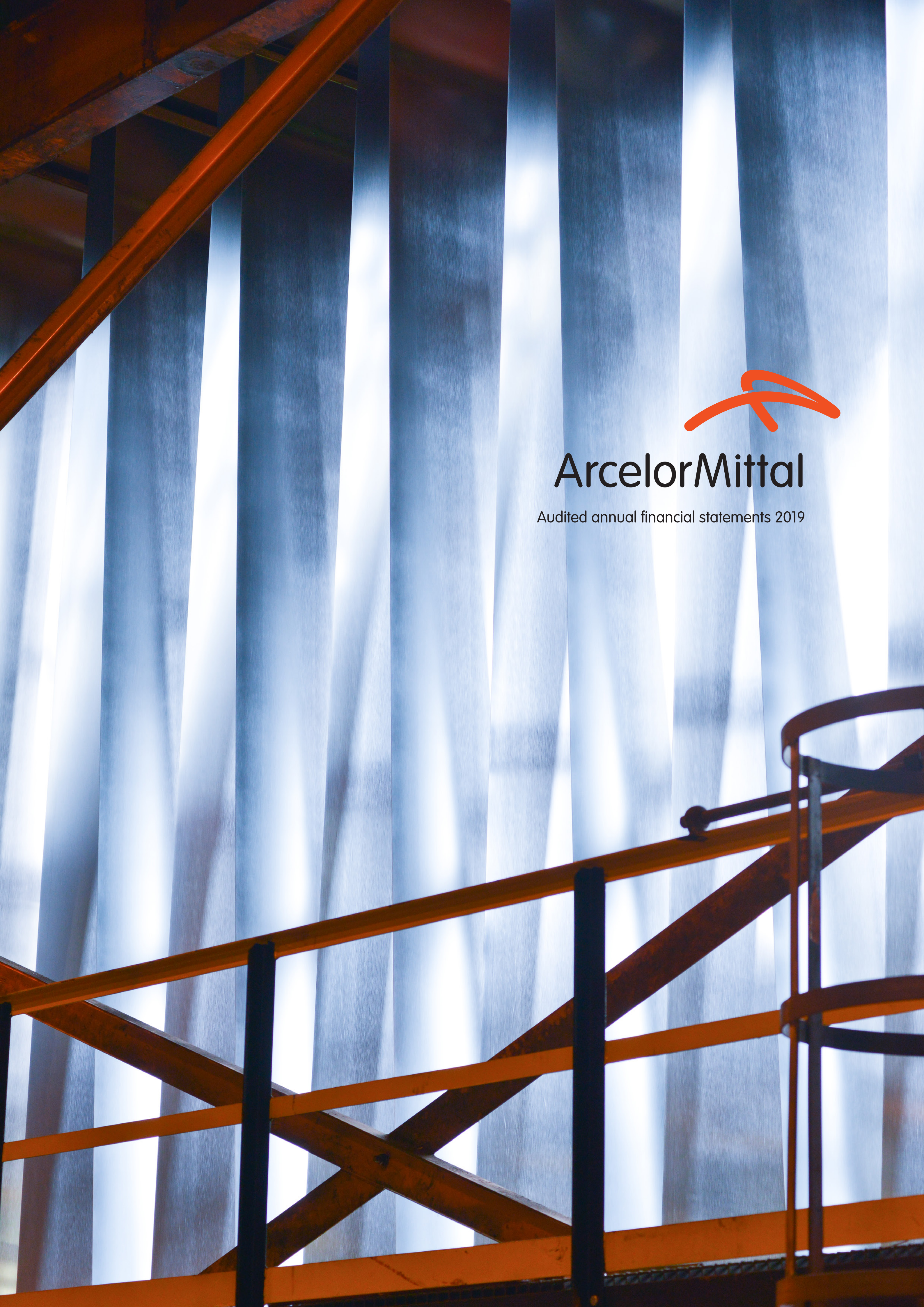

ArcelorMittal

Audited annual financial statements 2019

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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 consolidated (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 2019, 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, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, audited in accordance with International Standards on Auditing, the requirements of the Companies Act No 71 of 2008, as amended (Companies Act) and JSE Listings Requirements. The annual financial statements have been prepared by the finance staff of ArcelorMittal South Africa Ltd, headed and supervised by AD Maharaj CA(SA), the group's chief financial officer.

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. Several control deficiencies were reported with the severity being mitigated by effective compensating controls that serve to alleviate the severity of the reported control deficiencies. 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 2020. In light of their review of the current financial position and existing borrowing-based facilities taking in account the unpredictable impact of the COVID-19 pandemic of which the group has assessed and continues to regularly monitor the developments, as noted in note 37, they consider it appropriate that the group and company annual financial statements continue to be prepared on the going concern basis. Refer to note 38 and the directors' report for further details.

The annual financial statements for the year ended 31 December 2019 have been audited by Deloitte & Touche, the company's independent external auditors, whose report can be found on pages 7 to 11.

The directors of the company accept responsibility for the annual financial statements which were approved by the board of directors on 2 April 2020 and are signed on its behalf by:

HJ Verster
Chief executive officer

AD Maharaj
Chief financial officer

Certificate by the 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.

FluidRock Co Sec (Pty) Ltd
Company secretary
2 April 2020

Directors' report

for the year ended 31 December 2019

The directors submit their report for the year ended 31 December 2019.

NATURE OF BUSINESS

ArcelorMittal South Africa Ltd (ArcelorMittal South Africa or company) 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 a 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 of the 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. The functional and reporting currency is the South African rand (ZAR).

FINANCIAL RESULTS AND ACTIVITIES

The contents of the annual financial statements adequately reflect the financial performance of the group for the financial year ended 31 December 2019.

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 2019 the group had a net asset value per share of 311 cents (2018: 728 cents). The net asset value per share was calculated using a net asset value of R3 405 million (2018: R7 961 million), and total number of shares outstanding of 1 093 509 570 (2018: 1 093 509 570).

Refer to note 12 of the annual financial statements for information on loss and headline loss per share.

DIVIDENDS

Consistent with the group's dividend policy, payment of dividends are subject to the discretion of the board of directors (board). No dividends were declared for the 2019 financial year.

REGULATORY MATTERS

The Carbon Tax Bill was approved by the National Assembly in February 2019. The announced implementation date was from 1 June 2019. As at 31 December 2019 an amount of R95 million has been provided for the group, and R78 million for the company. Two sets of related regulations have not been finalised and are still in draft format. Once finalised it could have an effect of slightly reducing this liability.

On 3 June 2019 shareholders were notified that the summons instituting criminal proceedings against the company on account of three alleged transgressions of its atmospheric emissions licence at its Vanderbijlpark Works was served on 30 May 2019. The matter was postponed on 23 January 2020 to 29 April 2020. Management's assessment of the financial exposure in terms of a fine remains at R15 million in the event of an adverse finding.

The group remains firmly committed to minimising its impact on the environment and, to this end, has invested and continues to invest in various initiatives and projects to improve the group's environmental performance and standards.

PROPERTY, PLANT AND EQUIPMENT

Details of capital expenditure are provided in note 29.

COMPLIANCE WITH COMPETITION COMMISSION (COMMISSION) SETTLEMENT AGREEMENT

ArcelorMittal South Africa has been engaging the commission regarding the payment of the part of the administrative penalty that was due in November 2019. The interest due was paid timely. A proposal has been submitted and we await the decision of the commission in this regard.

Insofar as capital expenditure is concerned, in line with the agreement and as contemplated therein, ArcelorMittal South Africa has had no option but to revise the capex plan commitment due to it no longer being affordable and feasible in light of the current financial circumstances (resulting from economic and market conditions as referred to in the agreement). The chief executive officer hereby confirms, in respect of 2019, that ArcelorMittal South Africa has in all other material respects complied with the settlement agreement entered into with the commission.

AUTHORISED AND ISSUED SHARE CAPITAL

Details of the authorised and issued share capital are set out in note 23 of the annual financial statements.

SHAREHOLDERS

ArcelorMittal Holdings AG, as controlling shareholder, holds 53,1% (2018: 53.1%) of the ordinary shares in issue and an effective shareholding of 69.2% (2018: 69.2%). Details of beneficial shareholders equal to or exceeding 5% as at 31 December 2019 are disclosed in note 23.

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 34 of these annual financial statements.

Directors' report continued

for the year ended 31 December 2019

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

	2019			2018		
Non-executive director	**Direct**	**Indirect**	**Total**	Direct	Indirect	Total
JRD Modise	**85 025**	**–**	**85 025**	85 025	–	85 025
NF Nicolau	**100 000**	**–**	**100 000**	100 000	–	100 000
NP Gosa[1]	**–**	**68 566 674**	**68 566 674**	–	68 566 674	68 566 674
S Gouws	**–**	**292**	**292**	–	292	292
AD Maharaj[2]	**450**	**–**	**450**	450	–	450
PM Makwana[3]	**50**	**–**	**50**	–	–	–
Total	**185 525**	**68 566 966**	**68 752 491**	185 475	68 566 966	68 752 441

[1] *Effective interest via Likamva Resources reduced from 16.73% to 11.79%. Refer to note 23.*
[2] *Erroneous non-disclosure in 2018. Correct number of shares (purchased in 2009, prior to being appointed as director) are now indicated.*
[3] *Shares traded without prior knowledge of PM Makwana. The matter was reported to the JSE. The JSE took note of it but there was no action taken.*

Ms NP Mnxasana declared her interest regarding the relationship between Noma Namuhla Trading and Projects (Pty) Ltd (Noma), a company owned by NP Mnxasana, and ArcelorMittal South Africa. In terms of the arrangement, Noma participates in ArcelorMittal South Africa's enterprise and supplier development initiatives and supplied products and services to ArcelorMittal South Africa totalling R69 000 (2018: R449 000). An interest-free loan of R350 000 with no fixed repayment terms was granted under the terms of the supplier development initiative to Noma in fiscal year 2016 and is still outstanding.

There have been no changes to the directors' interests since the financial year ended 31 December 2019 and the date of this report.

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 16 and 17 of the annual financial statements.

BORROWING POWERS

In terms of clause 35 of the Memorandum of Incorporation, the directors have the power to borrow for purposes of the company and secure payment or repayment of such sums subject to the aggregate sum (if any) authorised to be borrowed at that time.

DIRECTORATE

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

No changes to the directorate took place during the year.

RETIREMENT BY ROTATION

Directors are appointed in line with the Memorandum of Incorporation and in terms thereof a third shall retire, at each annual general meeting, subject to being eligible for re-election.

COMPANY SECRETARY

Ms NB Bam resigned as company secretary with effect from 10 January 2020. The committee was satisfied, that for the 2019 financial year, she demonstrated having appropriate competence and experience and maintained an arm's length relationship to serve as the company secretary.

FluidRock Co Sec (Pty) Ltd has been appointed as the company secretary of the company as from 1 March 2020.

The board considers that FluidRock Co Sec (Pty) Ltd has the requisite knowledge and experience for the position and looks forward to their contribution.

GOING CONCERN

The 2019 financial year represented the most challenging year since the global financial crisis for the world steel industry, and an exceptionally difficult year for the South African economy and the group. The correlation between steel prices and raw material costs have broken down. The size of the dislocation between steel prices and raw material cost is very unusual, and although recently raw material prices have moderated a little, the dislocation continues.

Despite the cash preservation initiatives and the cost reduction projects, the group recognised a net loss after tax of R4 676 million (2018: profit of R1 370 million) for the year ended 31 December 2019 and, as at that date, current assets exceed current liabilities by R1 399 million (2018: R3 901 million). Further, the group continued to invest in key priority capital projects that appropriately maintain and modernise the production asset base.

As stated previously, the group is very vulnerable to the exchange rate and the strengthening in the rand against the US dollar has had a negative impact on financial performance. Further, the valuation of property, plant and equipment resulted in an impairment of R1 480 million which had no cash flow impact. As required by IFRS, the impairment assessment is performed at spot rate as at the end of the financial year which specifically impacted the Newcastle cash generating unit.

The directors have prepared cash flow forecasts for a period of 12 months after year-end based on the most recent forecast. The forecast takes into account the continued business transformation programme that has proved to realise cost savings over the past two years of R2 130 million.

The borrowing-based facility was successfully renewed, and further following the orderly wind-down of Saldanha Works the level of the tangible net worth covenant was reset. As at 31 December 2019, the group is in compliance with all covenants. At 31 December 2019 the balance of the borrowing-based facility was R1 150 million (2018: R300 million) drawn. The group continues to work closely with all lenders to ensure the required facilities remain in place.

ArcelorMittal Holding AG continues to demonstrate their support by increasing the loan by R1 508 million with the capitalisation of accrued interest and intercompany payables. The capitalised interest, intercompany payables and the intercompany loan have been fully subordinated.

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

Further, and as noted in Note 37, the unpredictable effects of the COVID-19 pandemic and national lockdown is casting uncertainty over our ability to produce planned volumes as well as how the world and local steel markets will respond to the pandemic. In response, the group has assessed and continues to regularly monitor the following additional steps in considering the impact on the group's operations. These include:
- Assessment of the potential operational disruption and the safeguarding of our assets
- Considered legal and contractual ramifications
- Assessment of liquidity and working capital requirements to ensure cash preservation
- Access to cash through the borrowing-based facility which still remains in place

Should the cash flows be negatively impacted by the above, there remains a material uncertainty that may cast significant doubt regarding the ability of ArcelorMittal South Africa to continue as a going concern, without appropriate intervention such as further business transformation focus areas which have been identified to reduce controllable costs even further and the continued support from the holding company. The areas that have been identified in the business transformation programme are the reduction of subcontractor services and the reconfiguration of the operating model of the business by (i) simplifying and decluttering management mechanism, (ii) adopting common planning, scheduling and production systems, and information technology infrastructure, and (iii) improving the customer service experience by a more flexible sales and marketing organisation.

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

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

INDEPENDENT AUDITORS

Deloitte & Touche (Deloitte) continued in office as auditors of the group for the year.

The group financial statements have been audited by independent auditors Deloitte.

The board has endorsed the recommendation of the audit and risk committee (committee) to shareholders that Deloitte be appointed as the independent auditors of the group for the ensuing year with effect from the date of the AGM to be held on Thursday, 21 May 2020.

The committee has confirmed that Deloitte is independent of the company as required by section 90 of the Companies Act. The board agrees with the committee's assessment.

SUBSEQUENT EVENTS

Subsequent to year-end, there is widespread local and global uncertainty associated with the COVID-19 pandemic. We are closely monitoring the situation and adapting the business as required. The safety and wellbeing of our employees is paramount and will remain our first priority.

On 15 March 2020 a national state of disaster was declared in South Africa due to the COVID-19 pandemic and subsequently, on 23 March 2020 the Honourable President Ramaphosa called on all South African citizens and businesses to adhere to a nationwide lockdown for 21 days, effective from midnight on Thursday, 26 March 2020 to midnight on 16 April 2020. While this will have a considerable impact on society, our economy and on our business, the group is doing what is required to support the lockdown and ensure the safety of employees.

This means that aside from employees required for the continued operation of essential equipment, including furnaces and coke batteries as contemplated in the announcement by the Minister of Trade and Industry, the offices and operations across the country will be closed during this period.

In response, the group has assessed and continues to regularly monitor, the following additional steps in considering the impact on the group's operations at this time. These include:
- Assessment of the potential operational disruption and the safeguarding of our assets
- Considered legal and contractual ramifications
- Assessment of liquidity and working capital requirements to ensure cash preservation
- Access to cash through the borrowing-based facility which still remains in place

There will be a negative impact on production volumes and sales volumes, which should have an impact on our results of operation and cash flows for the 31 December 2020 financial year. Certain line items on the statement of financial position may also be impacted including but not limited to carrying value of property, plant and equipment, inventory, receivables and environmental rehabilitation provisions. The extent to which this impacts our results will depend on future developments, which are highly uncertain and cannot be predicted at this time.

Audit and risk committee report

The audit and risk committee (the committee) has pleasure in submitting its report for the year ended 31 December 2019 to the shareholders as required by section 94(7)(f) of the Companies Act 71 of 2008, as amended (Companies Act).

MEMBERSHIP OF THE COMMITTEE AND ATTENDANCE AT MEETINGS

In compliance with the Companies Act, the following committee members were elected by shareholders at the annual general meeting of the company (AGM) held in 2019 to serve until the next AGM on Thursday, 21 May 2020:

- JRD Modise (Independent chairman)
- LC Cele (Independent non-executive director)
- NP Mnxasana (Independent non-executive director)

The committee comprises only independent non-executive directors who are all financially literate and have the adequate relevant skills and experience to execute their duties and responsibilities effectively.

The experience and qualifications of the members and the details of the committee meetings attended by each of the members is set out on page 22 and 23 respectively of the integrated annual report.

The committee held five meetings during the past financial year. The chief executive and chief financial officer attend committee meetings by invitation.

FUNCTIONS OF THE COMMITTEE

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 carried out its functions by reviewing the following matters:

- Review and approve, for recommendation to and approval by the board, the quarterly production reports, interim reports, the integrated annual report, the annual financial statements, preliminary reports, accounting policies for the company and all subsidiaries, and any other announcement regarding the company's results or other financial information to be made public
- 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:
  (i) Top strategic risks (including credit and market risks, human resources risks and compliance risks)
  (ii) Operational risks
  (iii) Information technology risks

INDEPENDENCE AND EFFECTIVENESS OF THE EXTERNAL AUDITOR

Deloitte & Touche (Deloitte) was reappointed as auditor of the company until the next AGM. During the year, the committee reviewed a presentation by Deloitte and, after conducting its own review, is satisfied with the independence and objectivity of Deloitte as external auditors. The committee is satisfied that the auditor has at all times acted with unimpaired independence. Deloitte has been the auditor since 2004. A letter in terms of the Johannesburg Stock Exchange (JSE) Listings Requirements, paragraph 22.15 (h) has been submitted by Deloitte. The committee is satisfied that Deloitte is compliant with the relevant external audit partner JSE qualification and the rotation rules, whereby the lead engagement partner is required to rotate every five years. The current lead partner has been the auditor since 2018.

The committee further approved the fees paid to Deloitte and their terms of engagement. The details of the fees paid to Deloitte are disclosed in note 6 to the consolidated annual financial statements on page 34.

All non-audit services were approved by the committee during the current financial year in accordance with the board-approved policy on non-audit services performed by the external auditor. The committee meets with the auditor independently of senior management.

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

STATUTORY REPORTING

The committee has evaluated the annual financial statements of ArcelorMittal South Africa Ltd and the group for the year ended 31 December 2019 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, 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

KEY AUDIT MATTERS

The committee notes the following key audit matters set out in the independent auditor's report, which were also matters of concern for the committee over the year:

- Impairment of property, plant and equipment
- Environmental remediation obligations
- Current and deferred tax

The auditors have issued an unqualified audit opinion with a material uncertainty relating to going concern together with an emphasis of matter relating to the impact of COVID-19 pandemic.

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 that 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 relies on the assurance provided by the internal audit function of the group on the system of internal financial controls. Several internal control deficiencies were reported mainly due to inadequate corroborating evidence to substantiate the controls exercised. The group has compensating controls in place, including financial statement review controls, that served to mitigate the severity of the reported control deficiencies. As such the individual and aggregate severity of the control deficiencies is not material.

EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER AND THE FINANCE FUNCTION

The committee has satisfied itself that the chief financial officer, AD Maharaj, 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, and further ensured that the company has established appropriate financial reporting procedures and that these procedures are operating.

Based on an assessment performed annually, the committee is of the opinion that the finance function, as well as the financial director, is effective.

EXPERTISE AND EXPERIENCE OF THE COMPANY SECRETARY

NB Bam resigned as company secretary on 10 January 2020. The committee is satisfied, that for the 2019 financial year, she demonstrated having appropriate competence and experience and maintained an arm's length relationship to serve as the company secretary.

FluidRock Co Sec (Pty) Ltd (FCS) was appointed as company secretary effective 1 March 2020.

The committee has satisfied itself that the FCS has the appropriate competence and experience, to serve as company secretary of the company.

DISCHARGE OF RESPONSIBILITIES

The company continues to prepare group accounts that comply with IFRS and the statutory requirements of the Companies Act and the JSE Listings Requirements, and these responsibilities are discharged within an acceptable timeframe.

The committee has decision-making authority with regard to its statutory duties and is accountable in this regard to both the board and the shareholders. On all responsibilities delegated to it by the board, apart from the statutory duties, the committee makes recommendations for approval by the board.

The committee determined that, during the financial year under review, it had discharged its legal and other responsibilities as outlined in terms of its terms of reference, details of which are included in the full corporate governance report on www.arcelormittalsa.com.

The chairman of the committee attends the AGM and is available to answer any questions in relation to matters pertaining to the committee.

JRD Modise
Chairman
2 April 2020

Report of the independent auditor

TO THE SHAREHOLDERS OF ARCELORMITTAL SOUTH AFRICA LIMITED

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 (the group) set out on pages 12 to 91, which comprise the statements of financial position as at 31 December 2019, and the statements of comprehensive income, the statements of changes in equity, the statements of cash flows for the year then ended, and 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 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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 38 in the consolidated and separate financial statements which indicates that the group incurred a net loss after tax of R4 676 million (2018: profit of R1 370 million), and the company incurred a net loss after tax of R3 750 million (2018: profit of R3 520 million) for the year ended 31 December 2019. As stated in note 38, these events or conditions, along with other matters as set forth in note 38, indicate that a material uncertainty exists that may cast significant doubt on the group and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter: Impact of COVID-19 Pandemic

We draw attention to Note 37 of the consolidated and separate financial statements, which describes the uncertainties related to the possible effects of the COVID-19 outbreak on the group and company and its inability to quantify its possible future impact. 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. In addition to the matter described in the material uncertainty related to going concern section we have determined that the matters described below to be the key audit matters to be communicated in our report.

Report of the independent auditor continued

Impairment of property, plant and equipment

Key audit matter	How the matter was addressed in the audit
As disclosed in note 14 of the consolidated and separate financial statements, an impairment assessment was performed on property, plant and equipment based on the assumptions disclosed in the note. Judgement is required by the directors in assessing the impairment of the group of assets or the cash-generating units (CGU), 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. The discounted cash flow model used to determine the recoverable amount of the CGU is detailed and complex. Certain key inputs specifically: ◆ Revenue growth (including market share and forecast sales volumes) ◆ 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 ◆ The company-specific risk premium applied to the discount rate to address the forecasting risk identified in the CGUs ◆ Exchange rate forecasts ◆ Projected sales and input cost prices, as both are linked to volatile commodity prices are subject to volatility and require significant estimation and judgement 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 management review of the cash flow forecasts. A control deficiency was identified and we enhanced our substantive procedures accordingly. ◆ Testing of inputs into the cash flow forecast, including the assumptions relating to revenue growth, in particular the forecast sales volumes 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 experts to perform the following: – Critically evaluated whether the value-in-use calculation used by the directors to calculate the value-in-use of the individual CGUs complies with the requirements of IAS 36 *Impairment of Assets* (IAS 36) – Compared the growth rates used to historical data regarding economic growth rates for the regions included in the CGUs – Assessed the weighted average cost of capital including the company-specific risk premium (discount rate) and the determination of this rate – Assessed 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 – Analysed 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 ◆ Compared the forecast commodity prices (iron ore and coking coal) used in determining the sales prices and input costs against independent third-party sources ◆ Subjecting the key assumptions to sensitivity analysis ◆ Recalculated the value-in-use of all CGUs We assessed the management review control as fairly weak. We assessed most of the assumptions to be balanced with certain forecast to be mildly optimistic. The discount rate was within an independently determined acceptable range. We considered the related disclosures to be appropriate.

Report of the independent auditor continued

Environmental remediation obligation

Key audit matter	How the matter was addressed in the audit
As disclosed in note 25, the group's environmental compliance has been under scrutiny. Furthermore, the determination of environmental remediation obligations are subject to significant estimates and judgement. 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. The key assumptions that affect the measurement of the related provisions include: ◆ The completeness of cash flows for all projects and related costs to be incurred cognisant of environmental legislation and the conditions of the sites ◆ The discount rates applied to the forecast cash flows relating to environmental remediation ◆ The escalation rates applied in determining the forecast cash flows The most significant estimates and areas of judgement have been disclosed by the directors in note 25 of the consolidated and separate financial statements. Due to the nature of the provision and the significance of the judgement, the balance is a key audit matter.	◆ We tested the entity's key controls relating to the preparation and review of the cash flow forecasts. A control deficiency was identified and we enhanced our substantive procedures accordingly. ◆ 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, 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 valuation experts 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 ◆ Our environmental experts 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 disclosures in relation to the judgement and estimation applied to these balances Our substantive testing did not reveal any material misstatements and overall management have adequately factored in risks and the impact of macro-economic factors into the forecast costs. 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 arising from significant or unusual transactions that may be ambiguous and thereby require legal opinion. In addition, the determination of whether to recognise deferred taxation assets is dependent on 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 above noted complexities and judgement arising from the considerations relating to the calculation, recognition and classification of current and deferred taxation balances. The disclosures relating to taxation and deferred taxation are contained in note 11 of the consolidated and separate financial statements.	We involved our taxation specialists to evaluate the taxation provisions and potential exposures. This included the following: ◆ Analysed 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 ◆ Analysed the current and deferred taxation calculations for compliance with relevant taxation legislation ◆ Evaluated 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 evaluated 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 ◆ Assessed the presentation and disclosure in respect of taxation-related balances to ensure that this was accurately and appropriately recognised The treatment of the current and deferred tax balances and the disclosures appear appropriate.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "ArcelorMittal South Africa Ltd Integrated Report 2020" and in the document titled "ArcelorMittal South Africa Ltd Annual Financial Statements for the year ended 31 December 2020", and comprises the Directors' Report, the audit and risk committee report and the certificate by the company secretary as required by the Companies Act of South Africa. 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 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.

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 International Financial Reporting Standards 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 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 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 the 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 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 the 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 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

Report of the independent auditor continued

We communicate with the audit and risk committee 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 audit and risk committee 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 15 years.

Deloitte + Touche

Deloitte & Touche
Registered Auditor
Per: SI Rajcoomar
Partner

2 April 2020
Deloitte & Touche
5 Magwa Crescent
Waterfall City

Group and company statements of comprehensive income

for the year ended 31 December 2019

	Notes	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Revenue	4	**41 353**	45 274	**36 026**	38 783
Raw materials and consumables used		**(24 475)**	(25 965)	**(21 705)**	(22 997)
Employee costs		**(4 773)**	(4 493)	**(4 596)**	(4 483)
Energy		**(4 699)**	(4 262)	**(3 322)**	(2 966)
Movement in inventories of finished goods and work-in-progress		**(2 242)**	574	**(1 681)**	496
Depreciation		**(819)**	(817)	**(785)**	(807)
Amortisation of intangible assets		**(11)**	(14)	**(11)**	(14)
Impairment of trade receivables		**(15)**	(25)	**(12)**	(25)
Other operating expenses		**(6 678)**	(7 495)	**(5 034)**	(5 758)
(Loss)/profit from operations	6	**(2 359)**	2 777	**(1 120)**	2 229
Finance and investment income	7	**101**	387	**133**	3 487
Finance costs	8	**(1 070)**	(2 400)	**(1 026)**	(2 208)
Impairment reversal/(impairment) of other assets	9	**79**	(10)	**(603)**	(62)
Impairment of property, plant and equipment and intangible assets		**(1 480)**	–	**(1 187)**	–
(Loss)/income after tax from equity-accounted investments		**(17)**	138	**–**	–
Fair value adjustment on investment held-for-sale	10	**–**	(1 652)	**–**	–
Reclassification of foreign currency differences on sale of foreign investment	10	**–**	2 067	**–**	–
(Loss)/profit before taxation		**(4 746)**	1 307	**(3 803)**	3 446
Income taxation credit	11	**70**	63	**53**	74
(Loss)/profit for the year		**(4 676)**	1 370	**(3 750)**	3 520
Other comprehensive (loss)/income					
Items that will not be reclassified to profit or loss:					
Equity investments at FVTOCI – net change in fair value (net of tax)		**(26)**	11	**(26)**	21
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations (net of tax)		**–**	513	**–**	–
Reclassification of foreign currency differences on sale of foreign investment (net of tax)		**–**	(2 067)	**–**	–
Cash flow hedges – effective portion of changes in fair value (net of tax)		**120**	92	**120**	92
Cash flow hedges – reclassified to profit or loss (net of tax)		**(27)**	(49)	**(27)**	(49)
Share of other comprehensive income of equity-accounted investments (net of tax)		**–**	25	**–**	–
Total comprehensive (loss)/income for the year		**(4 609)**	(105)	**(3 683)**	3 584
(Loss)/profit attributable to:					
Owners of the company		**(4 676)**	1 370	**(3 750)**	3 520
Total comprehensive (loss)/profit attributable to:					
Owners of the company		**(4 609)**	(105)	**(3 683)**	3 584
(Loss)/profit per share (cents)					
– Basic	12	**(428)**	125	**–**	–
– Diluted	12	**(428)**	125	**–**	–

Group and company statements of financial position

as at 31 December 2019

	Notes	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
ASSETS					
Non-current assets					
Property, plant and equipment	14	**7 974**	8 995	**7 967**	8 847
Intangible assets	15	**70**	73	**70**	73
Equity-accounted investments	16	**268**	220	**170**	172
Investments in subsidiaries	17	**–**	–	**229**	240
Investments held by environmental trust	18	**348**	332	**–**	–
Non-current receivables	21	**22**	10	**22**	10
Other financial assets	19	**40**	66	**40**	66
Total non-current assets		**8 722**	9 696	**8 498**	9 408
Current assets					
Inventories	20	**8 700**	12 179	**7 997**	10 929
Trade and other receivables	21	**2 837**	3 972	**2 746**	3 376
Taxation		**21**	132	**21**	132
Other financial assets	19	**193**	56	**193**	56
Cash, bank balances and restricted cash	22	**1 988**	2 525	**1 972**	2 506
Total current assets		**13 739**	18 864	**12 929**	16 999
Total assets		**22 461**	28 560	**21 427**	26 407
EQUITY AND LIABILITIES					
Equity					
Stated capital		**4 537**	4 537	**4 537**	4 537
Reserves	23	**(3 568)**	(3 659)	**1 105**	985
Retained income/(accumulated loss)		**2 436**	7 083	**(1 484)**	2 266
Total equity		**3 405**	7 961	**4 158**	7 788
Non-current liabilities					
Finance lease obligations	24	**74**	46	**43**	–
Provisions	25	**1 761**	1 774	**1 498**	1 410
Borrowings	27	**4 208**	2 700	**4 208**	2 700
Other financial liabilities	28	**300**	544	**300**	544
Trade and other payables	26	**373**	572	**372**	572
Total non-current liabilities		**6 716**	5 636	**6 421**	5 226
Current liabilities					
Trade and other payables	26	**9 391**	13 779	**8 449**	12 321
Taxation		**93**	91	**–**	–
Other financial liabilities	28	**600**	372	**600**	372
Borrowings	27	**1 150**	300	**1 150**	300
Finance lease obligations	24	**26**	15	**11**	2
Provisions	25	**1 080**	406	**638**	398
Total current liabilities		**12 340**	14 963	**10 848**	13 393
Total equity and liabilities		**22 461**	28 560	**21 427**	26 407

Group and company statements of cash flows

for the year ended 31 December 2019

		Group		Company	
	Notes	**2019 Rm**	2018 Rm	**2019 Rm**	2018 Rm
Cash flows from operating activities					
Cash generated from operations	29.1	**423**	2 282	**773**	1 911
Interest income		**101**	93	**99**	86
Finance cost		**(345)**	(574)	**(331)**	(536)
Income tax refunded/(paid)	29.2	**130**	(2)	**111**	–
Realised foreign exchange movements		**(180)**	(912)	**(179)**	(788)
Net cash generated by operating activities		**129**	887	**473**	673
Cash flows from investing activities					
Investment to maintain operations	29.3	**(1 347)**	(950)	**(1 197)**	(847)
Investment to expand operations	29.4	**(144)**	(306)	**(106)**	(285)
Investment in associates, joint ventures and cell captive		**–**	–	**–**	(1)
Proceeds on disposal of joint venture		**–**	3 221	**–**	–
Proceeds on disposal or scrapping of assets		**–**	12	**–**	12
Interest income from investments		**–**	–	**–**	1
Dividend from equity-accounted investments/subsidiaries		**12**	7	**33**	3 115
Net cash (utilised)/generated by investing activities		**(1 479)**	1 984	**(1 270)**	1 995
Cash flows from financing activities					
Borrowings raised/(repaid)		**850**	(3 400)	**850**	(3 400)
Finance lease obligation repaid		**(37)**	(85)	**(16)**	(65)
Cash settlement on long-term incentive plans		**(3)**	(2)	**(3)**	(2)
(Increase)/decrease in loans to subsidiaries		**–**	–	**(571)**	172
Net cash generated/(utilised) by financing activities		**810**	(3 487)	**260**	(3 295)
Net decrease in cash, cash equivalents and restricted cash		**(540)**	(616)	**(537)**	(627)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash		**3**	3	**3**	3
Cash, cash equivalents and restricted cash at the beginning of the year		**2 525**	3 138	**2 506**	3 130
Cash, cash equivalents and restricted cash at the end of the year		**1 988**	2 525	**1 972**	2 506

Group and company statements of changes in equity

for the year ended 31 December 2019

	Stated capital Rm	Retained income Rm	Treasury share equity reserve[1] Rm	Management share trust reserve[2] Rm	Share-based payment reserve[3] Rm	Attributable reserves of equity-accounted investments Rm	Other reserves[4] Rm	Total equity Rm
GROUP								
Balance at 31 December 2017	4 537	3 158	(3 918)	(318)	1 246	1 747	1 606	8 058
Total comprehensive income/(loss) for the year	–	1 370	–	–	–	25	(1 500)	(105)
Profit	–	1 370	–	–	–	–	–	1 370
Other comprehensive income/(loss)	–	–	–	–	–	25	(1 500)	(1 475)
Transfer between reserves	–	2 555	(1)	16	(25)	(2 573)	28	–
Share-based payment expense	–	–	–	–	10	–	–	10
Settlement of long-term incentive plans	–	–	–	–	(2)	–	–	(2)
Balance at 31 December 2018	4 537	7 083	(3 919)	(302)	1 229	(801)	134	7 961
Total comprehensive (loss)/income for the year	**–**	**(4 676)**	**–**	**–**	**–**	**–**	**67**	**(4 609)**
Loss	**–**	**(4 676)**	**–**	**–**	**–**	**–**	**–**	**(4 676)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**67**	**67**
Share-based payment expense	**–**	**–**	**–**	**–**	**56**	**–**	**–**	**56**
Settlement of long-term incentive plans	**–**	**–**	**–**	**–**	**(3)**	**–**	**–**	**(3)**
Transfer of equity-accounted earnings	**–**	**29**	**–**	**–**	**–**	**(29)**	**–**	**–**
Balance at 31 December 2019	**4 537**	**2 436**	**(3 919)**	**(302)**	**1 282**	**(830)**	**201**	**3 405**

Group and company statements of changes in equity continued

for the year ended 31 December 2019

	Stated capital Rm	Retained income/ (accumulated loss Rm	Treasury share equity reserve[1] Rm	Management share trust reserve[2] Rm	Share-based payment reserve[3] Rm	Other reserves[4] Rm	Total equity Rm
COMPANY							
Balance at 31 December 2017	4 537	(1 265)	–	(318)	1 246	(4)	4 196
Total comprehensive income for the year	–	3 520	–	–	–	64	3 584
Profit	–	3 520	–	–	–	–	3 520
Other comprehensive income	–	–	–	–	–	64	64
Share-based payment expense	–	–	–	–	10	–	10
Transfer between reserve	–	11	–	16	(25)	(2)	–
Settlement of long-term incentive plans	–	–	–	–	(2)	–	(2)
Balance at 31 December 2018	4 537	2 266	–	(302)	1 229	58	7 788
Total comprehensive (loss)/income for the year	**–**	**(3 750)**	**–**	**–**	**–**	**67**	**(3 683)**
Loss	**–**	**(3 750)**	**–**	**–**	**–**	**–**	**(3 750)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**67**	**67**
Share-based payment expense	**–**	**–**	**–**	**–**	**56**	**–**	**56**
Settlement of long-term incentive plans	**–**	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Balance at 31 December 2019	**4 537**	**(1 484)**	**–**	**(302)**	**1 282**	**125**	**4 158**

Group and company statements of changes in equity continued

for the year ended 31 December 2019

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

1. 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 prior 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.

2. 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*.

3. 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.

4. OTHER RESERVES

Other reserves consist of the following:
Capital redemption reserve of R24 million (2018: R24 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.

Equity instruments carried at FVTOCI reserve of R38 million debit (2018: R13 million debit) for the group. This reserve relates to the unrealised fair value gains/(losses) relating to the group's investment in Hwange Colliery Company Ltd and MC Mining Ltd.

Translation of the foreign operation reserve of R79 million (2018: R80 million) for the group. The remaining other reserve relate to a hedging reserve of R136 million (2018: R43 million).

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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 Changes in significant accounting policies due to new IFRS standards

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.*

The group and company have applied IFRS 16 *Leases* from 1 January 2019.

Due to the transition methods chosen by the group and company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The group and company have made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019. The practical expedient permitted the use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 are classified as short-term lease.

The group and company apply the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the group and company.

Impact on lessee accounting

i. Former operating leases

IFRS 16 changes how the group and company account for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16 for all leases (except as noted below), the group and company:

(a) Recognises right-of-use assets and leases liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Disclose the total amount of cash paid, the principal portion and the interest portion within the financing activities in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets the group and company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within "other operating expenses" in profit or loss.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) continued

2.1 Changes in significant accounting policies due to new IFRS standards continued

Impact on lessee accounting continued

ii. Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the group and the company have recognised as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the group's consolidated financial statements.

The impact of the change in the accounting policy on the statement of financial position on 1 January 2019 was as follows:

- increase in right-of-use assets by R62 million; and
- increase in lease liabilities by R62 million.

In the current year, the group and company have applied a number of amendments to IFRS standards and interpretations issued by the IASB that are effective for the annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 **Prepayment Features with Negative Compensation**

The group and company have adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the "solely payments of principal and interest" (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 28 **Long-term Interest in Associates and Joint Ventures**

The group and company have adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The group applies IFRS 9 to such long-term interest before it applies IAS 28. In applying IFRS 9, the group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (ie adjustments to the carrying amount or long-term interest arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Annual Improvements to IFRS Standards 2015 – 2017 Cycle **Amendments to IFRS 3**

The group and company have adopted the amendments included in the *Annual Improvements to IFRS Standards 2015 – 2017 Cycle* for the first time in the current year. The annual improvements include amendments to four standards:

IAS 12 **Income Taxes**

The amendments clarify that the group and company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 **Borrowing Costs**

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) continued

2.1 Changes in significant accounting policies due to new IFRS standards continued

Impact on lessee accounting continued

ii. **Former finance leases** *continued*

IFRS 3 Business Combinations

The amendments clarify that when the group and company obtain control of a business that is a joint operation, the group and company apply the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business, obtains joint control of such a joint operation, the group and company does not remeasure its PHI in the joint operation.

IFRIC 23 Uncertainty over Income Tax Treatments

The group and company have adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the group and company to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax fillings.
  - If no, the group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount of the expected value method.

2.2 Standards and interpretations not yet effective for December 2019

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2020, and earlier application is permitted; however, the group and company have not early adopted the new or amended standards in preparing these consolidated financial statements. Those which may be relevant to the group and company are set out below. These will be adopted in the period that they become mandatory unless otherwise indicated:

The following amended standards are not expected to have a significant impact on the group and company's financial statements:

1. Amendments to the Conceptual Framework for Financial Reporting, including amendments to reference to the Conceptual Framework in IFRS Standards
2. Amendments to IFRS 3 *Definition of a Business*
3. Amendments to IAS 1 and IAS 8 *Definition of Material*
4. Amendments to IAS 39, IFRS 7 and IFRS 9 *Interest Rate Benchmark Reform*

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the group and company financial statements are set out below.

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 No 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 2019.

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 fair value through other comprehensive income.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES continued

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 less impairment.

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.

3.4 Basis of consolidation

The group's 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 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.

3.5 Interest in equity-accounted investees

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 venture has an interest are referred to as jointly controlled entities.

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 assets and liabilities of jointly controlled entities and associates 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 and 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 joint venture and associate, 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 and associate 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 and associate) 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 and associate.

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

3.6 Segment reporting

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

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.7 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 consolidated financial statements are presented in ZAR, 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 fair value through other comprehensive income 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.

3.8 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. Depreciation, gains and losses on disposal and impairment losses are recognised in the statement of comprehensive income when incurred.

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.

3.9 Accounting for finance leases as lessee

Applicable before 1 January 2019

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. 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.9 Accounting for finance leases as lessee continued

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.

Applicable after 1 January 2019

The group and company assess whether a contract is or contains a lease, at inception of the contract. The group and company recognise a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less), and leases of low-value assets. For these leases, the group and company recognise the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group and company use its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group and company remeasure the lease liability (and make a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event of change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The group and company did not make any such adjustments during the periods presented.

The right-to-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset, reflects that the group and company expect to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as part of property, plant and equipment line in the consolidated statement of financial position.

The group and company apply IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “Property, plant and equipment policy”.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The group and company have not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the group allocated the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.10 Intangible assets

3.10.1 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.*

3.10.2 Purchased intangible assets other than goodwill

Patents

The cost of acquisition of patents are 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 disposal 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.

3.11 Impairment of tangible and intangible assets

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.

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.

3.12 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:
- Amortised cost
- Fair value through other comprehensive income
- Fair value through profit and loss

3.12.1 Measured at amortised cost

Trade receivables, loans and other receivables held to collect contractual cash flows that are solely payments of principal and interest on specified dates are classified as measured at amortised cost. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss. Any gain or loss on derecognition is recognised in profit and loss.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.12 Financial assets continued

3.12.2 FVTOCI financial assets

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

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

3.12.3 FVTPL financial assets

All other financial assets that are neither classified as measured at amortised cost nor FVTOCI are classified as FVTPL.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

3.12.4 Impairment of financial assets

The group and company recognise loss allowance for estimated credit losses on financial assets measured at amortised cost and debt investments measured at FVTOCI.

The group and company measure loss allowances at an amount equal to lifetime estimated credit losses, except for the following, which are measured at 12-month estimated credit losses:
- debt securities that are determined to have low credit risk at the reporting date
- other debt securities and bank balances for which credit risk (ie the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition

Twelve-month estimated credit losses are the portion of estimated credit losses that result from default events that are possible within the 12 months after the reporting date.

Loss allowances for trade receivables, loans and other receivables are always measured at an amount equal to lifetime estimated credit losses. Lifetime estimated credit losses are the estimated credit losses that result from all possible default events over the expected life of a financial instrument.

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 FVTOCI equity securities, which are recognised in equity.

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

3.13.1 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.

3.13.2 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 issued by a group entity are recognised at the proceeds received, net of direct issue costs.

3.13.3 Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or measured at amortised cost. A financial liability is classified as at FVTPL if it is held for trading, a derivative or it is designated as such on initial recognition.

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.

3.13.4 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 method, with interest expense recognised on an effective yield basis. Interest expense and foreign exchange gains and losses are recognised in profit and loss. Any loss or gain on derecognition is also recognised in profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.14 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 IFRS 9 *Financial Instruments: Recognition and Measurement*.

At inception of designated hedging relationships, the group documents the risk management objective and strategy for undertaking the hedge. The group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

3.14.1 Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The effective portion accumulated in hedging reserves is released to the income statement against the revenue upon recognition of the sale.

3.15 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.

3.16 Cash, cash equivalents and restricted cash

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.

Restricted cash includes cash held in ceded bank accounts relating to environmental obligations and the true sale of receivables (TSR) facility.

3.17 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 options are shown in equity as a deduction, net of tax effects, from the proceeds.

Where any group or 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Stated capital continued

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.

3.18 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.

3.19 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.

3.20 Employee benefits

3.20.1 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.

3.20.2 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.

3.20.3 Retirement benefits

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.

3.20.4 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.

3.20.5 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. SIGNIFICANT ACCOUNTING POLICIES continued

3.21 Provisions and contingent liabilities

3.21.1 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.

3.21.2 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.

3.22 Revenue recognition

The group and company generate revenue primarily from the sale of long and flat steel products as well as beneficiated by-products in the ordinary course of the group and company's activities.

Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognised at a point in time and to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Revenue is presented net of value added tax, returns, rebates, discounts and, in the case of the group accounts, after eliminating sales within the group. 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. 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.

For contracts that permit the customer to return an item, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data. In these circumstances, a refund liability and a right to recover returned goods asset are recognised. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The group and company review their estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

The group and company recognise revenue when it transfers control over goods to a customer. Sales of goods are recognised based on the relevant delivery terms at which point the performance obligation are met and control of goods have been transferred to the customer. Control of goods transfer either when 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.23 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.

3.24 Share-based payments

3.24.1 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.

3.24.2 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.

3.24.3 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.

3.25 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax (refer to note 3.19).

3.25.1 Normal 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.

3.25.2 Withholding tax on dividends

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. REVENUE

The group and company generate revenue primarily from the sale of long and flat steel products as well as beneficiated by-products in the ordinary course of the group and company's activities.

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Revenue from major products and services				
Flat steel products				
Hot rolled	**17 209**	21 848	**11 882**	15 357
Uncoated	**3 990**	2 981	**3 990**	2 981
Coated	**5 728**	6 183	**5 728**	6 183
	26 927	31 012	**21 600**	24 521
Long steel products				
Merchant bars	**6 739**	7 833	**6 739**	7 833
Wire rod	**4 240**	4 232	**4 240**	4 232
Seamless	**2 200**	854	**2 200**	854
	13 179	12 919	**13 179**	12 919
Coke and chemicals				
Coke and tar	**1 154**	1 269	**1 154**	1 269
Other	**93**	74	**93**	74
	1 247	1 343	**1 247**	1 343
Total	**41 353**	45 274	**36 026**	38 783
Revenue to external customers				
Local	**31 886**	35 276	**29 633**	32 964
Export	**9 467**	9 998	**6 393**	5 819
Africa	**8 381**	7 967	**5 450**	3 788
Asia	**795**	1 425	**652**	1 425
Other	**291**	606	**291**	606
Total	**41 353**	45 274	**36 026**	38 783

5. SEGMENT REPORT

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the CODM, in order to allocate resources to the segment and to assess its performance. Segments are identified based on major product categories. These segments offer different products and are managed separately because they require different investment and marketing strategies.

The group's reportable segments are:
- Flat steel products consisting of Vanderbijlpark Works and Saldanha Works
- Long steel products consisting of 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 are income tax, capital gains tax and value added tax-related liabilities, as applicable.

Group and company statements of changes in equity

for the year ended 31 December 2018

5. SEGMENT REPORT continued

	Flat steel products Rm	Long steel products Rm	Coke and Chemicals Rm	Corporate and other Rm	Adjustments and eliminations Rm	Total reconciling to the consolidated amounts Rm
For the year ended 31 December 2019						
Revenue						
External customers	26 927	13 179	1 247	–	–	41 353
Intersegment customers	782	1 420	63	–	(2 265)	–
Total revenue	27 709	14 599	1 310	–	(2 265)	41 353
Revenue to external customers distributed as:						
Local	21 783	8 856	1 247	–	–	31 886
Export	5 144	4 323	–	–	–	9 467
Africa	4 590	3 791	–	–	–	8 381
Asia	554	241	–	–	–	795
Other	–	291	–	–	–	291
Total	26 927	13 179	1 247	–	–	41 353
Results						
Earnings before interest, tax, depreciation and amortisation	(574)	(369)	250	62	(1)	(632)
Depreciation and amortisation	(435)	(297)	(70)	(28)	–	(830)
Saldanha wind-down cost	(396)	–	–	–	–	(396)
Retrenchment packages	(138)	(33)	(1)	(62)	–	(234)
Inventory adjustment to net realisable value	(131)	(136)	–	–	–	(267)
(Loss)/profit from operations	(1 674)	(835)	179	(28)	(1)	(2 359)
Net impairments	(476)	(1 087)	–	(524)	686	(1 401)
Finance and investment income	34	6	–	61	–	101
Finance costs	(315)	(245)	(13)	(497)	–	(1 070)
Loss after tax from equity-accounted investments	–	–	–	(17)	–	(17)
(Loss)/profit before taxation	(2 431)	(2 161)	167	(1 006)	685	(4 746)
Income taxation credit	–	–	–	70	–	70
(Loss)/profit for the year	(2 431)	(2 161)	167	(936)	685	(4 676)
Segment assets (excluding investments in equity-accounted entities)	11 865	6 113	1 431	3 055	(271)	22 193
Investments in equity-accounted entities	–	–	–	268	–	268
Segment liabilities	5 188	2 141	172	11 823	(268)	19 056
Cash generated from/(utilised in) operations	1 204	321	38	(1 140)	–	423
Capital expenditure	1 223	217	18	33	–	1 491
Number of employees at the end of the year	4 644	2 377	240	1 118	–	8 379

5. SEGMENT REPORT continued

	Flat steel products Rm	Long steel products Rm	Coke and Chemicals Rm	Corporate and other Rm	Adjustments and eliminations Rm	Total reconciling to the consolidated amounts Rm
For the year ended 31 December 2018						
Revenue						
External customers	31 012	12 919	1 343	–	–	45 274
Intersegment customers	907	1 986	33	–	(2 926)	–
Total revenue	31 919	14 905	1 376	–	(2 926)	45 274
Revenue to external customers distributed as:						
Local	23 621	10 312	1 343	–	–	35 276
Export	7 391	2 607	–	–	–	9 998
Africa	6 062	1 905	–	–	–	7 967
Asia	1 139	286	–	–	–	1 425
Other	190	416	–	–	–	606
Total	31 012	12 919	1 343	–	–	45 274
Results						
Earnings before interest, tax, depreciation and amortisation	2 670	808	370	(243)	3	3 608
Depreciation and amortisation	(393)	(334)	(82)	(22)	–	(831)
Profit/(loss) from operations	2 277	474	288	(265)	3	2 777
Gain on sale of investment	–	–	–	2 452	(2 037)	415
Impairments	–	–	–	(72)	62	(10)
Finance and investment income	12	2	–	373	–	387
Finance costs	(255)	(213)	(8)	(1 817)	(107)	(2 400)
Income after tax from equity-accounted investments	–	–	–	138	–	138
Profit/(loss) before taxation	2 034	263	280	809	(2 079)	1 307
Income taxation (expense)/credit	(9)	–	–	72	–	63
Profit/(loss) for the year	2 025	263	280	881	(2 079)	1 370
Segment assets (excluding investments in equity-accounted entities)	15 208	8 631	1 287	3 966	(752)	28 340
Investments in equity-accounted entities	–	–	–	220	–	220
Segment liabilities	6 361	2 564	174	11 872	(372)	20 599
Cash generated from operations	1 889	82	255	56	–	2 282
Capital expenditure	785	363	25	83	–	1 256
Number of employees at the end of the year	4 834	2 497	249	1 257	–	8 837

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

5. SEGMENT REPORT continued

	2019 Rm	2018 Rm
5.1 Revenue from major products and services		
The group's revenue from its major products sold to external customers was:		
Flat steel products	**26 927**	31 012
Hot rolled	**17 209**	21 848
Uncoated	**3 990**	2 981
Coated	**5 728**	6 183
Long steel products	**13 179**	12 919
Merchant bars	**8 184**	7 833
Wire rod	**4 240**	4 232
Seamless tubular products	**755**	854
Coke and Chemicals	**1 247**	1 343
Coke and tar	**1 154**	1 269
Other	**93**	74
Total consolidated revenue	**41 353**	45 274

5.2 Geographical information

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

5.3 Information about major customers

	Flat steel products Rm	Long steel products Rm	Total revenue Rm	% of group revenue
2019				
Revenue of major customers				
Macsteel Services Centres SA (Pty) Ltd	**4 068**	**1 608**	**5 676**	**13.73**
Macsteel International Trading BV	**4 204**	**3 323**	**7 527**	**18.20**
Total	**8 272**	**4 931**	**13 203**	**31.93**
2018				
Revenue of major customers				
Macsteel Services Centres SA (Pty) Ltd	3 948	1 843	5 791	12.79
Macsteel International Trading BV	5 829	1 739	7 568	16.72
Total	9 777	3 582	13 359	29.51

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

6. (LOSS)/PROFIT FROM OPERATIONS

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
(Loss)/profit from operations has been arrived at after charging:				
Amortisation	**(11)**	(14)	**(11)**	(14)
Depreciation	**(819)**	(817)	**(785)**	(807)
Employee costs				
Salaries and wages	**(3 823)**	(3 977)	**(3 791)**	(3 968)
Termination benefits	**(376)**	(19)	**(234)**	(19)
Pension and medical costs	**(518)**	(487)	**(515)**	(486)
Share-based payment expense	**(56)**	(10)	**(56)**	(10)
Loss on disposal or scrapping of property, plant and equipment	**(14)**	(4)	**(14)**	(9)
Operating lease rentals				
Buildings	**(2)**	(4)	**(2)**	(4)
Plant, machinery and equipment	**(143)**	(263)	**(142)**	(262)
Vehicles	**(22)**	(31)	**(22)**	(31)
Railage and transport	**(1 304)**	(1 394)	**(1 167)**	(1 269)
Repairs and maintenance	**(2 750)**	(3 003)	**(2 099)**	(2 285)
Research and development	**(173)**	(175)	**(173)**	(175)
(Write-down)/reversal of write-down of inventory to net realisable value	**(94)**	140	**54**	140
Auditors' remuneration				
Audit fees	**(14)**	(15)	**(13)**	(15)
Other services and expenses	**(2)**	(1)	**(2)**	(1)
Allowance for impairment recognised on trade receivables	**(15)**	(25)	**(12)**	(25)
Other allowances on trade receivables	**4**	(10)	**5**	(5)
Allowance for impairment on other receivables	**(24)**	(21)	**(24)**	(20)

7. FINANCE AND INVESTMENT INCOME

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Finance income				
Bank deposits and other interest income	**101**	93	**100**	86
Discount rate adjustment of provisions and financial instruments	**–**	285	**–**	285
Investment income				
Interest received from jointly controlled entities	**–**	9	**–**	1
Dividends	**–**	–	**33**	3 115
Total	**101**	387	**133**	3 487

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

8. FINANCE COSTS

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Interest expense on loans	**(863)**	(976)	**(823)**	(937)
Interest expense on finance lease obligations	**(13)**	(15)	**(6)**	(6)
Net foreign exchange gains/(losses) on financing activities	**128**	(1 112)	**120**	(971)
Discount rate adjustment of provisions and financial liabilities	**(1)**	–	**(1)**	–
Unwinding of discounting effect on provisions and financial liabilities	**(321)**	(297)	**(316)**	(294)
Total	**(1 070)**	(2 400)	**(1 026)**	(2 208)

9. IMPAIRMENT REVERSAL/(IMPAIRMENT) OF OTHER ASSETS

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Impairment reversal/(impairment) of equity-accounted investments	**79**	(10)	**–**	–
Impairment of investment in subsidiaries	**–**	–	**(603)**	(62)
Total	**79**	(10)	**(603)**	(62)

Impairment reversal/(impairment) of equity-accounted investments

The group impairment reversal of R79 million (2018: impairment of R10 million) relates to the reversal of loans advanced to Coza Mining (Pty) Ltd that are recoverable.

Impairment of investment in subsidiaries

An impairment of the investment in Saldanha Steel (Pty) Ltd of R631 million was made in 2019 (2018: reversal of impairment R197 million). This impairment was made after taking into account the shareholders' loan and the intercompany balances in favour of Saldanha Steel (Pty) Ltd.

An impairment of R51 million (2018: R14 million) relates to the investment in Vicva Investments and Trading Nine (Pty) Ltd that was measured at fair value. Fair value is based on the share price of ArcelorMittal South Africa Ltd. Vicva Investments and Trading Nine (Pty) Ltd is a beneficial shareholder of ArcelorMittal South Africa Ltd and holds 1.6% (2018: 1.6%) of the issued shares.

An impairment reversal of R79 million (2018: impairment of R4 million) relates to the subsidiary Oakwood Trading 21 (Pty) Ltd. The loan provided to the subsidiary in the previous years is considered to be recoverable.

MSSA Investment BV held the investment in MIHBV. After the sale of MIHBV, the investment of R241 million was impaired in 2018. Refer to note 10 for the sale of MIHBV.

10. SALE OF MACSTEEL

The group sold its 50% interest in MIHBV to Macsteel Holdings Luxembourg SARL (MacHold) for $220 million (R3 221 million) effective 1 November 2018.

MIHBV is a long-standing joint venture between MacHold and ArcelorMittal South Africa which is largely focused on international steel trading and shipping. While it remains an important source of steel products, ArcelorMittal South Africa supplies less than 20% of the total tonnage traded and less than 2% of volumes shipped by MIHBV. Therefore, ArcelorMittal South Africa no longer considers the investment to be a core asset and has decided to sell its interest in line with the group's strategic objectives.

The commercial relationship between MIHBV and ArcelorMittal South Africa will continue through a new, four-year marketing agreement. The sale of shares and marketing agreements were effective on 1 November 2018 when all conditions precedent were fulfilled.

The proceeds of this sale significantly strengthened the statement of financial position and cash flow position. This is an important achievement as part of the group's strategy to improve the sustainability of the business.

Accounting impact of this transaction:

	2018 Rm
Fair value of investment when recognised as an asset held-for-sale on 31 May 2018	2 752
Equity-accounted investment	(4 404)
Fair value adjustment on asset held-for-sale	(1 652)
Foreign currency translation reserve (FCTR)	2 067
Profit on disposal of investment	415

On 31 May 2018, the group reclassified the investment in MIHBV as an asset held-for-sale. The group recognised a fair value adjustment in profit and loss on this reclassification amounting to R1 652 million. The disposal was finalised during November 2018 and FCTR of R2 067 million was released as a profit to profit and loss, resulting in a net profit on disposal of R415 million.

	2018 Rm
Fair value of investment when recognised as an asset held-for-sale on 31 May 2018**	2 752
Revaluation of fair value to effective date*	469
Proceeds on effective day	3 221
Derecognition of equity-accounted investment**	(4 404)
Realised foreign exchange gains on investment at 31 May 2018*	1 598
Profit on disposal of asset	415

* *Total foreign exchange translation reserve of R2 067 million was released as a profit in the statement of comprehensive income.*
** *The fair value adjustment on asset held-for-sale was R1 652 million.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

11. INCOME TAXATION CREDIT

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
11.1 Income tax recognised in profit or loss				
Current income tax charge	**(3)**	22	**–**	33
Current deferred tax charge	**53**	–	**53**	–
Adjustments for tax of prior periods	**20**	41	**–**	41
Total	**70**	63	**53**	74
The total charge for the year can be reconciled to the accounting profit as follows:				
(Loss)/profit before tax	**(4 746)**	1 307	**(3 803)**	3 446
Income tax credit calculated at 28%	**(1 329)**	366	**(1 065)**	965
Effect of income that is non-taxable/exempt – dividend received	**–**	–	**(9)**	(870)
Effect of income that is non-taxable/exempt – Ferrosure Isle of Man (Cell captive)	**–**	45	**–**	45
Competition Commission administrative penalty	**1**	34	**(2)**	34
Impairment of investments in subsidiaries	**(22)**	3	**169**	17
Other non-deductible expenses	**22**	4	**22**	4
Effect of timing differences not recognised in the current year in relation to unrecognised deferred tax asset	**1 324**	(322)	**881**	(195)
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	**–**	(129)	**–**	–
Adjustment recognised in the current year in relation to dividend tax of prior years	**(21)**	–	**–**	–
Deferred tax income relating to the origination and reversal of temporary differences	**(53)**	–	**(53)**	–
Adjustments recognised in the current year in relation to the current tax and deferred tax of prior years	**4**	(41)	**–**	(41)
SARS interest and penalties	**4**	10	**4**	–
SARS interest income	**–**	(33)	**–**	(33)
Total income tax credit	**(70)**	(63)	**(53)**	(74)

Although the corporate tax rate is 28%, the actual average tax rate for the group and company was negative 1% (2018: negative 5%) and negative 1% (2018: negative 2%) respectively. The negative tax rate was as a result of an income tax receivable due to a settlement with the South African Revenue Service during 2018 as well as utilising previously accumulated assessed losses.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

11. INCOME TAXATION CREDIT/(EXPENSE) continued

11.2 Deferred income tax liability

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

	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	Closing balance Rm
GROUP								
2019								
Temporary differences								
At the beginning of the year	**1 219**	**(151)**	**(570)**	**(22)**	**(17)**	**(525)**	**66**	**–**
Charged to income	**(212)**	**(87)**	**38**	**(63)**	**(11)**	**79**	**256**	**–**
At the end of the year	**1 007**	**(238)**	**(532)**	**(85)**	**(28)**	**(446)**	**322**	**–**
2018								
Temporary differences								
At the beginning of the year	1 208	(147)	(648)	(12)	(35)	(520)	154	–
Charged to income	11	(4)	78	(10)	18	(5)	(88)	–
At the end of the year	1 219	(151)	(570)	(22)	(17)	(525)	66	–
COMPANY								
2019								
Temporary differences								
At the beginning of the year	**1 401**	**(150)**	**(559)**	**(22)**	**–**	**(461)**	**(209)**	**–**
Charged to income	**(185)**	**(50)**	**28**	**(7)**	**(14)**	**52**	**176**	**–**
At the end of the year	**1 216**	**(200)**	**(531)**	**(29)**	**(14)**	**(409)**	**(33)**	**–**
2018								
Temporary differences								
At the beginning of the year	1 270	(148)	(641)	(13)	(16)	(459)	7	–
Charged to income	131	(2)	82	(9)	16	(2)	(216)	–
At the end of the year	1 401	(150)	(559)	(22)	–	(461)	(209)	–

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

11. INCOME TAXATION CREDIT/(EXPENSE) continued

11.3 Unrecognised deductible temporary differences, unused tax losses and unused tax credits

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Unrecognised deferred tax losses	**19 939**	15 233	**15 996**	12 974
Total	**19 939**	15 233	**15 996**	12 974

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, no deferred tax asset has been recognised.

12. (LOSS)/EARNINGS PER SHARE

Basic (loss)/profit per share is calculated by dividing (loss)/profit 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)/profit, headline and diluted headline (loss)/earnings per share.

	Group	
	2019	2018
Weighted average number of shares	**1 093 509 570**	1 093 509 570
Weighted average number of diluted shares	**1 093 509 570**	1 093 509 570
Weighted average number of diluted shares are calculated by adjusting the weighted average number of ordinary shares with additional ordinary shares held by third parties that would have been outstanding assuming the conversion of all outstanding share options representing dilutive potential ordinary shares. Based on the current share price of ArcelorMittal South Africa, the B-BBEE transaction does not have a dilutive impact on the shareholding. No other outstanding shares had a dilutive impact.		
(Loss)/profit attributable to the owners of the company per share		
Basic		
(Loss)/profit attributable to owners of the company (Rm)	**(4 676)**	1 370
Weighted average number of shares	**1 093 509 570**	1 093 509 570
Basic (loss)/profit per share (cents)	**(428)**	125
Diluted		
(Loss)/profit attributable to owners of the company (Rm)	**(4 676)**	1 370
Weighted average number of diluted shares	**1 093 509 570**	1 093 509 570
Diluted (loss)/profit per share (cents)	**(428)**	125
Headline (loss)/earnings per share		
The calculation for headline (loss)/earnings per share is based on the basic (loss)/profit per share calculation, reconciled as follows:		
Gross		
(Loss)/profit before tax (Rm)	**(4 746)**	1 307
Add: Impairment charges of property, plant and equipment (Rm)	**1 480**	–
Add: (Impairment reversal)/impairment of investments in joint ventures and associates (Rm)	**(79)**	10
Add: Loss on disposal or scrapping of plant, property and equipment (Rm)	**14**	4
Less: Fair value adjustment on disposal of assets (Rm)	**–**	1 652
Less: Reclassification of foreign currency differences on sale of foreign investment (Rm)	**–**	(2 067)
Headline (loss)/earnings before tax (Rm)	**(3 331)**	906

12. EARNINGS PER SHARE continued

	Group	
	2019	2018
Net of tax		
(Loss)/profit attributable to owners of the company (Rm)	**(4 676)**	1 370
Add: Impairment charges of property, plant and equipment (Rm)	**1 480**	–
Add: (Impairment reversal)/impairment of investments in joint ventures and associates (Rm)	**(79)**	10
Add: Loss on disposal or scrapping of property, plant and equipment (Rm)	**10**	3
Add: Fair value adjustment on disposal of assets (Rm)	**–**	1 652
Less: Reclassification of foreign currency differences on sale of foreign investment (Rm)	**–**	(2 067)
Headline (loss)/earnings net of tax (Rm)	**(3 265)**	968
Basic		
Headline (loss)/earnings (Rm)	**(3 265)**	968
Weighted average number of shares	**1 093 509 570**	1 093 509 570
Basic headline (loss)/earnings per share (cents)	**(299)**	89
Diluted		
Headline (loss)/earnings (Rm)	**(3 265)**	968
Weighted average number of diluted shares	**1 093 509 570**	1 093 509 570
Diluted headline (loss)/earnings per share (cents)	**(299)**	89

13. DIVIDEND PER SHARE

Consistent with the group's dividend policy, payment of any dividends is subject to the discretion of the board. It will depend on the earnings, financial condition, cash availability and any capital requirements necessary to sustain the business and support future growth. No dividends were declared for the 2019 and 2018 financial years.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings Rm	Buildings and infra-structure Rm	Machinery, plant and equipment Rm	Site pre-paration Rm	Asset retirement obligation Rm	Right-of use assets Rm	Construction in progress Rm	Total Rm
GROUP								
For the year ended 31 December 2019								
Carrying amount at the beginning of the year	**37**	**317**	**7 988**	**15**	**–**	**41**	**597**	**8 995**
Additions	**–**	**4**	**894**	**–**	**–**	**–**	**298**	**1 196**
Disposals	**–**	**–**	**(14)**	**–**	**–**	**–**	**–**	**(14)**
Depreciation	**–**	**(38)**	**(757)**	**(1)**	**–**	**(23)**	**–**	**(819)**
Impairment	**(9)**	**(61)**	**(1 304)**	**–**	**(33)**	**(18)**	**(55)**	**(1 480)**
Other movements	**–**	**1**	**234**	**–**	**33**	**62**	**(234)**	**96**
Carrying amount at the end of the year	**28**	**223**	**7 041**	**14**	**–**	**62**	**606**	**7 974**
At 31 December 2019								
Cost	**68**	**2 435**	**35 919**	**93**	**233**	**1 746**	**666**	**41 160**
Accumulated depreciation and impairment	**(40)**	**(2 212)**	**(28 878)**	**(79)**	**(233)**	**(1 684)**	**(60)**	**(33 186)**
Net carrying value	**28**	**223**	**7 041**	**14**	**–**	**62**	**606**	**7 974**
For the year ended 31 December 2018								
Carrying amount at the beginning of the year	41	368	7 533	17	3	83	429	8 474
Additions	–	1	865	–	–	–	495	1 361
Disposals	–	–	(21)	–	–	–	–	(21)
Depreciation	–	(52)	(719)	(2)	5	(49)	–	(817)
Reallocations	–	–	302	–	–	–	(302)	–
Other movements	(4)	–	28	–	(8)	7	(25)	(2)
Carrying amount at the end of the year	37	317	7 988	15	–	41	597	8 995
At 31 December 2018								
Cost	68	2 430	35 083	93	200	1 684	602	40 160
Accumulated depreciation and impairment	(31)	(2 113)	(27 095)	(78)	(200)	(1 643)	(5)	(31 165)
Net carrying value	37	317	7 988	15	–	41	597	8 995

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT continued

	Land and buildings Rm	Buildings and infra-structure Rm	Machinery, plant and equipment Rm	Site pre-paration Rm	Asset retirement obligation Rm	Right-of use assets Rm	Construction in progress Rm	Total Rm
COMPANY								
For the year ended 31 December 2019								
Carrying amount at the beginning of the year	**28**	**285**	**7 979**	**15**	**–**	**17**	**523**	**8 847**
Additions	**–**	**4**	**774**	**–**	**–**	**–**	**264**	**1 042**
Disposals	**–**	**–**	**(13)**	**–**	**–**	**–**	**–**	**(13)**
Depreciation	**–**	**(38)**	**(729)**	**(1)**	**–**	**(17)**	**–**	**(785)**
Impairment	**–**	**(35)**	**(1 152)**	**–**	**–**	**–**	**–**	**(1 187)**
Other movements	**–**	**1**	**181**	**–**	**–**	**62**	**(181)**	**63**
Carrying amount at the end of the year	**28**	**217**	**7 040**	**14**	**–**	**62**	**606**	**7 967**
At 31 December 2019								
Cost	**51**	**2 005**	**24 962**	**93**	**198**	**1 530**	**611**	**29 450**
Accumulated depreciation and impairment	**(23)**	**(1 788)**	**(17 922)**	**(79)**	**(198)**	**(1 468)**	**(5)**	**(21 483)**
Net carrying value	**28**	**217**	**7 040**	**14**	**–**	**62**	**606**	**7 967**
For the year ended 31 December 2018								
Carrying amount at the beginning of the year	29	337	7 638	19	–	57	399	8 479
Additions	–	1	752	–	–	–	445	1 198
Disposals	–	–	(21)	–	–	–	–	(21)
Depreciation	–	(52)	(712)	(2)	–	(41)	–	(807)
Reallocations	–	–	276	–	–	–	(276)	–
Other movements	(1)	(1)	46	(2)	–	1	(45)	(2)
Carrying amount at the end of the year	28	285	7 979	15	–	17	523	8 847
At 31 December 2018								
Cost	51	2 000	24 281	93	198	1 468	528	28 619
Accumulated depreciation and impairment	(23)	(1 715)	(16 302)	(78)	(198)	(1 451)	(5)	(19 772)
Net carrying value	28	285	7 979	15	–	17	523	8 847

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT continued

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

Land	Not depreciated
Buildings and infrastructure	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

These useful lives represent management's current best estimates.

Impairment of assets

In accordance with IAS 36 *Impairment of Assets*, an impairment test was performed on all CGUs. 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 for five years. These cash flows are USD-based. 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 Newcastle Works was impaired due to the strengthening of the rand (ZAR) against the US dollar (USD) to USD/ZAR of R14.12 at year-end. The impairment amount of R1 087 million was recognised.

Following the decision to wind-down steel operations at Saldanha Works and placing the operation on care and maintenance, R294 million was recognised as an impairment.

The tin plant at Vanderbijlpark Works was impaired to the value of R99 million.

There were no impairment charges allocated during the 2018 financial year.

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

	Vanderbijlpark		Saldanha		Newcastle		LSP Gauteng operations		Coke and Chemicals	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Major assumptions										
Post-tax WACC/discount rate (% USD-based)***	**9.69**	11.16	**–**	11.16	**9.50**	11.16	**9.97**	11.16	**9.69**	11.16
Company-specific premium (% USD-based)	**2.25**	1.5	**–**	1.5	**2.75**	1.75	**1.50**	1.75	**2.25**	1.5
Total post-tax WACC/discount rate (% USD-based)***	**11.94**	12.66	**–**	12.66	**12.25**	12.91	**11.47**	12.91	**11.94**	12.66
Growth rate (% USD-based)	**2**	2	**–**	2	**2**	2	**2**	2	**2**	2
Exchange rate range (R/USD)**	**14.65 – 16.32**	13.75 – 16.71	**–**	13.75 – 16.71	**14.65 – 16.32**	13.75 – 16.71	**14.65 – 16.32**	13.75 – 16.71	**14.65 – 16.32**	13.75 – 16.71
Steel sales price range (average USD/t)**	**620 – 637**	617 – 755	**–**	487 – 582	**535 – 573**	511 – 629	**789 – 818**	849 – 921	**236 – 270**	192 – 343
Sales volume range (kt)**	**2 346 – 2 497**	2 285 – 2 800	**–**	989 – 1 183	**1 016 – 1 469**	1 464 – 1 585	**193 – 198**	206 – 241	**290 – 469**	345 – 394

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

* *LSP is split between Newcastle and Vereeniging as separate CGUs from 2018.*

** *Lowest to highest range over period of 2020 to 2024 (2018: 2019 to 2023).*

*** *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.*

14. PROPERTY, PLANT AND EQUIPMENT continued

Sensitivities relating to the Vanderbijlpark, Newcastle and Long steel products Gauteng operations CGU

	Newcastle Impact on coverage Rm	LSP Gauteng operations Impact on coverage Rm	Vanderbijlpark Impact on coverage Rm
Impact on enterprise value			
5% movement in the exchange rate per annum from 2020	**1 940**	**579**	**3 883**
5% movement in the pricing	**3 629**	**782**	**7 213**

15. INTANGIBLE ASSETS

GROUP

	Patents Rm	Non-integrated software Rm	Total Rm
For the year ended 31 December 2019			
Carrying amount at the beginning of the year	**–**	**73**	**73**
Additions	**–**	**8**	**8**
Other movements	**–**	**1**	**1**
Amortisation	**–**	**(11)**	**(11)**
Impairments	**–**	**(1)**	**(1)**
Carrying amount at the end of the year	**–**	**70**	**70**
At 31 December 2019			
Cost	**38**	**412**	**450**
Accumulated amortisation and impairment	**(38)**	**(342)**	**(380)**
Net carrying amount	**–**	**70**	**70**
For the year ended 31 December 2018			
Carrying amount at the beginning of the year	–	82	82
Additions	–	5	5
Amortisation	–	(14)	(14)
Carrying amount at the end of the year	–	73	73
At 31 December 2018			
Cost	38	403	441
Accumulated amortisation and impairment	(38)	(330)	(368)
Net carrying amount	–	73	73

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

15. INTANGIBLE ASSETS continued

	Non-integrated software Rm	Total Rm
COMPANY		
For the year ended 31 December 2019		
Carrying amount at the beginning of the year	**73**	**73**
Additions	**8**	**8**
Amortisation	**(11)**	**(11)**
Carrying amount at the end of the year	**70**	**70**
As at 31 December 2019		
Cost	**400**	**400**
Accumulated amortisation and impairment	**(330)**	**(330)**
Net carrying amount	**70**	**70**
For the year ended 31 December 2018		
Carrying amount at the beginning of the year	82	82
Additions	5	5
Amortisation	(14)	(14)
Carrying amount at the end of the year	73	73
At 31 December 2018		
Cost	393	393
Accumulated amortisation and impairment	(320)	(320)
Net carrying amount	73	73

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

Critical judgements and estimates

Useful lives and residual values of intangible assets

The estimates of 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

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

Useful life range

Non-integrated software	1 to 50 years
Patents	20 years

These useful lives represent management's current best estimates.

16. EQUITY-ACCOUNTED INVESTMENTS

None of the company's associates or jointly controlled entities are considered to be individually material compared to the others.

Summarised financial information

	2019 Rm	2018 Rm
16.1 Associates		
Aggregate information of associates not individually material		
Profit after tax	**6**	5
Share of other comprehensive income	**–**	–
Share of total comprehensive income	**6**	5
Aggregate carrying amount of the group's interest in these associates		
Group	**31**	37
Company	**16**	16
16.2 Joint venture		
Aggregate information of joint ventures not individually material		
(Loss)/profit after tax	**(23)**	9
Share of other comprehensive loss	**–**	(5)
Share of total comprehensive (loss)/income	**(23)**	4
Aggregate carrying amount	**237**	183
Total carrying amount of equity-accounted joint ventures and associates		
Group	**268**	220
Company	**170**	172

The summarised financial information below is in respect of the group's only material joint venture that was sold during 2018. Refer to note 10 for detail on this transaction.

The information represents amounts shown in the entity's annual financial statements for the five months ended 31 May 2018. The investment was classified as an asset held-for-sale on 31 May 2018.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

16. EQUITY-ACCOUNTED INVESTMENTS continued

16.2 Joint venture continued

	Macsteel International Trading BV 2018 Rm
Current assets	–
Non-current assets	–
Current liabilities	–
Non-current liabilities	–
Net assets	–
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	–
Current financial liabilities (excluding trade and other payables and provisions)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–
Income for the year includes the following:	
Revenue	15 782
Profit after tax	240
Other comprehensive income	–
Total comprehensive income	240
Profit for the year includes the following:	
Depreciation and amortisation	(6)
Net finance cost	13
Income tax expense	(16)
Reconciliation of net assets to carrying amount	-
Net assets of the joint venture	-
Proportion of the group's ownership interest	N/A
Carrying amount	-

Comprehensive income items were converted from USD to ZAR using the average exchange rate of the year.

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.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2019 Rm	2018 Rm
Shares at cost	**–**	–
Indebtedness – by subsidiaries	**229**	240
Total	**229**	240
Aggregate attributable after tax losses	**(1 623)**	(451)

The carrying value of the company's investment in subsidiaries consists largely of its investment in Saldanha Steel (Pty) Ltd, being the cost of shares and indebtedness, at the initial and subsequent acquisition dates. Refer to note 9 regarding the impairment of the subsidiaries.

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.

ArcelorMittal South Africa Management Share Fund 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.

The effect if these entities were to be consolidated by the group would be immaterial on the numbers and/or disclosure.

Ikageng Broad-Based Employee Share Trust

The Ikageng Broad-Based Employee Share Trust (Ikageng) was created in 2015 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*.

During 2015, the shares in ArcelorMittal South Africa Ltd were obtained from the treasury shares (4.7%) held by Vicva Trading Nine Investments (Pty) Ltd (Vicva), through a contribution from the company. Ikageng, subsequent to the rights issue, owns 1.45% of ArcelorMittal South Africa Ltd.

Isabelo Employee Empowerment Share Trust and Amandla we Nsimbi (Pty) Ltd

During 2016 the Isabelo Empowerment Share Trust and Amandla we Nsimbi (Pty) Ltd 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 (Pty) Ltd, and the Isabelo Empowerment 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*.

Group and company statements of changes in equity

for the year ended 31 December 2018

17. INVESTMENTS IN SUBSIDIARIES continued

Name of subsidiary	Country of incorporation[1]	Reporting currency	Number of ordinary shares issued	Interest of the company: Shares at cost 2019 R	Shares at cost 2018 R	Indebtedness 2019 Rm	Indebtedness 2018 Rm
Manufacturing							
Iscor Building Systems (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	–
Saldanha Steel (Pty) Ltd[1]	RSA	ZAR	2 000	**1 009**	1 009	**15**	150
ArcelorMittal Rail and Structures (Pty) Ltd[2]	RSA	ZAR	100	**100**	–	**–**	–
Mining							
Oakwood Trading 21 (Pty) Ltd	RSA	ZAR	100	**100**	100	**81**	–
Thabazimbi Iron Ore Mine (Pty) Ltd	RSA	ZAR	1	**1**	1	**105**	10
Services							
Pybus Fifty-Seven (Pty) Ltd	RSA	ZAR	1	**1 000**	1 000	**–**	–
Vicva Investments and Trading Nine (Pty) Ltd	RSA	ZAR	1	**1 000**	1 000	**28**	80
Dombotema Mining Investments (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	–
ArcelorMittal African Investments	Mauritius	USD	100	**716**	716	**–**	–
				4 126	4 026	**229**	240

[1] *The indebtedness amount includes the shareholders' loan of R2 567 million (2018: R3 257 million) that was fully impaired during 2019 (note 9) and intercompany balances in favour of Saldanha Steel (Pty) Ltd of R2 552 million (2018: R3 107 million).*
[2] *The company was incorporated on 5 November 2019.*

17. INVESTMENTS IN SUBSIDIARIES continued

Wind-down of Saldanha Steel (Pty) Ltd

The accounting impact of Saldanha Works that are being wind-down to a state of care and maintenance are as follows.

	Group	
	2019 Rm	2018 Rm
Income and expenses		
Revenue	**7 598**	8 654
Expenses	**(8 486)**	(8 092)
(Loss)/profit from operations before impairment and other expenses	**(888)**	562
Impairment	**(294)**	–
Wind-down cost	**(396)**	–
(Loss)/profit from operations	**(1 578)**	562
Finance and investment income	**1**	1
Finance cost	**(40)**	(50)
(Loss)/profit before taxation	**(1 617)**	513
Income taxation expense	**–**	(9)
Net (loss)/profit for the year	**(1 617)**	504
Assets and liabilities		
Assets		
Property, plant and equipment	**–**	224
Holding company variable loan	**2 552**	3 107
Inventories	**679**	1 269
Trade and other receivable	**147**	592
Liabilities		
Holding company fixed loan	**(7 654)**	(7 654)
Finance lease obligation	**(46)**	(59)
Provisions	**(434)**	(25)
Trade and other payables	**(924)**	(1 448)
Taxation	**(95)**	(95)

18. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

	Group	
	2019 Rm	2018 Rm
Balance at the beginning of the year	**332**	–
Acquisition – comprising equity	**–**	332
Fair value adjustment	**16**	–
Balance at the end of the year	**348**	332

The group holds an environmental trust which holds equity investments.

The trust's investment activities are managed by Old Mutual Investment Group (South Africa) (Pty) Ltd. It aims to achieve its objectives by investing in a diversified portfolio of equity (predominantly South African listed companies).

These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations relating to Thabazimbi's mining operations. The investment returns are reinvested by the trust. Refer to note 25 for the environmental rehabilitation provisions. The trust is consolidated in terms of IFRS 10 *Consolidated Financial Statements*.

Notes to the group and company annual financial statements continued

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19. OTHER FINANCIAL ASSETS

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Non-current				
Equity instruments – FVTOCI	**40**	66	**40**	66
Total	**40**	66	**40**	66
Current				
Financial assets carried at FVTPL				
Other forward exchange contracts	**4**	3	**4**	3
Financial assets carried at FVTOCI				
Forward exchange contracts and options used for hedging	**189**	53	**189**	53
Total	**193**	56	**193**	56

Critical judgements and estimates

Equity instruments carried at FVTOCI

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 Zimbabwean miner was placed under administration in October 2018 and consequently suspended on the JSE, resulting in the carrying amount of the investment reducing to R0 million (2018: R0 million).

MC Mining Ltd

The company holds 6 306 672 (4%) shares in MC Mining Ltd. MC Mining Ltd is listed on the Australian Stock Exchange, Johannesburg Stock Exchange and London Stock Exchange. The shares are valued at a fair value of R6.41 per share and therefore are valued at the market value of R40 million (2018: R66 million).

Financial assets carried at FVTPL

Foreign exchange contracts

Financial instruments carried at FVTPL represents gains on foreign exchange contracts (FECs).

Financial assets carried at FVTOCI

Forward exchange contracts and options used for hedging

Financial instruments carried at FVTOCI represent gains on the revaluation of options and forward exchange contracts designated in a hedging relationship.

20. INVENTORIES

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Finished products	**2 107**	3 234	**1 929**	2 893
Work-in-progress	**3 319**	4 641	**3 220**	4 488
Raw materials	**2 284**	3 220	**1 957**	2 714
Plant, spares and consumables	**976**	1 075	**877**	825
Right to recover returned goods	**14**	9	**14**	9
Total	**8 700**	12 179	**7 997**	10 929

Inventories and receivables are provided as security to the lenders of the BBF to the extent of the drawn amount of R1 150 million (2018: R300 million). Refer note 27 for detail on borrowings.

Right to recover returned goods

On adoption of IFRS 15, an asset for a right to recover returned goods is recognised in relation to products sold with a right to return.

Inventory at net realisable value

Included in the above are finished products of R762 million (2018: R614 million), work-in-progress of R382 million (2018: R663 million) and raw materials of R1 723 million (2018: R1 869 million) carried at net realisable value.

During the year a write-down of inventory to net realisable value of R94 million was recognised in profit or loss.

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Trade receivables				
Local	**2 411**	2 979	**2 350**	2 732
Exports	**450**	892	**450**	628
Total gross trade receivables	**2 861**	3 871	**2 800**	3 360
Allowance for impairment				
Local	**(26)**	(28)	**(23)**	(28)
Exports	**(17)**	–	**(17)**	–
Total allowances for impairment	**(43)**	(28)	**(40)**	(28)
Other allowances				
Local	**(235)**	(218)	**(235)**	(218)
Exports	**(36)**	(57)	**(28)**	(50)
Total other allowances	**(271)**	(275)	**(263)**	(268)
Net trade receivables				
Local	**2 150**	2 733	**2 092**	2 486
Exports	**397**	835	**405**	578
Total net trade receivables	**2 547**	3 568	**2 497**	3 064
Other receivables				
Other receivables	**377**	256	**364**	236
Allowance for impairment on other receivables	**(101)**	(77)	**(100)**	(76)
Net value added tax receivable	**36**	235	**8**	162
Total other receivables	**312**	414	**272**	322
Total	**2 859**	3 982	**2 768**	3 386
Non-current other receivables	**22**	10	**22**	10
Current trade and other receivables	**2 837**	3 972	**2 746**	3 376
Total	**2 859**	3 982	**2 768**	3 386

Included in other receivables is capitalised transaction cost relating to the BBF amounting to R42 million (2018: R30 million) of which R22 million (2018: R10 million) is non-current.

Inventories and receivables are provided as security for the BBF to the extent of the draw down of R1 150 million (2018: R300 million). Refer to note 27 for detail on borrowings.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

21. TRADE AND OTHER RECEIVABLES continued

Transfer of trade receivables

The group and company sold, with no recourse, trade receivables with a carrying amount of R1 165 million (2018: R1 278 million) to the bank for cash proceeds. This amount represents the outstanding receivables that were sold at 31 December 2019. This is referred to as the TSR programme. These trade receivables have been derecognised from the statement of financial position at the date of sale to the bank because the group and company have not retained substantially all of the risks and rewards – primarily credit risk. The amount received on transfer has been recognised as cash.

Expenses incurred under the TSR programmes (reflecting the discount granted to the acquirers of the accounts receivable) recognised in the statement of comprehensive income for the year ended 31 December 2019 is R76 million (2018: R82 million).

Credit risk

Credit risk is the risk of financial loss to the group and company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the group and company's receivables from customers, defined as trade receivables.

The carrying amounts of financial assets represent the maximum credit exposure.

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

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 risk management policy 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. The credit management's review includes the review of financial statements, credit insurers' information and industry information.

The group and company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. 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. Any sales exceeding those limits either requires additional credit cover, collateral or guarantees. Where these are not available it requires the approval of the executive directors and above certain threshold that of ArcelorMittal group. This decision will be based on past payment history, size of the customer and the strategic nature of the customer.

Credit insurance is mainly underwritten by the Credit Guarantee Insurance Corporation of South Africa Ltd under five different policies with a maximum liability of R1.4 billion on the largest policy.

The insurance excess ranges from 0% to 10%. Hollard was added as an additional credit insurer in 2018 for a specific customer. The excess in relation to the policy is 15%.

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 exclusive of VAT		Balance	
	Rating	**2019**	2018	**2019**	2018
Outstanding balance of the top three customers by sales for the year (Rm)					
Group	Rating B	**2 091**	1 977	**697**	1 319
Company	Rating B	**2 091**	1 977	**697**	1 055
Percentage of net trade receivables (%)					
Group				**24**	37
Company				**25**	34

The most significant export customer is Macsteel International Trading BV (Rating A). Macsteel International Trading BV does not have a credit limit and is not insured due to the short-term nature of this receivable. The group and company have an exclusive distribution management agreement with this company for all Blue Water sales. The outstanding customer balance as at 31 December 2019 was R305 million (2018: R735 million).

21. TRADE AND OTHER RECEIVABLES continued

	Group		Company	
	2019 %	2018 %	**2019 %**	2018 %
Credit risk exposure by class for the group and company is:				
Local	**95**	77	**94**	81
Exports	**5**	23	**6**	19
Total	**100**	100	**100**	100

	Group		Company	
	2019 Days	2018 Days	**2019 Days**	2018 Days
Average credit period for trade receivables				
Local	**39**	39	**39**	36
Exports	**20**	21	**21**	23

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.

Allowances

The following allowances exist:

Allowance for impairment, 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.

Movement in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Balance at the beginning of the year	**(28)**	(3)	**(28)**	(3)
Amounts written off	**33**	11	**33**	11
Net remeasurement of loss allowance	**(48)**	(36)	**(45)**	(36)
Balance at the end of the year	**(43)**	(28)	**(40)**	(28)

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

21. TRADE AND OTHER RECEIVABLES continued

Movement in other allowances

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

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Balance at the beginning of the year	**(275)**	(265)	**(268)**	(263)
Allowances raised	**(1 671)**	(1 574)	**(1 571)**	(1 554)
Allowances utilised	**1 675**	1 564	**1 573**	1 549
Balance at the end of the year	**(271)**	(275)	**(263)**	(268)

An allowance is also made for impairment on other receivables that are more than 90 days overdue.

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Movement in allowances for impairment on other receivables				
Balance at the beginning of the year	**(77)**	(56)	**(76)**	(56)
Impairment losses recognised	**(43)**	(32)	**(43)**	(35)
Amounts recovered during the year	**19**	11	**19**	15
Balance at the end of the year	**(101)**	(77)	**(100)**	(76)

Expected credit loss assessment for trade receivables

The group and company allocate each exposure to credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings from credit insurers, audited financial statements, management accounts and cash flow projections and available press/industry information). Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating factors from credit insurers.

The following table provides information about the exposure to credit risk for trade receivables as at 31 December 2019:

Grading	Risk	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
A – grading	Low risk	**292**	735	**286**	471
B – grading	Medium risk	**2 071**	2 730	**2 026**	2 483
C – grading	High risk	**498**	406	**488**	406
Total		**2 861**	3 871	**2 800**	3 360

21. TRADE AND OTHER RECEIVABLES continued

Risk profiles

Grading	Subgrade	Description	Characteristics	Application
A		**Low risk**	1. Net asset value – minimum value of R1 billion	The company can opt for an open account basis without additional cover or securities.
	A1	Going concern approach	2. Strong asset base	
	A2	Liquidation approach	3. Positive cash inflow Exceptions may be made in case of capital investments	
	A3	Strategic decision	4. Consistent profit 5. Excellent payment history	
B		**Medium risk**	1. Positive net asset value	Additional orders, which will cause customers to exceed their approved credit facility, will be subjected to a prior investigation by credit risk management. The group **may** opt for securities listed below: ◆ Cession of debtors ◆ Company guarantee (by a company with adequate liquidation value and with a low/medium company risk profile) ◆ Cession of loan account ◆ Notarial bonds (special or general) over plant and machinery ◆ Debt set-off agreement ◆ Cession of shares in listed companies on the JSE ◆ Second bond on property
	B1	Going concern approach	2. Strong asset base	
	B2	Liquidation approach	3. Positive cash inflow Exceptions may be made in case of capital investments	
	B3	Strategic decision	4. Consistent profit	
	B4	Full credit insurance	5. Excellent payment history	
	B5	Facility fully covered by a guarantee from a financial institution	6. Full insurance cover 7. Sufficient securities	
C		**High risk**	1. Negative net asset value. Deficit on revalued assets 2. Poor payment history Defaults often and needs to be reminded to pay 3. Fluctuation in cash flow 4. No adequate securities 5. Adequate credit insurance cover cannot be obtained 6. Customer regularly experiences operating losses	If additional orders are required, the group and company **must** then insist on securities listed below: ◆ Guarantees from acceptable financial institutions (approved by treasury) ◆ First bonds over fixed property ◆ Letters of credit ◆ Cession of endowment policies ◆ Guarantees from the IDC

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

21. TRADE AND OTHER RECEIVABLES continued

Determining the allowance for impairment

In accordance with IFRS 9, the group and company followed a simplified approach when determining expected credit losses for trade receivables. In terms of the simplified approach, the group and company are not required to determine whether the credit risk has increased significantly since initial recognition of the trade receivable. Instead, the group and company recognised a loss allowance equal to the lifetime expected credit losses on every reporting date. The trade receivables do not have a significant financing component.

To determine credit losses for the trade receivables, the group and company use a provision matrix. The provision matrix is based on its historical observed default rates over the expected life of the trade receivable and is adjusted for forward-looking estimates. In addition, all known specifically impaired trade receivables are provided for. The group and company use the following matrix:

	Group and company				
	Default rate %	Ageing of trade receivable Rm	Lifetime expected credit loss impairment Rm	Specifically impaired trade receivables Rm	Total impairment for trade receivables Rm
30 – 60 days	0.5	324	(2)	–	(2)
60 – 90 days	0.5	62	(3)	–	(3)
90 – 120 days	1	4	–	–	–
120 – 180 days	3	62	–	(17)	(17)
>180 days	5	112	(6)	(15)	(21)
Total		564	(11)	(32)	(43)

22. CASH, BANK BALANCES AND RESTRICTED CASH

The group and company held cash and cash equivalents of R1 988 million as at 31 December 2019 (2018: R2 525 million). The group and company also entered into various derivatives with banks and financial institutions. The cash and cash equivalents are held with and derivatives are entered into with banks and financial institutions that are rated F1 to F3 based on ratings from Fitch.

The group and company consider that their cash and cash equivalents have a low credit risk based on the external ratings of the counterparties. Based on this and the short-term maturities of these exposures there is no expected credit loss and hence no provision for impairments has been raised against these positions and balances.

For the purposes of the group and company statements of cash flows, cash, cash equivalents and restricted cash include cash on hand and in banks, net of outstanding bank overdrafts. Cash, cash equivalents and restricted cash at the end of the reporting period as shown in the group and company statements of cash flows can be reconciled to the related items in the group and company statements of financial position as follows:

	Group		Company	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Bank balances	1 988	2 525	1 972	2 506

Included in cash and bank is restricted cash of R1 134 million (2018: R1 485 million) relating to the TSR facility of R823 million (2018: R883 million) and the environmental rehabilitation obligations of R311 million (2018: R602 million) as contained in note 25.

The restricted cash is held in bank accounts of ArcelorMittal South Africa Ltd.

Bank accounts of R600 million (2018: R282 million) were ceded in favour of the lenders of the BBF and TSR facility.

23. STATED CAPITAL

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Ordinary shares	**4 537**	4 537	**4 537**	4 537
A1 ordinary shares at no par value*	**–**	–	**–**	–
A2 ordinary shares at no par value*	**–**	–	**–**	–
Total	**4 537**	4 537	**4 537**	4 537

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

	Group		Company	
	2019 Number of shares	2018 Number of shares	**2019 Number of shares**	2018 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
A1 ordinary shares at no par value	**243 240 276**	243 240 276	**243 240 276**	243 240 276
A2 ordinary shares at no par value	**72 972 083**	72 972 083	**72 972 083**	72 972 083
	1 516 212 359	1 516 212 359	**1 516 212 359**	1 516 212 359
Issued shares				
Ordinary shares of no par value	**1 138 059 825**	1 138 059 825	**1 138 059 825**	1 138 059 825
A1 ordinary shares of no par value	**243 240 276**	243 240 276	**243 240 276**	243 240 276
A2 ordinary shares of no par value	**72 972 083**	72 972 083	**72 972 083**	72 972 083
Total shares in issue	**1 454 272 184**	1 454 272 184	**1 454 272 184**	1 454 272 184
Reconciliation of shares issued to shares outstanding				
Total shares issued	**1 454 272 184**	1 454 272 184	**1 454 272 184**	1 454 272 184
Amandla we Nsimbi (Pty) Ltd	**(243 240 276)**	(243 240 276)	**(243 240 276)**	(243 240 276)
Isabelo Employee Empowerment Share Trust	**(72 972 083)**	(72 972 083)	**(72 972 083)**	(72 972 083)
Ordinary shares	**1 138 059 825**	1 138 059 825	**1 138 059 825**	1 138 059 825
Vicva Investments and Trading Nine (Pty) Ltd	**(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)
Total shares outstanding	**1 093 509 570**	1 093 509 570	**1 093 509 570**	1 093 509 570

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 2019

23. STATED CAPITAL continued

A1 and A2 shares

In 2016, a successful B-BBEE transaction was completed. This transaction was 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 (Pty) Ltd and Isabelo Employee Empowerment Share Trust (representing 17% and 5.0% respectively of the voting rights in ArcelorMittal South Africa) through a notional loan.

The shareholders approved the issue of A1 and A2 ordinary shares. Amandla we Nsimbi (RF) (Pty) Ltd whose shares are owned by broad-based black consortium, Likamva Resources, subscribed for 43 240 276 A1 ordinary shares in ArcelorMittal South Africa. A1 ordinary shares were issued at a nominal value through a notional loan structure. The original notional loan was for 10 years of which 7.75 years are still left. Likamva Resources was initially the only shareholder but has introduced a broad-based party in the form of a community trust during November 2018. The trusts hold 29.53% of the shares in Amandla we Nsimbi (Pty) Ltd, reducing Likamva Resources' shareholding to 70.47%. Therefore, an indirect effective shareholding of 5% is achieved by the community trust.

The Isabelo Employee Empowerment Share Trust was 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 was set up for permanently employed management and non-management employees of all job grades of ArcelorMittal South Africa. The Isabelo Employee Empowerment Share Trust subscribed for 72 972 083 A2 ordinary shares in ArcelorMittal South Africa, representing 5.0% of the voting rights in ArcelorMittal South Africa. A2 ordinary shares are also issued at a nominal value through a notional loan structure.

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 (Pty) Ltd and the Isabelo Employee 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 (Pty) Ltd and the Isabelo Employee Empowerment Share Trust will convert into ArcelorMittal South Africa ordinary shares upon expiry of the "lock-in" period. The number of shares that will convert will be the equivalent of the value of the shares in surplus of the balance of the notional loan upon expiry of the "lock-in" period. There is a 10-year vesting period for the share-based payment benefit provided to the Isabelo Employee Empowerment Share Trust and no vesting period for the share-based payment benefit provided to Amandla we Nsimbi (Pty) Ltd. There are no performance targets for vesting for both ownership schemes.

Analysis of shareholding

The analysis of ordinary shareholders below represents a summary of beneficial shareholders with a holding greater than 5% of issued shares as at 31 December 2019:

	2019		2018	
	Number of shares	**% of shares in issue**	Number of shares	% of shares in issue
ArcelorMittal Holdings AG	**771 489 400**	**53.05**	771 489 400	53.05
Amandla we Nsimbi (Pty) Ltd	**243 240 276**	**16.73**	243 240 276	16.73
Industrial Development Corporation	**93 044 068**	**6.40**	93 044 068	6.40
Isabelo Employee Empowerment Share Trust	**72 972 083**	**5.02**	72 972 083	5.02
Shareholding more than 5%	**1 180 745 827**	**81.20**	1 180 745 827	81.20
Shareholding less than 5%	**273 526 357**	**18.80**	273 526 357	18.80
Total	**1 454 272 184**	**100**	1 454 272 184	100

Of the issued shares, Ikageng Broad-Based Employee Share Trust holds 1.5% (2018: 1.5%) and Vicva Investments and Trading Nine (Pty) Ltd owns 1.6% (2018: 1.6%). Ikageng Broad-Based Employee Share Trust holds the shares in the company for the benefit of the employees until such time that they vest. Amandla we Nsimbi (Pty) Ltd and the Isabelo Employee Empowerment Share Trust hold 100% of the A1 ordinary and A2 ordinary shares representing 17% and 5.0% shareholding respectively. Vicva Investments and Trading Nine (Pty) Ltd, Ikageng Broad-Based Employee Share Trust, Amandla we Nsimbi (Pty) Ltd and Isabelo Employee Empowerment Share Trust are considered to be controlled by the company and the shares held by them are treated as treasury shares for accounting purposes.

24. FINANCE LEASE OBLIGATIONS

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
SECURED – AT AMORTISED COST				
Non-current	**74**	46	**43**	–
Current	**26**	15	**11**	2
Total	**100**	61	**54**	2
MATURITY PROFILE				
Minimum lease payments				
Due in 2019	**–**	23	**–**	2
Due in 2020	**36**	21	**15**	–
Due in 2021	**36**	21	**16**	–
Due in 2022	**31**	15	**16**	–
Due in 2023	**17**	–	**17**	–
Total	**120**	80	**64**	2
Future finance charges	**(20)**	(19)	**(10)**	–
	100	61	**54**	2

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

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

Functional category	Term expiry	Effective interest rate (fixed) %
Electricity	2022	15.80
Office machines	2023	8.20
Steel processing and foundry services	2022	8.16

25. PROVISIONS

	Asset retirement obligation Rm	Environmental remediation Rm	Onerous contracts Rm	Carbon tax Rm	Restructuring costs Rm	Other Rm	Total Rm
GROUP							
For the year ended 31 December 2019							
At the beginning of the year	**204**	**1 954**	**–**	**–**	**–**	**22**	**2 180**
Charge to the statement of comprehensive income	**51**	**(28)**	**167**	**95**	**366**	**148**	**799**
Additions and scope changes	**18**	**(238)**	**167**	**95**	**366**	**148**	**556**
Discount rate change	**10**	**(7)**	**–**	**–**	**–**	**–**	**3**
Unwinding of the discount effect	**23**	**217**	**–**	**–**	**–**	**–**	**240**
Utilised during the year	**(3)**	**(135)**	**–**	**–**	**–**	**–**	**(138)**
At the end of the year	**252**	**1 791**	**167**	**95**	**366**	**170**	**2 841**
Non-current	**218**	**1 540**	**–**	**–**	**–**	**3**	**1 761**
Current	**34**	**251**	**167**	**95**	**366**	**167**	**1 080**
Total	**252**	**1 791**	**167**	**95**	**366**	**170**	**2 841**

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

25. PROVISIONS continued

	Asset retirement obligation Rm	Environmental remediation Rm	Onerous contracts Rm	Other Rm	Total Rm
GROUP					
For the year ended 31 December 2018					
At the beginning of the year	204	1 901	3	22	2 130
Charge to the statement of comprehensive income	3	(250)	–	–	(247)
Additions and scope changes	(29)	(104)	–	–	(133)
Discount rate change	7	(292)	–	–	(285)
Unwinding of the discount effect	25	146	–	–	171
Utilised during the year	(3)	(29)	(3)	–	(35)
Movement in environmental trust	–	332	–	–	332
At the end of the year	204	1 954	–	22	2 180
Non-current	172	1 598	–	4	1 774
Current	32	356	–	18	406
Total	204	1 954	–	22	2 180

	Asset retirement obligation Rm	Environmental remediation Rm	Carbon tax Rm	Restructuring cost Rm	Other Rm	Total Rm
COMPANY						
For the year ended 31 December 2019						
At the beginning of the year	**192**	**1 596**	**–**	**–**	**20**	**1 808**
Charge to the statement of comprehensive income	**16**	**57**	**78**	**223**	**87**	**461**
Additions and scope changes	**(13)**	**(81)**	**78**	**223**	**87**	**294**
Discount rate change	**8**	**4**	**–**	**–**	**–**	**12**
Unwinding of the discount effect	**21**	**134**	**–**	**–**	**–**	**155**
Utilised during the year	**(3)**	**(130)**	**–**	**–**	**–**	**(133)**
At the end of the year	**205**	**1 523**	**78**	**223**	**107**	**2 136**
Non-current	**173**	**1 322**	**–**	**–**	**3**	**1 498**
Current	**32**	**201**	**78**	**223**	**104**	**638**
Total	**205**	**1 523**	**78**	**223**	**107**	**2 136**

	Asset retirement obligation Rm	Environmental remediation Rm	Onerous contracts Rm	Other Rm	Total Rm
COMPANY					
For the year ended 31 December 2018					
At the beginning of the year	186	1 901	–	20	2 107
Charge to the statement of comprehensive income	14	(290)	–	–	(276)
Additions and scope changes	(14)	(145)	–	–	(159)
Discount rate change	5	(290)	–	–	(285)
Unwinding of the discount effect	23	145	–	–	168
Utilised during the year	(8)	(15)	–	–	(23)
At the end of the year	192	1 596	–	20	1 808
Non-current	160	1 246	–	4	1 410
Current	32	350	–	16	398
Total	192	1 596	–	20	1 808

25. PROVISIONS continued

Maturity profile

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

	Asset retirement obligation Rm	Environ-mental remedia-tion Rm	Onerous contracts Rm	Carbon tax Rm	Restruc-turing costs Rm	Other Rm	Total Rm
GROUP							
For the year ended 31 December 2019							
Less than one year	38	278	185	105	405	186	1 197
More than one year, less than five years	275	1 865	–	–	–	4	2 144
Greater than five years	60	757	–	–	–	–	817
Total	373	2 900	185	105	405	190	4 158
COMPANY							
For the year ended 31 December 2019							
Less than one year	35	222	–	87	247	115	706
More than one year, less than five years	234	1 641	–	–	–	4	1 879
Greater than five years	18	563	–	–	–	–	581
Total	287	2 426	–	87	247	119	3 166

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

	Asset retirement obligation Rm	Environ-mental remedia-tion Rm	Onerous contracts Rm	Carbon tax Rm	Restruc-turing costs Rm	Other Rm	Total Rm
GROUP							
For the year ended 31 December 2019							
Less than one year	34	251	167	95	366	167	1 080
More than one year less than five years	197	1 300	–	–	–	3	1 500
Greater than five years	21	240	–	–	–	–	261
Total	252	1 791	167	95	366	170	2 841
COMPANY							
For the year ended 31 December 2019							
Less than one year	32	201	–	78	223	104	638
More than one year less than five years	164	1 144	–	–	–	3	1 311
Greater than five years	9	178	–	–	–	–	187
Total	205	1 523	–	78	223	107	2 136

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.

Notes to the group and company annual financial statements continued

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25. PROVISIONS continued

The directors assess the 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 asset retirement obligation. The net carrying amount of the asset retirement obligation, asset component, included in note 14, amounts to R0 million (2018: R0 million) for the group and R0 million (2018: R0 million) for the company.

The term of the obligation assessment varies according to the site. The maximum term is 16 years.

	2019 %	2018 %
Average discount rates		
Asset retirement obligation	**12.06**	12.20
Environmental remediation obligation	**13.03**	13.23

The average escalation factor applied to the current cash flow estimates is 5.17% (2018: 5.11%).

Onerous contract

The onerous contract relates to take-or-pay contracts relating to Saldanha Works. The steel operations at Saldanha Works are being wound-down. The plant will be placed in care and maintenance.

Carbon tax

The Carbon Tax Act was approved in February 2019 and the implementation date was 1 June 2019. The carbon tax for the year ended 31 December 2019 is only payable 1 July 2020.

Restructuring cost

The restructuring cost relates to the announced section 189 retrenchments.

The sensitivity of the carrying amount of the obligations at 31 December 2019 in response to changes in key inputs is:

Carrying amount at 31 December 2019	Asset retirement obligation increase/ (decrease) Rm	Environmental remediation obligation increase/ (decrease) Rm
Percentage change in all cash flows		
+10%	**25**	**179**
-10%	**(25)**	**(179)**
Percentage change in cash flows in first five years		
+10%	**23**	**155**
-10%	**(23)**	**(155)**
Basis point change in discount rate		
+100 bps	**(2)**	**(17)**
-100 bps	**2**	**17**
Basis point change in discount rate in first five years		
+100 bps	**(7)**	**(15)**
-100 bps	**7**	**15**

Notes to the group and company annual financial statements continued

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26. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Trade payables				
Trade payables	**8 112**	11 421	**7 184**	9 973
TSR programme	**823**	883	**823**	883
Total	**8 935**	12 304	**8 007**	10 856
Other payables				
Leave pay	**409**	430	**408**	429
Refund liability	**6**	15	**6**	15
Sundry	**414**	1 602	**400**	1 593
Total	**829**	2 047	**814**	2 037
Non-current trade and other payables	**373**	572	**372**	572
Current trade and other payables	**9 391**	13 779	**8 449**	12 321
Total	**9 764**	14 351	**8 821**	12 893

TSR programme

The TSR programme is the sale of receivables balances to third parties. 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. The debtors, however, will settle the balance due to ArcelorMittal South Africa Ltd and thereafter the company is obligated to transfer those amounts to the third parties.

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 of accruals for corporate fees, other general accruals and payroll-related payables.

Refund liabilities

On adoption of IFRS 15, a refund liability was reclassified to other payables in relation to customers with a right to return goods.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

27. BORROWINGS

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Secured – at amortised cost				
Bank	**1 150**	300	**1 150**	300
Loans from holding company	**4 208**	2 700	**4 208**	2 700
Loans	**5 358**	3 000	**5 358**	3 000
Non-current	**4 208**	2 700	**4 208**	2 700
Current	**1 150**	300	**1 150**	300
Total	**5 358**	3 000	**5 358**	3 000

During 2019, the group renewed the borrowing-based facility (BBF) with various financial institutions for a three-year tenor. At 31 December 2019, R1 150 million (2018: R300 million) was drawn down on the facility and R3 350 million (2018: R4 200 million) was still available. Eligible inventories and receivables are provided as securities for the BBF to the extent of the draw down. The group currently has no intention to replace any portion of the BBF.

The loan from the holding company has been subordinated in favour of the lenders of the BBF loan. The loan has increased by R1 508 million as a result of the capitalisation of the accrued interest of R478 million and converting intercompany payables of R1 030 million. The R2 700 million and accrued interest attract interest of R478 million at the South African prime lending rate, and the R1 030 million is interest free.

The weighted average interest rate payable on borrowings is 10.18% (2018: 10.31%).

The BBF available to the group is subject to financial covenants. During the year the group has successfully renegotiated the level of the tangible net worth covenant. At year end, the group is in compliance with all covenants.

28. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Non-current				
Financial liabilities carried at amortised cost				
Competition Commission administrative penalty	**300**	544	**300**	544
Total	**300**	544	**300**	544
Current				
Financial liabilities carried at FVTPL				
Other forward exchange contracts	**–**	6	**–**	6
Financial liabilities carried at FVTOCI				
Forward exchange contracts used for hedging	**–**	10	**–**	10
Financial liabilities carried at amortised cost				
Competition Commission administrative penalty	**600**	356	**600**	356
Total	**600**	372	**600**	372

28. OTHER FINANCIAL LIABILITIES continued

Financial liabilities carried at amortised cost

Competition Commission administrative penalty

In 2016 the Competition Tribunal approved a settlement agreement reached with the Competition Commission and which provided for an administrative penalty of R1 500 million to be paid over a five-year period. The balance represents the present value of the repayment of the administrative penalty over the remaining period at the prevailing interest rate on debt owing to the state prescribed by the Minister of Finance in terms of section 80(1)(b) of the Public Finance Management Act No 1 of 1999, as amended.

In addition, ArcelorMittal South Africa is subject to an earnings before interest and tax (EBIT) cap on flat products produced at Vanderbijlpark and sold into the local market as well as spending R4 600 million on capital expenditure projects subject to it being affordable and feasible (refer to note 36). Both commitments will apply for five years, subject to revision as explained in note 36.

Financial liabilities: carried at FVTPL

Forward exchange contracts

Financial liabilities carried at FVTPL represent losses on forward exchange contracts (FECs).

Financial liabilities: carried at FVTOCI

Forward exchange contracts used for hedging

Financial liabilities carried at FVTOCI represent losses on forward exchange contracts designated in a hedging relationship.

29. NOTES TO THE STATEMENT OF CASH FLOWS

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
29.1 Cash generated from operations				
(Loss)/profit from operations	**(2 359)**	2 777	**(1 120)**	2 229
Adjusted for:				
Depreciation and amortisation	**830**	831	**796**	821
Unrealised profit on sales to joint ventures	**1**	(3)	**–**	–
Share option and participation costs	**56**	10	**56**	10
Non-cash movement in provisions and financial liabilities	**184**	(125)	**106**	(159)
Write-down/(reversal of write-down) of inventory to net realisable value	**94**	(140)	**(54)**	(140)
Movements in trade and other receivable allowances	**36**	46	**36**	45
Reconditionable spares usage	**–**	5	**–**	1
Loss on disposal or scrapping of property, plant and equipment	**14**	4	**14**	9
Fair value adjustment on environmental trust	**(16)**	–	**–**	–
Changes in:				
Decrease/(increase) in inventories	**3 415**	(520)	**3 015**	(298)
Decrease/(increase) in trade and other receivables	**1 208**	(1 005)	**549**	(943)
(Decrease)/increase in trade and other payables	**(2 876)**	497	**(2 465)**	425
Utilisation of provisions	**(138)**	(35)	**(133)**	(23)
Changes in financial liabilities or assets	**(84)**	(142)	**(84)**	(142)
Other payables raised, released and utilised relating to employee benefit	**58**	82	**57**	76
	423	2 282	**773**	1 911

Notes to the group and company annual financial statements continued

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29. NOTES TO THE STATEMENT OF CASH FLOWS continued

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
29.2 Income tax refunded/(paid)				
Normal taxation payable/(recoverable) at the beginning of the year	**41**	(24)	**132**	58
Amounts charged to the statement of comprehensive income	**17**	63	**–**	74
Normal taxation payable/(recoverable) at the end of the year	**72**	(41)	**(21)**	(132)
	130	(2)	**111**	–
29.3 Investment to maintain operations				
Replacement of property, plant and equipment	**(1 045)**	(807)	**(914)**	(729)
Intangible assets	**(10)**	(4)	**(10)**	(4)
Environmental	**(187)**	(80)	**(188)**	(78)
Reconditionable spares	**(105)**	(59)	**(85)**	(36)
	(1 347)	(950)	**(1 197)**	(847)
29.4 Investment to expand operations				
Property, plant and equipment for expansion	**(144)**	(306)	**(106)**	(285)
Total capital expenditure	**(1 491)**	(1 256)	**(1 303)**	(1 132)

29.5 Reconciliation of movements of liabilities to cash flows arising from financing activities

	2019 Borrowings Rm	2019 Finance lease liabilities Rm	2018 Borrowings Rm	2018 Finance lease liabilities Rm
GROUP				
At the beginning of the year	**3 000**	**61**	6 400	124
Repayment of borrowings	**(9 700)**	**–**	(10 250)	–
Proceeds from borrowings	**10 550**	**–**	6 850	–
Capitalised accrued interest and payables to group	**1 508**	**–**	–	–
Increase in financial lease liability	**–**	**63**	–	7
Payment of finance lease liability	**–**	**(24)**	–	(70)
Interest expense	**–**	**13**	–	15
Interest paid	**–**	**(13)**	–	(15)
At the end of the year	**5 358**	**100**	3 000	61
COMPANY				
At the beginning of the year	**3 000**	**2**	6 400	59
Repayment of borrowings	**(9 700)**	**–**	(10 250)	–
Proceeds from borrowings	**10 550**	**–**	6 850	–
Capitalised accrued interest and payable to group	**1 508**	**–**	–	–
Increase in financial lease liability	**–**	**63**	–	2
Payment of finance lease liability	**–**	**(11)**	–	(59)
Interest expense	**–**	**5**	–	6
Interest paid	**–**	**(5)**	–	(6)
At the end of the year	**5 358**	**54**	3 000	2

Notes to the group and company annual financial statements continued

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30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

30.1 Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. Trade and other receivables and trade and other payables classified as held-for-sale are not included in the table below. Their carrying amount is a reasonable approximation of fair value.

	2019					
	FVTOCI – hedging instrument Rm	FVTPL Rm	FVTOCI Rm	Assets/ liabilities amortised cost Rm	Non-financial assets/ liabilities Rm	Total Rm
GROUP						
Options and financial assets measured at fair value						
Forward exchange contracts used for hedging	189	–	–	–	–	189
Other forward exchange contracts	–	4	–	–	–	4
Equity securities	–	348	40	–	–	388
	189	352	40	–	–	581
Financial assets not measured at fair value						
Trade and other receivables	–	–	–	2 837	–	2 837
Cash, cash equivalents and restricted cash	–	–	–	1 988	–	1 988
	–	–	–	4 825	–	4 825
Financial liabilities measured at fair value						
Forward exchange contracts used for hedging	–	–	–	–	–	–
Other forward exchange contracts	–	–	–	–	–	–
	–	–	–	–	–	–
Financial liabilities not measured at fair value						
Borrowings	–	–	–	–	5 358	5 358
Competition Commission penalty	–	–	–	–	900	900
Finance lease obligations	–	–	–	–	100	100
Trade payables	–	–	–	–	8 935	8 935
Other payables*	–	–	–	–	323	323
	–	–	–	–	15 616	15 616

* *Other payables that are not financial liabilities are not included.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

2018						
FVTOCI hedging instrument Rm	FVTPL Rm	FVTOCI Rm	Assets/ liabilities amortised cost Rm	Non-financial assets/ liabilities Rm	Total Rm	Fair value hierarchy
53	–	–	–	–	53	Level 2
–	3	–	–	–	3	Level 2
–	332	66	–	–	398	Level 1
53	335	66	–	–	454	
–	–	57	3 915	–	3 972	Level 3
–	–	–	2 525	–	2 525	
–	–	57	6 440	–	6 497	
10	–	–	–	–	10	Level 2
–	6	–	–	–	6	Level 2
10	6	–	–	–	16	
–	–	–	–	3 000	3 000	Level 2
–	–	–	–	900	900	Level 2
–	–	–	–	61	61	Level 2
–	–	–	–	12 304	12 304	
–	–	–	–	1 388	1 388	
–	–	–	–	17 653	17 653	

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.1 Accounting classifications and fair values continued

	2019					
	FVTOCI – hedging instrument Rm	FVTPL Rm	FVTOCI Rm	Assets/ liabilities amortised cost Rm	Non-financial assets/ liabilities Rm	Total Rm
COMPANY						
Financial assets measured at fair value						
Options and forward exchange contracts used for hedging	189	–	–	–	–	189
Other forward exchange contracts	–	4	–	–	–	4
Equity securities	–	–	40	–	–	40
	189	4	40	–	–	233
Financial assets not measured at fair value						
Trade and other receivables	–	–	–	2 746	–	2 746
Cash, cash equivalents and restricted cash	–	–	–	1 972	–	1 972
	–	–	–	4 718	–	4 718
Financial liabilities measured at fair value						
Forward exchange contracts used for hedging	–	–	–	–	–	–
Other forward exchange contracts	–	–	–	–	–	–
	–	–	–	–	–	–
Financial liabilities not measured at fair value						
Borrowings	–	–	–	–	5 358	5 358
Competition Commission penalty	–	–	–	–	900	900
Finance lease obligations	–	–	–	–	53	53
Trade payables	–	–	–	–	8 007	8 007
Other payables*	–	–	–	–	311	311
	–	–	–	–	14 629	14 629

* *Other payables that are not financial liabilities are not included.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

2018						
FVTOCI hedging instrument Rm	FVTPL Rm	FVTOCI Rm	Assets/ liabilities amortised cost Rm	Non-financial assets/ liabilities Rm	Total Rm	Fair value hierarchy
53	–	–	–	–	53	Level 2
–	3	–	–	–	3	Level 2
–	–	66	–	–	66	Level 1
53	3	66	–	–	122	
–	–	57	3 319	–	3 376	Level 3
–	–	–	2 506	–	2 506	
–	–	57	5 825	–	5 882	
10	–	–	–	–	10	Level 2
–	6	–	–	–	6	Level 2
10	6	–	–	–	16	
–	–	–	–	3 000	3 000	Level 2
–	–	–	–	900	900	Level 2
–	–	–	–	2	2	Level 2
–	–	–	–	10 856	10 856	
–	–	–	–	1 388	1 388	
–	–	–	–	16 146	16 146	

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.1 Accounting classifications and fair values continued

Measurement of fair values – valuation techniques

The following tables show the valuation techniques used in measuring level 2 and level 3 fair values for financial instruments measured at fair value in the statement of financial position.

Type	Valuation technique
Forward exchange contracts	Forward pricing: the fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.
Other financial liabilities*	Discounted cash flows: the valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate.
Trade and other receivables	Included in trade and other receivables are trade receivables subject to the TSR programme. The fair value measurement of these receivables were determined based on the invoice amount net of TSR expense payable, a level 3 unobservable input. The TSR expense is insignificant due to the rate applicable and the short timeframe between the time of the sale and the carrying amount.

* *Other financial liabilities include Competition Commission penalty and finance lease liability.*

When measuring the fair value of an asset or a liability, the group and company use observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level	Valuation technique
Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
Level 3:	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30.2 Financial risk management overview and objectives

The group and company's board of directors has overall responsibility for the establishment and oversight of the group and company's risk management framework. The audit and risk committee is responsible for developing and monitoring the group and company's risk management policies. The committee reports regularly to the board of directors on its activities.

The group and company's risk management policies are established to identify and analyse the risks faced by it, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group and company's activities. The group and company, through their training and management standards and procedures, aim to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The group and company's audit and risk committee oversees how management monitors compliance with the group and company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group and company. The group and company's audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.2 Financial risk management overview and objectives continued

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

- **Financial market risk, consisting of:**
  1. Foreign currency risk
  2. Commodity price risks
  3. Interest rate risk
  4. 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 21**

  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:**
  1. Foreign currency risk management
  2. Commodity risk management
  3. 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.

30.3 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. During 2018 some of the derivatives were designated within hedge accounting relationships.

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.4 Foreign currency risk management

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

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Monetary assets				
United States dollar (USD)				
Cash and cash equivalents	**23**	78	**23**	78
Trade and other receivables (unrelated parties)	**563**	1 227	**520**	740
Options and forward exchange contracts used for hedging	**189**	53	**189**	53
Other forward exchange contracts	**4**	–	**4**	–
Euro (EUR)				
Cash and cash equivalents	**–**	4	**–**	4
Other forward exchange contracts	**–**	3	**–**	3
Metical (MZN)				
Cash and cash equivalents	**8**	8	**–**	–
Total foreign denominated monetary assets	**787**	1 373	**736**	878
Monetary liabilities				
USD				
Trade and other payables (related parties)	**(3 876)**	(5 177)	**(3 542)**	(4 720)
Trade and other payables (unrelated parties)	**(10)**	(100)	**(10)**	(65)
Forward exchange contracts used for hedging	**–**	(10)	**–**	(10)
Other forward exchange contracts	**–**	(6)	**–**	(6)
EUR				
Trade and other payables (related parties)	**(106)**	(78)	**(106)**	(78)
Trade and other payables (unrelated parties)	**(36)**	(244)	**(29)**	(231)
Total foreign denominated monetary liabilities	**(4 028)**	(5 615)	**(3 687)**	(5 110)
Total net foreign denominated monetary liabilities	**(3 241)**	(4 242)	**(2 951)**	(4 232)

Only notable currency holdings are disclosed.

30.4.1 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	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
USD				
Profit or loss	**330**	397	**301**	397
EUR				
Profit or loss	**14**	32	**14**	30
Total	**344**	429	**315**	427

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.4 Foreign currency risk management continued

30.4.2 Currency risk

The group and company are exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and payables are denominated. The currencies in which these transactions are primarily denominated are USD and EUR.

The group and company's risk management policy is to hedge highly probable forecast USD sales with reference to the deemed USD exposed EBITDA. The group and company use forward exchange contracts and options to hedge its currency risk, most with a maturity of less than one year from the reporting date. These contracts are generally designated as cash flow hedges.

The group and company designate the spot and forward elements of forward foreign exchange contracts to hedge its currency risk and applies a hedge ratio of 1:1. The group and company's policy is for the critical terms of the forward exchange contracts to align with the hedged item.

The group and company determine the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The group and company assess whether the derivative designated in each hedging relationship is expected to be and has been effective in assessing the economic relationship. In case critical terms do not match or fair value changes in the hedging instrument cannot be expected to perfectly offset changes in the fair value of the hedged item, further qualitative analysis may be performed. Such analysis serves to establish whether the economic relationship is sufficiently strong to comply with the group and company's risk management policies.

In these hedge relationships, the main sources of ineffectiveness are:

- changes in the timing of the hedged transactions;
- reduction in the amount of the hedged sales due to:
  a. sale quantities below forecast quantities
  b. price at delivery lower than estimated
- the effect of the counterparties' and the group and company's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates

Cash flow hedges

At 31 December 2019, the group and company held the following instruments to hedge exposures to changes in foreign currency.

Foreign currency risk	1 – 3 months
Forward exchange contracts	
Net exposure (USDM)	75
Average ZAR:USD forward contract rate	15.74
Options	
Call options exposure (USDM)	75
Average ZAR:USD exercise price on call options	16.10
Put options exposure (USDM)	75
Average ZAR:USD exercise price on put options	15.15

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.4 Foreign currency risk management continued

30.4.2 Currency risk continued

The following table provides a reconciliation of equity and analysis of OCI items for group and company, resulting from cash flow hedge accounting:

Cash flow hedges	Hedging reserve Rm	Line item in profit or loss affected by the reclassification
Balance at 1 January 2019	**43**	
Changes in fair value:		
Foreign currency risk – revenue		
Forward exchange contracts	**44**	
Options	**75**	
Amount reclassified to profit or loss:		
Forward exchange contracts	**27**	**Revenue**
Options		
Corporate income tax hedging	**(53)**	
Balance at 31 December 2019	**136**	

30.4.3 Economic hedging using derivative contracts

The foreign exchange hedging derivative contracts not designated within hedge accounting relationships, outstanding at the end of the reporting period are:

Unmatured instruments
FC: foreign currency

	Average price FC/R	Contract value FCm	Fair value favourable Rm	Profit or loss Rm
GROUP				
2019				
Forward contracts held				
Sell USD	**14.32**	**25**	**4**	**1**
2018				
Other forward contracts				
Buy EUR	16.48	7	3	3
COMPANY				
2019				
Forward contracts held-for-trading at FVTP				
Sell USD	**14.32**	**25**	**4**	**1**
2018				
Other forward contracts				
Buy EUR	16.48	7	3	3

30.5 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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.6 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	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Facilities at the end of the reporting period	**3 350**	4 200	**3 350**	4 200

The BBF available to the group is subject to financial covenants. As at 31 December 2019, the group is in compliance with all covenants.

30.6.1 Liquidity 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.

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	Total Rm	Carrying amount Rm
GROUP					
For the year ended 31 December 2019					
Trade payables	**8 935**	**–**	**–**	**8 935**	**8 935**
Other payables	**323**	**–**	**–**	**323**	**323**
Finance lease obligations	**17**	**18**	**84**	**119**	**100**
Borrowings	**1 210**	**–**	**4 208**	**5 418**	**5 358**
Total	**10 485**	**18**	**4 292**	**14 795**	**14 716**
For the year ended 31 December 2018					
Trade payables	12 304	–	–	12 304	12 304
Other payables	1 388	–	–	1 388	1 388
Finance lease obligations	13	10	57	80	61
Borrowings	316	–	2 700	3 016	3 000
Total	14 021	10	2 757	16 788	16 753

The group and company have access to financing facilities as noted earlier of which R3 350 million (2018: R4 200 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.

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.6 Liquidity risk management continued

30.6.1 Liquidity and interest risk tables continued

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	Total Rm	Carrying amount Rm
COMPANY					
For the year ended 31 December 2019					
Trade payables	**8 007**	**–**	**–**	**8 007**	**8 007**
Other payables	**311**	**–**	**–**	**311**	**311**
Finance lease obligations	**7**	**7**	**48**	**62**	**53**
Borrowings	**1 210**	**–**	**4 208**	**5 418**	**5 358**
Total	**9 535**	**7**	**4 256**	**13 798**	**13 729**
For the year ended 31 December 2018					
Trade payables	10 856	–	–	10 856	10 856
Other payables	1 388	–	–	1 388	1 388
Finance lease obligations	2	–	–	2	2
Borrowings	316	–	2 700	3 016	3 016
Total	12 562	–	2 700	15 262	15 262

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.

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	Total Rm	Carrying amount Rm
GROUP					
For the year ended 31 December 2019					
Trade receivables	**2 837**	**–**	**–**	**2 837**	**2 837**
Cash, cash equivalents and restricted cash	**1 988**	**–**	**–**	**1 988**	**1 988**
Total	**4 825**	**–**	**–**	**4 825**	**4 825**
For the year ended 31 December 2018					
Trade receivables	3 991	–	–	3 991	3 972
Cash, cash equivalents and restricted cash	2 525	–	–	2 525	2 525
Total	6 516	–	–	6 516	6 497

Notes to the group and company annual financial statements continued

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30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.6 Liquidity risk management continued

30.6.1 Liquidity and interest risk tables continued

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	Total Rm	Carrying amount Rm
COMPANY					
For the year ended 31 December 2019					
Trade receivables	**2 746**	**–**	**–**	**2 746**	**2 746**
Cash, cash equivalents and restricted cash	**1 972**	**–**	**–**	**1 972**	**1 972**
Total	**4 718**	**–**	**–**	**4 718**	**4 718**
For the year ended 31 December 2018					
Trade receivables	3 395	–	–	3 395	3 376
Cash, cash equivalents and restricted cash	2 506	–	–	2 506	2 506
Total	5 901	–	–	5 901	5 882

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.

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	Total Rm	Carrying amount Rm
Financial assets					
GROUP					
For the year ended 31 December 2019					
Net cash-settled foreign currency derivatives	**193**	**–**	**–**	**193**	**193**
Total	**193**	**–**	**–**	**193**	**193**
For the year ended 31 December 2018					
Net cash-settled foreign currency derivatives	56	–	–	56	56
Total	56	–	–	56	56
COMPANY					
For the year ended 31 December 2019					
Net cash-settled foreign currency derivatives	**193**	**–**	**–**	**193**	**193**
Total	**193**	**–**	**–**	**193**	**193**
For the year ended 31 December 2018					
Net cash-settled foreign currency derivatives	56	–	–	56	56
Total	56	–	–	56	56

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.6 Liquidity risk management continued

30.6.1 Liquidity and interest risk tables continued

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	Total Rm	Carrying amount Rm
Financial liabilities					
GROUP					
For the year ended 31 December 2019					
Net cash-settled foreign currency derivatives	–	–	–	–	–
Total	–	–	–	–	–
For the year ended 31 December 2018					
Net cash-settled foreign currency derivatives	16	–	–	16	16
Total	16	–	–	16	16
COMPANY					
For the year ended 31 December 2019					
Net cash-settled foreign currency derivatives	–	–	–	–	–
Total	–	–	–	–	–
For the year ended 31 December 2018					
Net cash-settled foreign currency derivatives	16	–	–	16	16
Total	16	–	–	16	16

30.7 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 2019.

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 borrowings less cash and cash equivalents. Total shareholders' equity is as per the statement of financial position.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

30.7 Capital risk management continued

	Group		Company	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm
Cash, cash equivalents and restricted cash	**1 988**	2 525	**1 972**	2 506
Interest-bearing borrowings	**(4 328)**	(3 000)	**(4 328)**	(3 000)
Non-interest-bearing borrowings	**(1 030)**	–	**(1 030)**	–
Net debt	**(3 370)**	(475)	**(3 386)**	(494)
Total shareholders' equity	**3 405**	7 961	**4 158**	7 788
Gearing ratio (%)	**98.97**	5.97	**81.43**	6.34
Estimated impact on profit or loss based on a 100 basis point change in interest rate:				
100 basis point increase	**(23.40)**	(4,75)	**(23.56)**	(4,94)
100 basis point decrease	**23.40**	4.75	**23.56**	4.94

31. RELATED-PARTY DISCLOSURES

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 group purchased products and services to the value of R7 209 million (2018: R8 062 million) from and sold goods to the value of R19 million (2018: R63 million) to other companies in the ArcelorMittal group.

The outstanding balances at year end are:

- Included in trade receivables, R28 million (2018: R24 million)
- Included in trade payables, R3 953 million (2018: R6 337 million)

Included in trade payables is the corporate service fee of R18 million (2018: R334 million) payable to ArcelorMittal group for corporate services rendered and a fee for research and development of R85 million (2018: R607 million).

Included in borrowings (refer to note 27) is a loan of R4 208 million (2018: R2 700 million) with the holding company. The original loan of R2 700 million and the accrued interest of R478 million capitalised attract interest at the South African prime rate. In 2019, interest was payable at the South African prime lending rate on the loan of R2 700 million and amounted to R287 million (2018: R272 million).

Jointly controlled entities and associates

Interest income for the group from jointly controlled entities of R0 million (2018: R9 million) is included in note 7.

The group purchased goods and services to the value of R84 million (2018: R67 million) from, and sold goods to the value of R782 million (2018: R6 634 million) to its equity-accounted entities.

The outstanding balances at year end are:

- Included in trade receivables, R63 million (2018: R90 million)
- Included in trade payables, R0 (2018: R0)

Included in the carrying value of jointly controlled entities are non-current loans of R131 million (2018: R138 million).

Subsidiaries

Details of income from investments and indebtedness in subsidiaries are disclosed in note 17.

ArcelorMittal South Africa Ltd received a management fee of R270 million (2018: R272 million) from Saldanha Steel (Pty) Ltd for ArcelorMittal South Africa Ltd employees employed at Saldanha Works.

31. RELATED-PARTY DISCLOSURES continued

Directors

Details relating to directors' remuneration and shareholdings (including LTIP units) in the company are disclosed in note 34. In 2018, Noma Namuhla Trading and Projects (Pty) Ltd, a company owned by Nomavuso Mnxasana, made sales to ArcelorMittal South Africa totalling R69 000 (2018: R449 000). In 2016, a loan of R350 000 was given to Noma Namuhla Trading and Projects (Pty) Ltd. This loan is still outstanding and has no fixed repayment terms.

Senior employees and prescribed officers

Details relating to option and share transactions are disclosed in note 33.

32. POST-EMPLOYMENT BENEFITS

32.1 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' Umbrella Provident Fund (registration number 12/8/27484), operating as a defined contribution plan

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	
	2019	2018	**2019 Rm**	2018 Rm
ArcelorMittal South Africa Selector Pension and Provident Funds	**5 041**	5 437	**174**	115
Iscor Employees' Umbrella Provident Fund	**2 685**	3 512	**68**	54
Total	**7 726**	8 949	**242**	169

32.2 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 2019 there were 17 qualifying retirees (2018: 18).

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.

33. 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 scheme 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 to the executive committee members only vest after three years provided that the prescribed performance conditions are met. Senior management receives shares subject to ongoing employment and individual performance. New grants to senior management from 2015 also vest depending on ongoing employment, prescribed performance conditions and individual performance conditions. Proportionate awards are made in the event of change of effective control of the company, retrenchment, retirement or death.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

33. SHARE-BASED PAYMENTS continued

Equity-settled share plan – local employees continued

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.

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.

In 2016, the successful rights issue resulted in an additional 4 782 957 share options granted. The effect of this transaction resulted in an IFRS 2 charge of R26 million being recognised in profit and loss.

Employee share ownership plan (ESOP)

The ESOP became effective in 2015. Qualifying employees were granted 21 103 219 shares that vest after five years of continued service in the company. All permanent employees who do not qualify for the company's LTIP programme qualify to participate in the ESOP.

The ESOP is equity-settled. The relevant employees will during the life span of the scheme benefit proportionately in the dividends earned from the ArcelorMittal South Africa 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 (Pty) Ltd, an external service provider.

Isabelo Empowerment Share Trust (B-BBEE)

During 2016 the Isabelo Empowerment Share Trust and Amandla we Nsimbi (Pty) Ltd 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 (Pty) Ltd, and the Isabelo Share Trust, representing 17% and 5.0%, respectively, of the voting rights in ArcelorMittal South Africa through a notional loan.

Key assumptions

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

	Isabelo		ESOP		LTIP		Share options	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Weighted average fair value on grant date (R)*	**3.3**	3.3	**9.13**	9.13	**3.3**	2.9	**–**	–
Expected attrition rate over the life of the scheme (%)	**35.41**	33.47	**10.16**	12.50	**9.03**	11.90	**9.03**	11.90
Charge to statement of comprehensive income	**12**	14	**27**	29	**17**	19	**–**	–

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

33. SHARE-BASED PAYMENTS continued

Key assumptions continued

	Group and Company	
	2019 million	2018 million
Shares available for distribution		
Opening balance	**19.4**	35.8
Utilisation	**(27.4)**	(22.4)
Releases, forfeitures, resignations	**8.1**	6.0
Closing balance	**0.1**	19.4

Reconciliation of outstanding LTIP units/share options/shares

	Isabelo		ESOP		LTIP		Share options	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Outstanding at the beginning of the year (million)	**65**	69	**17.9**	18.5	**34.2**	18.4	**2.7**	2.9
Granted/reinstated (million)	**–**	–	**–**	–	**27.4**	22.4	**–**	–
Expired/cancelled/forfeited/exercised (million)	**(1)**	(4)	**(0.6)**	(0.6)	**(6.1)**	(6.6)	**(1.4)**	(0.2)
Outstanding at the end of the year (million)	**64**	65	**17.3**	17.9	**55.5**	34.2	**1.3**	2.7
Exercisable options/units								
Weighted average remaining contractual life in days at year end								
Average days until fully vested/until expiry (days)	**2 525**	2 890	**274**	639	**717**	752	**676**	716
Weighted average prices applicable per transaction type								
Granted (R/unit)	**3.30**	3.30	**9.13**	9.13	**2.28**	2.39	**–**	–
Exercised share price (R/unit)	**N/A**	N/A	**N/A**	N/A	**1.84**	2.53	**–**	–
Lapsed/cancelled (R/unit)	**N/A**	N/A	**N/A**	N/A	**9.75**	20.52	**52.50**	53.49
Outstanding (R/unit)	**3.30**	3.30	**9.13**	9.13	**3.32**	5.41	**54.88**	55.27

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

33. SHARE-BASED PAYMENTS continued

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

	Isabelo		ESOP		LTIP		Share options	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Latest expiry date	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**2021**	2021
Exercise price range (R/unit)	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**6.50 – 87.50**	6.50 – 106.50
Number of outstanding units/options	**64 218 088**	65 150 908	**17 284 664**	17 860 534	**55 523 933**	34 213 547	**1 333 977**	2 206 344
Total proceeds to employees if exercised immediately* (Rm)	**76**	221	**21**	61	**65**	116	**–**	–
Total intrinsic value of out of the money options** (Rm)	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**(115)**	(140)
ArcelorMittal South Africa closing price at 31 December (R)	**1.19**	3.39	**1.19**	3.39	**1.19**	3.39	**1.19**	3.39

* *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.*

Terms of the options outstanding at the reporting date are:

	Options			
	Exercise price range 2019 R/units	**Outstanding numbers 2019 units**	Exercise price range 2018 R/units	Outstanding numbers 2018 units
For the year ended 31 December				
Expiry date details				
2019			6.50 – 106.50	572 701
2020	**6.50 – 87.20**	**112 205**	6.50 – 87.20	125 605
2021	**6.50 – 87.20**	**1 221 772**	6.50 – 87.20	1 508 038
Total		**1 333 977**		2 206 344

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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

33. SHARE-BASED PAYMENTS continued

	Group and company	
	2019 16 December 2019	2018 20 December 2021
Number of units outstanding	**22 507**	72 337
Units fully vested	**8 840**	124 040
Weighted average fair value at grant date (USD/unit)	**15.85**	5.84
Average days until fully vested	**669**	609
Reconciliation of outstanding restricted stock units		
Outstanding at the beginning of the year	**72 337**	186 117
Granted	**4 100**	10 600
Transfers	**(45 090)**	(340)
Exercised/expired	**(8 840)**	(124 040)
Outstanding at the end of the year	**22 507**	72 337

34. REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS

The table below refers to directors' remuneration and prescribed officers for services rendered to ArcelorMittal South Africa Ltd.

	Cash salary[1]	Retirement funding	Short-term incentives[2]	Equity incentives[3]	Retention/ sign on bonus/ ex gratia/ VSP	Other[4]	**Total remune-ration**	Total remune-ration
	2019 R	2019 R	2019 R	2019 R	2019 R	2019 R	**2019 R**	2018 R
Executive directors								
HJ Verster	8 458 833	521 151	–	–	1 600 000	63 760	**10 643 744**	12 838 666
AD Maharaj	3 231 764	268 240	–	–	1 166 668	60 288	**4 726 960**	2 041 400
WA de Klerk[16]	–	–	–	–	–	–	**–**	15 406 540
D Subramanian[17]	–	–	–	–	–	–	**–**	3 464 437
Sub-total	11 690 597	789 391	–	–	2 766 668	124 048	**15 370 704**	33 751 043
Prescribed officers and highest paid employees								
RI Holcroft[5]	384 124	58 017	–	–	–	453 780	**895 921**	4 077 691
GA Griffiths	2 308 407	191 601	–	–	–	56 704	**2 556 712**	–
W Venter	2 134 070	177 130	–	61 724	–	50 296	**2 423 220**	3 955 251
CTW Whitcher	1 864 540	165 655	–	51 580	–	310 235	**2 392 010**	3 226 189
AM Ngapo[6]	1 570 187	130 327	231 500	–	1 950 060	274 231	**4 156 305**	4 256 320
JP Jimenez Navarro[7]	1 619 250	–	313 862	–	–	1 079 645	**3 012 757**	–
S Achmat	2 000 341	299 663	–	32 366	–	47 904	**2 380 274**	–
WA Nel[8]	849 864	70 540	–	–	–	151 443	**1 071 847**	3 911 653
M Adam	1 811 065	257 692	–	119 857	–	44 037	**2 232 651**	5 991 654
HPR Orsoni[9]	852 501	–	–	1 298 440	–	721 843	**2 872 784**	5 957 019
TS Didiza[10]	821 259	68 165	–	–	–	30 143	**919 567**	–
JF Swart[11]	1 781 243	146 482	–	56 842	–	291 006	**2 275 573**	–
NB Bam	1 454 292	120 708	–	–	–	47 904	**1 622 904**	–
HG Kamat[12]	2 070 415	–	86 378	–	–	596 458	**2 753 251**	–
J Kotze[13]	1 320 210	110 515	–	–	420 000	329 715	**2 180 440**	–
C Hautz	2 817 108	–	–	972 553	–	2 282 557	**6 072 218**	6 255 190
JPS Olivier[14]	2 770 080	229 920	–	–	1 200 000	101 795	**4 301 795**	–
R Bardien[18]	–	–	–	–	–	–	**–**	185 230
RH Torlage[19]	–	–	–	–	–	–	**–**	963 127
Sub-total	28 428 956	2 026 415	631 740	2 593 362	3 570 060	6 869 696	**44 120 229**	38 779 324
Total	40 119 553	2 815 806	631 740	2 593 362	6 336 728	6 993 744	**59 490 933**	72 530 367

Notes to the group and company annual financial statements continued

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34. REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS continued

	Directors' fees 2019 R	Committee fees 2019 R	Other 2019 R	**Total remune-ration 2019 R**	Total remune-ration 2018 R
Non-executive directors[15]					
PM Makwana	1 501 648	–	–	**1 501 648**	1 411 320
LC Cele	193 250	257 470	(685)	**450 035**	463 097
KM Musonda	193 250	147 538	–	**340 788**	346 458
G Gouws	193 250	292 288	2 426	**487 964**	302 013
JRD Modise	193 250	448 491	2 923	**644 664**	693 661
NP Mnxasana	193 250	490 549	4 161	**687 960**	656 995
NF Nicolau	193 250	374 788	6 922	**574 960**	607 155
NP Gosa	193 250	166 148	1 798	**361 196**	393 479
LM Khangala (Independent Trustee)	–	72 700	878	**73 578**	58 160
MS Tonjeni (Independent Trustee)	–	72 700	635	**73 335**	43 620
Total	2 854 398	2 322 672	19 058	**5 196 128**	4 975 958

1 *Cash salary includes basic salary (cash component).*
2 *The short-term incentive relates to bonus earned for 2018.*
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 UIF, COID, monthly leave structuring, leave encashment, travel claims, telephone costs, ad hoc payments, death benefit, employer contribution to medical aid and travel allowance. Other also includes mobility benefits paid to expatriates.*
5 *RI Holcroft resigned as General Manager Saldanha Works effective 1 March 2019.*
6 *AM Ngapo resigned as General Manager Sales and Marketing – Africa Overland effective 1 July 2019.*
7 *JP Jimenez Navarro appointed as General Manager Saldanha Works effective 1 March 2019.*
8 *WA Nel resigned as General Manager Procurement & Logistics effective 1 May 2019.*
9 *HPR Orsoni resigned as Chief Technology Officer effective 1 April 2019.*
10 *TS Didiza was appointed as Group Manager Stakeholder Management and Communications effective 15 July 2019.*
11 *JF Swart was promoted to Chief Procurement Officer effective 1 November 2019.*
12 *HG Kamat resigned as Group Manager Procurement and Logistics effective 1 December 2019.*
13 *J Kotze was promoted to Executive Manager Newcastle effective 1 November 2019.*
14 *JPS Olivier was appointed as Chief Operating Officer effective 1 March 2019.*
15 *NEDs' fees based on invoice totals due to accounting (rounding) differences.*
16 *WA de Klerk resigned as CEO effective 31 January 2018.*
17 *D Subramanian resigned as CFO effective 31 July 2018.*
18 *R Bardien resigned as General Manager Human Resources and Transformation effective 31 January 2018.*
19 *RH Torlage resigned as General Manager Special Projects and Strategy effective 30 April 2018.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

34. REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS continued

34.1 ArcelorMittal South Africa long-term incentive plans and equity-settled share options

Names of executives	Award date	Number of allocations outstanding at the start of the year	Number of allocations made during the year	Adjustment for units not expected to vest	Number of allocations vested during the year	Number of allocations forfeited during the year	Number of allocations at the end of the year	Present value of invested share units at the end of the year[1]
							R	R
HJ Verster	20-06-2018	2 845 185	–	546 276	–	–	2 298 909	2 735 702
	20-06-2019	–	3 578 943	1 192 981	–	–	2 385 962	2 839 295
		2 845 185	3 578 943	1 739 257	–	–	4 684 871	5 574 997
AD Maharaj	20-08-2019	–	1 944 447	648 149	–	–	1 296 298	1 542 595
			1 944 447	648 149	–	–	1 296 298	1 542 595
M Adam	10-10-2016	390 407	–	97 602	50 489	144 714	97 602	116 146
	08-05-2017	333 203	–	121 019	–	–	212 184	252 499
	20-06-2018	1 061 776	–	203 861	–	–	857 915	1 020 919
	20-06-2019	–	589 891	196 630	–	–	393 261	467 980
		1 785 386	589 891	619 112	50 489	144 714	1 560 962	1 857 544
AM Ngapo	08-05-2017	553 624	–	201 076	–	–	352 548	419 532
	20-06-2018	540 050	–	103 690	–	–	436 360	519 269
		1 093 674	–	304 766	–	–	788 908	938 801
W Venter	10-10-2016	197 538	–	49 385	34 291	64 478	49 384	58 767
	08-05-2017	202 313	–	73 480	–	–	128 833	153 311
	20-06-2018	644 686	–	123 780	–	–	520 906	619 878
	20-09-2019	–	810 947	270 316	–	–	540 631	643 351
		1 044 537	810 947	516 961	34 291	64 478	1 239 754	1 475 307
CTW Whitcher	10-10-2016	81 030	–	20 258	27 291	13 224	20 257	24 106
	08-05-2017	217 980	–	79 170	–	–	138 810	165 184
	20-06-2018	536 636	–	103 034	–	–	433 602	515 986
	20-09-2018	–	728 472	242 824	–	–	485 648	577 921
		835 646	728 472	445 286	27 291	13 224	1 078 317	1 283 197
GA Griffiths	19-08-2019	–	548 247	91 375	–	–	456 873	543 678
		–	548 247	91 375	–	–	456 873	543 678
S Achmat	10-10-2016	50 846	–	12 712	17 125	8 298	12 711	15 127
	08-05-2017	26 288	–	9 548	–	–	16 740	19 921
	20-06-2018	100 522	–	19 300	–	–	81 222	96 654
	20-08-2019	–	1 582 356	527 452	–	–	1 054 904	1 255 336
		177 656	1 582 356	569 012	17 125	8 298	1 165 577	1 387 038

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

34. REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS continued

34.1 ArcelorMittal South Africa long-term incentive plans and equity-settled share options continued

Names of executives	Award date	Number of allocations outstanding at the start of the year	Number of allocations made during the year	Adjustment for units not expected to vest	Number of allocations vested during the year	**Number of allocations forfeited during the year**	Number of allocations at the end of the year	**Present value of invested share units at the end of the year[1]**
							R	**R**
JF Swart	10-10-2016	93 764	–	23 441	31 579	**15 303**	23 441	**27 895**
	08-06-2017	68 699	–	24 951	–	**–**	43 748	**52 060**
	20-06-2018	218 916	-	42 032	-	**-**	176 884	**210 492**
	19-08-2019	-	250 001	83 334	-	**-**	166 667	**198 334**
		381 379	250 001	173 758	31 579	**15 303**	410 740	**488 781**
NB Bam	19-08-2019	–	207 237	207 237	–	**–**	–	**–**
		–	207 237	207 237	–	**–**	–	**–**
J Kotze	19-08-2019	–	276 316	46 053	–	**–**	230 263	**274 013**
		–	276 316	46 053	–	**–**	230 263	**274 013**
JPS Olivier	20-08-2019	–	1 473 684	491 228	–	**–**	982 456	**1 169 123**
		–	1 473 684	491 228	–	**–**	982 456	**1 169 123**

LTIP shares vest within three to five years.

[1] *Based on the closing price as at 31 December 2019.*

34.2 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:

Names of executives	Award type	Award date	Number of allocations outstanding at the start of the year	Number of allocations made during the year	Number of allocations vested at the end of the year	**Number of allocations at the end of the year**	Issue price	**Present value of unvested share units at the end of the year**
							USD	**USD**
C Hautz		30–06–2016	17 160	–	8 580	**8 580**	4.66	**39 983**
		20–12–2017	4 097	–	–	**4 097**	32.17	**131 800**
		20–12–2018	5 050	–	–	**5 050**	18.61	**93 981**
		16–11–2019	–	4 100	–	**4 100**	18.57	**76 137**
			26 307	4 100	8 580	**21 827**		**341 901**
JP Jimenz Navarro	PSU	30–06–2016	400	–	200	**200**	4.66	**932**
		20–12–2017	300	–	–	**300**	32.17	**9 651**
			700	–	200	**500**		**10 583**

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
35. CONTINGENT LIABILITIES				
Other guarantees				
The value of guarantee contracts issued in the normal course of business from which it is anticipated that no material liabilities will arise are:	**169**	771	**145**	747
Total	**169**	771	**145**	747

The company has issued guarantees to the value of R438 million (2018: R438 million) for which all liabilities have been raised on the statement of financial position.

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
36. COMMITMENTS				
Capital expenditure commitments on property, plant and equipment				
Capital expenditure authorised and contracted for	**1 099**	655	**1 078**	537
Capital expenditure authorised but not contracted for	**2 727**	2 459	**2 621**	2 137
Total	**3 826**	3 114	**3 699**	2 674
Operating lease commitments				
Plant, equipment, vehicles and buildings				
The future minimum payments under non-cancellable standalone and embedded operating leases are:				
– Due in 2019	**–**	98	**–**	97
– Due in 2020	**71**	63	**71**	59
Total	**71**	161	**71**	156

Capital commitments

In accordance with the Competition Commission settlement agreement concluded in 2016, ArcelorMittal South Africa is committed to spend capital expenditure on qualifying projects of R4 600 million over five years subject to its affordability and feasibility (resulting from economic market conditions as referred to in the agreement). In total, R2 716 million (2018: R2 171 million) has been invested in various projects to date.

It should be noted that ArcelorMittal South Africa would have exceeded its capital commitments had it not been for the revised asset strategy in certain areas and the placement of Saldanha Steel under care and maintenance – in other words, had the company not have to adapt to deal with the adverse economic market and financial circumstances, which are beyond our control.

Included in the capital expenditure above is an amount of R977 million (2018: R677 million) to address emissions at Vanderbijlpark Works over the next two years.

37. SUBSEQUENT EVENTS

Subsequent to year-end, there is widespread local and global uncertainty associated with the COVID-19 pandemic. We are closely monitoring the situation and adapting the business as required. The safety and wellbeing of our employees is paramount and will remain our first priority.

On 15 March 2020 a national state of disaster was declared in South Africa due to the COVID-19 pandemic and subsequently, on 23 March 2020 the Honourable President Ramaphosa called on all South African citizens and businesses to adhere to a nationwide lockdown for 21 days, effective from midnight on Thursday, 26 March 2020 to midnight on 16 April 2020. While this will have a considerable impact on society, our economy and on our business, the group is doing what is required to support the lockdown and ensure the safety of employees.

This means that aside from employees required for the continued operation of essential equipment, including furnaces and coke batteries as contemplated in the announcement by the Minister of Trade and Industry, the offices and operations across the country will be closed during this period.

In response, the group has assessed and continues to regularly monitor, the following additional steps in considering the impact on the group's operations at this time. These include:

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

There will be a negative impact on production volumes and sales volumes, which should have an impact on our results of operation and cash flows for the 31 December 2020 financial year. Certain line items on the statement of financial position may also be impacted including but not limited to carrying value of property, plant and equipment, inventory, receivables and environmental rehabilitation provisions. The extent to which this impacts our results will depend on future developments, which are highly uncertain and cannot be predicted at this time.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2019

38. GOING CONCERN

The 2019 financial year represented the most challenging year since the global financial crisis for the world steel industry, and an exceptionally difficult year for the South African economy and the group. The correlation between steel prices and raw material costs have broken down. The size of the dislocation between steel prices and raw material cost is very unusual, and although recently raw material prices have moderated a little, the dislocation continues.

Despite the cash preservation initiatives and the cost reduction projects, the group recognised a net loss after tax of R4 676 million (2018: profit of R1 370 million) for the year ended 31 December 2019 and, as at that date, current assets exceed current liabilities by R1 399 million (2018: R3 901 million). Further, the group continued to invest in key priority capital projects that appropriately maintain and modernise the production asset base.

As stated previously, the group is very vulnerable to the exchange rate and the strengthening in the rand against the US dollar has had a negative impact on financial performance. Further, the valuation of property, plant and equipment resulted in an impairment of R1 480 million which had no cash flow impact. As required by IFRS the impairment assessment is performed at spot rate as at the end of the financial year which specifically impacted the Newcastle cash-generating unit.

The directors have prepared cash flow forecasts for a period of 12 months after year end based on the most recent forecast. The forecast takes into account the continued Business Transformation Programme that has proved to realise cost savings over the past two years of R2 300 million.

The borrowing-based facility was successfully renewed, and further following the orderly wind-down of Saldanha Works the level of the tangible net worth covenant was reset. As at 31 December 2019, the group is in compliance with all covenants. At 31 December 2019 the balance of the borrowing-based facility was R1 150 million (2018: R300 million) drawn. The group continues to work closely with all lenders to ensure the required facilities remain in place.

ArcelorMittal Holding AG continues to demonstrate their support by increasing the loan by R1 508 million with the capitalisation of accrued interest and intercompany payables. The capitalised interest, intercompany payables and the intercompany loan have been fully subordinated.

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

Further, and as noted in Note 37, the unpredictable effects of the COVID-19 pandemic and national lockdown is casting uncertainty over our ability to produce planned volumes as well as how the world and local steel markets will respond to the pandemic. In response, the group has assessed and continues to regularly monitor the following additional steps in considering the impact on the group's operations. These include:

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

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

The areas that have been identified in the business transformation programme are the reduction of subcontractor services and the reconfiguration of the operating model of the business by (i) simplifying and decluttering management mechanism, (ii) adopting common planning, scheduling and production systems, and information technology infrastructure, and (iii) improving the customer service experience by a more flexible sales and marketing organisation.

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

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

Corporate information

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ISIN: ZAE000134961

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