

Inventory at net realisable value

Included in the above are finished products of R682 million (2015: R1 054 million), work-in-progress of R353 million (2015: R931 million) and raw materials of R1 476 million (2015: R1 612 million) carried at net realisable value.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
18. Trade and other receivables				
Trade receivables				
Local	**1 601**	1 153	**1 401**	1 074
Exports	**177**	293	**177**	166
Total gross trade receivables	**1 778**	1 446	**1 578**	1 240
Allowance for doubtful debts				
Local	**(4)**	(2)	**(4)**	(2)
Exports	**–**	–	**–**	–
Total allowances for doubtful debts	**(4)**	(2)	**(4)**	(2)
Other allowances				
Local	**(382)**	(273)	**(382)**	(273)
Exports	**(4)**	(74)	**(4)**	(74)
Total other allowances	**(386)**	(347)	**(386)**	(347)
Net trade receivables				
Local	**1 215**	878	**1 015**	799
Exports	**173**	219	**173**	92
Total net trade receivables	**1 388**	1 097	**1 188**	891
Other receivables				
Other receivables	**306**	314	**341**	261
Rebates	**–**	71	**–**	71
Allowance for doubtful debts on other receivables	**(56)**	(33)	**(51)**	(31)
Net value added tax receivable	**136**	217	**90**	150
Total other receivables	**386**	569	**380**	451
Total	**1 774**	1 666	**1 568**	1 342
Average credit period for trade receivables				
The sectoral split of the average credit period (in days) on sale of goods is as follows:				
Local	**37**	39	**38**	39
Exports	**19**	22	**19**	25

No interest is charged on trade receivables for the first 30 days from date of statement. Thereafter, interest is charged at prime +3% per annum on the outstanding balance.

Other receivables relate primarily to by-product sales, site rental due, prepayments, staff education and bursary loans. In determining the recoverability of trade and other receivables, the group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
Age of receivables past due and not impaired				
30 – 60 days	**224**	114	**224**	114
60 – 90 days	**41**	18	**41**	18
90 – 180 days	**9**	7	**9**	7
>180 days	**4**	15	**4**	15
Total	**278**	154	**278**	154

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

18. Trade and other receivables continued

The following allowances exist:

Allowance for doubtful debts, which is based on the ageing and recoverability of receivables. Customers handed over for collection are fully provided for unless insured, in which case the participation percentage of the insurer is deducted. Overdue customers without cover are fully provided for.

Other allowances relate to settlement discounts, price, quality, dispatch and related claims for which credit notes still have to be issued.

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Movement in inventory prepayment				
Opening balance	**–**	132	**–**	132
Deferred stripping in the period	**–**	436	**–**	436
Derecognition charge	**–**	(568)	**–**	(568)
Total	**–**	–	**–**	–
Inventory prepayments made in the year 2015 represented the contribution ArcelorMittal South Africa made towards the stripping costs of the Sishen mine in terms of the settlement and supply agreement. In accordance with the amended pricing formulae in the final signed agreement, ArcelorMittal South Africa paid a market price (EPP) for iron ore and as a result no further prepayments towards stripping costs were made. The asset of R568 million was therefore derecognised and written off.				
Movement in other allowances				
Balance at the beginning of the year	**(347)**	(299)	**(347)**	(299)
Allowances raised	**(1 683)**	(1 292)	**(1 677)**	(1 292)
Allowances utilised	**1 644**	1 244	**1 638**	1 244
Closing balance	**(386)**	(347)	**(386)**	(347)
An allowance is also made for doubtful debts on other receivables that are more than 90 days overdue.				
Movement in allowances for doubtful debts on other receivables				
Balance at the beginning of the year	**(32)**	(22)	**(31)**	(20)
Impairment losses recognised	**(49)**	(19)	**(44)**	(18)
Amounts recovered during the year	**25**	8	**24**	7
Closing balance	**(56)**	(33)	**(51)**	(31)
Age of impaired trade receivables				
30 – 120 days	**–**	–	**–**	–
120 – 180 days	**–**	–	**–**	–
> 180 days	**(4)**	(2)	**(4)**	(2)
Total	**(4)**	(2)	**(4)**	(2)

Trade receivables with a carrying amount of R1 654 million (2015: R1 520 million) were transferred (sold) to unrelated third parties. This amount represents the outstanding receivables that were sold at 31 December 2016. This is referred to as the True Sales of Receivables (TSR) programme. At the date of sale, ArcelorMittal South Africa transfers control and substantially all risks and rewards normally associated with ownership of these receivables. Therefore these trade receivables were derecognised at the date of sale. Expenses incurred under the TSR programme (reflecting the discount granted to the acquirers of the accounts receivable) recognised in the statement of comprehensive income for the year ended 31 December 2016 is R92 million (2015: R68 million).

Included in trade receivables is a credit balance of R653 million (2015: R664 million) relating to factored debtors invoices that were not yet due.

Trade receivables balance included an estimated amount of R8 million relating to effect of discounting as a result of delayed payments by customers.

The credit risk management policy sets out the framework within which the customer credit risk is managed.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

18. Trade and other receivables continued

The objectives of the credit risk management policy are to:

- Increase sales through investing in the customer base
- Avoid extensions that could lead to financial distress and default by customers
- Maintain productive customer relationships within the framework of prudent risk management
- Optimising cash collection periods
- Diversifying credit exposure over a broad client base

The credit policy risk management is enacted by the credit management department. Credit management ensures that credit extension and management are conducted within the approved frameworks, and adequately assesses and reports all credit exposures, which include the maintenance of appropriate collateral, financial guarantees and credit insurance.

Customer credit risk is assessed on a group-wide basis and refers to the risk that a customer will default on its contractual obligations resulting in financial loss to the group.

Each customer's credit profile is determined by taking into account the customer's financial position, payment record, guarantees and other relevant information. Credit limits are monitored regularly and credit exposures are monitored on a daily basis.

Credit insurance is underwritten by Credit Guarantee Insurance Corporation of Africa Ltd under three different policies with a maximum liability of R3.8 billion on the largest policy. The insurance excess ranges from zero to 10%.

The group and company are exposed to three main customers. These top three customers operate in the domestic market. The table below details the cumulative credit limit and balances (both inclusive of value added tax) of the top three customers at the statement of financial position date for the group and company:

		Credit limit		Balance	
Customer	Rating	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Top three customers by sales for the year					
Outstanding balance	B	**2 200**	1 450	**729**	543
% of net trade receivables					
Group				**53%**	49%
Company				**61%**	61%

Macsteel International BV does not have a credit limit. The outstanding customer balance was R433 million (2015: R185 million).

	Group		Company	
	2016 %	2015 %	**2016 %**	2015 %
Credit risk exposure by class for the group and company is:				
Local	**88**	80	**85**	90
Exports	**12**	20	**15**	10
Total	**100**	100	**100**	100

19. Cash and cash equivalents

	Group 2016	Group 2015	Company 2016	Company 2015
Cash and bank balances	**1 499**	2 164	**1 490**	2 150
Restricted cash	**161**	–	**161**	–
Total	**1 660**	2 164	**1 651**	2 150

For the purposes of the statements of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding overdrafts.

Restricted cash of R161 million (2015: Rnil) relates to cash that has been set aside for the purposes of the environmental rehabilitation obligation as detailed in note 22.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
20. Stated capital				
Shares issued				
Ordinary shares at no par value	**4 537**	37	**4 537**	37
A1 ordinary shares at no par value*	**–**	–	**–**	–
A2 ordinary shares at no par value*	**–**	–	**–**	–
Total	**4 537**	37	**4 537**	37

** Value less than R1 million.*

	Number of shares	Number of shares	**Number of shares**	Number of shares
Reconciliation of authorised shares				
Ordinary shares at no par value	**1 200 000 000**	1 200 000 000	**1 200 000 000**	1 200 000 000
"A" ordinary shares	**316 212 359**	–	**316 212 359**	–
A1 ordinary shares at no par value	**243 240 276**	–	**243 240 276**	–
A2 ordinary shares at no par value	**72 972 083**	–	**72 972 083**	–
"C" redeemable preference shares	**2 357 584**	2 357 584	**2 357 584**	2 357 584
	1 518 569 943	1 202 357 584	**1 518 569 943**	1 202 357 584
Issued shares				
Ordinary shares of no par value	**1 138 059 825**	445 752 132	**1 138 059 825**	445 752 132
A1 ordinary shares of no par value	**243 240 276**	–	**243 240 276**	–
A2 ordinary shares of no par value	**72 972 083**	–	**72 972 083**	–
Total shares issued	**1 454 272 184**	445 752 132	**1 454 272 184**	445 752 132
Reconciliation of shares issued to shares outstanding				
Total ordinary shares issued	**1 454 272 184**	445 752 132	**1 454 272 184**	445 752 132
Less: Shares held in reserve/trust	**(360 762 614)**	(44 550 255)	**(360 762 614)**	(44 550 255)
Vicva Investments and Trading Nine Proprietary Limited	**(23 447 036)**	(23 447 036)	**(23 447 036)**	(23 447 036)
Ikageng Broad-Based Employee Share Trust	**(21 103 219)**	(21 103 219)	**(21 103 219)**	(21 103 219)
Amandla we Nsimbi Proprietary Limited	**(243 240 276)**	–	**(243 240 276)**	–
Isabelo Employee Share Trust	**(72 972 083)**	–	**(72 972 083)**	–
Total shares outstanding	**1 093 509 570**	401 201 877	**1 093 509 570**	401 201 877

The unissued ordinary shares are not under the control of the directors.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

20. Stated capital continued

Ordinary shares

Ordinary shares increased due to the rights issue in January 2016. The company successfully completed the rights issue which generated R4 500 million in cash. The funds were used to settle the company's debt as part of its strategy to convert short-term borrowing facilities to medium term. There was no bonus element for the rights issue, therefore the number of shares were adjusted prospectively.

A1 and A2 shares

The B-BBEE transaction was successfully completed towards the end of the year. The shareholders approved the issue of A1 and A2 ordinary shares. The B-BBEE company Amandla we Nsimbi Proprietary Limited whose shares are owned by broad-based black consortium, Likamva Resources, subscribed for 243 240 276 A1 ordinary shares in ArcelorMittal South Africa Ltd, representing 17% of the voting rights in ArcelorMittal South Africa. A1 ordinary shares were issued at a nominal value through a notional loan structure. Likamva Resources is initially the only shareholder but has undertaken to introduce a broad-based party with an interest in the community as shareholders in the B-BBEE company within 24 months post the implementation of the B-BBEE transaction, such that an indirect effective shareholding of 5% is achieved by the broad-based party.

The Isabelo Broad-Based Employee Share Trust will subscribe for 72 972 083 A2 ordinary shares in ArcelorMittal South Africa, representing 5.1% of the voting rights in ArcelorMittal South Africa. A2 ordinary shares are also issued at a nominal value through a notional loan structure.

Analysis of shareholding

The analysis of ordinary shareholders below represents a summary of beneficial shareholders with a holding greater than 3% of issued shares as at 31 December 2016:

	2016 Number of shareholdings	2016 % of shares in issue	2015 Number of shareholdings	2015 % of shares in issue
Beneficial shareholder				
ArcelorMittal Holdings AG	771 489 400	53.05	208 700 402	46.82
Amandla we Nsimbi Proprietary Limited	243 240 276	16.73	–	–
Industrial Development Corporation	93 044 068	6.40	35 252 586	7.91
Isabelo Employee Share Trust	72 972 083	5.02	–	–
Government Employees Pension Fund	59 424 141	4.09	24 608 405	5.52
Investec Asset Management	48 449 137	3.33	37 817 279	8.48
Coronation fund managers	–	–	27 313 841	6.13
Vicva Investments and Trading Nine Proprietary Limited	23 447 036	1.61	23 447 036	5.26
	1 312 066 141	90.30	357 139 549	80.12

Of the issued shares, Ikageng Broad-Based Employee Share Trust holds 1.5% (2015: 4.7%) and Vicva Investments and Trading Nine Proprietary Limited owns 1.6% (2015: 5.2%). Amandla we Nsimbi Proprietary Limited and the Isabelo Empowerment Share Trust hold 100% of the A1 ordinary and A2 ordinary shares representing 17.0% and 5.1% shareholding respectively. Ikageng holds the shares in the company for the benefit of the employees until such time that they vest. Vicva Investments and Trading Nine Proprietary Limited, Ikageng Employee Share Trust, Amandla we Nsimbi Proprietary Limited, Isabelo Empowerment Share Trust are all subsidiaries of the company and the shares held by them are treated as treasury shares for accounting purposes.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
21. Finance lease obligations				
Secured – at amortised cost				
Non-current	**124**	193	**57**	109
Current	**70**	63	**51**	47
Total	**194**	256	**108**	156
The finance leases are embedded within supply arrangements with suppliers and have been assessed in terms of IFRIC 4: *Determining Whether an Arrangement Contains a Lease.*				
Maturity profile				
At 31 December				
Minimum lease payments				
Not later than one year	**93**	94	**62**	64
Later than one year and not later than five years	**145**	219	**65**	127
Later than five years	**13**	31	**–**	–
Total	**250**	344	**127**	191
Future finance charges	**(56)**	(88)	**(19)**	(35)
Present value of minimum lease payments	**194**	256	**108**	156

The lease liabilities are effectively secured, as the rights to the leased assets which are embedded in the supply agreements would generally revert to the lessor or supplier in the event of default.

There were no breaches or defaults in contracts during the current or comparative year.

Functional category	Term expiry	Effective interest rate (fixed)
Gases	2017 – 2019	10.41% – 22.00%
Electricity and transport utilities	2018 – 2022	15.80% – 18.25%
Steel processing and foundry services	2017 – 2018	8.16%

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

22. Provisions

	Competition Commission Rm	Asset retirement obligation Rm	Environ-mental remediation Rm	Onerous contracts Rm	Thabazimbi mine closure Rm	Other Rm	Total Rm
Group							
For the year ended 31 December 2016							
At the beginning of the year	1 245	180	1 481	187	281	62	3 436
Charge to the statement of comprehensive income	77	29	505	(150)	(105)	11	367
Additions and scope changes	(31)	12	425	(160)	(105)	11	152
Discount rate change	(30)	(7)	(62)	(2)	–	–	(101)
Unwinding of the discount effect	138	24	142	12	–	–	316
Utilised during the year	–	(10)	(58)	(24)	(176)	(38)	(306)
Asset retirement obligation scope changes	–	(2)	–	–	–	–	(2)
Reclassification to financial liabilities	(1 322)	–	–	–	–	–	(1 322)
At the end of the year	–	197	1 928	13	–	35	2 173
Non-current	–	151	1 713	3	–	5	1 872
Current	–	46	215	10	–	30	301
Total	–	197	1 928	13	–	35	2 173
Company							
For the year ended 31 December 2016							
At the beginning of the year	1 245	165	1 481	148	281	60	3 380
Charge to the statement of comprehensive income	77	27	505	(139)	(105)	11	376
Additions and scope changes	(31)	12	425	(146)	(105)	11	166
Discount rate change	(30)	(7)	(62)	(2)	–	–	(101)
Unwinding of the discount effect	138	22	142	9	–	–	311
Utilised during the year	–	(11)	(58)	(9)	(176)	(37)	(291)
Reclassification to financial liabilities	(1 322)	–	–	–	–	–	(1 322)
At the end of the year	–	181	1 928	–	–	34	2 143
Non-current	–	135	1 713	–	–	5	1 853
Current	–	46	215	–	–	29	290
Total	–	181	1 928	–	–	34	2 143

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

22. Provisions continued

	Tshikondeni mine Rm	Competition Commission Rm	Asset retirement obligation Rm	Environ-mental remediation Rm	Onerous contracts Rm	Thabazimbi mine closure Rm	Other Rm	Total Rm
Group								
For the year ended 31 December 2015								
At beginning of year	162	–	189	1 619	214	–	107	2 291
Charge to the statement of comprehensive income	(23)	1 245	(13)	(65)	33	449	42	1 668
Additions and scope changes	(23)	1 245	(21)	(105)	23	449	42	1 610
Discount rate change	–	–	(12)	(137)	(10)	–	–	(159)
Unwinding of the discount effect	–	–	20	177	20	–	–	217
Utilised during the year	(139)	–	(3)	(73)	(60)	(168)	(87)	(530)
Asset retirement obligation scope changes	–	–	7	–	–	–	–	7
At end of year	–	1 245	180	1 481	187	281	62	3 436
Non-current	–	1 245	151	1 367	122	–	10	2 895
Current	–	–	29	114	65	281	52	541
Total	–	1 245	180	1 481	187	281	62	3 436

	Tshikondeni mine Rm	Competition Commission Rm	Asset retirement obligation Rm	Environ-mental remediation Rm	Onerous contracts Rm	Thabazimbi mine closure Rm	Other Rm	Total Rm
Company								
For the year ended 31 December 2015								
At beginning of year	162	–	182	1 619	187	–	107	2 257
Charge to the statement of comprehensive income	(23)	1 245	(15)	(65)	12	449	40	1 643
Additions and scope changes	(23)	1 245	(21)	(105)	4	449	40	1 589
Discount rate change	–	–	(12)	(137)	(10)	–	–	(159)
Unwinding of the discount effect	–	–	18	177	18	–	–	213
Utilised during the year	(139)	–	(2)	(73)	(51)	(168)	(87)	(520)
At end of year	–	1 245	165	1 481	148	281	60	3 380
Non-current	–	1 245	136	1 367	107	–	10	2 865
Current	–	–	29	114	41	281	50	515
Total	–	1 245	165	1 481	148	281	60	3 380

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

22. Provisions continued

Maturity profile

The present value maturity profile of the provisions is set out in the table below:

	Asset retirement obligation Rm	Environmental remediation Rm	Onerous contracts Rm	Other Rm	Total Rm
Group					
At 31 December 2016					
Less than one year	46	215	10	30	301
More than one year, less than five years	107	1 032	3	5	1 147
Greater than five years	44	681	–	–	725
Total	197	1 928	13	35	2 173
Company					
At 31 December 2016					
Less than one year	46	215	–	29	290
More than one year, less than five years	104	1 032	–	5	1 141
Greater than five years	31	681	–	–	712
Total	181	1 928	–	34	2 143

	Tshikondeni mine Rm	Competition Commission Rm	Asset retirement obligation Rm	Environ-mental remediation Rm	Onerous contracts Rm	Thabazimbi mine closure Rm	Other Rm	Total Rm
Group								
For the year ended 31 December 2015								
Less than one year	–	–	29	114	65	281	52	541
More than one year less than five years	–	1 245	118	779	122	–	10	2 274
Greater than five years	–	–	33	588	–	–	–	621
Total	–	1 245	180	1 481	187	281	62	3 436
Company								
At 31 December 2015								
Less than one year	–	–	29	114	41	281	50	515
More than one year less than five years	–	1 245	110	779	107	–	10	2 251
Greater than five years	–	–	26	588	–	–	–	614
Total	–	1 245	165	1 481	148	281	60	3 380

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

22. Provisions continued

Competition Commission
The company has since engaged with the Competition Commission and a detailed settlement agreement has been finalised. Based on the draft settlement agreement, a provision of R1 245 million was raised in 2015, representing the present value of a proposed administrative penalty of R1 500 million. The provision was adjusted for interest rate changes in the prime rate of interest and the unwinding of the discount. Following finalisation of the matter the provision was reclassified to financial liabilities.

Asset retirement obligation and environmental remediation obligation provisions
Environmental obligations consist of asset retirement obligations and environmental remediation obligations.

Environmental remediation obligations represent the present value of the cost of remedial action to clean up and secure a site. These actions are primarily attributable to legacy waste disposal activities. Legal obligations exist to remediate these facilities.

Estimating the future cash flows associated with these obligations and the related asset components is complex. In particular, judgement is required in distinguishing between asset retirement obligations and environmental remediation obligations.

Existing laws and guidelines are not always clear as to the required end-state situation. The provisions are also affected by changing technologies, environmental, safety, business and legal considerations.

Management assesses long-term operational plans, technological and legislative developments, guidelines issued by the authorities, advice from external environmental experts, and computations provided by quantity surveyors in order to derive an estimated future cash flow profile to serve as basis for the computation of the obligations and related assets.

The asset retirement obligations represent management's best estimate of the present value of costs that will be required to retire plant and equipment. The majority of the obligation relates to ancillary plant and equipment that will be retired as part of the clean up and closure of those facilities to be remediated via the environmental remediation obligation. The net carrying amount of the asset retirement obligation asset component, included in note 12, amounts to R4 million (2015: R8 million) for the group and Rnil (2015: Rnil) for the company.

The term of the obligation assessment varies according to the site. The maximum term is 12 years.

Thabazimbi environmental rehabilitation
Included in the environmental rehabilitation provision is a provision for rehabilitation of R830 million (2015: R450 million) for the rehabilitation of the Thabazimbi mine. In terms of the amended and restated settlement and supply agreement between Sishen Iron Ore Company (SIOC) and ArcelorMittal South Africa Ltd, ArcelorMittal South Africa Ltd is liable for the costs relating to the rehabilitation of SIOC's Thabazimbi iron ore mine for the duration that it was a captive mine. The mine ceased to be a captive mine on 1 January 2014. ArcelorMittal South Africa Ltd is required to fund its obligation through bank guarantees and/or cash in a trust fund maintained by SIOC. ArcelorMittal South Africa Ltd recognised a further provision for an additional amount of R380 million, based on a revised assessment of the expected rehabilitation costs received from SIOC. However, SIOC rehabilitation cost projection is not in line with the assessment performed by ArcelorMittal South Africa's independent consultants.

In the meantime, ArcelorMittal South Africa has entered into an interim agreement with SIOC, to take over the Thabazimbi mine subject to certain conditions and including a due diligence review. If the conditions have not been satisfied by 28 April 2017 (or a later date agreed to by ArcelorMittal South Africa and SIOC), the agreement will lapse and SIOC will proceed with closure of the mine. ArcelorMittal South Africa and SIOC have been in discussions and will continue to engage with the Department of Mineral Resources in this regard.

Thabazimbi mine closure
Due to the slope failure at the Thabazimbi mine, all activities at the mine have ceased. In accordance with the settlement and supply agreement, a provision of R200 million and R249 million was recognised for developmental and retrenchment costs in 2015. The developmental cost represents the provisional amount as indicated by Sishen Iron Ore Company Proprietary Limited. In the current year an EPP (market-related) receivable of R51 million was offset against the provision. Following this offset an overprovision of R105 million was released to the income statement. Retrenchment packages that were provided for in the prior year were settled in full in the current year.

	2016 **%**	2015 %
Average discount rates		
Asset retirement obligation	**14.98**	12.72
Environmental remediation obligation	**15.39**	13.36
Onerous contracts	**12.87**	11.82

The average escalation factor applied to the current cash flow estimates is 7.11% (2015: 6.8%).

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

22. Provisions continued

Onerous contract provision

The provision includes:

An onerous operating lease contract embedded in a long-term, take-or-pay gas supply contract with Afrox. The unavoidability of the cost arose upon the 1997 decommissioning of steelmaking facilities at Pretoria Works. The carrying amount of provision at 31 December 2016 equalled Rnil (2015: R146 million). The decrease in the provision relates to a final settlement agreement between the company and Afrox which resulted in the release of R145 million excess provisions of profit or loss.

An onerous take-or-pay contract for burnt dolomite and coal fines sourced from PPC Limited. The take-or-pay obligation arose historically due to lower off-take on account of efficiency improvements and method changes. The carrying amount of the provision is R13 million (2015: R40 million).

Other

In the current year a provision amounting to R15 million has been raised for the B-BBEE transaction costs that have still not been invoiced.

Vereeniging closure costs

In 2015 the Vaal Meltshop and parts of the Forge plants at Vereeniging Works were placed under care and maintenance. As a result, a provision for voluntary severance packages of R35 million was recognised. In the current year the retrenchment packages were settled in full.

The sensitivity of the carrying amount of the obligations at 31 December 2016 in response to changes in key inputs is:

	Asset retirement obligations	Environmental remediation obligations	Onerous contracts
	Rm Increase/ (decrease)	Rm Increase/ (decrease)	Rm Increase/ (decrease)
Carrying amount at 31 December 2016			
% change in all cash flows			
+10%	20	193	1
-10%	(20)	(193)	(1)
% change in cash flows in first five years			
+10%	16	137	1
-10%	(16)	(137)	(1)
Basis point change in discount rate			
+100 bps	(6)	(72)	–
-100 bps	6	72	–
Basis point change in discount rate in first five years			
+100 bps	(4)	(38)	–
-100 bps	4	38	–

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
23. Trade and other payables				
Trade payables				
Trade payables	**9 052**	6 905	**7 970**	5 731
True sales of receivables programme	**1 001**	856	**1 001**	856
Total	**10 053**	7 761	**8 971**	6 587
The True sales of receivables (TSR) programme is the sale of receivables balances to third parties. At the date of sale, ArcelorMittal South Africa transferred control and substantially all risks and rewards normally associated with ownership of these receivables. Therefore these trade receivables were derecognised at the date of sale. The debtors, however, will settle the balance due to ArcelorMittal South Africa Limited and thereafter the company is obligated to transfer those amounts to the third parties.				
Included in trade payables balance is an estimated amount of R118 million relating to the effect of discounting as a result of extended payment terms.				
Other payables				
Leave pay	**342**	298	**342**	297
Sundry	**847**	696	**832**	687
Total	**1 189**	994	**1 174**	984
Non-current	**311**	236	**310**	236
Current	**878**	758	**864**	748
Total	**1 189**	994	**1 174**	984

Leave pay benefits accrual

In terms of group and company policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle. The obligation is reviewed annually.

Sundry

Sundry payables comprise primarily accruals for corporate fees, other general accruals and payroll-related payables.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
24. Borrowings				
Unsecured – at amortised cost				
Loans	**1 950**	5 029	**1 950**	5 029
Group loans	**1 200**	3 268	**1 200**	3 268
Banks	**750**	1 761	**750**	1 761
Loans				
The reduction in the group and bank loan is due to the repayments from proceeds of the rights issue. The weighted average interest rate payable on all loans is 10.03% (2015: 8.4%).				
No loan covenants were breached during the year ended 31 December 2016.				
25. Other financial liabilities				
Non-current				
Financial liabilities carried at amortised cost				
Competition Commission administrative penalty	**1 023**	–	**1 023**	–
Total	**1 023**	–	**1 023**	–
Current				
Financial liabilities carried at FVTPL				
Held-for-trading	**221**	14	**215**	14
Financial liabilities carried at amortised cost				
Competition Commission administrative penalty	**300**	–	**300**	–
Total	**521**	14	**515**	14

Competition Commission

A final settlement agreement was reached with the Competition Commission, and subsequently accepted by the Tribunal on the outstanding competition matters regarding anti-competitive behaviour. The Competition Commission imposed an administrative penalty of R1 500 million and a provision of R1 245 million was initially recognised in 2015, representing the present value of the administrative penalty. Since the agreement has been finalised, the provision has been reclassified to a financial liability. The financial liability of R1 323 million represents the present value of the repayment of the administrative penalty over a five-year period at the prime rate of interest and an interest-free period of 18 months.

In addition, ArcelorMittal South Africa is subject to an earnings before interest and tax (ebit) of 10% on flat products as well as spending R4 600 million on capital expenditure projects, subject to certain conditions. Both commitments will apply for five years.

Financial liabilities held-for-trading

Financial liabilities held-for-trading represent losses on forward exchange contracts (FECs).

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
26. Notes to the statement of cash flows				
26.1 Cash generated from operations				
Loss from operations	**(1 092)**	(4 736)	**(442)**	(5 490)
Adjusted for:				
Depreciation	**1 030**	1 346	**959**	986
Amortisation of intangible assets	**25**	23	**22**	20
Unrealised profit on sales to joint ventures	**–**	18	**–**	–
Share option and participation costs	**63**	55	**63**	55
Cash settlement on Management Share Trust	**(32)**	–	**(32)**	–
Non-cash movement in provisions	**126**	1 632	**139**	1 611
Reversal of loan from subsidiary	**–**	–	**154**	–
Net losses/(gains) arising on financial assets and liabilities held-for-trading	**165**	(426)	**164**	(425)
Write-down/(reversal of write-down) of inventory to net realisable value	**(59)**	187	**60**	57
Asset retirement obligation scope changes	**12**	(21)	**12**	(21)
Movements in trade and other receivable allowances	**25**	1	**22**	(1)
Reconditionable spares usage	**2**	5	**2**	4
(Profit)/loss on disposal or scrapping of property, plant and equipment	**(51)**	5	**(52)**	2
Working capital movements				
(Increase)/decrease in inventories	**(1 830)**	1 112	**(1 753)**	1 345
Decrease in trade and other receivables	**(164)**	(87)	**(271)**	(314)
Increase in trade payables	**2 763**	1 188	**2 807**	1 091
Increase/(decrease) in other payables	**195**	(36)	**190**	(43)
Utilisation of provisions	**(306)**	(530)	**(291)**	(520)
	873	(264)	**1 752**	(1 643)
26.2 Income tax paid				
Normal taxation recoverable at the beginning of the year	**75**	46	**65**	64
Amounts charged to the statement of comprehensive income	**(19)**	(11)	**(11)**	(3)
Normal taxation recoverable at the end of the year	**(58)**	(75)	**(53)**	(65)
	(2)	(40)	**1**	(4)
26.3 Investment to maintain operations				
Replacement of property, plant and equipment	**(1 508)**	(1 004)	**(1 156)**	(913)
Intangible assets	**(25)**	(11)	**(25)**	(11)
Environmental	**(38)**	(65)	**(36)**	(65)
Reconditionable spares	**(102)**	(84)	**(74)**	(56)
	(1 673)	(1 164)	**(1 291)**	(1 045)
26.4 Investment to expand operations				
Property, plant and equipment for expansion and new technology	**(335)**	(92)	**(335)**	(84)
	(335)	(92)	**(335)**	(84)
Total capital expenditure	**(2 008)**	(1 256)	**(1 626)**	(1 129)

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
27. Financial instruments and financial risk management				
27.1 Categories of financial instruments				
Financial assets				
Fair value through profit or loss				
Held-for-trading	**46**	38	**46**	32
Loans and receivables carried at amortised cost				
Cash and bank balances	**1 660**	2 164	**1 651**	2 150
Trade and other receivables	**1 638**	1 448	**1 478**	1 191
Available-for-sale financial assets	**394**	573	**387**	564
Total financial assets	**3 738**	4 223	**3 562**	3 937
Financial liabilities				
Fair value through profit or loss				
Held-for-trading	**221**	14	**215**	14
Liabilities carried at amortised cost				
Borrowings	**1 950**	5 029	**1 950**	5 029
Competition Commission	**1 323**	–	**1 323**	–
Finance lease obligations	**194**	256	**108**	156
Trade payables	**10 053**	7 761	**8 971**	6 587
Other payables	**584**	795	**584**	784
Total financial liabilities	**14 325**	13 855	**13 151**	12 570

27.2 Financial instruments carried at fair value

For financial instruments that are measured at fair value in the statement of financial position, the table below gives information about how the fair values of these financial assets and financial liabilities are determined.

Financial assets measured at FVTPL	**Valuation technique**	**Fair value hierarchy**	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Held-for-trading	Quoted in active market	Level 1	**46**	38	**46**	32
Available-for-sale financial assets	Quoted in active market	Level 1	**79**	78	**72**	69
Total financial assets measured at fair value			**125**	116	**118**	101
Financial liabilities measured at FVTPL	**Valuation technique**	**Fair value hierarchy**				
Held-for-trading liabilities	Quoted in active market	Level 1	**221**	14	**215**	14
Total financial liabilities measured at fair value			**221**	14	**215**	14

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair-value measurements in its entirety, which are described as follows:

- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- *Level 2:* inputs are inputs, other than quoted prices included in level 1, that are observable for the asset or liability, either directly or indirectly
- *Level 3:* inputs are unobservable inputs for the asset or liability

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.3 Financial instruments carried at amortised cost

The following table shows the carrying amounts and fair values of financial assets and financial liabilities carried at amortised cost. Where fair value information could not be determined the carrying amount of assets and liabilities carried at amortised cost approximates their fair value.

	Carrying value 2016 Rm	Fair value 2016 Rm	Carrying value 2015 Rm	Fair value 2015 Rm
Group				
Non-current liabilities	1 147	1 324	193	193
Finance lease obligations	124	124	193	193
Competition Commission administrative penalty	1 023	1 200	–	–
Current liabilities	12 957	12 957	13 648	13 648
Borrowings	1 950	1 950	5 029	5 029
Finance lease obligations	70	70	63	63
Competition Commission administrative penalty	300	300	–	–
Trade payables	10 053	10 053	7 761	7 761
Other payables	584	584	795	795
Total liabilities	14 104	14 281	13 841	13 841
Total borrowings	1 950	1 950	5 029	5 029
Total finance lease obligations	194	194	256	256
Competition Commission administrative penalty	1 323	1 500	–	–
Trade payables	10 053	10 053	7 761	7 761
Other payables	584	584	795	795
Total liabilities	14 104	14 281	13 841	13 841
Current assets				
Trade and other receivables	1 638	1 638	1 448	1 448
Cash and bank balances	1 660	1 660	2 164	2 164
Ferrosure Isle of Man Insurance Captive	315	315	495	495
Total assets	3 613	3 613	4 107	4 107
Company				
Non-current liabilities	1 080	1 257	109	109
Finance lease obligations	57	57	109	109
Competition Commission administrative penalty	1 023	1 200	–	–
Current liabilities	11 856	11 856	12 447	12 447
Borrowings	1 950	1 950	5 029	5 029
Finance lease obligations	51	51	47	47
Competition Commission administrative penalty	300	300	–	–
Trade payables	8 971	8 971	6 587	6 587
Other payables	584	584	784	784
Total liabilities	12 936	13 113	12 556	12 556
Borrowings	1 950	1 950	5 029	5 029
Total finance lease obligations	108	108	156	156
Competition Commission administrative penalty	1 323	1 500	–	–
Trade payables	8 971	8 971	6 587	6 587
Other payables	584	584	784	784
Total liabilities	12 936	13 113	12 556	12 556
Current assets				
Trade and other receivables	1 478	1 478	1 191	1 191
Cash and bank balances	1 651	1 651	2 150	2 150
Ferrosure Isle of Man Insurance Captive	315	315	495	495
Total assets	3 444	3 444	3 836	3 836

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.4 Financial risk management overview and objectives

The group's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

Financial risks to which the group and company are exposed consist of:

- Financial market risk, consisting of:
  - Foreign currency risk
  - Commodity price risks
  - Interest rate risk
  - Liquidity risk, being:
    - Cash flow volatility
    - Fair value and cash flow interest rate risk
- Capital management and gearing risk
- Customer credit risk as detailed in note 18

The treasury and financial risk management policy (treasury policy) details the framework within which financial risk (other than customer credit risk) of the group is managed. The policy is approved by the board of directors and is reviewed annually.

The treasury policy addresses market, liquidity, capital management and gearing risk through the direction of the following activities:

- Financing facilities
- Financial guarantees and letters of credit
- Market risk management through
  - Foreign currency risk management
  - Commodity risk management and
  - Interest rate management
- Cash management through liquidity management

The treasury policy is enacted by the treasury department (treasury). Treasury identifies, evaluates and mitigates financial risks in close cooperation with the group and company's operating units. Board-approved written policies cover the specific activities noted above and address risk limits, the use of derivative and non-derivative financial instruments to hedge certain exposures, and the approval framework governing transaction levels.

27.5 Financial market risk

Through its activities, the group is exposed primarily to the financial risks of changes in commodity prices, foreign currency exchange rates, interest rates and potential liquidity constraints.

The group manages currency risk through economic hedging of foreign exchange rates primarily relating to capital procurement, trade imports and exports exposures. Due to the limited scope of the programme, the forward contract derivatives were not designated within hedge accounting relationships.

Regarding other exposures, markets continue to be monitored in order to determine the most opportune time to commence hedging.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.6 Foreign currency risk management

The carrying amount in ZAR, as translated at the closing exchange rate of the foreign currency denominated monetary assets and monetary liabilities at the reporting date is:

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Monetary assets				
United States dollar (USD)				
Loans and receivables				
Cash and cash equivalents	**267**	1	**267**	1
Trade and other receivables (third parties)	**223**	–	**35**	–
Trade and other receivables (related parties)	**119**	295	**119**	117
Financial assets at FVTPL				
Held-for-trading	**30**	–	**30**	–
Euro (EUR)				
Financial assets at FVTPL				
Held-for-trading	**16**	38	**16**	32
Metica (MZN)				
Loans and receivables				
Cash and cash equivalents	**8**	13	**–**	–
Total foreign denominated monetary assets	**663**	347	**467**	150
Monetary liabilities				
USD				
Carried at amortised cost				
Trade and other payables (related parties)	**(3 456)**	(2 237)	**(3 144)**	(1 934)
Trade and other payables (unrelated parties)	**(86)**	(32)	**(85)**	(32)
Financial liabilities at FVTPL				
Held-for-trading	**(132)**	–	**(132)**	–
EUR				
Carried at amortised cost				
Trade payables (related parties)	**(57)**	(194)	**(57)**	(194)
Trade payables (unrelated parties)	**(145)**	(60)	**(131)**	(38)
Financial liabilities at FVTPL				
Held-for-trading	**(89)**	(10)	**(83)**	(10)
Total foreign denominated monetary liabilities	**(3 965)**	(2 533)	**(3 632)**	(2 208)
Total net foreign denominated monetary assets/(liabilities)	**(3 302)**	(2 186)	**(3 165)**	(2 058)

Only notable currency holdings are disclosed.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.6 Foreign currency risk management continued

Foreign currency sensitivity

The following table details the sensitivity to a 10% strengthening in the ZAR against the respective foreign currencies. As the risks are symmetrical in nature, weakening of the ZAR would result in an equal but opposite amount to that detailed in the sensitivity below.

A positive number indicates an increase in profit where the ZAR strengthens against the relevant currency.

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
USD				
Profit or loss	**293**	197	**281**	185
EUR				
Profit or loss	**20**	25	**19**	23
Total	**313**	222	**300**	208

Economic hedging using derivative contracts

The selective foreign exchange hedging programme using derivative contracts described in note 27.5 as outstanding at the end of the reporting period is:

Unmatured instruments

FC: foreign currency

	Average price FC/R	Contract value FCm	Fair value favourable Rm	Profit or loss Rm
Group				
2016				
Forward contracts held-for-trading at FVTPL				
Buy EUR	**15.23**	**31**	**(84)**	**(84)**
Buy USD	**14.30**	**300**	**(132)**	**(132)**
Sell EUR	**17.63**	**(4)**	**12**	**12**
Sell USD	**14.49**	**(40)**	**30**	**30**
2015				
Forward contracts held-for-trading at FVTPL				
Buy EUR	15.62	29	28	28
Buy USD	15.44	22	(4)	(4)
Company				
2016				
Forward contracts held-for-trading at FVTPL				
Buy EUR	**15.12**	**29**	**(79)**	**(79)**
Buy USD	**14.30**	**300**	**(132)**	**(132)**
Sell EUR	**17.63**	**(4)**	**12**	**12**
Sell USD	**14.49**	**(40)**	**30**	**30**
2015				
Forward contracts held-for-trading at FVTPL				
Buy EUR	15.57	26	22	22
Buy USD	15.44	22	(4)	(4)

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.7 Interest rate risk management

Sources of interest rate risk are:

- Interest expenses, on drawn financing facilities, and promissory notes issued to trade vendors as well as arrangements to fund the construction of assets either in the form of bona fide borrowing arrangements or through supply arrangements containing financial lease structures at fixed interest rates
- Interest income, due to the group and company's net cash position and the investment thereof at variable interest rates

When compared with the comparative reporting period the group and company's sensitivity to interest rates has decreased due to cash inflow from the rights issue which resulted in a decreased need to draw down against financial facilities. Refer to note 27.9 for the interest sensitivity.

27.8 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group and company's short, medium and long-term funding and liquidity management requirements.

The objectives of the liquidity management policy are:

- Maintenance of adequate reserves, banking facilities and reserve borrowing facilities by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities
- Optimise the account and domestic cash pool structures
- Minimise bank charges
- Optimise the availability and use of short-term liquidity positions across the group without compromising the day-to-day cash needs
- Optimise the net interest result
- Minimise the number of bank accounts

Details of additional undrawn financing facilities that the group and company have at their disposal to reduce liquidity risk are:

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Short-term facilities at the end of the reporting period – amount undrawn	**2 000**	–	**2 000**	–

During the reporting period, the maximum drawn amount at any given point equalled R5 329 million (2015: R5 539 million). No financing arrangements were breached during the current or comparative reporting period.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.8 Liquidity risk management continued

Liquidity risk and interest risk tables

Contractual maturity for its non-derivative financial liabilities

The following table details the group and company's remaining contractual maturity for non-derivative financial liabilities.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the group and company can be required to pay. The table includes both interest and principal cash flows.

	Annual effective interest rate[1] %	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
Group							
For the year ended 31 December 2016							
Non-interest-bearing							
Trade payables	**0.4**	**10 089**	**–**	**–**	**–**	**(36)**	**10 053**
Other payables	**0.0**	**584**	**–**	**–**	**–**	**–**	**584**
Finance lease obligations	**12.3**	**46**	**46**	**145**	**13**	**(56)**	**194**
Borrowings	**10.0**	**1 950**	**–**	**–**	**–**	**–**	**1 950**
Total		**12 669**	**46**	**145**	**13**	**(92)**	**12 781**
For the year ended 31 December 2015							
Non-interest-bearing							
Trade payables	0.9	7 833	–	–	–	(72)	7 761
Other payables	0.0	795	–	–	–	–	795
Finance lease obligations	12.4	47	47	218	32	(88)	256
Borrowings	8.4	5 029	–	–	–	–	5 029
Total		13 704	47	218	32	(160)	13 841

The group and company have access to financing facilities as noted earlier of which R2 000 million (2015: Rnil million) was undrawn at the end of the reporting date. The group and company expect to meet most of its other obligations from operating cash flows and proceeds from maturing financial assets.

	Annual effective interest rate[1] %	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
Company							
For the year ended 31 December 2016							
Non-interest-bearing							
Trade payables	**0.4**	**9 007**	**–**	**–**	**–**	**(36)**	**8 971**
Other payables	**0.0**	**584**	**–**	**–**	**–**	**–**	**584**
Finance lease obligations	**11.3**	**31**	**31**	**65**	**–**	**(19)**	**108**
Borrowings	**10.0**	**1 950**	**–**	**–**	**–**	**–**	**1 950**
Total		**11 572**	**31**	**65**	**–**	**(55)**	**11 613**
For the year ended 1 December 2015							
Non-interest-bearing							
Trade payables	1.1	6 659	–	–	–	(72)	6 587
Other payables	0.0	784	–	–	–	–	784
Finance lease obligations	10.7	32	32	127	–	(35)	156
Borrowings	8.4	5 029	–	–	–	–	5 029
Total		12 504	32	127	–	(107)	12 556

[1] *Calculated over the remaining tenure of the non-derivative financial liability.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.8 Liquidity risk management continued

Liquidity risk and interest risk tables continued

Expected maturity of non-derivative financial assets

The following table details the group and company's expected maturity for non-derivative financial assets.

The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

	Annual effective interest rate[1] %	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	> 5 years Rm	Discount Rm	Carrying amount Rm
Group							
For the year ended 31 December 2016							
Non-interest-bearing							
Trade and other receivables[2]	1.6	1667	–	–	–	(29)	1 638
Fixed and variable interest rate cash holdings							
Cash and bank balances[3]	0.4	1 660	–	–	–	–	1 660
Total		3 327	–	–	–	(29)	3 298
For the year ended 31 December 2015							
Non-interest-bearing							
Trade and other receivables[2]	0.5	1 455	–	–	–	(7)	1 448
Fixed and variable interest rate cash holdings							
Cash and bank balances[3]	0.4	2 164	–	–	–	–	2 164
Total		3 619	–	–	–	(7)	3 612
Company							
For the year ended 31 December 2016							
Non-interest-bearing							
Trade and other receivables[2]	1.8	1 507	–	–	–	(29)	1 478
Fixed and variable interest rate cash holdings							
Cash and bank balances[3]	0.4	1 651	–	–	–	–	1 651
Total		3 158	–	–	–	(29)	3 129
For the year ended 31 December 2015							
Non-interest-bearing							
Trade and other receivables[2]	0.6	1 198	–	–	–	(7)	1 191
Fixed and variable interest rate cash holdings							
Cash and bank balances[3]	0.4	2 150	–	–	–	–	2 150
Total		3 348	–	–	–	(7)	3 341

[1] *Calculated over the remaining tenure of the non-derivative financial asset.*
[2] *Fixed rate interest applicable on overdue accounts.*
[3] *Fixed and variable rates applicable to call and short-term deposit holdings. Maturity profile reflects the synthesised availability of the cash bank balances on hand at the end of the reporting period, and the expected annual interest income to be earned thereon.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.8 Liquidity risk management continued

Derivative financial instruments

The following table details the liquidity analysis for derivative financial instruments.

The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net cash-settled basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rate and foreign currency forward curves existing at the reporting date.

Financial assets

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
Group						
For the year ended 31 December 2016						
Net cash-settled foreign currency derivatives	**46**	**–**	**–**	**–**	**–**	**46**
Total	**46**	**–**	**–**	**–**	**–**	**46**
For the year ended 31 December 2015						
Net cash-settled foreign currency derivatives	20	18	–	–	–	38
Total	20	18	–	–	–	38
Company						
For the year ended 31 December 2016						
Net cash-settled foreign currency derivatives	**46**	**–**	**–**	**–**	**–**	**46**
Total	**46**	**–**	**–**	**–**	**–**	**46**
For the year ended 31 December 2015						
Net cash-settled foreign currency derivatives	13	19	–	–	–	32
Total	13	19	–	–	–	32
Financial liabilities						
Group						
For the year ended 31 December 2016						
Net cash-settled foreign currency derivatives	**210**	**11**	**–**	**–**	**–**	**221**
Total	**210**	**11**	**–**	**–**	**–**	**221**
For the year ended 31 December 2015						
Net cash-settled foreign currency derivatives	5	9	–	–	–	14
Total	5	9	–	–	–	14
Company						
For the year ended 31 December 2016						
Net cash-settled foreign currency derivatives	**205**	**10**	**–**	**–**	**–**	**215**
Total	**205**	**10**	**–**	**–**	**–**	**215**
For the year ended 31 December 2015						
Net cash-settled foreign currency derivatives	5	9	–	–	–	14
Total	5	9	–	–	–	14

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

27. Financial instruments and financial risk management continued

27.9 Capital risk management

The group and company objectives when managing capital are:

- To safeguard the ability to continue as a going concern, so as to be able to continue to provide returns for shareholders and benefits for other stakeholders
- To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk

The amount of capital is set in proportion to risk. The capital structure is managed and adjusted in light of changes in economic conditions within the domestic and global steel industry and the risk characteristics of the underlying assets.

The group and company overall strategy remained unchanged in 2016.

Consistent with others in the industry, the group and company monitor capital on a debt-to-total shareholders' equity basis.

Net debt is total interest-bearing and bank overdraft borrowings less cash and cash equivalents. Total shareholders' equity is as per the statement of financial position.

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Cash and bank balances	**1 660**	2 164	**1 651**	2 150
Interest-bearing borrowings and bank overdraft	**(1 950)**	(5 029)	**(1 950)**	(5 029)
Net debt	**(290)**	(2 865)	**(299)**	(2 879)
Total shareholders' equity	**13 543**	13 472	**9 755**	9 147
Gearing ratio (%)	**2.14**	21.27	**3.07**	31.47
Estimated impact on profit or loss based on a 100 basis point change in interest rate:				
100 basis point increase	**(2.90)**	(28.65)	**(2.99)**	(28.79)
100 basis point decrease	**2.90**	28.65	**2.99**	28.79

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

28. Related-party transactions

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sales and purchase transactions with its jointly controlled entities, its associates and other entities within the greater ArcelorMittal group. These transactions occurred under terms that are no less favourable to the company than those arranged with third parties.

Companies within the greater ArcelorMittal group

The company purchased products and services to the value of R6 008 million (2015: R4 228 million) from, and sold goods to the value of R32 million (2015: R42 million) to other companies in the ArcelorMittal group.

The outstanding balances at year-end are:
- ➜ Included in trade receivables, R35 million (2015: R49 million)
- ➜ Included in trade payables, R4 003 million (2015: R2 433 million)

Included in trade payables is the corporate service fee of R490 million (2015: R372 million) payable to ArcelorMittal group for corporate services rendered and the fee for research and development of R260 million to ArcelorMittal Investigation (2015: R145 million).

Included in borrowings (refer to note 24) is a loan of R1 200 million (2015: R3 268 million) with the holding company.

Jointly controlled entities and associates

Interest income for the group from jointly controlled entities of R8 million (2015: R6 million) is included in note 6.

The group purchased goods and services to the value of R42 million (2015: R190 million) from, and sold goods to the value of R4 271 million (2015: R5 646 million) to its equity-accounted entities.

The outstanding balances at year-end are:
- ➜ Included in trade and other receivables, R35 million (2015: R199 million)
- ➜ Included in trade payables, Rnil (2015: Rnil)

Included in the carrying value of jointly controlled entities are non-current loans of R140 million (2015: R138 million).

Subsidiaries

Details of income from investments and indebtedness in subsidiaries are disclosed in note 15.

ArcelorMittal South Africa Ltd received a management fee of R270 million (2015: R271 million) from Saldanha Steel (Pty) Ltd for ArcelorMittal South Africa Ltd employees employed at Saldanha Works.

Directors

Executive directors are defined as key senior management. Details relating to directors' remuneration and shareholdings (including share options and LTIP units) in the company are disclosed in note 32. During the year, a loan of R350 000 was given to Noma Namuhla Trading and Projects Proprietary Limited, a company owned by Nomavuso Mnxasana, non-executive director of ArcelorMittal South Africa.

Senior employees and prescribed officers

Details relating to option and share transactions are disclosed in note 31.

Shareholders

The principal shareholders of the company are detailed in the "Analysis of shareholders" schedule in the integrated annual report.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

29. Post-employment benefits

29.1 Pensions

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of the financial year the following funds were in existence:

- ArcelorMittal South Africa Selector Pension Fund (registration number 12/8/35421) and ArcelorMittal South Africa Selector Provident Fund (registration number 12/8/35423), both operating as defined contribution plans
- Iscor Employees' Provident Fund (registration number 12/8/27484), operating as a defined contribution plan
- Iscor Retirement Fund (registration number 12/8/5751), operating as a defined benefit plan. This plan is closed to new entrants

The assets of these plans are held separately from those of the group and are in funds under the control of the trustees. All funds are governed by the South African Pension Funds Act of 1956 as amended.

Defined contribution plans

Membership of each fund and employer contributions to each fund recognised in the statement of comprehensive income were:

	Working members		Employer contributions	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
ArcelorMittal South Africa Selector Pension and Provident Funds	**5 139**	5 220	**145**	100
Iscor Employees' Provident Fund	**3 320**	3 588	**66**	63
Total	**8 459**	8 808	**211**	163

Defined benefit plans

Iscor Retirement Fund

The company provides benefits for qualifying employees through the Iscor Retirement Fund, a wholly funded defined benefit plan. The fund is administered by Retirement Fund Solutions Administrators Proprietary Limited. There are currently no active members participating in the fund

The normal retirement age for members is 63 years. A member's pension entitlement is calculated as 43% of notional past service contributions, plus 43% of the employer and member's contributions.

The last full statutory actuarial valuation was performed at 31 December 2015. The actuaries were of the opinion that the fund was adequately funded. Currently there are plans in progress to search for a suitable fund administrator for the Iscor Retirement Fund.

ArcelorMittal South Africa Pension Fund

The fund is administered by Sanlam Employee Benefits. Contribution rates based on pensionable earnings for active members are 7% and 10% by the member and ArcelorMittal South Africa, respectively. The normal retirement age for members is 63 years. A member's pension entitlement is calculated as a percentage scale of final average salary for each year of pensionable service. The percentage scale ranges from 1.7% to 2.5%, and the average final salary is the pensionable salary over the 24 months which precedes the member's retirement.

On 9 November 2015, the Financial Services Board of South Africa approved the amendment to the rules such that the company will no longer participate in the fund. Effective 1 April 2015, the company's participation in the fund was terminated and the company is no longer required to make any further contributions to the fund in the event of a shortfall. Therefore from 1 April 2015, the pension fund obligation ceased to be accounted for as a liability. ArcelorMittal South Africa has derecognised the liability on its balance sheet in full and ceased to disclose the ArcelorMittal South Africa Pension Fund in these disclosure notes to the financial statements from 1 April 2015.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

29. Post-employment benefits continued

29.1 Pensions continued

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Membership				
As at 31 December				
Active members	**–**	–	**–**	–
Pensioner members	**–**	6 488	**519**	637
Pension fund assets				
The major categories of plan assets are as follows:				
Fixed income securities (including cash)	**–**	–	**176**	171
Equity securities	**–**	–	**120**	102
Real estate	**–**	–	**6**	7
Total	**–**	–	**302**	280

Principal actuarial assumptions

Weighted average assumptions used for the purposes of the actuarial valuations determined in consultation with independent actuaries for both of the funds are the same.

	2016 %	2015 %
At valuation date		
Discount rate	**8.9**	9.6
General inflation rates	**6.9**	7.7
Salary inflation	**6.4**	7.1

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Amounts recognised in comprehensive income in respect of the defined benefit plans are:						
Service cost						
Current service cost	**–**	–	**–**	–	**–**	–
Enhancer	**–**	14	**–**	–	**–**	14
Net finance income	**–**	–	**–**	–	**–**	–
Administration costs	**–**	–	**–**	–	**–**	–
Subtotal	**–**	14	**–**	–	**–**	14
Asset restriction adjustment	**–**	(14)	**–**	–	**–**	(14)
Employee costs	**–**	–	**–**	–	**–**	–

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

29. Post-employment benefits continued

29.1 Pensions continued

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Amounts recognised in other comprehensive income in respect of the defined benefit plans are:						
Remeasurement (gains)/losses						
Return on plan assets (excluding amounts recognised in net interest expense)	**–**	1 374	**(39)**	37	**(39)**	1 411
Changes in the irrecoverable surplus in excess of interest	**–**	(1 413)	**65**	(47)	**65**	(1 460)
Actuarial (gains) and losses arising from changes in financial assumptions	**–**	48	**–**	–	**–**	48
Actuarial (gains) and losses arising from experience adjustments	**–**	(23)	**(25)**	9	**(25)**	(14)
Components of defined benefit costs recognised in other comprehensive income	**–**	(14)	**1**	(1)	**1**	(15)
Asset restriction adjustment	**–**	14	**(1)**	1	**(1)**	15
Total	**–**	–	**–**	–	**–**	–

Reconciliation of the funded status to amounts recognised in the statement of financial position

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
For the year ended 31 December						
Projected benefit obligation	**–**	–	**181**	233	**181**	233
Fair value of plan assets	**–**	–	**(302)**	(280)	**(302)**	(280)
Surplus	**–**	–	**(121)**	(47)	**(121)**	(47)
Asset restriction adjustment[1]	**–**	–	**121**	47	**121**	47
Net (asset)/liability recognised	**–**	–	**–**	–	**–**	–

[1] *Fund rules do not give the employer an unconditional right to the surplus in the fund.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

29. Post-employment benefits continued

29.1 Pensions continued

Movement in present value of benefit obligation

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
For the year ended 31 December						
Projected benefit obligation at the beginning of the year	**–**	6 532	**233**	251	**233**	6 783
Interest cost	**–**	124	**19**	19	**19**	143
Current service cost	**–**	–	**–**	–	**–**	–
Benefits paid	**–**	(189)	**(46)**	(46)	**(46)**	(235)
Enhancer	**–**	14	**–**	–	**–**	14
Derecognition of the fund	**–**	(6 506)	**–**	–	**–**	(6 506)
Remeasurement (gains)/losses						
– Actuarial (gains) and losses arising from changes in financial assumptions	**–**	48	**–**	–	**–**	48
– Actuarial (gains) and losses arising from experience adjustments	**–**	(23)	**(25)**	9	**(25)**	(14)
Projected benefit obligation at the end of the year	**–**	–	**181**	233	**181**	233

Movement in present value of plan assets

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
For the year ended 31 December						
Fair value of plan assets at the beginning of the year	**–**	7 916	**280**	337	**280**	8 253
Interest income on plan assets	**–**	153	**32**	26	**32**	179
Expected return	**–**	(1 418)	**–**	(41)	**–**	(1 459)
Contributions – employer	**–**	–	**–**	–	**–**	–
Administration cost of plan assets	**–**	–	**–**	–	**–**	–
Benefits paid	**–**	(189)	**(46)**	(46)	**(46)**	(235)
Derecognition of the fund	**–**	(6 506)	**–**	–	**–**	(6 506)
Actuarial gains/(losses)	**–**	44	**36**	4	**36**	48
Fair value of plan assets at the end of the year	**–**	–	**302**	280	**302**	280

The Iscor Retirement Fund has no direct shareholding in ArcelorMittal South Africa Ltd.

Contributions

Historically funding was based on actuarially determined contributions. Following the derisking and subsequent derecognition of the ArcelorMittal South Africa Pension Fund and that the Iscor Retirement Fund does not have any active members no further contributions will be made to either fund.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

29. Post-employment benefits continued

29.1 Pensions continued

Sensitivity analysis

2016

Iscor Retirement Fund

	Expected longevity Rm	Discount rate (-1%) Rm	Discount rate (+1%) Rm
Percentage increase/(decrease) %		8	(9)
Increase by number of years	6		
Ending net surplus			
Ending net surplus/(deficit)	6	8	(9)

29.2 Medical benefits

The company contributes to medical aid schemes for the benefit of retired employees and their dependants, where those qualifying retirees accepted early retirement in 1994. At 31 December 2016 there were 26 qualifying retirees (2015: 27).

On the basis of current practice, which is reviewed annually, the group provides for the actuarially determined present value of post-retirement medical aid obligations. These obligations are unfunded. The group has no further post-retirement medical aid obligations for current or retired employees.

30. ArcelorMittal South Africa B-BBEE transaction

At the special general meeting (SGM) of the shareholders of ArcelorMittal South Africa Ltd held on 18 November 2016, the shareholders approved the increase in the authorised share capital of ArcelorMittal South Africa through the creation of new class ordinary shares (ArcelorMittal South Africa empowerment shares) for the purposes of the B-BBEE ownership scheme. The scheme is part of ArcelorMittal South Africa's initiatives to transform the group and achieve sustainable ownership by black people. In terms of the scheme ArcelorMittal South Africa issued empowerment shares to Amandla we Nsimbi Proprietary Limited and Isabelo Empowerment Share Trust (representing 17.0% and 5.1%, respectively, of the voting rights in ArcelorMittal South Africa) through a notional loan.

The Isabelo Empowerment Share Trust has been established to facilitate B-BBEE ownership in compliance with the B-BBEE codes and to create meaningful wealth for qualifying employees in order to ensure their long-term dedication and the retention of skills, while enhancing the transformation of ArcelorMittal South Africa. The trust has been set up for permanently employed management and non-management employees of all job grades of ArcelorMittal South Africa.

The B-BBEE employee share ownership scheme is equity-settled. The ArcelorMittal South Africa empowerment shares will receive notional dividends during the "lock-in" period. From the first business day following the seventh anniversary of the issue date until the expiry of the lock-in period, Amandla we Nsimbi and the Isabelo Empowerment Share Trust are entitled to receive cash dividends on the ArcelorMittal South Africa empowerment shares amounting to 5% of the ordinary dividend paid on ArcelorMittal South Africa shares. This is applicable to the extent that a dividend is declared and shall not create any obligation on ArcelorMittal South Africa to declare a dividend.

The "A" class shares granted to Amandla we Nsimbi and the Isabelo Empowerment Trust will convert into ArcelorMittal South Africa ordinary shares upon expiry of the "lock-in" period.

There is a 10-year vesting period for the share-based payment benefit provided to the Isabelo Empowerment Share Trust and no vesting period for the share-based payment benefit provided to Amandla we Nsimbi Proprietary Limited. There are no performance targets for vesting for both ownership schemes.

The administration of participant transactions of both the Amandla we Nsimbi Proprietary Limited and Isabelo Empowerment Share Trust are outsourced to EOH Human Capital Solutions Proprietary Limited, an external service provider.

Key assumptions	Amandla we Nsimbi Proprietary Limited	Isabelo Empowerment Share Trust
Fair value of "in-substance" option on grant date (R)	3.29	3.30
Expected attrition rate (%)	n/a	42.56
Average days until fully vested	n/a	3 578
Lock-in period (years)	10	10
30-day VWAP*	8.00	8.00
Interest rate on notional loan	JIBAR plus 6%	JIBAR plus 6%
Dividend yield	0%	0%
Expected risk-free rate over the 10-year period**	7.31% – 8.66%	7.31% – 8.66%
Expected volatility on ArcelorMittal share price***	40%	40%
Number of Monte Carlo simulations	100 000	100 000
Equity upside (value in excess of future ArcelorMittal South Africa share price on transaction date)	7.35	7.44

** Daily value traded data was sourced from I-NETBFA.*
*** Expected risk-free rates are equivalent to six-month JIBAR forward rates.*
**** Expected volatility on the ArcelorMittal South Africa share price is based on a 10-year exponentially weighted moving average of the share price.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

30. ArcelorMittal South Africa B-BBEE transaction continued

Determination of fair value at grant date

The subscription price of the deal is equivalent to the 30-day volume weighted average price (VWAP) of the ArcelorMittal South Africa share price as at 26 September 2016 less a 10% discount.

The "economic substance" of the transaction represents a deemed option granted to Amandla we Nsimbi Proprietary Limited and the Isabelo Empowerment Share Trust. The underlying value of this option is driven by the 10% discount granted on the 30-day VWAP and volatility in the ArcelorMittal South Africa share price.

The economic valuation of the B-BBEE transaction was calculated using Monte Carlo simulations based on the Geometric Brownian Model (GBM) . A large number of simulations in the model predict a reasonable price for the ArcelorMittal South Africa ordinary share at the end of the scheme. The results of the simulations are then averaged and discounted to a present value to determine the value of the option at grant date. The fair value of the option on grant date was determined to be the present value of the option pay-off and the future value of trickle dividends. Notwithstanding the nominal subscription price for the ArcelorMittal South Africa empowerment shares, the aggregate notional subscription price for the ArcelorMittal South Africa empowerment shares is approximately R2.3 billion.

Additionally, sensitivity analyses taken into account in the option pricing model were performed considering the forecast dividends in respect of an ArcelorMittal South Africa share; the forecast outstanding balance in respect of the A1 notional amount and A2 notional amount after lock-in period; and the expected volatility of an ArcelorMittal South Africa share of 40% based on the implied volatility utilising call options on ArcelorMittal Société Anonyme, the holding company headquartered in Luxembourg. The call options trade on Euronext Amsterdam, formerly Amsterdam Stock Exchange.

Expense recognised in profit or loss

Amandla we Nsimbi Proprietary Limited

Amandla we Nsimbi Proprietary Limited whose shares are owned by a broad-based black consortium, Likamva Resources, subscribed for 243 240 276 A1 ordinary shares in ArcelorMittal South Africa, representing 17% of the voting rights in ArcelorMittal South Africa. A1 ordinary shares were issued at a nominal value through a notional loan structure. This grant had no other vesting conditions at grant date and a charge amounting to R800 million (2015: Rnil) was recognised immediately in the statement of comprehensive income in terms of IFRS 2: *Share-based Payments*.

Isabelo Empowerment Share Trust

The Isabelo Empowerment Share Trust subscribed for 72 972 083 A2 ordinary shares in ArcelorMittal South Africa, representing 5.1% of the voting rights. A2 ordinary shares were also issued at a nominal value through a notional loan structure. The vesting conditions attached to this scheme require the beneficiaries of the scheme to remain in the employ of ArcelorMittal South Africa for a period of 10 years. An expected attrition rate was then applied to determine the best estimate of shares expected to vest at the end of the vesting period. An income statement charge of R1 million (2015: Rnil) was recognised in profit and loss with the remainder of the charge to be recognised evenly over the vesting period.

Transaction costs amounting to R70 million were incurred and were recognised in the statement of comprehensive income in the current year.

31. Share-based payments

Equity-settled share plan – local employees

Long-term incentive plan

The long-term incentive plan (LTIP) was adopted for the first time in 2012. The LTIP was designed to replace the equity-settled share option plan. An LTIP is a conditional award of company shares offered to eligible senior employees. The shares vest only after a predetermined period over which certain grant conditions must be met. The extent to which these grant conditions are met, governs the number of shares that vest.

The number of LTIP shares granted is calculated in accordance with the employees' grading within the group and is approved by the board, remuneration, social and ethics committee.

Designated members of the executive committee and senior management are eligible for participation in the scheme. LTIP shares granted to senior management will vest after three years. LTIP shares to the executive committee members only vest after three years provided that the prescribed performance conditions are met. Senior management receive shares subject to ongoing employment and individual performance. New grants to senior management since 2015 will also vest depending on ongoing employment, prescribed performance conditions and individual performance conditions. Proportionate awards will be made in the event of change of effective control of the company, retrenchment, retirement or death.

Upon vesting of the award, the company shall deliver the number of shares that have vested to the participating employee. The unvested units carry neither rights to dividends nor voting rights until the date of vesting.

The fair value of each equity-settled unit is determined using the market value at measurement date.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

31. Share-based payments continued

Equity-settled share plan – local employees continued

ArcelorMittal South Africa Share Option Plan

The group and company operate the Management Share Trust, consisting of an option share plan for the benefit of the group and company's senior management including executive directors.

This scheme was effective from 12 December 2005 to 2014. Share options are offered at market prices on the grant date and are released in three annual tranches of 33.3%, 33.3% and 33.4% respectively, commencing on the first anniversary of the offer date and expiring after 10 years. This is an open plan.

The option plans are equity-settled as each share option converts into one ordinary share of ArcelorMittal South Africa Ltd on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with employees' role grading within the company and group as approved by the remuneration committee of ArcelorMittal South Africa and as incorporated within the trust deed of the Management Share Trust. Upon resignation, the share options lapse immediately. Upon death, the options lapse within six months.

As a result of the successful rights issue on 18 January 2016 an additional 4 782 957 (2015: nil) share options were granted. The effect of this transaction resulted in a IFRS 2 charge of R26 million being recognised in profit and loss in the current year.

Employee Share Ownership Plan (ESOP)

On 1 October 2015 the ESOP became effective. In total, 21 million shares were granted to qualifying employees that will vest after five years of continued service in the company. However, 3 114 001 shares remain outstanding and have not yet become effective. All permanent employees who do not qualify for the company's LTIP qualify to participate in the ESOP.

The employee share ownership plan is equity-settled. The relevant employees will during the lifespan of the scheme benefit proportionately in the dividends earned from the ArcelorMittal shares that will be the subject of the scheme.

There are no performance targets for vesting and qualifying employees are not required to pay any consideration to participate in the scheme. The only vesting requirement is five years of continued employment in the company.

The administration of participant transactions of both the share option and the LTIPs are outsourced to EOH Human Capital Solutions Proprietary Limited, an external service provider.

Key assumptions

For the purposes of valuing the different grants the following assumptions were made:

	ESOP		LTIP		Share options	
	2016	2015	**2016**	2015	**2016**	2015
Weighted average fair value on grant date (R)*	**9.13**	9.13	**14.46**	27.40	**n/a**	n/a
Expected attrition rate (%)	**23.63**	6.99	**15.07**	7.69	**15.07**	7.69
Charge to statement of comprehensive income (Rm)	**22**	8	**14**	44	**26**	–

** Market value of ArcelorMittal South Africa shares (which takes dividends into account) is used as the fair value.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

31. Share-based payments continued

Shares available for distribution

	2016 million	2015 million
Opening balance	**13.6**	15.6
Utilisation	**(8.8)**	(0.0)
Adjustment to number of shares issued following rights issue	**34.6**	–
Additional share options granted after rights issue	**4.8**	(2.7)
Revision of shares available	**(2.3)**	–
Releases, forfeitures, resignations	**2.6**	0.7
Closing balance	**44.5**	13.6

Reconciliation of outstanding LTIP units/share options/shares

	ESOP		LTIP		Share options	
	2016	2015	**2016**	2015	**2016**	2015
Outstanding at the beginning of the year	**20.0**	–	**5.8**	3.3	**3.0**	3.5
Granted/reinstatement	**–**	20.00	**8.8**	2.8	**4.8**	–
Expired/cancelled/forfeited/exercised	**(1.0)**	–	**(2.5)**	(0.3)	**(4.3)**	(0.5)
Outstanding at the end of the year	**19.0**	20.00	**12.1**	5.8	**3.5**	3.0

Exercisable options/units

	ESOP		LTIP		Share options	
	2016	2015	**2016**	2015	**2016**	2015
Weighted average remaining contractual life in days at year-end						
Average days until fully vested	**1 369**	1 735	**601**	571	**n/a**	n/a
Average days until expiry	**n/a**	n/a	**n/a**	n/a	**1 136**	1 342
Weighted average prices applicable per transaction type						
Granted (R/unit)	**9.13**	9.13	**10.74**	18.73	**6.50**	–
Exercised strike price (R/unit)	**n/a**	n/a	**10.92**	22.66	**6.50**	–
Lapsed/cancelled (R/unit)	**n/a**	n/a	**35.97**	11.95	**57.63**	76.25
Outstanding (R/unit)	**9.13**	9.13	**17.43**	27.40	**61.71**	90.99

Details of outstanding options/LTIP units as at 31 December are:

	ESOP		LTIP		Share options	
	2016	2015	**2016**	2015	**2016**	2015
Latest expiry date	**n/a**	n/a	**n/a**	n/a	**2021**	2021
Exercise price range (R)	**n/a**	n/a	**n/a**	n/a	**6.50 – 250**	53.38 – 250
Number of outstanding units/options	**18 899 379**	19 661 883	**12 049 472**	5 757 312	**3 496 961**	2 987 965
Total proceeds to employees if exercised immediately (Rm)*	**217**	88	**139**	19	**–**	–
Total intrinsic value of out of the money options (Rm)**	**n/a**	n/a	**–**	–	**(176)**	(258)
ArcelorMittal South Africa closing price at 31 December (R)	**11.50**	4.50	**11.50**	4.50	**11.50**	4.50

** Proceeds to employees should all options vest on 31 December.*

*** Hypothetically if all options were to vest on 31 December, all options are out of the money with the exception of the options granted as a result of the rights issue.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

31. Share-based payments continued

Terms of the share options outstanding at the reporting date are:

	Share options			
	Exercise price range 2016 R	**Outstanding numbers 2016 Units**	Exercise price range 2015 R	Outstanding numbers 2015 Units
For year ended 31 December				
Expiry date details				
2016			54.19 – 83.88	387 218
2017	**6.5 – 140**	**517 380**	62 – 140	479 466
2018	**6.5 – 250**	**678 589**	73.75 – 250	423 968
2019	**6.5 – 121.50**	**577 935**	95.5 – 121.50	416 490
2020	**6.5 – 85.1**	**35 825**	76.88 – 85.1	23 300
2021	**6.5 – 87.20**	**1 687 232**	59 – 87.20	1 257 523
Total		**3 496 961**		2 987 965

Restricted/performance stock unit plan

The ArcelorMittal group commenced with the restricted/performance stock unit plan in 2011. The stock units are issued for the benefit of senior executives of the group. The restricted stock unit entitles the holder of the unit to receive one ArcelorMittal group share on or after the vesting date of the restricted stock unit, subject to the vesting conditions being met. Restricted stock units vest after three years of continued employment within the group. Performance stock units vest upon continued employment as well as specific performance conditions being met. This plan replaces the Executive International Mobility Share Option Plan. The charge to the group and company for the year amounted to Rnil (2015: R3 million).

	Group and company	
	2016	2015
Latest vesting date	**30 June 2019**	18 December 2018
Number of units outstanding	**156 469**	58 850
Units fully vested	**19 375**	9 125
Weighted average fair value at grant date (USD)	**10.02**	11.17
Average days until fully vested	**539**	539
Reconciliation of outstanding restricted stock units:	**Units**	Units
Outstanding at the beginning of the year	**58 850**	51 525
Granted	**112 300**	8 000
Transfers	**17 244**	31 250
Exercised	**–**	–
Expired/cancelled/forfeited	**(31 925)**	(31 925)
Outstanding at the end of the year	**156 469**	58 850

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

32. Remuneration of directors and prescribed officers

This is a summary of directors' remuneration, prescribed officers and the highest paid senior employees (who are not directors) for services rendered to ArcelorMittal South Africa Ltd:

	Notes	Salary[1] R	Retirement funding R	Short-term incentives[2] R	Equity incentives[3] R	Other[4] R	**Total remuneration 2016 R**	Total remuneration 2015 R
Executive directors								
WA de Klerk	5	4 229 416	260 576	–	223 026	1 624 678	**6 337 696**	–
D Subramanian	6	2 198 790	192 462	123 480	97 198	2 375 874	**4 987 804**	1 043 781
PS O'Flaherty	7	354 865	41 878	–	–	1 198 932	**1 595 675**	6 758 452
Subtotal		6 783 071	494 916	123 480	320 224	5 199 484	**12 921 175**	7 802 232
Prescribed officers and highest paid employees								
M Adam		2 846 049	236 225	234 313	447 434	1 818 797	**5 582 818**	4 559 876
HPR Orsoni		3 327 000	–	890 000	–	1 226 296	**5 443 296**	2 276 418
WA Nel		2 348 000	194 887	186 065	1 337 785	597 350	**4 664 087**	4 457 529
RH Torlage		2 203 192	186 776	212 947	974 856	1 259 142	**4 836 913**	3 476 216
TG Nkosi	8	1 068 495	96 463	170 246	–	1 372 482	**2 707 686**	4 042 926
W Venter		1 720 220	142 780	102 600	260 742	691 093	**2 917 435**	2 231 634
AM Ngapo	9	1 489 749	123 651	–	–	558 822	**2 172 222**	
KS Kumar	10	1 280 843	–	52 629	–	377 806	**1 711 278**	2 572 680
R Bardien	11	335 488	27 846	–	–	7 007	**370 341**	
Subtotal		16 619 037	1 008 628	1 848 800	3 020 818	7 908 795	**30 406 076**	23 617 279
Total		24 182 108	1 503 544	1 972 280	3 341 042	13 108 279	**43 327 253**	31 419 511

	Notes	Directors' fees R	Committee fees R	Other[4] R	**Total remuneration 2016 R**	Total remuneration 2015 R
Non-executive directors						
PM Makwana		1 323 972	–	15 073	**1 339 045**	1 273 095
DCG Murray	12	117 469	124 693	3 359	**245 521**	643 526
LP Mondi		280 003	56 959	–	**336 962**	330 397
NP Mnxasana		309 083	337 327	–	**646 410**	414 303
JRD Modise		309 083	365 998	6 829	**681 910**	575 955
NF Nicolau		280 003	155 134	7 814	**442 951**	131 130
PS O'Flaherty	7	105 157	58 293	–	**163 450**	–
LC Cele	13	309 083	121 632	913	**431 628**	–
NP Gosa	14	29 080	–	–	**29 080**	
Total		3 062 933	1 220 036	33 988	**4 316 957**	3 368 406

Directors' remuneration is not paid to the non-executive directors in the employment of the ArcelorMittal group and have therefore not been disclosed in this note.

[1] *Salary represents cash salary earned by directors and prescribed officers.*
[2] *The short-term incentives relate to benefits for the December 2015 financial year, which were paid in April 2016.*
[3] *Further detail on the equity incentives can be found under directors' unexercised share options and LTIPs in the table that follows.*
[4] *Other includes separation payments, leave encashment, business travel claims and allowance, settlement allowance, housing benefits, international mobility allowance, medical benefits, hardship allowance and sign-on incentives.*
[5] *WA de Klerk was appointed CEO and executive director effective 1 July 2016.*
[6] *D Subramanian was appointed acting CEO from 4 February 2016 to 30 June 2016 whereafter he assumed his role as chief financial officer.*
[7] *PS O'Flaherty announced his resignation as chief executive officer effective 4 February 2016. It was proposed that he assumed a role as a non-executive director with effect from 1 March 2016. Subsequent to this appointment he resigned as non-executive director effective 1 August 2016.*
[8] *TG Nkosi resigned as general manager: human resources, transformation and communications effective July 2016.*
[9] *AM Ngapo appointed as chief marketing officer effective 1 July 2016.*
[10] *KS Kumar resigned as chief marketing officer with effect from 30 July 2016.*
[11] *R Bardien was appointed as general manager: human resources and transformation effective 1 November 2016.*
[12] *DCG Murray retired as non-executive effective 26 May 2016.*
[13] *LC Cele was appointed as non-executive director effective 4 January 2016.*
[14] *NP Gosa, was appointed to represent Likamva Resources as non-executive director with effect from 1 December 2016.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

32. Remuneration of directors and prescribed officers continued

32.1 ArcelorMittal South Africa LTIPs and equity-settled share options

The following table reflects the status of unvested LTIPs held by executive directors and the highest paid senior employees at 31 December 2016:

Names of executives	Award type	Award date	Number of allocations at the start of the year	Number of allocations made during the year	Adjust-ment for units not expected to vest	Number of allocations at the end of the year	Number of allocations vested at the end of the year	Issue price (R)	Present value of unvested share units at the end of the year (R)
WA de Klerk	LTIP	10/10/2016	–	871 794	232 478	639 316	–	10.74	7 352 134
			–	**871 794**	**232 478**	**639 316**	**–**		**7 352 134**
D Subramanian	LTIP	10/10/2016	–	474 923	126 646	348 277		10.74	4 005 186
			–	**474 923**	**126 646**	**348 277**			**4 005 186**
WA Nel	LTIP	14/11/2013	94 096	–	–	–	94 096	40.47	–
		27/05/2014	81 263	–	–	81 263	–	34.89	934 525
		18/05/2015	104 733			104 733	–	18.73	1 204 430
		10/10/2016	–	267 170	71 245	195 925		10.74	2 253 138
			280 092	**267 170**	**71 245**	**381 921**	**94 096**		**4 392 092**
RH Torlage	LTIP	14/11/2013	21 304	–	–	–	21 304	40.47	–
		27/05/2014	51 669	–	–	51 669	–	34.89	594 194
		18/05/2015	99 887			99 887	–	18.73	1 148 701
		10/10/2016	–	308 681	82 315	226 366		10.74	2 603 209
			172 860	**308 681**	**82 315**	**377 922**	**21 304**		**4 346 103**
M Adam	LTIP	18/05/2015	147 387			147 387	–	18.73	1 694 951
		10/10/2016	–	390 407	104 109	286 298		10.74	3 292 427
			147 387	**390 407**	**104 109**	**433 685**	**–**		**4 987 378**
W Venter	LTIP	14/11/2013	12 770	–	–	–	12 770	40.47	–
		27/05/2014	13 222	–	–	13 222	–	34.89	152 053
		18/05/2015	20 255	–	–	20 255	–	18.73	232 933
		10/10/2016	–	197 538	52 677	144 861		10.74	1 665 902
			46 247	**197 538**	**52 677**	**178 338**	**12 770**		**2 050 888**

LTIP shares vest within three to five years.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

32. Remuneration of directors and prescribed officers continued

32.2 Restricted stock unit (RSU)/performance stock unit (PSU) plans

The following table reflects the number of restricted and performance stock units allocated to executive directors, prescribed officers and the highest paid senior employees who belong to the ArcelorMittal group share-based payment scheme:

Name of executive	Award type	Award date	Number of allocations at the start of the year	Number of allocations made during the year	Number of allocations at the end of the year	Number of allocations vested at the end of the year	Issue price (USD)	Present value of unvested share units at the end of the year (USD)
HPR Orsoni	RSU	29/03/2013	3 125	–	–	3 125	12.78	–
		27/09/2013	3 125	–	–	3 125	13.82	–
		17/12/2014	5 000	–	5 000	–	10.96	36 500
		18/12/2015	5 000		5 000		3.83	36 500
	PSU	29/03/2013	1 875	–	1 875	–	12.78	13 688
		27/09/2013	3 125	–	3 125	–	13.82	22 813
		17/12/2014	5 000	–	5 000	–	10.96	36 500
		18/12/2015	5 000	–	5 000	–	3.83	36 500
		30/06/2016	–	89 400	89 400	–	4.58	652 620
		30/06/2016	–	17 880	17 880	–	4.39	130 524
			31 250	107 280	132 280	6 250		965 644

	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
33. Contingent liabilities				
Financial guarantees				
The value of financial guarantee contracts issued in the normal course of business from which it is anticipated that no material liabilities will arise are:	**24**	24	**24**	24
Total	**24**	24	**24**	24

The company has issued guarantees to the value of R756 million (2015: R611 million) for which all liabilities have been raised on the statement of financial position.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2016

	Group		Company	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
34. Commitments				
Capital expenditure commitments on property, plant and equipment				
Capital expenditure authorised and contracted for	**796**	992	**716**	887
Capital expenditure authorised but not contracted for	**3 320**	745	**3 320**	548
Total	**4 116**	1 737	**4 036**	548
In accordance with the Competition Commission settlement agreement concluded in the current year, ArcelorMittal South Africa is committed to spend additional capital expenditure of R4 600 million over five years subject to affordability and feasibility. In total, R947 million has been invested in various projects in the current year.				
Operating lease commitments				
Plant, equipment, vehicles and buildings				
The future minimum payments under non-cancellable standalone and embedded operating leases are:				
– Less than one year	**21**	28	**20**	23
– More than one year and less than five years	**89**	92	**81**	64
– More than five years	**–**	–	**–**	–
Total	**111**	120	**100**	87

None of the individual operating leases resulted in significant leasing arrangements.

35. Subsequent events

Designation
Designation relating to steel products and components for construction was approved in January 2017.

Fair pricing
The fair pricing model for flat steel products has been finalised and was implemented by the company but remains subject to final government approval. In terms thereof, the company may not charge more than an agreed basket price for various flat steel products.

The directors are not aware of any other matter or circumstances arising since the end of the financial year to the date of this report, not otherwise dealt with in this report or in the group and company annual financial statements that would significantly affect the operations, the results and the financial position of the group and company.

36. Going concern

Due to the strengthening of the rand/US dollar exchange rate, weak local market demand and influx of cheap imports into the country, ArcelorMittal South Africa Ltd expects sales volumes to remain flat for the next 12 months, which will be mitigated by import substitution and new products, namely heavy structural products from Evraz Highveld. Export markets are likely to be more resilient, namely Africa Overland; however, authoritative projections being that Africa will experience demand growth in the order of 4%.

While the group continues to benefit from the full support of ArcelorMittal Holdings AG, ArcelorMittal South Africa Ltd has invested in various initiatives to return the company to profitability. These initiatives include improvement in capital expenditure projects, restructuring the balance sheet by converting short-term borrowing facilities to medium-term debt and new products and markets.

Based on the group's 12-month funding plan, a letter of support from ArcelorMittal Holdings AG and the initiatives detailed above, 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. The group would like to re-emphasise that the local steel industry continues to be threatened by imports entering the market, primarily from China, hence safeguard measures are important despite the positive progress on designation initiatives to date. Shareholders are cautioned that certain management initiatives as well as other government initiatives, including the fair pricing mechanism, safeguards, and designation are key to ensure the sustainability of the group, and should these initiatives not materialise in improved sales growth in the next 12 months, there remains a material uncertainty regarding the ability of ArcelorMittal South Africa Ltd and the local steel industry to continue operating without significant structural changes.

Corporate information

Company registration
ArcelorMittal South Africa Ltd
Registration number 1989/002164/06
Share code: ACL
ISIN: ZAE000134961

Registered office
Vanderbijlpark Works
Room N3-5, Main Building
Delfos Boulevard
Vanderbijlpark

Postal address
PO Box 2
Vanderbijlpark, 1900
Telephone: +27 (0) 16 889 9111
Facsimile: +27 (0) 16 889 2079

Internet address
http://southafrica.arcelormittal.com
http://southafrica.arcelormittal.com/IntegratedReport2016

Company secretary
Ms NB Bam
Telephone: +27 (0) 16 889 4195
Facsimile: +27 (0) 16 889 2517
Email: nomonde.bam@arcelormittal.com

Sponsor
JP Morgan Equities South Africa Proprietary Limited
1 Fricker Road, Illovo, Johannesburg, 2196
Private Bag X9936, Sandton, 2146
Telephone: +27 (0) 11 507 0300
Facsimile: +27 (0) 11 507 0502

Auditors
Deloitte & Touche
Deloitte Place, Building 1, The Woodlands
20 Woodlands Drive, Woodmead, 2052, South Africa
Telephone: +27 (0) 11 806 5000
Facsimile: +27 (0) 11 806 5118

Transfer secretaries
Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
PO Box 61051, Marshalltown, 2107
Telephone: +27 0861 100 950
Facsimile: +27 (0) 11 688 5217
Email: web.queries@computershare.co.za

United States ADR depositary
The Bank of New York Mellon
ADR Department
101 Barclay Street, 22nd Floor, New York, NY 10286
United States of America
Internet: www.bnymellon.com

BASTION GRAPHICS

ArcelorMittal

ArcelorMittal South Africa Corporate Office
Delfos Boulevard
Vanderbijlpark
Phone: +27 (0) 16 889 9111
Fax: +27 (0) 16 889 4318
GPS coordinates: E 27° 48′ 19.6″ S 26° 40′ 22.3″

www.arcelormittalsa.com

www.arcelormittalsa.com/integratedreport2016
for the online version