ArcelorMittal South Africa Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1989/002164/06)
Share code: ACL
ISIN: ZAE 000134961
(ArcelorMittal South Africa, the company or the group)
Reviewed condensed consolidated financial statements for the six months ended 30 June 2018

Salient features
- Ebitda improved by R2 121 million from a loss of R534 million to a profit of R1 587 million

- Liquid steel production increased by 8%

- Steel sale volumes up by 10% despite apparent steel consumption at a nine-year low
- The disposal of the investment in Macsteel International Holdings BV (MIHBV) progressing well

- Net debt improved by R1 374 million from R3 262 million in December 2017 to R1 888 million before proceeds from the sale of MIHBV
- Imports declined by 31%
- Higher international steel prices
- Cash cost per tonne of liquid steel produced decreased by 6%
- Results negatively impacted by the strengthening of the average rand/US dollar exchange rate
- Buoyant international market with exports up by 26%

The analysis relates to the six months ended 30 June 2018 (current year) compared to the six months ended 30 June 2017 (prior year) except where otherwise indicated.

Overview
The group's results were positively impacted by the higher realised steel prices on the back of higher international steel prices and higher steel sale volumes in spite of a weakening South African economy and relative strong average rand/US dollar exchange rate. Greater political stability and Moody's decision to maintain an investment-grade credit rating was positive for business confidence in South Africa. Low inflation and higher real wages should support stronger household spending, while the government's new drive to attract investment should help bolster capital outlays.

The domestic steel market in which the group operates remains constrained following minimal local investment and infrastructure spending and the volatility of the rand/US dollar exchange rate, while international demand remains strong. Local apparent steel consumption decreased by 3% as a result of subdued economic growth. South Africa and key African markets continue to face the threat of steel imports, mainly from China. Although we have seen a decrease in imports, 392 000 tonnes of primary carbon steel were still imported into South Africa in the first half of the year, despite import duties, selective safeguarding and the designation of local steel.

ArcelorMittal South Africa's operating profit turned around from a loss of R983 million to a profit of R1 224 million while headline loss also improved by R1 673 million to a profit of R54 million compared to the same period last year.

The turnaround is on the back of a favourable international steel pricing environment together with higher steel sales volumes, despite a relatively strong average rand/US dollar exchange rate in the first half of the year.

As part of its strategy, the group has implemented various initiatives to return to profitability and generate positive cash flows. Further initiatives are being investigated to address the ongoing sustainability of the group.

As part of the above initiatives, the board has approved the sale of the group's 50% investment in MIHBV for USD220 million (circa R3 billion) to strengthen the group's statement of financial position. Since the last announcement on this proposed transaction, the sale of shares agreement and marketing agreement have been signed and are subject to the fulfilment of certain conditions precedent.

Safety remains the group's number one priority. Notwithstanding the intention to achieve zero fatalities and injuries, the group regrettably experienced one fatal incident on 3 June 2018 at the Saldanha Works. The board and management extend their deepest condolences to the family and colleagues of the deceased. The lost time injury frequency rate (LTIFR) weakened from 0.62 to 0.83, while total injury frequency rate (TIFR) improved to 6.33 from 7.49.

Markets

Growth in global steel demand maintained its momentum from 2017 into the first half of 2018, attributable to a broad-based economic expansion. Hot rolled coil (HRC) and rebar prices gained 6% and 3% respectively, compared to the second half of 2017. The cost of iron ore and coking coal increased on average by USD2 (2%) and USD12 (6%) per tonne respectively compared to the second half of 2017.

The positive market sentiment in most African markets flowed from 2017 into 2018 driven primarily by the continued focus on infrastructure investment. However, South Africa was an exception to this growth story with the first half of 2018 showing a weaker demand, especially in mining, construction and manufacturing, than the second half of 2017.

Despite the continued strength in global steel demand and the stability of steel pricing, the domestic economy is lacking the major infrastructure investment that could provide a spur to growth. As the South African steel industry continues to struggle with low demand, developing effective responses to combat the flow of imports, especially of finished goods, remains an urgent task.

Financial results

Revenue

Revenue increased by 19.4% to R22 868 million primarily as a result of an 8.5% increase in average net realised steel prices, from R8 138 per tonne to R8 827 per tonne and higher sales volumes of 10.2%, with local sales and exports increasing by 5% and 26% respectively. Revenue from the Coke and Chemicals business was in line with the comparable period last year. Commercial coke sales volumes decreased by 4 000 tonnes or 4.3% while tar sales volumes increased by 6 000 tonnes or 16.2%. Commercial coke and tar prices increased by 4.3% and 8.9% respectively.

Operating expenses

Cash cost per tonne of liquid steel produced decreased by 6% to R7 396, raw materials, namely iron ore, coal and scrap, which accounted for 48% of total costs, decreased by 7%. Consumables and auxiliaries, which represented approximately 29% of costs, decreased by 3%, and fixed costs per tonne decreased by 8%.

The lower raw material cost was mainly driven by lower iron ore and coking coal prices, aided by the stronger exchange rate, while the cost of scrap was higher.

Profit/(loss) from operations

The profit/(loss) from operations improved by R2 207 million to R1 224 million, given the higher international steel pricing environment and increased sales. Depreciation decreased due to the impairment of the Vanderbijlpark, Saldanha and long product cash-generating units in 2017.

Loss for the period

The loss for the period decreased by R621 million. This was largely attributable to the profit from operations, an improvement of R2 207 million. This was partly offset by the fair value adjustment on the MIHBV investment reclassified as an asset held-for-sale of R1 652 million.

Financing costs were R707 million higher, driven by unrealised exchange rate losses resulting from the devaluation of the rand against the US dollar at the end of the period.

Income from equity-accounted investments increased by R151 million due to improved results from joint ventures.

Cash position

The cash position improved from a net borrowing position of R2 577 million to a net borrowing position of R1 888 million, following a better operational performance which was somewhat negated by financing costs and capital spend. Against the financial year-end of December 2017, the net borrowing position improved by R1 374 million.

Operational
The group's capacity utilisation was 85% compared to 79% the previous year. Liquid steel production for the year was 2.6 million tonnes, an increase of 185 000 tonnes (7.8%).

Flat products' liquid steel production increased by 165 000 tonnes and plant utilisation increased to 87% compared to 79% in 2017. This was due to better plant performance at Vanderbijlpark Works of 176 000 tonnes.

Long products' liquid steel production increased by 20 000 tonnes and plant utilisation increased to 79% compared to 77% in 2017.

Sustainability
The group identified various initiatives that are aimed at ensuring its sustainability and licence to operate:
- Air emissions are currently a key focus area. Significant challenges regarding sinter and coke emissions at Vanderbijlpark Works and blast furnace emissions at Newcastle Works are being addressed
- Newly installed water treatment facility at Newcastle Works is performing as expected, while Vanderbijlpark Works is making good progress to achieve ‘zero effluent' status
- Water saving measures at Saldanha Works are ready for implementation pending the issue of all required authorisations
- Further engagement with government on duties for tin products
- Reopening of the Vereeniging meltshop in 2019
- Feasibility study for a new electric arc furnace at Vanderbijlpark Works
- Completed a detailed top-down diagnostic resulting in a target of USD50/t cost saving
- The sale of the group's interest in MIHBV
- Successfully renegotiated the covenant level of the borrowing-based facility

The group continues its focus on its environmental compliance, and its engagement with the authorities on certain environmental concerns.

Changes to the board of directors and company secretary
- Mr HJ Verster was appointed as chief executive officer and executive director with effect from 1 February 2018
- Mr WA de Klerk retired as chief executive officer and executive director with effect from 31 January 2018
- Mr HMA Blaffart retired as non-executive director with effect from 31 March 2018
- Mr BE Aranha was appointed as non-executive director with effect from 31 March 2018
- Mr D Subramanian resigned as chief financial officer and executive director with effect from 31 July 2018.
- PremCorp Consulting Services was appointed as interim company secretary with effect from 26 January 2018

Dividends
No dividends were declared for the six months ended 30 June 2018.

Outlook for the second half of 2018
ArcelorMittal South Africa has implemented various initiatives to return the group to profitability and to generate positive cash flows. The group will continue to drive the implementation of interventions to address the challenges it faces. Management will also focus on the conclusion of the MIHBV transaction.

In the second half of the year, domestic steel demand and exports are expected to remain stable apart from the seasonal slowdown during December. Sales prices are expected to remain stable, with the volatility in the rand/US dollar exchange rate continuing to have an impact on the group's results.

On behalf of the board of directors
HJ Verster   D Subramanian

Chief executive officer Chief financial officer
27 July 2018

Key statistics

	Six months ended	
	30 June 2018	30 June 2017
Unreviewed information		
Operational		
Liquid steel production (000 tonnes)	2 559	2 374
Total steel sales (000 tonnes)	2 366	2 147
Local steel sales (000 tonnes)	1 715	1 629
Export steel sales (000 tonnes)	651	518
Capacity utilisation (%)	85	79
Commercial coke sales (000 tonnes)	88	92
Average net realised price (R/t)	8 827	8 138
Safety		
Lost time injury frequency rate	0.83	0.62
Reviewed information		
Financial		
Revenue (R million)	22 868	19 151
Profit/(loss) from operations (R million)	1 224	(983)
Loss for the period (R million)	(1 602)	(2 223)
Loss per share (cents)	(147)	(203)
Headline earnings/(loss) (R million)	54	(1 619)
Headline earnings/(loss) per share (cents)	5	(148)
Net borrowings (R million)	(1 888)	(2 577)
Ratios		
Return on ordinary shareholders' equity per annum:		
- Attributable earnings/(loss) (%)	(43.4)	(36.1)
- Headline earnings/(loss) (%)	1.4	(26.3)
- Net borrowings (%)	(28.1)	(23.2)
Share statistics		
Ordinary shares (thousands):		
- in issue	1 138 060	1 138 060
- outstanding	1 093 510	1 093 510
- weighted average number of shares	1 093 510	1 093 510
- diluted weighted average number of shares	1 093 510	1 093 510
Share price (closing) (Rand)	2.12	5.30
Market capitalisation (R million)	2 318	5 796
Net asset value per share (Rand)	6.14	10.15

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

	Six months ended	
	30 June 2018	30 June 2017
In millions of rand	Reviewed	Reviewed
Profit/(loss) from operations	1 224	(983)
Adjusted for:		
- Depreciation	355	437

- Amortisation of intangible assets	8	12
EBITDA	1 587	(534)

Independent auditor's review report on interim financial statements

To the shareholders of ArcelorMittal South Africa Limited

We have reviewed the condensed consolidated financial statements of ArcelorMittal South Africa Limited, contained in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 30 June 2018 and the condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with International Financial Reporting Standard (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on these interim financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. The procedures performed in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of ArcelorMittal South Africa Limited for the six months ended 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

Emphasis of matter - going concern

We draw attention to note 12 of the condensed consolidated financial statements which sets out the directors' initiatives. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte & Touche
Registered auditor

Per: SI Rajcoomar
Partner
27 July 2018

Reviewed condensed consolidated statement of comprehensive income

Six months ended

In millions of rand	Notes	30 June 2018 Reviewed	30 June 2017 Reviewed
Revenue		22 868	19 151
Raw materials and consumables used		(12 617)	(13 322)
Employee costs		(2 275)	(2 080)
Energy		(2 037)	(2 052)
Movement in inventories of finished goods and work-in-progress		(613)	1 012
Depreciation		(355)	(437)
Amortisation of intangible assets		(8)	(12)
Other operating expenses		(3 739)	(3 243)
Profit/(loss) from operations		1 224	(983)
Impairment of property, plant, equipment and intangible assets		-	(600)
Impairment of other assets		(5)	(4)
Fair value adjustment on asset held-for-sale	8	(1 652)	-
Finance and investment income		47	24
Finance costs	7	(1 353)	(646)
Income/(loss) after tax from equity-accounted investments		137	(14)
Loss before taxation		(1 602)	(2 223)
Income tax (expense)/credit	10	-	-
Loss for the period		(1 602)	(2 223)
Other comprehensive profit/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		286	(194)
Cash flow hedges - effective portion of changes in fair value		(28)	-
Income on available-for-sale investment taken to equity		(16)	(18)
Share of other comprehensive income/(loss) of equity-accounted investments		47	(26)
Total comprehensive loss for the period		(1 313)	(2 461)
Loss attributable to:			
Owners of the company		(1 602)	(2 223)
Total comprehensive loss attributable to:			
Owners of the company		(1 313)	(2 461)
Attributable loss per share (cents)			
- basic		(147)	(203)
- diluted		(147)	(203)

Reviewed condensed consolidated statement of financial position

		As at		
In millions of rand	Notes	30 June 2018 Reviewed	30 June 2017 Reviewed	31 December 2017 Audited
Assets				
Non-current assets		8 840	15 192	13 065
Property, plant and equipment		8 480	10 196	8 474
Intangible assets		75	91	82
Equity-accounted investments		227	4 447	4 424
Non-current receivable		19	40	30
Other financial assets		39	418	55
Current assets		21 907	18 837	18 131
Inventories		10 449	11 694	11 519

Trade and other receivables		4 522	3 342	2 988
Asset classified as held-for-sale	8	3 018	-	-
Taxation		58	65	58
Other financial assets		198	13	428
Cash and bank balances	11	3 662	3 723	3 138
Total assets		30 747	34 029	31 196
Equity and liabilities				
Shareholders' equity		6 717	11 098	8 058
Stated capital		4 537	4 537	4 537
Non-distributable reserves		751	345	363
Retained income		1 429	6 216	3 158
Non-current liabilities		5 938	6 167	5 792
Borrowings		2 700	2 700	2 700
Other payables		387	317	399
Finance lease obligations		35	88	54
Provisions		1 959	1 970	1 826
Other financial liabilities		857	1 092	813
Current liabilities		18 092	16 764	17 346
Trade payables		12 599	11 382	11 300
Taxation		81	-	82
Borrowings		2 850	3 600	3 700
Finance lease obligations		53	70	70
Provisions		260	269	304
Other payables		1 596	1 025	984
Other financial liabilities		653	418	906
Total equity and liabilities		30 747	34 029	31 196

Reviewed condensed consolidated statement of cash flows

		Six months ended	
In millions of rand	Note	30 June 2018 Reviewed	30 June 2017 Reviewed
Cash flows from operating activities		1 998	(1 596)
Cash generated from/(utilised in) operations	14	2 552	(1 117)
Interest income		42	20
Finance cost		(372)	(373)
Income tax paid		(1)	(7)
Realised foreign exchange movement		(223)	(119)
Cash flows from investing activities		(587)	(599)
Investment to maintain and expand operations		(600)	(601)
Investment in associates and joint ventures		(2)	(4)
Proceeds on disposal or scrapping of assets		10	6
Interest income from investments		5	-
Cash flows from financing activities		(896)	4 254
Borrowings (repaid)/raised		(850)	4 289
Finance lease obligation repaid		(44)	(35)
Cash settlement on Management Share Trust		(2)	-
Increase in cash and cash equivalents		515	2 059
Effect of foreign exchange rate changes on cash and cash equivalents		9	4

Cash and cash equivalents at the beginning of the period	3 138	1 660
Cash and cash equivalents at the end of the period	3 662	3 723

Reviewed condensed consolidated statement of changes in equity

In millions of rand	Stated capital	Treasury share equity reserve	Other reserves	Retained earnings	Total
Six months ended 30 June 2017 (reviewed)					
Balance as at 31 December 2016	4 537	(3 918)	4 499	8 425	13 543
Total comprehensive loss	-	-	(238)	(2 223)	(2 461)
Share-based payment reserve	-	-	16	-	16
Transfer of equity-accounted earnings	-	-	(14)	14	-
Balance as at 30 June 2017 (reviewed)	4 537	(3 918)	4 263	6 216	11 098
Six months ended 31 December 2017					
Balance as at 30 June 2017	4 537	(3 918)	4 263	6 216	11 098
Total comprehensive loss	-	-	(177)	(2 905)	(3 082)
Cash settlement on management share trust	-	-	(9)	-	(9)
Share-based payment reserve	-	-	51	-	51
Transfer of equity-accounted earnings	-	-	153	(153)	-
Balance as at 31 December 2017 (audited)	4 537	(3 918)	4 281	3 158	8 058
Six months ended 30 June 2018 (reviewed)					
Balance as at 31 December 2017	4 537	(3 918)	4 281	3 158	8 058
Total comprehensive income/(loss)	-	-	289	(1 602)	(1 313)
Share-based payment reserve	-	-	(26)	-	(26)
Transfer of equity-accounted earnings	-	-	127	(127)	-
Cash settlement on Management Share Trust	-	-	(2)	-	(2)
Balance as at 30 June 2018 (reviewed)	4 537	(3 918)	4 669	1 429	6 717

Notes to the reviewed condensed consolidated financial statements

1. Corporate information

ArcelorMittal South Africa Limited is a public company domiciled in the Republic of South Africa and listed on the JSE Limited. These condensed consolidated financial statements for the six months ended 30 June 2018 comprise the company and its subsidiaries (together referred to as the group). The group is one of the largest steel producers on the African continent.

2. Basis of preparation

The condensed consolidated interim financial statements for the period ended 30 June 2018 have been prepared in accordance with and containing the information required by International Financial Reporting Standards (IFRS), IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and in accordance with the requirements of the JSE Limited Listings Requirements for interim reports as well as the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

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

3. Accounting policies

The group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. These new standards did not have a material effect on the group's results for the period ended 30 June 2018.

Apart from the standards mentioned, no other or revised accounting standards were adopted that could have a material impact on the condensed consolidated financial statements.

	Six months ended	
In millions of rand	30 June 2018 Reviewed	30 June 2017 Reviewed
4. Segment report		
Flat steel products		
Revenue (R million)	15 817	13 422
- External	15 436	13 321
- Internal	381	101
EBITDA (R million) (unreviewed)	1 183	(69)
EBITDA margin (%) (unreviewed)	7.5	(0.5)
Average net realised price (R/t) (unreviewed)	8 995	8 413
Depreciation and amortisation (R million)	(173)	(253)
Profit/(loss) from operations (R million)	1 010	(322)
Unreviewed information		
Liquid steel production (000 tonnes)	1 814	1 649
Steel sales (000 tonnes)	1 616	1 506
- Local	1 160	1 167
- Export	456	339
Capacity utilisation (%)	87	79
Long steel products		
Revenue (R million)	7 704	5 420
- External	6 718	5 130
- Internal	986	290
EBITDA (R million) (unreviewed)	336	(706)
EBITDA margin (%) (unreviewed)	4.4	(13.0)

Average net realised price (R/t) (unreviewed)	8 465	7 492
Depreciation and amortisation (R million)	(163)	(191)
Profit/(loss) from operations (R million)	173	(897)
Unreviewed information		
Liquid steel production (000 tonnes)	745	725
Steel sales (000 tonnes)	750	641
- Local	555	462
- Export	195	179
Capacity utilisation (%)	79	77
Coke and Chemicals		
Revenue (R million)	730	735
- External	714	700
- Internal	16	35
EBITDA (R million) (unreviewed)	201	191
EBITDA margin (%) (unreviewed)	27.5	26.0
Depreciation and amortisation (R million)	(40)	(18)
Profit from operations (R million)	161	173
Unreviewed information		
Commercial coke produced (000 tonnes)	94	100
Commercial coke sales (000 tonnes)	88	92
Tar sales (000 tonnes)	43	39
Corporate and other		
EBITDA (R million) (unreviewed)	(133)	50
Depreciation and amortisation credit (R million)	13	13
(Loss)/profit from operations (R million)	(120)	63

5. Related party transactions

The group is controlled by ArcelorMittal Holdings AG, which effectively owns 69% (June 2017: 69%) of the group's shares. At 30 June 2018, the outstanding ArcelorMittal Holdings AG subordinated loan amounted to R2 700 million (2017: R2 700 million). Interest is payable at the South African prime lending rate and an amount of R136 million (2017: R139 million) was incurred for the six months ended 30 June 2018.

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

6. Fair value measurements

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

Financial assets	Fair values as at period ended			
	30 June 2018	30 June 2017		
In millions of rand	Reviewed	Reviewed	Fair value hierarchy	Valuation techniques and key inputs
Available-for-sale	-	61	Level 1	Quoted prices in an active market
Held-for-trading assets	192	-	Level 1	Quoted prices in an active market
Held-for-trading liabilities	207	105	Level 1	Quoted prices in an active market

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

7. Finance cost

In millions of rand	30 June 2018 Reviewed	30 June 2017 Reviewed
Interest expense on loans	534	362
Interest expense on finance lease obligations	8	12
Net foreign exchange losses on financing activities	651	87
Discount rate adjustment of the provisions	11	22
Unwinding of the discounting effect on provisions	82	94
Unwinding of the discounting effect on financial liabilities	67	69
Finance cost	1 353	646

8. Asset classified as held-for-sale

ArcelorMittal South Africa has entered into an agreement to sell its 50% interest in MIHBV to Macsteel Holdings Luxembourg SARL (MacHold) for USD220 million (circa R3 billion).

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 will be effective once all the conditions precedent have been fulfilled.

The proceeds of this sale will significantly strengthen the statement of financial position and cash flow position. This is an important part of the strategy as the directors work towards building the sustainability of the business in the medium term.

Accounting impact of this transaction:

In millions of rand	Six months ended 30 June 2018 Reviewed
Fair value (USD220 million x R12.52*)	2 752
Equity-accounted investment	(4 404)
Fair value adjustment on asset held-for-sale	(1 652)
Foreign currency translation reserve (FCTR)	1 862

*Exchange rate as at 31 May 2018, when the investment was classified as asset held-for-sale.

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. Once the disposal has been finalised the related FCTR and other reserves of R1 862 million will be released in profit or loss. The final FCTR to be released in profit or loss will be determined based on the rand/US dollar exchange rate at the date of disposal. Income from the equity-accounted investment in MIHBV of R123 million was recognised for the period before reclassification as an asset held-for-sale.

9. Thabazimbi mine

On 10 July 2018, the group received a notification from the Department of Mineral Resources that the consent in terms of section 11(1) of the Mineral and Petroleum Resources Development Act, 2002, was approved to cede the mining rights from Sishen Iron Ore Company (Pty) Ltd to Thabazimbi Iron Ore Mine (Pty) Ltd, previously ArcelorMittal South Africa Operations (Pty) Ltd. This has no financial impact on the results for the six months period ended 30 June 2018.

10. Taxation

The effective tax rate of 0% (compared to the statutory tax rate of 28%) for the six months ended 30 June 2018 is primarily as a result of not recognising the deferred tax asset on the available income tax losses. The deferred tax asset was only recognised to the extent of available deferred tax liabilities. Management believes that the turnaround initiatives will result in the group returning to profitability at some point in the future. However, based on considerations presented, management believes it is premature to conclude at this stage that it is more likely than not for sufficient future taxable profits to be available against which the full proposed deferred tax asset can be utilised.

11. Restricted cash and securities

At 30 June 2018, ArcelorMittal South Africa has restricted cash of R1 524 million (2017: R1 583). This consists of R922 million (2017: R998 million) regarding the true sales receivables (TSR) facility and R602 million (2017: R585 million) for environmental rehabilitation obligations.

Eligible inventories and receivables are provided as securities to the lenders of the borrowing-based facility to the extent of the draw down. At 30 June 2018, R2 850 million (2017: R3 350 million) was drawn down on the borrowing-based facility and R1 650 million (2017: R1 150 million) was still available.

Bank accounts of R310 million (2017: R1 021 million) were ceded in favour of the lenders of the borrowing-based and TSR facilities.

12. Going concern

During the first half of 2018, the group returned back to profitability driven by higher international steel prices, lower costs, higher sale volumes and a weaker rand/US dollar exchange rate during the latter part of the first half of 2018.

In addition, the group has implemented various initiatives to return to profitability and to generate positive cash flows which are visible in the results for the first half of 2018. In order to ensure sustainability due to the volatility of international steel prices and the exchange rate, the group is in the process of implementing several additional initiatives and exploring others. This includes further cost-saving interventions, assessing the profitability of various product lines and considering potential structural changes.

As detailed in note 8, the realisation of the proceeds of the sale of the investment in MIHBV will further strengthen the statement of financial position and cash flow of the group by approximately R3 billion.

As previously reported, the group was in the process of renegotiating the minimum tangible net worth covenant on the borrowing-based facility. The group has completed the renegotiations and the resetting of the level of this covenant. As at 30 June 2018, the group is in compliance with this covenant.

In light of the improved performance and the continued realisation of initiatives, the board believes that the group will have sufficient funds to pay its debts as they become due over the next 12 months, and will therefore remain a going concern.

Processes have been established to ensure effective and frequent monitoring of the implementation of these initiatives so that appropriate and timeous action can be taken should the implementation not materialise. The risk of the continued success of these initiatives and the risk of material volatility of exchange rates and international steel prices, without further intervention, indicate the existence of a material uncertainty that may cast significant doubt on the group's ability to continue as a going concern.

	Six months ended	
In millions of rand	30 June 2018 Reviewed	30 June 2017 Reviewed
13. Headline earnings/(loss)		
Loss for the period	(1 602)	(2 223)
Adjusted for:		
- Impairment charge	5	604
- Profit on disposal or scrapping of assets	(2)	-
- Fair value adjustment on asset held-for-sale	1 652	-
- Tax effect	1	-
Headline earnings/(loss) for the period	54	(1 619)
Headline earnings/(loss) per share (cents)		
- basic	5	(148)
- diluted	5	(148)

	Six months ended	
In millions of rand	30 June 2018 Reviewed	30 June 2017 Reviewed
14. Cash generated from/(utilised in) operations		
Profit/(loss) from operations	1 224	(983)
Adjusted for:		
Depreciation, impairment and amortisation	363	449
Net realisable value adjustment on inventory	(236)	142
Other payables raised, released and utilised relating to employee benefits	268	78
Other cash movements	(28)	(39)
Changes in:		
Decrease/(increase) in inventories	1 306	(562)
Increase in trade and other receivables	(1 524)	(1 535)
Increase in trade and other payables	889	1 482
Utilisation of provisions	(37)	(87)
Changes in financial liabilities or assets	327	(62)
Cash generated from/(utilised in) operations	2 552	(1 117)

	Six months ended	
In millions of rand	30 June 2018 Reviewed	30 June 2017 Reviewed
15. Commitments		
Capital expenditure commitments on property, plant and equipment		
- Capital expenditure authorised and contracted for	2 859	4 076
- Capital expenditure authorised but not contracted for	578	1 348
Total	3 437	5 424

16. Subsequent events
Apart from note 9, the directors are not aware of any matter or circumstances arising since the end of June 2018 to the date of this report that would significantly affect the operations, results or financial position of the group.

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Forward looking statements
Statements in this announcement that are neither reported financial results nor other historical information, are forward looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to risks and uncertainties whose impact could cause actual results and group plans and objectives to differ materially from those expressed or implied in the forward looking statements (or from past results). Any reference to future financial performance included in this announcement has not been reviewed or reported on by the group's auditors.

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

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

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

This report is available on ArcelorMittal South Africa's website at:
https://southafrica.arcelormittal.com/InvestorRelations/InterimResults.aspx

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