ArcelorMittal

AUDITED ANNUAL FINANCIAL STATEMENTS 2017

Contents

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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 2017, 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 D Subramanian 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. 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 2018. In light of their review of the current financial position and existing borrowing facilities, they consider it appropriate that the group and company annual financial statements continue to be prepared on the going concern basis. Refer to note 36 and the directors' report for further details.

The annual financial statements for the year ended 31 December 2017 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 March 2018 and are signed on its behalf by:

HJ Verster
Chief executive officer

D Subramanian
Chief financial officer

Certificate by company secretary

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

Premium Corporate Consulting Services (Pty) Ltd
Interim company secretary
2 March 2018

Directors' report

The directors have pleasure in submitting their report together with ArcelorMittal South Africa Ltd's annual financial statements for the year ended 31 December 2017.

Nature of business

ArcelorMittal South Africa Ltd (ArcelorMittal South Africa) 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, and 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 2017.

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 2017 the group had a net asset value per share of 737 cents (2016: 1 239 cents). The net asset value per share was calculated using a net asset value of R8 058 million (2016: R13 543 million), and total number of shares outstanding of 1 093 509 570 (2016: 1 093 509 570).

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

Dividends

Consistent with the group's dividend policy, no dividends were declared for the 2017 and 2016 financial years.

Property, plant and equipment

Details of capital expenditure are provided in note 26 and details on impairments recognised are provided in note 12.

Compliance with Competition Commission settlement agreement

The CEO hereby confirms in respect of 2017, that ArcelorMittal South Africa has in all material respects complied with the settlement agreement entered into with the Competition Commission.

Authorised and issued share capital

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

Shareholders

ArcelorMittal Holdings AG, as controlling shareholder, held 53.1% (2016: 53.1%) of the ordinary shares in issue and an effective shareholding of 69.2% (2016: 69.2%). Details of beneficial shareholders in excess of 5% are disclosed in note 20.

Directors' interests

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

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

	2017			2016		
Non-executive director	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
DCG Murray*	–	–	–	–	14 667	14 667
JRD Modise	5 025	–	5 025	5 025	–	5 025
NP Gosa**	–	97 296 110	97 296 110	–	97 296 110	97 296 110
GS Gouws***	–	292	292	–	–	–
Total	5 025	97 296 402	97 301 427	5 025	97 310 777	97 315 802

* *In fiscal year 2016, DCG Murray retired as a director.*
** *Effective interest via Likamva Resources.*
*** *Appointed on 1 November 2017.*

The following movements occurred since the financial year ended 31 December 2017:
(a) NF Nicolau purchased 8 313 and 91 867 ordinary shares on 1 February 2018 and 2 February 2018, respectively
(b) JRD Modise purchased an additional 60 000 and 20 000 ordinary shares on 5 February 2018 and 6 February 2018, respectively

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 will participate in ArcelorMittal South Africa's enterprise and supplier development initiatives and supplied products and services to ArcelorMittal South Africa totalling R133 000. The interest-free loan under the terms of the supplier development initiative granted to Noma in fiscal year 2016 of R350 000 is still outstanding.

There were no further changes to the non-executive directors' direct or indirect beneficial interests of the company since the financial year ended 31 December 2017 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 14 and 15 of the annual financial statements.

Borrowing powers

In terms of clause 35 of the Memorandum of Incorporation, the borrowing powers of the company and its subsidiaries are subject to any limitations imposed by the directors on the borrowing powers of the company.

Directorate

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

The following changes in directorate have taken place:
- KMM Musonda was appointed as an independent non-executive director effective 12 June 2017
- WA de Klerk announced his resignation as executive director and chief executive officer (CEO) effective 31 January 2018
- DG Clarke resigned as a non-executive director effective 1 November 2017
- HJ Verster was appointed as CEO and executive director of the company with effect from 1 February 2018
- GS Gouws was appointed as a non-executive director effective 1 November 2017
- LP Mondi retired as a non-executive director effective 24 May 2017

Retirement by rotation

Directors are appointed on a three-year term, subject to annual review at each annual general meeting. In the circumstances, where the three-year term has expired, in terms of clause 27 of the Memorandum of Incorporation, all directors are required to retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Shareholders will be requested to ratify the following directors' appointments as directors at the forthcoming annual general meeting, as they were appointed by the board in accordance with the Memorandum of Incorporation after the last annual general meeting:
- HJ Verster
- KMM Musonda
- GS Gouws

Company secretary

NB Bam resigned as company secretary effective 1 November 2017 and Premium Corporate Consulting (Pty) Ltd acted from 1 November 2017 and was appointed as the interim company secretary effective 26 January 2018.

It should be noted that the previous company secretary resigned in November 2017. Premium Corporate Consulting Services (Pty) Ltd (Premcorp) represented by Solete de Sousa Wilke, was appointed as the acting company secretary until January 2018. In January 2018, Premcorp (represented by Solete de Sousa Wilke) was appointed as the interim company secretary. As a part of the appointment in January 2018, the suitability of Premcorp and Solete de Sousa Wilke to be appointed as such was considered as a part of the appointment process. In the light of the aforegoing, it was not necessary to do a specific annual evaluation of the performance and independence of the company secretary during February 2018, having only appointed the interim company secretary in January 2018.

Going concern

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

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

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

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

As stated previously, the group and company are very vulnerable to the exchange rate. The recent strengthening in the rand against the US dollar has had a negative impact on the financial statements, and in particular, the valuation of property, plant and equipment.

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

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

In the event that the renegotiations do not yield a positive result, the group and company has sufficient initiatives in place, and in particular, a letter of support from ArcelorMittal Holdings AG, subject to a maximum of R1 500 million, to make good the current shortfall in satisfying the covenant.

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

Based on the group's 12-month funding plan, continued support from the holding company ArcelorMittal Holdings AG as set out above, and cash-generating initiatives, the board believes that the group and company will have sufficient funds to pay its debts as they become due over the next 12 months, and therefore will remain a going concern.

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

Independent auditors

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

Subsequent events

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

It should be noted that the rand/US dollar exchange rate remains volatile and that the rand has strengthened further post-year-end.

Audit and risk committee report

The audit and risk committee (the committee) has pleasure in submitting its report to the shareholders as required in terms of section 94(7) of the Companies Act.

Membership of the committee

The committee comprised the following members at the date of this report:

- JRD Modise
- LC Cele
- NP Mnxasana

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

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

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

Functions of the committee

During the year under review, seven meetings (which included two special meetings held by teleconference call) were held. Details of attendance are set out in the corporate governance section of the integrated annual report.

The committee reports that it has adopted appropriate formal terms of reference as its mandate, and has regulated its affairs in compliance with this mandate, and has discharged all of the responsibilities set out therein. During the financial year under review, the committee reviewed the following matters:

- The quarterly and half-yearly financial reports, the integrated annual report, the annual financial statements and accounting policies for the company and all subsidiaries
- The effectiveness of the combined assurance model
- The reports of the internal audit function on the state of internal control including its forensic reports regarding fraud prevention and detection
- The effectiveness of the internal audit function
- The auditor's findings and recommendations
- Statements on ethical standards for the company and considered how they are promoted and enforced
- Significant cases of unethical activity by employees or by the company itself
- Reports on the risk management process in the company and assessed the company's exposure to the following risks:
  - Top strategic risks (including credit and market risks, human resources risks and compliance risks)
  - Operational risks
  - Information technology risks

Independence of auditor

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

Statutory reporting

The committee has evaluated the annual financial statements of ArcelorMittal South Africa Ltd and the group for the year ended 31 December 2017 and, based on the information provided to the committee, considers that the company and group comply, in all material respects, with the requirements of the Companies Act of South Africa, the International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and applicable legislation and financial pronouncements as issued by the Financial Reporting Standards Council.

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

Audit and risk committee report continued

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

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

The committee has assessed the competency, skills and resourcing of the group's finance function, and is satisfied as to the overall adequacy and appropriateness of the finance function, and further ensured that the company has established appropriate financial reporting procedures and that these procedures are operating.

Expertise and experience of the company secretary

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

It should be noted that the previous company secretary resigned in November 2017. Premium Corporate Consulting Services (Pty) Ltd (Premcorp) represented by Solete de Sousa Wilke, was appointed as the acting company secretary until January 2018. In January 2018, Premcorp (represented by Solete de Sousa Wilke) was appointed as the interim company secretary. As a part of the appointment in January 2018, the suitability of Premcorp and Solete de Sousa Wilke to be appointed as such was considered as a part of the appointment process. In the light of the aforegoing, it was not necessary to do a specific annual evaluation of the performance and independence of the company secretary during February 2018, having only appointed the interim company secretary in January 2018.

Recommendation of the annual financial statements and integrated annual report

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

Auditor and designated individual partner

The committee notes that Deloitte & Touche has been the auditor of the group and company for 13 years. M Mantyi has been the designated individual partner for three years. The key audit matters as disclosed in the report of the independent auditor was communicated and reviewed by the committee.

JRD Modise
Chairman
2 March 2018

Report of the independent auditor

To the shareholders of ArcelorMittal South Africa Ltd

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of ArcelorMittal South Africa Limited and its subsidiaries (the group) set out on page 12 to 84, which comprise the statements of financial position as at 31 December 2017, and the statements of other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 December 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 36 in the consolidated and separate financial statements which indicates that the group incurred a net loss of R5 128 million (2016: R4 706 million), and the company incurred a net loss of R5 591 million (2016: R4 715 million) for the year ended 31 December 2017. Note 36 also indicates that these conditions, along with other matters, indicate the existence of a material uncertainty which may cast significant doubt on the group and the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

Report of the independent auditor continued

Key audit matter	How the matter was addressed in the audit
Impairment of property, plant and equipment	
As disclosed in note 12 of the consolidated and separate financial statements, an impairment to property, plant and equipment was recognised in the current year based on the assumptions disclosed in the note. The recoverable amount of a group of assets, or cash-generating unit (CGU), is to be measured whenever there is an indication that the value of the group of assets or the CGU may be impaired. Significant judgement is required by the directors in assessing the impairment of the group of assets or the CGUs, which is determined with reference to fair value less cost to sell or the value-in-use, based on the cash flow forecast for each CGU. Impairment indicators were identified as a result of the continuing losses and worse than expected financial performance. The key assumptions with the most significant impact on the cash flow forecast were: › Revenue growth (including market share and forecasted 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 › Exchange rate forecasts › Projected sales and input cost prices, as both are linked to commodity prices which are volatile › Forecasted procurement saving. The directors identified Vanderbijlpark Works, Long Steel Works and Saldanha as the CGUs which exhibited indicators of impairment. 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. This included the forecasted sales volumes and the forecasted procurement savings identified by the directors. We performed various procedures, including the following: › Testing of the key entity's controls relating to the preparation and review of the cash flow forecasts › Subjecting the key assumptions to sensitivity analyses › Testing of inputs into the cash flow forecast, including the assumptions relating to revenue growth and input prices, against historical performance and in comparison to the directors' strategic plans in respect of the applicable CGUs › Consideration of the directors' ability to accurately forecast, based on a comparison of historical actual performance against previous respective forecasts › We engaged our internal valuation specialists to: • Critically evaluate whether the value-in-use calculation used by the directors to calculate the value-in-use of the individual cash-generating units complies with the requirements of IAS 36 • Compare the growth rates used to historical data regarding economic growth rates for the regions included in the CGUs • Assess the weighted average cost of capital (discount rate) and the determination of this rate • Assess the exchange rates used in the model to ensure that they comply with the requirements of IAS 36 in relation to the valuation method used › 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 used in determining the sales prices and input costs against independent third-party sources › Recalculated the value-in-use of all CGUs. We assessed the long-term forecast volumes to be mildly optimistic based on past performance, in addition, there was limited history in regards to the directors' ability to achieve the forecasted procurement savings. As a result, based on our audit procedures, adjustments were made to mitigate the above risks identified in the forecasted cash flows. The discount rate and other assumptions were within an independently determined acceptable range. We found that the resultant accounting impact was materially correct. We considered the related disclosures to be appropriate.

Key audit matter	How the matter was addressed in the audit
Environmental remediation obligations	
The determination of environmental remediation obligations are subject to significant estimates and judgement. The key assumptions that affect the measurement of the related provisions include: ❱ The discount rates applied to the forecast cash flows relating to environmental remediation ❱ The escalation rates applied in determining the forecast cash flows ❱ The determination of the completeness of all projects and related costs to be incurred. The most significant estimates and areas of judgement have been disclosed by the directors in note 22 of the consolidated and separate financial statements. Due to the 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 ❱ We obtained the group's environmental models which are used to determine the value of the environmental remediation obligations. Through a consultative and corroborative process, including the review of minutes of meetings of the directors, of the audit and risk committee, and safety, health and environment committee together with discussions held with the directors' environmental specialists and environmental legal counsel, we gained sufficient evidence that all required exposures have been provided for ❱ Our assessment included inspection and analysis of existing rehabilitation plans as well as communication between the group and environmental regulators and local authorities ❱ We made use of our valuation specialists to assess the environmental cash flow forecasts as well as for the assessment of the applied discount rates by comparing the discount rate used to an independently determined rate based on external market data ❱ Our environmental specialists further assessed the completeness of the provisions by assessing the current provisions against latest legislation to ensure all areas of exposure have been considered and recorded appropriately. They also assessed the nature of the costs included within the cash flow forecasts ❱ We furthermore assessed the key assumptions and inputs in the models, which included: • Comparing estimated cash flows of significant projects against related project plans and anticipated costs • An assessment of the escalation rates applied in the forecast cash flows to ensure these are in line with market forecasts • Assessing the impact of changes in the applied discount rate as well as scope changes ❱ We assessed the adequacy of the group's disclosures in relation to the judgement and estimation applied to these balances. Our substantive testing did not reveal any material misstatements and overall the directors had adequately factored in risks and the impact of macro-economic factors into the forecast costs. We considered the disclosures to be balanced and appropriate.

Key audit matter	How the matter was addressed in the audit
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 may be ambiguous and thereby require legal opinion. In addition, the determination of whether to recognise deferred taxation assets is dependent on the directors' assessment of the utilisation of the historical taxation losses and the timing of realising temporary differences, which requires significant judgement. With respect to uncertain taxation positions, the directors make provision for taxation based on the most probable outcome. As a result, taxation is considered a key audit matter due to the complexities and judgement arising from the considerations relating to the calculation, recognition, and classification of current and deferred taxation balances. The disclosures relating to taxation and deferred taxation are contained in note 9 of the consolidated and separate financial statements.	We involved our taxation specialists to evaluate the taxation provisions and potential exposures. This included: › Analysing the taxation consequences arising on significant or unusual transactions to determine if the treatment adopted is appropriate under the circumstances, and/or based on appropriate legal counsel opinion obtained by the directors › Analysing the current and deferred taxation calculations for compliance with relevant taxation legislation › Evaluating the directors' assessment of the estimated manner in which the timing differences, including the recoverability of the deferred taxation assets, would be realised by comparing this to evidence obtained in respect of other areas of the audit, including cash flow forecasts, minutes of directors' meetings and evidence obtained in other areas during the performance of our audit procedures › Critically evaluating the assumptions made by the directors for uncertain current and deferred taxation positions to assess whether appropriate current and deferred taxation provisions have been recognised and are based on the most probable outcome › We assessed the disclosures to ensure that this was accurately and appropriately recognised. We found the disclosures relating to the current and deferred tax balances to be appropriate.

Other information

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

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

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

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's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 ISA, 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's and the company's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- Conclude on the appropriateness of 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's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of ArcelorMittal South Africa Ltd for 13 years.

Deloitte & Touche.

Deloitte & Touche
Registered auditors
Per: Mandisi Mantyi
Partner

27 March 2018

Deloitte & Touche
Deloitte Place
The Woodlands, Woodlands Drive,
Woodmead, Sandton

National executive: *LL Bam chief executive, *TMM Jordan deputy chief executive officer: clients and industries, *MJ Jarvis chief operating officer, *AF Mackie audit and assurance, *N Sing risk advisory, *NB Kader tax, TP Pillay consulting, S Gwala BPS, *JK Mazzocco talent and transformation, MG Dicks risk independence and legal, *TJ Brown chairman of the board

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

Group and company statements of comprehensive income

for the year ended 31 December 2017

		Group		Company	
	Notes	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm
Revenue		**39 022**	32 737	**33 860**	29 412
Raw materials and consumables used		**(24 763)**	(19 454)	**(22 689)**	(17 738)
Employee costs		**(4 164)**	(4 175)	**(4 164)**	(4 174)
Energy		**(4 233)**	(3 981)	**(2 898)**	(2 888)
Movement in inventories of finished goods and work-in-progress		**346**	973	**394**	804
Depreciation		**(953)**	(1 030)	**(890)**	(959)
Amortisation of intangible assets		**(23)**	(25)	**(20)**	(22)
Other operating expenses		**(6 452)**	(6 137)	**(5 006)**	(4 877)
Loss from operations	5	**(1 220)**	(1 092)	**(1 413)**	(442)
B-BBEE charges		**–**	(870)	**–**	(870)
Finance and investment income	6	**74**	176	**65**	322
Finance costs	7	**(1 515)**	(876)	**(1 434)**	(837)
Impairment of other assets	8	**(10)**	(11)	**(721)**	(1 165)
Impairment of property, plant, equipment and intangible assets	12, 13	**(2 594)**	(2 143)	**(2 088)**	(1 723)
Income after tax from equity-accounted investments		**139**	129	**–**	–
Loss before taxation		**(5 126)**	(4 687)	**(5 591)**	(4 715)
Income taxation expense	9	**(2)**	(19)	**–**	(11)
Loss for the year		**(5 128)**	(4 706)	**(5 591)**	(4 726)
Other comprehensive (loss)/income		**(415)**	(554)	**(26)**	3
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		**(392)**	(618)	**–**	–
Income on available-for-sale investment taken to equity		**(25)**	1	**(26)**	3
Share of other comprehensive income of equity-accounted investments		**2**	63	**–**	–
Total comprehensive loss for the year		**(5 543)**	(5 260)	**(5 617)**	(4 723)
Loss attributable to:					
Owners of the company		**(5 128)**	(4 706)	**(5 591)**	(4 726)
Total comprehensive loss attributable to:					
Owners of the company		**(5 543)**	(5 260)	**(5 617)**	(4 723)
Attributable loss per share (cents)					
– Basic	10	**(469)**	(443)		
– Diluted	10	**(469)**	(443)		

Group and company statements of financial position

as at 31 December 2017

		Group		Company	
	Notes	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm
Assets					
Non-current assets					
Property, plant and equipment	12	**8 474**	10 670	**8 479**	10 191
Intangible assets	13	**82**	103	**82**	102
Equity-accounted investments	14	**4 424**	4 667	**171**	168
Investments in subsidiaries	15	**–**	–	**474**	1 277
Non-current receivables	18	**30**	–	**30**	–
Other financial assets	16	**55**	394	**46**	387
		13 065	15 834	**9 282**	12 125
Current assets					
Inventories	17	**11 519**	11 274	**10 491**	10 196
Trade and other receivables	18	**2 988**	1 774	**2 465**	1 568
Taxation		**58**	58	**58**	53
Other financial assets	16	**428**	46	**428**	46
Cash and bank balances	19	**3 138**	1 660	**3 130**	1 651
		18 131	14 812	**16 572**	13 514
Total assets		**31 196**	30 646	**25 854**	25 639
Equity and liabilities					
Equity					
Stated capital	20	**4 537**	4 537	**4 537**	4 537
Reserves		**363**	581	**924**	892
Retained income/(accumulated loss)		**3 158**	8 425	**(1 265)**	4 326
		8 058	13 543	**4 196**	9 755
Non-current liabilities					
Finance lease obligations	21	**54**	124	**2**	57
Provisions	22	**1 826**	1 872	**1 808**	1 853
Borrowings	24	**2 700**	–	**2 700**	–
Other financial liabilities	25	**813**	1 023	**813**	1 023
Other payables	23	**399**	311	**399**	310
		5 792	3 330	**5 722**	3 243
Current liabilities					
Trade payables	23	**11 300**	10 053	**10 008**	8 971
Taxation		**82**	–	**–**	–
Other financial liabilities	25	**906**	521	**906**	515
Borrowings	24	**3 700**	1 950	**3 700**	1 950
Finance lease obligations	21	**70**	70	**57**	51
Provisions	22	**304**	301	**299**	290
Other payables	23	**984**	878	**966**	864
		17 346	13 773	**15 936**	12 641
Total equity and liabilities		**31 196**	30 646	**25 854**	25 639

Group and company statements of cash flows

for the year ended 31 December 2017

		Group		Company	
	Notes	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Cash (utilised in)/generated from operations	26.1	(712)	873	(934)	1 752
Interest income		65	67	65	66
Finance cost		(741)	(525)	(684)	(504)
Income tax refunded/(paid)	26.2	80	(2)	(5)	1
Transaction costs on B-BBEE share transaction		–	(55)	–	(55)
Realised foreign exchange movements		(210)	(268)	(167)	(225)
Cash flows from operating activities		(1 518)	90	(1 725)	1 035
Investment to maintain operations	26.3	(1 002)	(1 673)	(901)	(1 291)
Investment to expand operations	26.4	(322)	(335)	(318)	(335)
Investment in associates and joint ventures		(11)	(11)	–	–
Proceeds on disposal or scrapping of assets		13	67	9	67
Interest Income from investments		9	7	–	1
Cash flows from investing activities		(1 313)	(1 945)	(1 210)	(1 558)
Borrowings raised/(repaid)	26.5	4 450	(3 079)	4 450	(3 079)
Proceeds from rights issue/issue of share capital		–	4 500	–	4 500
Finance lease obligation repaid	26.5	(70)	(62)	(49)	(48)
Transaction costs on BBF		(61)	–	(61)	–
Cash settlement on management share trust		(9)	–	(9)	–
Decrease/(increase) in loans to subsidiaries		–	–	82	(1 346)
Cash flows from financing activities		4 310	1 359	4 413	27
Increase/(decrease) in cash and cash equivalents		1 479	(496)	1 478	(496)
Effect of foreign exchange rate changes on cash and cash equivalents		(1)	(8)	1	(3)
Cash and cash equivalents at the beginning of the year		1 660	2 164	1 651	2 150
Cash and cash equivalents at the end of the year	19	3 138	1 660	3 130	1 651

Group and company statements of changes in equity

for the year ended 31 December 2017

			Reserves					
	Stated capital[1] Rm	Retained income Rm	Treasury share equity reserve[2] Rm	Management share trust reserve[3] Rm	Share-based payment reserve[4] Rm	Attributable reserves of equity-accounted investments Rm	Other reserves[5] Rm	Total equity Rm
Group								
Balance at 31 December 2016	**4 537**	**8 425**	**(3 918)**	**(317)**	**1 187**	**1 606**	**2 023**	**13 543**
Total comprehensive (loss)/income for year	–	(5 128)	–	–	–	2	(417)	(5 543)
Loss	–	(5 128)	–	–	–	–	–	(5 128)
Other comprehensive income/(loss)	–	–	–	–	–	2	(417)	(415)
Transfer between reserves	–	(139)	–	–	–	139	–	–
Transactions with owners								
Share-based payment expense	–	–	–	(1)	68	–	–	67
Cash settlement on management share trust/long-term incentive plan	–	–	–		(9)	–	–	(9)
Balance at 31 December 2017	**4 537**	**3 158**	**(3 918)**	**(318)**	**1 246**	**1 747**	**1 606**	**8 058**
Balance at 31 December 2015	37	13 260	(3 918)	(285)	324	1 414	2 640	13 472
Total comprehensive (loss)/income for year	–	(4 706)	–	–	–	63	(617)	(5 260)
Loss	–	(4 706)	–	–	–	–	–	(4 706)
Other comprehensive income/(loss)	–	–	–	–	–	63	(617)	(554)
Transfer between reserves	–	(129)	–	–	–	129	–	–
Transactions with owners								
Rights issue	4 500	–	–	–	–	–	–	4 500
A1 ordinary shares issued to Amandla*	–	–	–	–	–	–	–	–
A2 ordinary shares issued to Isabelo*	–	–	–	–	–	–	–	–
Share-based payment expense	–	–	–	–	63	–	–	63
B-BBEE charge					800			800
Cash settlement on management share trust/long-term incentive plan	–	–	–	(32)	–	–	–	(32)
Balance at 31 December 2016	4 537	8 425	(3 918)	(317)	1 187	1 606	2 023	13 543

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

Group and company statements of changes in equity continued

for the year ended 31 December 2017

		Reserves						
	Stated capital[1] Rm	Retained income/ (accumulated loss) Rm	Treasury share equity reserve[2] Rm	Management share trust reserve[3] Rm	Share-based payment reserve[4] Rm	Attributable reserves of equity-accounted investments Rm	Other reserves[5] Rm	Total equity Rm
Company								
Balance at 31 December 2016	**4 537**	**4 326**	**–**	**(317)**	**1 187**	**–**	**22**	**9 755**
Total comprehensive loss for year	–	(5 591)	–	–	–	–	(26)	(5 617)
Loss	–	(5 591)	–	–	–	–	–	(5 591)
Other comprehensive loss	–	–	–	–	–	–	(26)	(26)
Transactions with owners								
Share-based payment expense	–	–	–	(1)	68	–	–	67
Cash settlement on management share trust/long-term incentive plan	–	–	–	–	(9)	–	–	(9)
Balance at 31 December 2017	**4 537**	**(1 265)**	**–**	**(318)**	**1 246**	**–**	**(4)**	**4 196**
Balance at 31 December 2015	37	9 052	–	(285)	324	–	19	9 147
Total comprehensive loss for year	–	(4 726)	–	–	–	–	3	(4 723)
Profit/(loss)	–	(4 726)	–	–	–	–	–	(4 726)
Other comprehensive income	–	–	–	–	–	–	3	3
Transactions with owners								
Rights issue	4 500	–	–	–	–	–	–	4 500
A1 ordinary shares issued to Amandla*	–	–	–	–	–	–	–	–
A2 ordinary shares issued to Isabelo*	–	–	–	–	–	–	–	–
Share-based payment expense	–	–	–	–	63	–	–	63
B-BBEE charge	–	–	–	–	800	–	–	800
Cash settlement on management share trust/long-term incentive plan	–	–	–	(32)	–	–	–	(32)
Balance at 31 December 2016	4 537	4 326	–	(317)	1 187	–	22	9 755

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

Group and company statements of changes in equity continued

for the year ended 31 December 2017

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

1. Stated capital

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

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

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

2. Treasury share equity reserve

In 2009 the company implemented a share buy-back arrangement and acquired 9.995% of the shareholding of each shareholder. In the 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.

3. Management share trust reserve

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

4. Share-based payment reserve

The share-based payment reserve represents the accumulated charge for share options and long-term incentive plan units in terms of IFRS 2 *Share-Based Payments*, which are all equity-settled. Included in 2016 was an IFRS 2 charge of R800 million and R1 million relating to the issue of ArcelorMittal South Africa A1 and A2 ordinary shares under the B-BBEE ownership scheme.

5. Other reserves

Other reserves consist of the following:

Capital redemption reserve of R23 million (2016: R23 million) for the group and company. The capital redemption reserve was created in terms of the South African Companies Act No 61 of 1973, following the redemption of shares during the year ended 30 June 2000, out of profits that would otherwise be available for distribution to ordinary shareholders.

Available-for-sale investment reserve of R24 million debit (2016: R1 million credit) for the group. The available-for-sale reserve relates to the unrealised fair value gains/(losses) relating to the group's investment in Hwange Colliery Company Ltd and MC Mining Ltd (previously know as Coal of Africa Ltd).

Translation of the foreign operation reserve of R1 607 million (2016: R1 999 million) for the group. The translation of the foreign operation reserve consists of:

- Reserves relating to equity-accounted investments of R1 364 million (2016: R1 719 million)
- Other group-related translation reserves of R243 million (2016: R280 million)

Notes to the group and company annual financial statements

for the year ended 31 December 2017

1. General information

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

2. Standards and interpretations not yet effective for December 2017

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these annual financial statements. Those which may be relevant to the group and company are set out below. The group and company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective for the financial year commencing 1 January 2018

IFRS 2 *Share-Based Payments*

Clarifying share-based payment accounting (amendments to IFRS 2)

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

The amendments cover three accounting areas:

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

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

IFRS 9 *Financial Instruments*

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 *Financial Instruments: Recognition and Measurement* with a single model that has only two classification categories: amortised cost and fair value.

This standard will have an impact on the group, which will include changes in the measurement bases of the group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model requires the use of an "expected loss" model instead of the "incurred loss" model from IAS 39 which is currently being used when assessing the recoverability of trade and other receivables. The possible impact is to accelerate the timing of impairment loss recognition. Based on the detailed assessment of the impact of this standard on the group, it was concluded that the impact is not material.

The IASB introduced a new impairment model and aligned hedge accounting more closely with an entity's risk management. The standard is effective for accounting periods beginning on or after 1 January 2018 an would therefore be applicable for the time for the year ended 31 March 2019. Early adoption was permitted.

IFRS 15 *Revenue from Contracts with Customers*

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC 31 *Revenue – Barter of Transactions Involving Advertising Services.* The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. This new standard will most likely have an impact on the group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. Based on the detailed assessment of the impact of this standard on the group, it was concluded that the impact is not material. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS.

Effective for the financial year commencing 1 January 2019

IFRS16 *Leases*

IFRS 16 *Leases* supersedes IAS 17 *Leases*; IFRIC 4 *Determining whether an Arrangement contains a Lease*; SIC 15 *Operating Leases – Incentives*; and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

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

This standard will have an impact on the group's results. The group is currently in the process of performing a more detailed assessment of the standard and the extent to which contracts currently accounted for as operating leases will result in additional assets and liabilities being recognised in the statement of financial position.

3. Significant accounting policies

The principal accounting policies applied in the preparation of the group and company financial statements are set out 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 2017.

3.2 Basis of preparation

The annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments in equity instruments classified as available-for-sale.

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

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

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

Subsidiaries are all investees (including structured entities) over which the group has control. The group controls an investee when it is exposed 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 Interests in joint ventures

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

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

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

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

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

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

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

3.6 Investments in associates

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

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

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

3. Significant accounting policies continued

3.6 Investments in associates continued

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

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

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

3.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). 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.

3.8 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency of the group as follows:
- Assets and liabilities for each reporting date presented are translated at the closing rate at the date of the statement of financial position
- Income and expenses for each reporting period are translated at average exchange rates for the reporting period
- All resulting exchange differences are recognised as a separate component of equity, within the translation of foreign operations reserve

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

3.9 Property, plant and equipment

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

3.10 Accounting for finance leases as lessee

Finance lease arrangements consist of those transactions that are:

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

The group and company lease certain property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property, plant and equipment and the present value of the future minimum lease payments of the lease.

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

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

3.11 Intangible assets

Internally generated intangible assets – research and development

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

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

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

Purchased intangible assets other than goodwill

Patents

The cost of acquisition of patents 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.

3.12 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.

3.13 Financial assets

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

Financial assets are classified into the following specified categories:

- Financial assets at FVTPL
- Available-for-sale (AFS) financial assets
- Loans and receivables

Financial assets at FVTPL

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

AFS financial assets

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

3. Significant accounting policies continued

3.13 Financial assets continued

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

Other financial liabilities

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

3.15 Derivative financial instruments

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

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

3. Significant accounting policies continued

3.16 Inventories

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

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

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

3.17 Cash and cash equivalents

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

3.18 Restricted cash

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

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

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

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

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

3.20 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.

3.21 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. Significant accounting policies continued

3.22 Employee benefits

Short-term employee benefits

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

Short-term compensated absences (leave pay benefits)

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

Retirement benefits

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

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

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

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

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

Medical benefits

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

Termination benefits

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

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

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

3. Significant accounting policies continued

3.23 Provisions and contingent liabilities

Provisions

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

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

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

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

Contingent liabilities

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

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

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

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

3.24 Revenue recognition

Sale of goods

Revenue comprises the fair value of the consideration received or receivable for 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 shown net of value added tax, returns, rebates, discounts and, in the case of the group accounts, after eliminating sales within the group.

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

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

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

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

3.25 Operating leases

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

3. Significant accounting policies continued

3.26 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.

3.27 Share-based payments

Equity-settled share-based payments

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

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

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

Cash-settled share-based payments

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

Vesting conditions

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

3.28 Taxation

Income tax expense represents the sum of the current tax and deferred tax (refer to note 3.21).

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.

Withholding tax on dividends

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

3.29 Offset

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

4. Segment report

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, Saldanha Works and ArcelorMittal South Africa Distribution
- 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Flat steel products Rm	Long steel products Rm	Coke and Chemicals Rm	Corporate and other Rm	Adjustments and eliminations[1] Rm	Total reconciling to the consolidated amounts Rm
4. Segment report continued						
For the year ended 31 December 2017						
Revenue						
External customers	27 226	10 444	1 352	–	–	39 022
Intersegment customers	569	1 347	52	–	(1 968)	–
Total revenue	27 795	11 791	1 404	–	(1 968)	39 022
Revenue to external customers distributed as:						
Local	22 246	8 108	1 352	–	–	31 706
Export	4 980	2 336	–	–	–	7 316
Africa	4 214	1 459	–	–	–	5 673
Asia	733	270	–	–	–	1 003
Other	33	607	–	–	–	640
Total	27 226	10 444	1 352	–	–	39 022
Results						
Earnings before interest, tax, depreciation and amortisation	264	(945)	365	13	(12)	(315)
Depreciation and amortisation	(570)	(383)	(48)	(21)	46	(976)
Thabazimbi mine closure costs	95	44	–	(98)	–	41
Competition Commission settlement	–	–	–	30	–	30
(Loss)/profit from operations	(211)	(1 284)	317	(76)	34	(1 220)
Impairments	(1 587)	(1 007)	–	(10)	–	(2 604)
Finance and investment income	20	40	2	12	–	74
Finance costs	(247)	(185)	(12)	(1 071)	–	(1 515)
Income after tax from equity-accounted investments	–	–	–	139	–	139
(Loss)/profit before taxation	(2 025)	(2 436)	307	(1 006)	34	(5 126)
Income taxation expense	–	–	–	(2)	–	(2)
(Loss)/profit for the year	(2 025)	(2 436)	307	(1 008)	34	(5 128)
Segment assets (excluding investments in equity-accounted entities)	13 900	7 911	1 266	4 585	(890)	26 772
Investments in equity-accounted entities	–	–	–	4 424	–	4 424
Segment liabilities	5 975	2 686	203	14 272	2	23 138
Cash (utilised in)/generated from operations	(1 159)	(1 118)	364	1 201	–	(712)
Capital expenditure	858	253	276	(63)	–	1 324
Number of employees at the end of the year	5 084	2 696	254	879	–	8 913

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

4. Segment report continued

For the year ended 31 December 2016

	Flat steel products Rm	Long steel products Rm	Coke and Chemicals Rm	Corporate and other Rm	Adjustments and eliminations[1] Rm	Total reconciling to the consolidated amounts Rm
Revenue						
External customers	21 144	10 280	1 313	–	–	32 737
Intersegment customers	497	329	61	–	(887)	–
Total revenue	21 641	10 609	1 374	–	(887)	32 737
Revenue to external customers distributed as:						
Local	16 988	8 964	1 313	–	–	27 265
Export	4 156	1 316	–	–	–	5 472
Africa	3 768	925	–	–	–	4 693
Asia	386	285	–	–	–	671
Other	2	106	–	–	–	108
Total	21 144	10 280	1 313	–	–	32 737
Results						
Earnings before interest, tax, depreciation and amortisation	(392)	286	172	140	(16)	190
Depreciation and amortisation	(656)	(390)	(35)	(22)	48	(1 055)
Thabazimbi mine closure costs	(194)	(81)	–	–	–	(275)
Derecognised payment in advance	–	–	–	(19)	–	(19)
Competition Commission settlement	–	–	–	30	–	30
Unclaimed dividends	–	–	–	37	–	37
(Loss)/profit from operations	(1 242)	(185)	137	166	32	(1 092)
B-BBEE charges	–	–	–	(870)	–	(870)
Impairment	(2 141)	(2)	–	(11)	–	(2 154)
Finance and investment income	17	40	–	119	–	176
Finance costs	(117)	(146)	(7)	(606)	–	(876)
Income after tax from equity-accounted investments	–	–	–	129	–	129
(Loss)/profit before taxation	(3 483)	(293)	130	(1 073)	32	(4 687)
Income taxation credit	–	–	–	(19)	–	(19)
(Loss)/profit for the year	(3 483)	(293)	130	(1 092)	32	(4 706)
Segment assets (excluding investments in equity-accounted entities)	13 862	9 123	1 074	2 448	(528)	25 979
Investments in equity-accounted entities	–	–	–	4 667	–	4 667
Segment liabilities	6 028	2 972	231	7 870	2	17 103
Cash (utilised in)/generated from operations	(395)	(371)	402	1 082	155	873
Capital expenditure	1 278	453	347	(70)	–	2 008
Number of employees at the end of the year	5 290	2 844	259	838	–	9 231

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	2017 Rm	2016 Rm
4. Segment report continued		
4.1 Revenue from major products and services		
The group's revenue from its major products sold to external customers was:		
Flat steel products	27 226	21 144
Plate	1 824	1 570
Hot rolled coil	16 283	10 943
Cold rolled coil	1 877	1 660
Galvanised sheet	3 788	4 072
Coated sheet	1 235	1 288
Tin plate	1 172	1 121
Other	1 047	490
Long steel products	10 444	10 280
Billets and blooms	114	94
Bars and rebars	3 224	3 664
Wire rod	3 473	3 087
Sections	1 987	2 038
Rails	152	151
Seamless tubular products	723	412
Forged	743	807
Other	28	27
Coke and Chemicals	1 352	1 313
Coke	875	872
Tar	384	296
Other	93	145
Total consolidated revenue	39 022	32 737

4.2 Geographical information

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

2017

	Flat steel products	Long steel products	Total revenue	% of group revenue
4.3 Revenue of major customers				
Macsteel Services Centres SA (Pty) Ltd	3 615	1 498	5 113	13.10
Macsteel International Trading BV	3 753	1 552	5 305	13.59
Total	7 368	3 050	10 418	26.69

2016

	Flat steel products	Long steel products	Total revenue	% of group revenue
Revenue of major customers				
Macsteel Services Centres SA (Pty) Ltd	3 343	1 452	4 795	14.65
Macsteel International Trading BV	3 067	479	3 546	10.83
Total	6 410	1 931	8 341	25.48

Notes to the group and company annual financial statements continued
for the year ended 31 December 2017

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
5. Loss from operations				
Loss from operations has been arrived at after charging:				
Amortisation of intangible assets	**(23)**	(25)	**(20)**	(22)
Depreciation	**(953)**	(1 030)	**(890)**	(959)
Employee costs	**(4 164)**	(4 175)	**(4 164)**	(4 174)
Salaries and wages	**(3 579)**	(3 620)	**(3 579)**	(3 619)
Termination benefits	**(4)**	(14)	**(4)**	(14)
Pension and medical costs	**(513)**	(478)	**(513)**	(478)
Share-based payment expense	**(68)**	(63)	**(68)**	(63)
(Loss)/profit on disposal or scrapping of property, plant and equipment	**(8)**	51	**(8)**	52
Operating lease rentals	**(247)**	(50)	**(246)**	(48)
Buildings	**(5)**	(2)	**(5)**	(2)
Plant, machinery and equipment	**(211)**	(18)	**(210)**	(16)
Vehicles	**(31)**	(30)	**(31)**	(30)
Railage and transport	**(1 269)**	(1 069)	**(1 176)**	(968)
Repairs and maintenance	**(2 636)**	(2 530)	**(1 993)**	(2 032)
Research and development costs	**(140)**	(143)	**(140)**	(143)
(Write-down)/reversal of write-down of inventory to net realisable value	**(108)**	59	**(118)**	(60)
Auditors' remuneration	**(13)**	(16)	**(11)**	(15)
Audit fees	**(11)**	(15)	**(10)**	(14)
Other services and expenses	**(2)**	(1)	**(1)**	(1)
Allowance for doubtful debts recognised on trade receivables	**1**	(2)	**1**	(2)
Other allowances on trade receivables	**121**	(39)	**123**	(39)
6. Finance and investment income				
Finance income				
Bank deposit and other interest income	**65**	67	**65**	66
Discount rate adjustment of the provisions	**–**	101	**–**	101
Investment income				
Dividends received	**–**	–	**–**	154
Interest received from jointly controlled entities	**9**	8	**–**	1
Total	**74**	176	**65**	322
7. Finance costs				
Interest expense on loans	**(870)**	(493)	**(838)**	(487)
Interest expense on finance lease obligations	**(24)**	(32)	**(12)**	(17)
Net foreign exchange losses on financing activities	**(218)**	(35)	**(185)**	(22)
Discount rate adjustment of provisions and financial liabilities	**(76)**	–	**(215)**	–
Unwinding of the discounting effect on provisions and financial liabilities	**(327)**	(316)	**(184)**	(311)
Total	**(1 515)**	(876)	**(1 434)**	(837)

Transaction costs relating to the BBF of R61 million (2016: Rnil) were capitalised. These costs are amortised on a monthly basis over a period of 36 months.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
8. Impairment of other assets				
Impairment of equity-accounted investments	**(10)**	(11)	**–**	(3)
Impairment of investment in subsidiaries	**–**	–	**(721)**	(1 326)
Reversal of impairment	**–**	–	**–**	164
Total	**(10)**	(11)	**(721)**	(1 165)

Impairment of equity-accounted investments

The group impairment relates to the write off of loans advanced to Coza Mining (Pty) Ltd that were not recoverable. In total, R10 million (2016: R11 million) was recognised in profit and loss. During 2016, R8 million related to write off of loans advanced to Coza Mining (Pty) Ltd that are not recoverable and R3 million related to the impairment of the investment in Microsteel (Pty) Ltd.

Impairment of investment in subsidiaries

The investment in Saldanha Steel (Pty) Ltd was impaired by R541 million (2016: R1 320 million) to the value-in-use of the cash-generating unit which was its recoverable amount (refer to note 12 for details and significant judgements made). The investment was impaired to the extent that it is considered recoverable as compared to the value-in-use of this cash-generating unit.

The impairment of R176 million (2016: R164 million impairment reversal) 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% (2016: 1.6%) of the issued shares.

Impairment losses of R4 million (2016: R6 million) relate to the impairment of the loan to subsidiary Oakwood Trading (Pty) Ltd that is not recoverable.

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
9. Income taxation expense				
Income tax recognised in profit or loss:				
Current tax expense	**(1)**	(4)	**–**	–
Adjustments recognised in the current year in relation to the current tax of prior years	**(1)**	(15)	**–**	(11)
Total	**(2)**	(19)	**–**	(11)
The total charge for the year can be reconciled to the accounting profit as follows:				
Loss before taxation	**(5 126)**	(4 687)	**(5 591)**	(4 715)
Income tax credit calculated at 28%	**1 436**	1 312	**1 565**	1 320
Effect of income that is non-taxable/exempt – dividend received	**–**	98	**–**	141
Effect of expenses that are not deductible	**(58)**	(365)	**(106)**	(695)
B-BBEE deal	**–**	(257)	**–**	(257)
Competition Commission administrative penalty	**(31)**	(22)	**(31)**	(22)
Impairment of investments in subsidiaries	**(6)**	–	**(54)**	–
Environmental provisions	**–**	(107)	**–**	(107)
Other non-deductible expenses	**(21)**	21	**(21)**	(309)
Effect of timing differences not recognised in the current year in relation to unrecognised deferred tax asset	**(1 411)**	(1 009)	**(1 459)**	(690)
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	**39**	36	**–**	–
Effect of taxable income imputed from controlled foreign companies	**–**	(76)	**–**	(76)
Adjustments recognised in the current year in relation to the current tax and deferred tax of prior years	**(1)**	(15)	**–**	(11)
VAT interest and penalties	**(7)**	–	**–**	–
Total income tax expense	**(2)**	(19)	**–**	(11)
Taxation as a percentage of loss before taxation (%)	**0**	0.40	**–**	0.20

9. Income taxation expense continued

The effective tax rate of group 0% (2016: 0.40%) and company of 0% (2016: 0.20%) compared to the statutory rate of 28% for the year ended 31 December 2017 is primarily as a result of not recognising the deferred tax asset on the available income tax losses and the impact of income tax recognised in relation to foreign controlled companies. This reduces the effective tax rate by approximately 101.0%. Management believes that the turnaround initiatives will result in the company returning to profitability at some point in the future. However, based on considerations presented, management believes it is premature to conclude at this stage that it is more likely than not for sufficient future taxable profits to be available against which the full proposed deferred tax asset can be utilised.

Deferred income tax liability

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

	Temporary differences							
Group	Property, plant, equipment and intangible assets Rm	Employee costs Rm	Provisions Rm	Doubtful debts Rm	Finance lease obligations Rm	Other Rm	Unused tax losses and credits Rm	Total Rm
2017								
Temporary differences								
At the beginning of the year	**1 582**	**(160)**	**(442)**	**(12)**	**(54)**	**(578)**	**(336)**	**–**
Charged to income	**(374)**	**13**	**(206)**	**–**	**19**	**58**	**490**	**–**
At the end of the year	**1 208**	**(147)**	**(648)**	**(12)**	**(35)**	**(520)**	**154**	**–**
2016								
Temporary differences								
At the beginning of the year	2 050	(653)	(467)	(9)	(72)	(144)	(705)	–
Charged to income	(468)	493	25	(3)	18	(434)	369	–
At the end of the year	1 582	(160)	(442)	(12)	(54)	(578)	(336)	–

	Temporary differences							
Company	Property, plant, equipment and intangible assets Rm	Employee costs Rm	Provisions Rm	Doubtful debts Rm	Finance lease obligations Rm	Other Rm	Unused tax losses and credits Rm	Total Rm
2017								
Temporary differences								
At the beginning of the year	**1 555**	**(160)**	**(434)**	**(12)**	**(30)**	**(511)**	**(408)**	**–**
Charged to income	**(285)**	**12**	**(207)**	**(1)**	**14**	**52**	**415**	**–**
At the end of the year	**1 270**	**(148)**	**(641)**	**(13)**	**(16)**	**(459)**	**7**	**–**
2016								
Temporary differences								
At the beginning of the year	1 969	(654)	(451)	(7)	(43)	(84)	(730)	–
Charged to income	(414)	494	17	(5)	13	(427)	322	–
At the end of the year	1 555	(160)	(434)	(12)	(30)	(511)	(408)	–

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Unrecognised deferred tax losses	**15 220**	9 202	**13 070**	7 454

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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Group	
	2017 Rm	2016 Rm
10. Loss per share		
Basic loss per share is calculated by dividing loss attributable to the owners of the company by the weighted average number of ordinary shares, after taking the effects of the rights issue and the B-BBEE transaction into account. Where appropriate adjustments are made in calculating diluted loss, headline and diluted headline loss per share.		
Loss attributable to owners of the company (Rm)	**(5 128)**	(4 706)
Weighted average number of shares	**1 093 509 570**	1 062 364 285
Basic loss per share (cents)	**(469)**	(443)
Diluted loss per share is calculated by dividing the loss attributable to the owners of the company by the weighted average number of ordinary shares, held by third parties increased by the number of additional ordinary shares that would have been outstanding assuming the conversion of all outstanding share options/long-term incentive plan units representing dilutive potential ordinary shares. Based on the current share price of ArcelorMittal South Africa Ltd, the B-BBEE transaction does not have a dilutive impact on the ArcelorMittal SA group shareholding.		
Loss attributable to owners of the company (Rm)	**(5 128)**	(4 706)
Weighted average number of diluted shares	**1 093 509 570**	1 062 364 285
Diluted loss per share (cents)	**(469)**	(443)
The calculation for headline loss per share is based on the basic loss per share calculation, reconciled as follows:		
Headline loss per share		
Gross		
Loss before tax (Rm)	**(5 126)**	(4 687)
Add: Impairment charges of property, plant and equipment	**2 594**	2 143
Add: Impairment of investments in joint ventures and associates	**10**	11
Add: Loss on disposal or scrapping of property, plant and equipment (Rm)	**8**	–
Less: Profit on disposal or scrapping of property, plant and equipment (Rm)	**–**	(51)
Headline loss before tax (Rm)	**(2 514)**	(2 584)
Net of tax		
Loss attributable to owners of the company (Rm)	**(5 128)**	(4 706)
Add: Impairment charges of property, plant and equipment	**2 594**	2 143
Add: Impairment of investments in joint ventures and associates	**10**	11
Add: Loss on disposal or scrapping of property, plant and equipment (Rm)	**6**	–
Less: Profit on disposal or scrapping of property, plant and equipment (Rm)	**–**	(37)
Headline loss net of tax (Rm)	**(2 518)**	(2 589)
Headline loss per share (cents)		
Basic	**(230)**	(244)
Diluted	**(230)**	(244)
The weighted average number of shares used in the computation of diluted earnings per share was determined as follows:		
Shares in issue held by third parties		
Weighted average number of shares	**1 093 509 570**	1 062 364 285
Weighted average number of diluted shares	**1 093 509 570**	1 062 364 285

11. 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 2017 and 2016 financial years.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Group							
	Land and buildings Rm	Buildings and infra-structure Rm	Machinery, plant and equipment Rm	Site preparation Rm	Asset retirement obligation Rm	Leased assets Rm	Con-struction in progress Rm	Total Rm
12. Property, plant and equipment								
For the year ended 31 December 2017								
Carrying amount at the beginning of the year	52	554	8 587	19	4	134	1 320	10 670
Additions	–	–	1 294	–	–	–	81	1 375
Disposals	(4)	–	(18)	–	–	–	–	(22)
Depreciation	–	(45)	(854)	(2)	(1)	(51)	–	(953)
Impairment	(7)	(140)	(2 449)	–	–	–	–	(2 596)
Reallocations	–	(1)	973	–	–	–	(972)	–
Carrying amount at the end of the year	41	368	7 533	17	3	83	429	8 474
At 31 December 2017								
Cost	67	2 080	34 768	98	207	5 047	429	42 696
Accumulated depreciation and impairment	(26)	(1 712)	(27 235)	(81)	(204)	(4 964)	–	(34 222)
Net carrying amount	41	368	7 533	17	3	83	429	8 474
For the year ended 31 December 2016								
Carrying amount at the beginning of the year	74	738	10 038	20	8	188	793	11 859
Additions	–	8	1 143	–	–	–	842	1 993
Disposals	(6)	–	(12)	–	–	–	–	(18)
Depreciation	–	(48)	(925)	(1)	(2)	(54)	–	(1 030)
Impairment	(16)	(159)	(1 959)	–	–	–	–	(2 134)
Reallocations	–	15	302	–	(2)	–	(315)	–
Carrying amount at the end of the year	52	554	8 587	19	4	134	1 320	10 670
At 31 December 2016								
Cost	71	2 470	32 650	102	208	5 048	1 325	41 874
Accumulated depreciation and impairment	(19)	(1 916)	(24 063)	(83)	(204)	(4 914)	(5)	(31 204)
Net carrying amount	52	554	8 587	19	4	134	1 320	10 670

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Company							
	Land and buildings Rm	Buildings and infra-structure Rm	Machinery, plant and equipment Rm	Site preparation Rm	Asset retirement obligation Rm	Leased assets Rm	Con-struction in progress Rm	Total Rm
12. Property, plant and equipment continued								
For the year ended 31 December 2017								
Carrying amount at the beginning of the year	43	496	8 250	21	–	99	1 282	10 191
Additions	–	–	1 232	–	–	–	51	1 283
Disposals	(3)	–	(15)	–	–	–	–	(18)
Depreciation	–	(41)	(805)	(2)	–	(42)	–	(890)
Impairment	(11)	(119)	(1 957)	–	–	–	–	(2 087)
Reallocations	–	1	933	–	–	–	(934)	–
Carrying amount at the end of the year	29	337	7 638	19	–	57	399	8 479
At 31 December 2017								
Cost	52	2 021	23 761	98	198	4 838	404	31 372
Accumulated depreciation and impairment	(23)	(1 684)	(16 123)	(79)	(198)	(4 781)	(5)	(22 893)
Net carrying amount	29	337	7 638	19	–	57	399	8 479
For the year ended 31 December 2016								
Carrying amount at the beginning of the year	61	667	9 691	22	–	146	682	11 269
Additions	–	8	835	–	–	–	769	1 612
Disposals	(6)	–	(11)	–	–	–	–	(17)
Depreciation	–	(45)	(866)	(1)	–	(47)	–	(959)
Impairment	(12)	(150)	(1 552)	–	–	–	–	(1 714)
Reallocations	–	16	153	–	–	–	(169)	–
Carrying amount at the end of the year	43	496	8 250	21	–	99	1 282	10 191
At 31 December 2016								
Cost	55	2 041	21 984	102	198	4 838	1 287	30 505
Accumulated depreciation and impairment	(12)	(1 545)	(13 734)	(81)	(198)	(4 739)	(5)	(20 314)
Net carrying amount	43	496	8 250	21	–	99	1 282	10 191

Land register and asset pledges

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

The group and company have notarial general covering bonds over moveable assets regarding the BBF. The lenders of the BBF have contractually agreed that they will not enforce against any of the assets other than inventory. Property, plant and equipment are therefore unencumbered.

Critical judgements and estimates

Useful lives and residual values of property, plant and equipment

The estimates of depreciation 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

12. 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.

Useful life range	
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

An impairment indicator assessment was performed on all cash-generating units (CGUs) of the group. Following this assessment, an impairment test was performed on all CGUs. In accordance with IAS 36 *Impairment of Assets*, an asset is impaired if the carrying amount of the asset is greater that 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. The proposed carbon tax has not been taken into account in the cash flow projections when determining the recoverable amount. The regulations of this tax has not yet been finalised or published and therefore there is no certainty of the impact on the value of the group and company. 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 Vanderbijlpark, Saldanha and long steel products' (LSP) CGUs were impaired due to the strengthening of the rand/US dollar exchange rate which had a material impact on the terminal value when calculating the recoverable amount of the CGUs.

Included in profit and loss is an impairment of property, plant and equipment, based on our business operations, amounting to R2 596 million (2016: R2 143 million) for group and R2 088 million (2016: R1 723 million) for company allocated as follows:
- An impairment of R1 009 million relating to LSP CGU
- An impairment of R1 079 million relating to Vanderbijlpark CGU
- An impairment of R508 million relating to Saldanha CGU
- A reallocation of impairment of R2 million relating to intangible assets

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

	Saldanha		LSP		Vanderbijlpark	
	2017	2016	**2017**	2016	**2017**	2016
Major assumptions						
Post-tax WACC/discount rate (% USD-based)**	**11.14**	12.38	**11.14**	12.38	**11.14**	12.38
Pre-tax WACC/discount rate (% USD-based)	**16.30**	18.70	**16.30**	18.70	**16.30**	18.70
Growth rate (% USD-based)	**2**	2	**2**	2	**2**	2
Exchange rate range (R/USD)*	**13.05 – 14.40**	14.68 – 15.78	**13.05 – 14.40**	14.68 – 15.78	**13.05 – 14.40**	14.68 – 15.78
Steel sales price range (average USD/t)*	**463 – 545**	445 – 480	**571 – 654**	548 – 593	**624 – 729**	616 – 639
Sales volume range (kt)*	**956 – 1 180**	1 106	**1 511 – 1 744**	1 483 – 1 573	**2 169 – 2 550**	2 235 – 2 621
Capex accumulated (2018 – 2022), USDm*	**116**	106	**94**	179	**346**	426

* *Lowest to highest range over period of 2018 to 2022 (2016: 2017 to 2021).*
** *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.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Saldanha 2017	LSP 2017	Vanderbijlpark 2017
	Impact on coverage %	Impact on coverage %	Impact on coverage %
12. Property, plant and equipment continued			
Sensitivities relating to the Saldanha, LSP and Vanderbijlpark cash-generating units			
Impact on coverage – % change from the base model			
5% movement in the exchange rate per annum from 2018	291	58	72
5% movement in the basket pricing	502	64	99

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

	Patents Rm	Non-integrated software Rm	Total Rm
13. Intangible assets			
Group			
For the year ended 31 December 2017			
Carrying amount at the beginning of the year	–	103	103
Amortisation	–	(23)	(23)
Reallocation of impairment	–	2	2
Carrying amount at the end of the year	–	82	82
At 31 December 2017			
Cost	38	403	441
Accumulated amortisation and impairment	(38)	(321)	(359)
Net carrying amount	–	82	82
For the year ended 31 December 2016			
Carrying amount at the beginning of the year	2	110	112
Additions	–	25	25
Amortisation	(2)	(23)	(25)
Impairment	–	(9)	(9)
Carrying amount at the end of the year	–	103	103
At 31 December 2016			
Cost	38	411	449
Accumulated amortisation and impairment	(38)	(308)	(346)
Net carrying amount	–	103	103

13. Intangible assets continued

	Non-integrated software Rm	Total Rm
Company		
For the year ended 31 December 2017		
Carrying amount at the beginning of the year	102	102
Additions	1	1
Amortisation	(20)	(20)
Impairment	(1)	(1)
Carrying amount at the end of the year	82	82
At 31 December 2017		
Cost	392	392
Accumulated amortisation and impairment	(310)	(310)
Net carrying amount	82	82
For the year ended 31 December 2016		
Carrying amount at the beginning of the year	108	108
Additions	25	25
Amortisation	(22)	(22)
Impairment	(9)	(9)
Carrying amount at the end of the year	102	102
At 31 December 2016		
Cost	396	396
Accumulated amortisation and impairment	(294)	(294)
Net carrying amount	102	102

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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

14. Equity-accounted investments

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

Name of the entity	Principal activity	Place of incorporation	Proportion ownership interest and voting power	
Joint venture			**2017**	2016
Macsteel International Trading BV	Steel trading and shipping	Netherlands	**50%**	50%

Summarised financial information

Associates

	Other associates	
Aggregate information of associates not individually material		
Profit after tax	**4**	4
Share of total comprehensive income	**–**	4
Aggregate carrying amount		
Group	**42**	38
Company	**16**	16

Summarised financial information

Joint venture

The summarised financial information below is in respect of the group's only material joint venture. The summarised financial information below represents amounts shown in the entity's annual financial statements for the year ending 31 December.

	Macsteel International Trading BV	
	2017 Rm	2016 Rm
Current assets	**9 166**	8 633
Non-current assets	**4 821**	5 082
Current liabilities	**(5 016)**	(4 247)
Non-current liabilities	**(531)**	(554)
Net assets	**8 440**	8 914
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**1 172**	1 043
Current financial liabilities (excluding trade, other payables and provisions)	**(2 096)**	(1 924)
Non-current financial liabilities (excluding trade, other payables and provisions)	**(497)**	(4)
Income for the year includes the following:		
Revenue	**36 661**	32 584
Profit after tax	**405**	212
Other comprehensive income	**31**	138
Total comprehensive income	**436**	350

14. Equity-accounted investments continued

	2017 Rm	2016 Rm
Profit for the year includes the following:		
Depreciation and amortisation	(12)	(16)
Interest income	184	165
Interest expense	(133)	(124)
Income tax expense	(61)	(54)
Reconciliation of the net assets to the carrying amount		
Net assets of the joint venture	8 440	8 915
Ownership interest	50%	50%
Carrying amount	4 220	4 458

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

Other joint ventures

	2017 Rm	2016 Rm
Aggregate information of joint ventures not individually material		
Profit after tax	10	7
Share of other comprehensive loss	(2)	–
Share of total comprehensive income	8	7
Aggregate carrying amount	163	172
Total carrying amount of equity-accounted joint ventures and associates		
Group	4 424	4 667
Company	171	168

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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Company	
	2017 Rm	2016 Rm
15. Investments in subsidiaries		
Shares at cost	**241**	241
Indebtedness – by subsidiaries	**233**	1 036
Total	**474**	1 277
Aggregate attributable after tax losses	**(433)**	(1 147)

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.

Critical judgements and estimates

Consolidation of structured entities

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

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

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

The effect if these entities were 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 the ArcelorMittal South Africa and is therefore consolidated in accordance with IFRS 10 *Consolidated Financial Statements.*

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

Isabelo Empowerment Share Trust and Amandla we Nsimbi (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 SA issued empowerment shares to Amandla we Nsimbi (Pty) Ltd, and the Isabelo Share Trust (representing 17% and 5.1%, respectively, of the voting rights in ArcelorMittal South Africa through a notional loan. Both the trust and company are controlled by ArcelorMittal South Africa and are therefore consolidated in terms of IFRS 10 *Consolidated Financial Statements.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Country of incorporation[1]	Reporting currency	Number of ordinary shares issued	Interest of company: Shares at cost 2017 R	Shares at cost 2016 R	Indebtedness 2017 Rm	Indebtedness 2016 Rm
15. Investments in subsidiaries continued							
Property							
Yskor Landgoed (Pty) Ltd	RSA	ZAR	4 000	**–**	4 000	**–**	–
Manufacturing							
Iscor Building Systems (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	–
Saldanha Steel (Pty) Ltd[2]	RSA	ZAR	2 000	**1 009**	1 009	**139**	689
Mining							
Oakwood Trading 21 (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	–
Service							
MSSA Investments BV	NEH	USD	134 669	**241 105 200**	241 105 200	**–**	–
Pybus Fifty-Seven (Pty) Ltd	RSA	ZAR	1	**1 000**	1 000	**–**	–
Vicva Investments and Trading Nine (Pty) Ltd	RSA	ZAR	1	**1 000**	1 000	**94**	270
Dombotema Mining Investments (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	–
ArcelorMittal South Africa Distribution (Pty) Ltd	RSA	ZAR	100	**100**	100	**–**	77
ArcelorMittal African Investments	Mauritius	USD	100	**716**	716	**–**	–
ArcelorMittal South Africa Operations (Pty) Ltd	RSA	ZAR	1	**1**	1	**–**	–
Total				**241 109 326**	241 113 326	**233**	1 036

[1] RSA – Republic of South Africa and NEH – the Netherlands.
[2] The indebtedness amount includes the shareholders' loan of R3 060 million (2016: R3 462 million) and intercompany balances in favour of Saldanha Steel (Pty) Ltd of R2 921 million (2016: R2 773 million).

All listed subsidiaries are wholly owned.

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
16. Other financial assets				
Non-current				
Available-for-sale (AFS) investments carried at fair value				
Equity instruments	**55**	79	**46**	72
Loans and receivables				
Amortised cost				
Ferrosure Isle of Man Insurance Captive	**–**	315	**–**	315
Total	**55**	394	**46**	387
Current				
Financial assets carried at FVTPL				
Held-for-trading	**4**	46	**4**	46
Loans and receivables				
Amortised cost				
Ferrosure Isle of Man Insurance Captive	**424**	–	**424**	–
Total	**428**	46	**428**	46

Critical judgements and estimates

AFS investments

Hwange Colliery Company Ltd

The company holds 10% of the ordinary share capital of Hwange Colliery Company Ltd, a coal, coke and by-products producer in Zimbabwe. The shares of Hwange Colliery Company Ltd are traded on the dollarised Zimbabwe Stock Exchange. The carrying amount of the investment represents its market value at the reporting date of R8 million (2016: R7 million).

MC Mining Ltd

The company holds 6 306 672 (4%) shares in MC Mining Ltd previously known as Coal of Africa Ltd. MC Mining Ltd is listed on the Australian Stock Exchange and Johannesburg Stock Exchange and on 6 December became listed on the London Stock Exchange. The shares are valued at a fair value of R7.33 per share and therefore are valued at the market value of R46 million (2016: R72 million).

Amortised cost

Ferrosure Isle of Man

The investment in Ferrosure Isle of Man represents the company's insurance captive situated in the Isle of Man. In 2018, the insurance captive cell will be liquidated/dissolved based on ArcelorMittal group's decision. ArcelorMittal South Africa will thereafter be insured directly with an insurance captive located in Luxembourg.

Held for trading

Foreign exchange contracts

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
17. Inventories				
Finished products	**2 764**	2 975	**2 515**	2 648
Work-in-progress	**4 645**	4 323	**4 521**	4 137
Raw materials	**3 140**	3 028	**2 700**	2 637
Plant spares and consumable stores	**970**	948	**755**	774
Total	**11 519**	11 274	**10 491**	10 196

Eligible inventories and receivables are provided as security to the lenders of the BBF to the extent of the drawn amount.

Thabazimbi run-of-mine stock

Included in the inventory balance is run of mine stock carried at its net realisable value of R51 million (2016: R51 million) relating to the Thabazimbi mine which was closed in 2015.

Inventory at net realisable value

Included in the above are finished products of R574 million (2016: R682 million), work-in-progress of R406 million (2016: R353 million) and raw materials of R1 599 million (2016: R1 476 million) carried at net realisable value.

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
18. Trade and other receivables				
Trade receivables				
Local	**2 463**	1 601	**2 148**	1 401
Exports	**602**	177	**403**	177
Total gross trade receivables	**3 065**	1 778	**2 551**	1 578
Allowance for doubtful debts				
Local	**(3)**	(4)	**(3)**	(4)
Exports	**–**	–	**–**	–
Total allowances for doubtful debts	**(3)**	(4)	**(3)**	(4)
Other allowances				
Local	**(219)**	(382)	**(219)**	(382)
Exports	**(46)**	(4)	**(44)**	(4)
Total other allowances	**(265)**	(386)	**(263)**	(386)
Net trade receivables				
Local	**2 241**	1 215	**1 926**	1 015
Exports	**556**	173	**359**	173
Total net trade receivables	**2 797**	1 388	**2 285**	1 188
Other receivables				
Other receivables	**277**	306	**266**	341
Allowance for doubtful debts on other receivables	**(56)**	(56)	**(56)**	(51)
Net value added tax receivable	**–**	136	**–**	90
Total other receivables	**221**	386	**210**	380
Total	**3 018**	1 774	**2 495**	1 568
Non-current	**30**	–	**30**	–
Current	**2 988**	–	**2 465**	–
Total	**3 018**	1 774	**2 495**	1 568

Included in other receivables is capitalised transaction cost relating to the BBF amounting to R51 million of which R30 million is non-current.

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
18. Trade and other receivables continued				
Eligible inventories and receivables are provided as security for the BBF to the extent of the draw down.				
Average credit period for trade receivables				
The sectoral split of the average credit period (in days) on sale of goods is as follows:				
Local	**38**	37	**38**	38
Exports	**18**	19	**20**	19
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.				
Age of receivables past due and not impaired				
30 – 60 days	**33**	224	**33**	224
60 – 90 days	**1**	41	**1**	41
90 – 180 days	**3**	9	**3**	9
>180 days	**10**	4	**10**	4
Total	**47**	278	**47**	278

The following allowances exist:

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

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

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Movement in other allowances				
Balance at the beginning of the year	**(386)**	(347)	**(386)**	(347)
Allowances raised	**(1 296)**	(1 683)	**(1 278)**	(1 677)
Allowances utilised	**1 417**	1 644	**1 401**	1 638
Closing balance	**(265)**	(386)	**(263)**	(386)

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm

18. Trade and other receivables continued

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

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Movement in allowances for doubtful debts on other receivables				
Balance at the beginning of the year	**(56)**	(33)	**(51)**	(31)
Impairment losses recognised	**(25)**	(49)	**(23)**	(44)
Amounts recovered during the year	**25**	26	**18**	24
Closing balance	**(56)**	(56)	**(56)**	(51)
Age of impaired trade receivables				
30 – 120 days	**–**	–	**–**	–
120 – 180 days	**–**	–	**–**	–
>180 days	**(3)**	(4)	**(3)**	(4)
Total	**(3)**	(4)	**(3)**	(4)

Trade receivables with a carrying amount of R1 147 million (2016: R1 654) were transferred (sold) to unrelated third parties. This amount represents the outstanding receivables that were sold at 31 December 2017. This is referred to as the true sales of receivables (TSR) programme. At the date of sale, ArcelorMittal South Africa transfers control and substantially all risks and rewards normally associated with ownership of these receivables. Therefore these trade receivables were derecognised at the date of sale. Expenses incurred under the TSR 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 2017 is R77 million (2016: R92 million).

Included in trade receivables is a credit balance of R354 million (2016: R653 million) relating to factored debtors invoices that were not yet due.

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

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

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

Credit insurance is underwritten by Credit Guarantee Insurance Corporation of 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%. Credit insurance is also underwritten by Santam under one policy with a maximum liability of R1.2 billion. The insurance excess in relation to this is 10%.

18. Trade and other receivables continued

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

		Credit limit		Balance	
Customer	Rating	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Outstanding balance of the top three customers by sales for the year					
Group	B	2 185	2 200	919	729
Company	B	2 185	1 750	707	404
Percentage of net trade receivables (%)					
Group				33	53
Company				31	34

Macsteel International BV does not have a credit limit. The outstanding customer balance was R436 million (2016: R433 million).

	Group		Company	
	2017 %	2016 %	2017 %	2016 %
Credit risk exposure by class for the group and company is:				
Local	80	88	84	85
Exports	20	12	16	15
Total	100	100	100	100

	Group		Company	
	2017 Rm	2016 Rm	2017 Rm	2016 Rm
19. Cash and cash equivalents				
Cash and bank balances	3 138	1 660	3 130	1 651
Total	3 138	1 660	3 130	1 651

Included in cash and bank is restricted cash of R1 386 million (2016: R161 million) relating to the TSR facility of R794 million (2016: Rnil) and the environmental rehabilitation obligations of R592 million (2016: R161 million) as contained in note 22.

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

Bank accounts of R715 million (2016: Rnil) were ceded in favour of the lenders of the BBF and TSR facility.

	Group		Company	
	2017 Rm	2016 Rm	2017 Rm	2016 Rm
20. Stated capital				
Shares issued				
Ordinary shares at no par value	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.*

20. Stated capital continued

	Number of shares	Number of shares	Number of shares	Number of shares
Reconciliation of authorised shares				
Ordinary shares at no par value	**1 200 000 000**	1 200 000 000	**1 200 000 000**	1 200 000 000
"A" ordinary shares	**316 212 359**	316 212 359	**316 212 359**	316 212 359
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
"C" redeemable preference shares	**2 357 584**	2 357 584	**2 357 584**	2 357 584
	1 518 569 943	1 518 569 943	**1 518 569 943**	1 518 569 943
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 ordinary shares issued	**1 454 272 184**	1 454 272 184	**1 454 272 184**	1 454 272 184
Less: Shares held in reserve/trust	**(360 762 614)**	(360 762 614)	**(360 762 614)**	(360 762 614)
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)
Amandla we Nsimbi (Pty) Ltd	**(243 240 276)**	(243 240 276)	**(243 240 276)**	(243 240 276)
Isabelo Employee Share Trust	**(72 972 083)**	(72 972 083)	**(72 972 083)**	(72 972 083)
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.

Ordinary shares

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

A1 and A2 shares

In 2016, a successful B-BBEE transaction was completed. The shareholders approved the issue of A1 and A2 ordinary shares. Amandla we Nsimbi (Pty) Ltd whose shares are owned by broad-based black consortium, Likamva Resources, subscribed for 243 240 276 A1 ordinary shares in ArcelorMittal South Africa, representing 17% of the voting rights in ArcelorMittal South Africa. A1 ordinary shares were issued at a nominal value through a notional loan structure. Likamva is initially the only shareholder but has undertaken to introduce a broad-based party with an interest in the community as shareholders in a B-BBEE company within 24 months post the implementation of the B-BBEE transaction, such that an indirect effective shareholding of 5% is achieved by the broad-based party.

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

20. Stated capital continued

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 2017:

	2017		2016	
	Number of shares	% of shares in issue	Number of shares	% of shares in issue
Beneficial shareholder				
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 (IDC)	**93 044 068**	**6.40**	93 044 068	6.40
Investec Asset Management	**72 767 587**	**5.00**	48 449 137	3.33
Isabelo Employee Share Trust	**72 972 083**	**5.02**	72 972 083	5.02
	1 253 513 414	**86.20**	1 229 194 964	84.53

Of the issued shares, Ikageng Broad-Based Employee Share Trust holds 1.5% (2016: 1.5%) and Vicva Investments and Trading Nine (Pty) Ltd owns 1.6% (2016: 1.6%). Amandla we Nsimbi (Pty) Ltd and the Isabelo Share Trust hold 100% of the A1 ordinary and A2 ordinary shares representing 17% and 5.1% shareholding respectively. Ikageng holds the shares in the company for the benefit of the employees until such time that they vest. Vicva Investments and Trading Nine (Pty) Ltd, Ikageng Broad-Based Employee Share Trust, Amandla we Nsimbi (Pty) Ltd and Isabelo Share Trust are considered to be controlled by the company and the shares held by them are treated as treasury shares for accounting purposes.

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
21. Finance lease obligations				
Secured – at amortised cost				
Non-current	**54**	124	**2**	57
Current	**70**	70	**57**	51
Total	**124**	194	**59**	108
The finance leases are embedded within supply arrangements with suppliers and have been assessed in terms of IFRIC 4 *Determining whether an Arrangement Contains a Lease.*				
Maturity profile				
At 31 December				
Minimum lease payments				
Not later than one year	**86**	93	**62**	62
Later than one year and not later than five years	**71**	144	**2**	65
Later than five years		13	**–**	–
Total	**157**	250	**64**	127
Future finance charges	**(33)**	(56)	**(5)**	(19)
Present value of minimum lease payments	**124**	194	**59**	108

The lease liabilities are effectively secured, as the rights to the leased assets are embedded in the supply agreements 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)
Gases	2019	10.41% – 11.09%
Electricity and transport utilities	2018 – 2022	15.80% – 18.25%
Steel processing and foundry services	2018	8.16%

Notes to the group and company annual financial statements continued
for the year ended 31 December 2017

	Asset retirement obligation Rm	Environmental remediation Rm	Onerous contracts Rm	Other Rm	Total Rm
22. Provisions					
Group					
For the year ended 31 December 2017					
At the beginning of the year	197	1 928	13	35	2 173
Charge to the statement of comprehensive income	28	(6)	1	(12)	11
Additions and scope changes	(10)	(228)	–	(12)	(250)
Discount rate change	5	68	–	–	73
Unwinding of the discount effect	33	154	1	–	188
Utilised during the year	(21)	(21)	(11)	(1)	(54)
At the end of the year	204	1 901	3	22	2 130
Non-current	168	1 654	–	4	1 826
Current	36	247	3	18	304
Total	204	1 901	3	22	2 130
Company					
For the year ended 31 December 2017					
At the beginning of the year	181	1 928	–	34	2 143
Charge to the statement of comprehensive income	25	(6)	–	(12)	7
Additions and scope changes	(10)	(228)	–	(12)	(250)
Discount rate change	5	68	–	–	73
Unwinding of the discount effect	30	154	–	–	184
Utilised during the year	(20)	(21)	–	(2)	(43)
At the end of the year	186	1 901	–	20	2 107
Non-current	150	1 654	–	4	1 808
Current	36	247	–	16	299
Total	186	1 901	–	20	2 107

Notes to the group and company annual financial statements continued
for the year ended 31 December 2017

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

22. Provisions continued

Maturity profile

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

	Asset retirement obligation Rm	Environ-mental remediation Rm	Onerous contract Rm	Other Rm	Total Rm
Group					
At 31 December 2017					
Less than one year	36	247	3	18	304
More than one year less than five years	125	1 025	–	4	1 154
Greater than five years	43	629	–	–	672
Total	204	1 901	3	22	2 130
Company					
At 31 December 2017					
Less than one year	36	247	–	16	299
More than one year less than five years	119	1 025	–	4	1 148
Greater than five years	31	629	–	–	660
Total	186	1 901	–	20	2 107

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

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.

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.

22. Provisions continued

Asset retirement obligation and environmental remediation obligation provisions continued

The asset retirement obligations represent management's best estimate of the present value of costs that will be required to retire plant and equipment. The majority of the obligation relates to ancillary plant and equipment that will be retired as part of the clean up and closure of those facilities to be remediated via the environmental remediation obligation. The net carrying amount of the asset retirement obligation, asset component, included in note 12, amounts to R3 million (2016: R4 million) for the group and Rnil (2016: Rnil) for the company.

The term of the obligation assessment varies according to the site. The maximum term is 11 years.

Thabazimbi environmental rehabilitation

Included in the environmental rehabilitation provision is a provision for rehabilitation of R692 million (2016: R830 million) for the rehabilitation of the Thabazimbi mine. In terms of the amended and restated settlement and supply agreement between Sishen Iron Ore Company (Pty) Ltd (SIOC) and ArcelorMittal South Africa, ArcelorMittal South Africa is liable for the costs relating to the rehabilitation of SIOC's Thabazimbi iron ore mine for the period that it was a captive mine. The mine ceased to be a captive mine on 31 December 2014. The local board approved the take over of the Thabazimbi mine from SIOC subject to the approval by the Department of Mineral Resources (DMR) and a positive taxation ruling by South African Revenue Service (SARS). The tax ruling is expected during the first quarter of 2018. ArcelorMittal South Africa and SIOC have been in discussions and will continue to engage the DMR regarding the takeover of the mine.

The reversal in the provision is due to a change in accounting estimates.

In 2017, the company changed its estimates of the Thabazimbi environmental rehabilitation provision, primarily as a result of the effect of discounting not being applied to the estimation. The effect of this change in estimate resulted in an increase of R138 million to the statement of comprehensive income or R0.13 per share (basic and diluted) for the year ended 31 December 2017. The amount of the effect in future periods is impracticable to estimate.

	2017 %	2016 %
Average discount rates		
Asset retirement obligation	**13.14**	14.98
Environmental remediation obligation	**12.69**	15.39
Onerous contracts	**10.35**	12.87

The average escalation factor applied to the current cash flow estimates is 5.52% (2016: 7.11%).

Onerous contract

The onerous contract relates to a take-or-pay contract for burnt dolomite and coal fines sourced from PPC Ltd. The take-or-pay obligation arose historically due to lower off-take by Saldanha on account of efficiency improvements and method changes at the Saldanha plant.

The sensitivity of the carrying amount of the obligations at 31 December 2017 in response to changes in key inputs is:

Carrying amount at 31 December 2017	Asset retirement obligations Rm	Environmental remediation obligations Rm
	Increase/ (decrease)	Increase/ (decrease)
Percentage change in all cash flows		
+10%	72	223
-10%	(72)	(223)
Percentage change in cash flows in first five years		
+10%	16	168
-10%	(16)	(168)
Basis point change in discount rate		
+100 bps	(7)	(78)
-100 bps	7	78
Basis point change in discount rate in first five years		
+100 bps	(5)	(43)
-100 bps	5	43

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
23. Trade and other payables				
Trade payables				
Trade payables	**10 506**	9 052	**9 214**	7 970
TSR programme	**794**	1 001	**794**	1 001
Total	**11 300**	10 053	**10 008**	8 971
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.				
Other payables				
Leave pay	**355**	342	**355**	342
Net value added tax payable	**11**	–	**–**	–
Sundry	**1 017**	847	**1 010**	832
Total	**1 383**	1 189	**1 365**	1 174
Non-current	**399**	311	**399**	310
Current	**984**	878	**966**	864
Total	**1 383**	1 189	**1 365**	1 174

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.

Thabazimbi mine running cost

Included in non-current other payables is the Thabazimbi mine interim period running cost obligation of R102 million (2016: Rnil) in relation to costs that were incurred and payable in 2019.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
24. Borrowings				
Secured – at amortised cost				
Loans	**6 400**	1 950	**6 400**	1 950
Loan from holding company	**2 700**	1 200	**2 700**	1 200
Banks	**3 700**	750	**3 700**	750

During 2017, the group entered into a revolving BBF with various financial institutions for a three-year tenor. At 31 December 2017, R3 700 million was drawn down on the facility and R800 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.

In 2016, the bank loans consisted of overnight facilities.

The loan from the holding company has been subordinated in favour of the lenders of the BBF. This loan attracts interest at the South African prime lending rate.

The weighted average interest rate payable on borrowings is 10.39% (2016: 10.03%).

The BBF available to the group is subject to financial covenants which include a minimum level of the consolidated tangible net worth of the group being R12 108 million. Subsequent to year-end, a covenant holiday was agreed with the lenders that the testing and satisfaction of the consolidated tangible net worth covenant will not be performed until May 2018. We have now determined that as a result of the impairment the group would not have been able to satisfy the consolidated tangible net worth covenant, had it been tested at year-end. For further detail refer to note 36.

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
25. Other financial liabilities				
Non-current				
Financial liabilities carried at amortised cost				
Competition Commission administrative penalty	**813**	1 023	**813**	1 023
Total	**813**	1 023	**813**	1 023
Current				
Financial liabilities carried at fair value through profit or loss (FVTPL)				
Held-for-trading	**384**	221	**384**	215
Financial liabilities carried at amortised cost				
Competition Commission administrative penalty	**522**	300	**522**	300
Total	**906**	521	**906**	515

Competition Commission

In 2015 a final settlement agreement was reached with the Competition Commission for an imposed administrative penalty of R1 500 million to be settled over a five-year period, and subsequently accepted by the Tribunal on the outstanding competition matters regarding anti-competitive behaviour. The balance represents the present value of the repayment of the administrative penalty over the remaining period at the prime rate of interest.

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

The CEO hereby confirms in respect of 2017, that ArcelorMittal South Africa has in all material respects complied with the settlement agreement entered into with the Competition Commission.

Financial liabilities: Held-for-trading

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

Notes to the group and company annual financial statements continued
for the year ended 31 December 2017

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
26. Notes to the statement of cash flows				
26.1 Cash generated from operations				
Loss from operations	**(1 220)**	(1 092)	**(1 413)**	(442)
Adjusted for:				
Depreciation	**953**	1 030	**890**	959
Amortisation of intangible assets	**23**	25	**20**	22
Share option and participation costs	**68**	63	**68**	63
Cash settlement on management share trust	**–**	(32)	**–**	(32)
Non-cash movement in provisions and financial liabilities	**(269)**	127	**(269)**	140
Reversal of loan from subsidiary	**–**	–	**–**	154
Net (gains)/losses arising on financial assets and liabilities held-for-trading	**(152)**	165	**(150)**	164
Write-down/(reversal of write-down) of inventory to net realisable value	**108**	(59)	**118**	60
Asset retirement obligation scope changes	**(10)**	12	**(10)**	12
Movements in trade and other receivable allowances	**(1)**	25	**4**	22
Reconditionable spares usage	**1**	2	**1**	2
Loss/(profit) on disposal or scrapping of property, plant and equipment	**8**	(51)	**8**	(52)
Changes in:				
Increase in inventories	**(353)**	(1 830)	**(413)**	(1 753)
Increase in trade and other receivables	**(1 207)**	(164)	**(888)**	(271)
Increase in trade payables	**1 373**	2 763	**1 124**	2 807
Increase in other payables	**120**	195	**119**	188
Utilisation of provisions	**(54)**	(306)	**(43)**	(291)
Payment of financial liabilities	**(100)**	–	**(100)**	–
	(712)	873	**(934)**	1 752
26.2 Income tax paid				
Normal taxation recoverable at the beginning of the year	**58**	75	**53**	65
Amounts charged to the statement of comprehensive income	**(2)**	(19)	**–**	(11)
Normal taxation payable/(recoverable) at the end of the year	**24**	(58)	**(58)**	(53)
	80	(2)	**(5)**	1
26.3 Investment to maintain operations				
Replacement of property, plant and equipment	**(876)**	(1 508)	**(789)**	(1 156)
Intangible assets	**–**	(25)	**(1)**	(25)
Environmental	**(39)**	(38)	**(39)**	(36)
Reconditionable spares	**(87)**	(102)	**(72)**	(74)
	(1 002)	(1 673)	**(901)**	(1 291)
26.4 Investment to expand operations				
Property, plant and equipment for expansion	**(322)**	(335)	**(318)**	(335)
	(322)	(335)	**(318)**	(335)
Total capital expenditure	**(1 324)**	(2 008)	**(1 219)**	(1 626)

Group	Borrowings	Finance lease liabilities

26. Notes to the statement of cash flows continued

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

Group	Borrowings	Finance lease liabilities
Balance at 31 December 2016	(1 950)	(194)
Repayment of borrowings	1 950	
Proceeds from borrowings	(6 400)	
Payment of finance lease liability		70
Interest expense		(24)
Interest paid		24
Balance at 31 December 2017	**(6 400)**	**(124)**

Company	Borrowings	Finance lease liabilities
Balance at 31 December 2016	(1 950)	(108)
Repayment of borrowings	1 950	
Proceeds from borrowings	(6 400)	
Payment of finance lease liability		49
Interest expense		12
Interest paid		(12)
Balance at 31 December 2017	**(6 400)**	**(59)**

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm

27. Financial instruments and financial risk management

27.1 Categories of financial instruments

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Financial assets				
Fair value through profit or loss				
Held-for-trading	**4**	46	**4**	46
Loans and receivables carried at amortised cost				
Cash and bank balances	**3 138**	1 660	**3 130**	1 651
Trade and other receivables	**2 988**	1 638	**2 465**	1 478
Other financial assets	**424**	315	**424**	315
Available-for-sale financial assets	**55**	79	**46**	72
Total financial assets	**6 609**	3 738	**6 069**	3 562
Financial liabilities				
Fair value through profit or loss				
Held-for-trading	**384**	221	**384**	215
Liabilities carried at amortised cost				
Borrowings	**6 400**	1 950	**6 400**	1 950
Competition Commission penalty	**1 335**	1 323	**1 335**	1 323
Finance lease obligations	**124**	194	**59**	108
Trade payables	**11 300**	10 053	**10 008**	8 971
Other payables	**814**	584	**810**	584
Total financial liabilities	**20 357**	14 325	**18 996**	13 151

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

27. Financial instruments and financial risk management continued

27.2 Financial instruments carried at fair value

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

Financial assets measured at FVTPL	Valuation technique	Fair value hierarchy	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Held-for-trading	Quoted in active market	Level 1	4	46	4	46
Available-for-sale financial assets	Quoted in active market	Level 1	55	79	46	72
Total financial assets measured at fair value			**59**	125	**50**	118
Financial liabilities measured at FVTPL	**Valuation technique**	**Fair value hierarchy**				
Held-for-trading liabilities	Quoted in active market	Level 1	384	221	384	215
Total financial liabilities measured at fair value			**384**	221	**384**	215

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

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

Notes to the group and company annual financial statements continued

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27. Financial instruments and financial risk management continued

27.3 Financial instruments carried at amortised cost

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

	Carrying value 2017	Fair value 2017	Carrying value 2016	Fair value 2016
Group				
Non-current liabilities	3 567	3 567	1 147	1 324
Borrowings	2 700	2 700	–	–
Finance lease obligations	54	54	124	124
Competition Commission administrative penalty	813	813	1 023	1 200
Current liabilities	16 406	16 406	12 957	12 957
Borrowings	3 700	3 700	1 950	1 950
Finance lease obligations	70	70	70	70
Competition Commission administrative penalty	522	522	300	300
Trade payables	11 300	11 300	10 053	10 053
Other payables	814	814	584	584
Total liabilities	19 973	19 973	14 104	14 281
Total borrowings	6 400	6 400	1 950	1 950
Total finance lease obligations	124	124	194	194
Competition Commission administrative penalty	1 335	1 335	1 323	1 500
Trade payables	11 300	11 300	10 053	10 053
Other payables	814	814	584	584
Total liabilities	19 973	19 973	14 104	14 281
Current assets				
Trade and other receivables	2 988	2 988	1 638	1 638
Cash and bank balances	3 138	3 138	1 660	1 660
Ferrosure Isle of Man insurance captive	–	–	315	315
Total assets	6 126	6 126	3 613	3 613
Company				
Non-current liabilities	3 515	3 515	1 080	1 257
Borrowings	2 700	2 700	–	–
Finance lease obligations	2	2	57	57
Competition Commission administrative penalty	813	813	1 023	1 200
Current liabilities	15 097	15 097	11 856	11 856
Borrowings	3 700	3 700	1 950	1 950
Finance lease obligations	57	57	51	51
Competition Commission administrative penalty	522	522	300	300
Trade payables	10 008	10 008	8 971	8 971
Other payables	810	810	584	584
Total liabilities	18 612	18 612	12 936	13 113
Borrowings	6 400	6 400	1 950	1 950
Total finance lease obligations	59	59	108	108
Competition Commission administrative penalty	1 335	1 335	1 323	1 500
Trade payables	10 008	10 008	8 971	8 971
Other payables	810	810	584	584
Total liabilities	18 612	18 612	12 936	13 113
Current assets				
Trade and other receivables	2 465	2 465	1 478	1 478
Cash and bank balances	3 130	3 130	1 651	1 651
Ferrosure Isle of Man insurance captive	424	424	315	315
Total assets	6 019	6 019	3 444	3 444

27. Financial instruments and financial risk management continued

27.4 Financial risk management overview and objectives

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

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

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

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

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

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

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

27.5 Financial market risk

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

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

27. Financial instruments and financial risk management continued

27.6 Foreign currency risk management

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

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Monetary assets				
United States dollar (USD)				
Loans and receivables				
Cash and cash equivalents	**23**	267	**23**	267
Trade and other receivables (unrelated parties)	**325**	223	**16**	35
Trade and other receivables (related parties)	**513**	119	**315**	119
Financial assets at FVTPL				
Held-for-trading	**3**	30	**3**	30
Euro (EUR)				
Cash and cash equivalents	**27**		**27**	
Financial assets at FVTPL				
Held-for-trading	**1**	16	**1**	16
Metical (MZN)				
Loans and receivables				
Cash and cash equivalents	**7**	8	**–**	–
Total foreign denominated monetary assets	**899**	663	**385**	467
Monetary liabilities				
USD				
Carried at amortised cost				
Trade and other payables (related parties)	**(5 108)**	(3 456)	**(4 704)**	(3 144)
Trade and other payables (unrelated parties)	**(70)**	(86)	**(65)**	(85)
Financial liabilities at FVTPL				
Held-for-trading	**(367)**	(132)	**(367)**	(132)
EUR				
Carried at amortised cost				
Trade and other payables (related parties)	**(231)**	(57)	**(231)**	(57)
Trade and other payables (unrelated parties)	**(349)**	(145)	**(118)**	(131)
Financial liabilities at FVTPL				
Held-for-trading	**(17)**	(89)	**(17)**	(83)
Total foreign denominated monetary liabilities	**(6 142)**	(3 965)	**(5 502)**	(3 632)
Total net foreign denominated monetary assets/ (liabilities)	**(5 243)**	(3 302)	**(5 117)**	(3 165)

Only notable currency holdings are disclosed.

Notes to the group and company annual financial statements continued

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27. Financial instruments and financial risk management continued

27.6 Foreign currency risk management continued

Foreign currency sensitivity

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

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

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
USD				
Profit or loss	**432**	293	**441**	281
EUR				
Profit or loss	**55**	20	**32**	19
Total	**487**	313	**473**	300

Economic hedging using derivative contracts

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

Unmatured instruments

FC: foreign currency

	Average price FC/R	Contract value FCm	Fair value favourable Rm	Profit or loss Rm
Group				
2017				
Forward contracts held-for-trading at FVTPL				
Buy EUR	**15.50**	**45**	**(16)**	**(16)**
Buy USD	**13.42**	**323**	**(365)**	**(365)**
Sell USD	**13.49**	**(1)**	**1**	**1**
2016				
Forward contracts held-for-trading at FVTPL				
Buy EUR	15.23	31	(84)	(84)
Buy USD	14.30	300	(132)	(132)
Sell EUR	17.63	(4)	12	12
Sell USD	14.49	(40)	30	30
Company				
2017				
Forward contracts held-for-trading at FVTPL				
Buy EUR	**15.50**	**45**	**(16)**	**(16)**
Buy USD	**13.42**	**323**	**(365)**	**(365)**
Sell USD	**13.49**	**(1)**	**1**	**1**
2016				
Forward contracts held-for-trading at FVTPL				
Buy EUR	15.12	29	(79)	(79)
Buy USD	14.30	300	(132)	(132)
Sell EUR	17.63	(4)	12	12
Sell USD	14.49	(40)	30	30

27. Financial instruments and financial risk management continued

27.7 Interest rate risk management

Sources of interest rate risk are:

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

27.8 Liquidity risk management

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

The objectives of the liquidity management policy are:

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

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

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Facilities at the end of the reporting period				
– amount undrawn	**800**	2 000	**800**	2 000

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

Notes to the group and company annual financial statements continued

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27. Financial instruments and financial risk management continued

27.8 Liquidity risk management continued

Liquidity risk and interest risk tables

Contractual maturity for its non-derivative financial liabilities

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

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

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	>5 years Rm	Total Rm	Carrying amount Rm
Group						
For the year ended 31 December 2017						
Non-interest-bearing						
Trade payables	11 334	34	–	–	11 368	11 300
Other payables	674	–	140	–	814	814
Finance lease obligations	44	42	71	–	157	124
Borrowings	3 844	140	3 120	–	7 104	6 400
Total	15 896	216	3 331	–	19 443	18 638
For the year ended 31 December 2016						
Non-interest-bearing						
Trade payables	10 089	–	–	–	10 089	10 053
Other payables	584	–	–	–	584	584
Finance lease obligations	46	46	145	13	250	194
Borrowings	1 950	–	–	–	1 950	1 950
Total	12 669	46	145	13	12 873	12 781

The group and company have access to financing facilities as noted earlier of which R800 million (2016: R2 000 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.

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	>5 years Rm	Total Rm	Carrying amount Rm
Company						
For the year ended 31 December 2017						
Non-interest-bearing						
Trade payables	10 042	34	–	–	10 076	10 008
Other payables	670	–	140	–	810	810
Finance lease obligations	31	31	3	–	65	59
Borrowings	3 844	140	3 120	–	7 104	6 400
Total	14 587	205	3 263	–	18 055	17 277
For the year ended 31 December 2016						
Non-interest-bearing						
Trade payables	9 007	–	–	–	9 007	8 971
Other payables	584	–	–	–	584	584
Finance lease obligations	31	31	65	–	127	108
Borrowings	1 950	–	–	–	1 950	1 950
Total	11 572	31	65	–	11 668	11 613

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

27. Financial instruments and financial risk management continued

27.8 Liquidity risk management continued

Liquidity risk and interest risk tables continued

Expected maturity of non-derivative financial assets

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

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

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	>5 years Rm	Total Rm	Carrying amount Rm
Group						
For the year ended 31 December 2017						
Non-interest-bearing						
Trade receivables[1]	**3 002**	**–**	**–**	**–**	**3 002**	**2 988**
Fixed and variable interest rate cash holdings					**–**	
Cash and bank balances	**3 138**	**–**	**–**	**–**	**3 138**	**3 138**
Total	**6 140**	**–**	**–**	**–**	**6 140**	**6 126**
For the year ended 31 December 2016						
Non-interest-bearing						
Trade receivables[1]	1 667	–	–	–	1 667	1 638
Fixed and variable interest rate cash holdings						
Cash and bank balances	1 660	–	–	–	1 660	1 660
Total	3 327	–	–	–	3 327	3 298
Company						
For the year ended 31 December 2017						
Non-interest-bearing						
Trade receivables[1]	**2 479**	**–**	**–**	**–**	**2 479**	**2 465**
Fixed and variable interest rate cash holdings						
Cash and bank balances	**3 130**	**–**	**–**	**–**	**3 130**	**3 130**
Total	**5 609**	**–**	**–**	**–**	**5 609**	**5 595**
For the year ended 31 December 2016						
Non-interest-bearing						
Trade receivables[1]	1 507	–	–	–	1 507	1 478
Fixed and variable interest rate cash holdings						
Cash and bank balances	1 651	–	–	–	1 651	1 651
Total	3 158	–	–	–	3 158	3 129

[1] *Fixed rate interest applicable on overdue accounts.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

27. Financial instruments and financial risk management continued

27.8 Liquidity risk management continued

Derivative financial instruments

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

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

Financial assets

	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	> 5 years Rm	Total Rm	Carrying amount Rm
Group						
For the year ended 31 December 2017						
Net cash-settled foreign currency derivatives	4	–	–	–	4	4
Total	4	–	–	–	4	4
For the year ended 31 December 2016						
Net cash-settled foreign currency derivatives	46	–	–	–	46	46
Total	46	–	–	–	46	46
Company						
For the year ended 31 December 2017						
Net cash-settled foreign currency derivatives	4	–	–	–	4	4
Total	4	–	–	–	4	4
For the year ended 31 December 2016						
Net cash-settled foreign currency derivatives	46	–	–	–	46	46
Total	46	–	–	–	46	46
Financial liabilities						
Group						
For the year ended 31 December 2017						
Net cash-settled foreign currency derivatives	381	3	–	–	384	384
Total	381	3	–	–	384	384
For the year ended 31 December 2016						
Net cash-settled foreign currency derivatives	210	11	–	–	221	221
Total	210	11	–	–	221	221
Company						
For the year ended 31 December 2017						
Net cash-settled foreign currency derivatives	381	3	–	–	384	384
Total	381	3	–	–	384	384
For the year ended 31 December 2016						
Net cash-settled foreign currency derivatives	205	10	–	–	215	215
Total	205	10	–	–	215	215

27. Financial instruments and financial risk management continued

27.9 Capital risk management

The group and company objectives when managing capital are:

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

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

The group and company overall strategy remained unchanged in 2017.

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.

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Net debt	**(3 262)**	(290)	**(3 270)**	(299)
Cash and bank balances	**3 138**	1 660	**3 130**	1 651
Interest-bearing borrowings	**(6 400)**	(1 950)	**(6 400)**	(1 950)
Total shareholders' equity	**8 058**	13 543	**4 196**	9 147
Gearing ratio (%)	**40.48**	2.14	**77.93**	3.27
Estimated impact on profit or loss based on a 100 basis point change in interest rate:				
100 basis point increase	**(32.62)**	(2.90)	**(32.70)**	(2.99)
100 basis point decrease	**32.62**	2.90	**32.70**	2.99

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

28. Related-party transactions

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

Companies within the greater ArcelorMittal group

The group purchased products and services to the value of R8 605 million (2016: R6 008 million) from, and sold goods to the value of R46 million (2016: R32 million) to other companies in the ArcelorMittal group.

The outstanding balances at year-end are:

- Included in trade receivables, R25 million (2016: R35 million)
- Included in trade payables, R5 315 million (2016: R4 003 million)

Included in trade payables is the corporate service fee of R383 million (2016: R230 million) payable to ArcelorMittal group for corporate services rendered and the fee for research and development of R248 million to ArcelorMittal Investigation (2016: R260 million).

Included in borrowings (refer to note 24) is a loan of R2 700 million (2016: R1 200 million) with the holding company. Interest is payable at the South African prime lending rate and an amount of R281 million (2016: R98 million) was incurred for 2017.

Jointly controlled entities and associates

Interest income for the group from jointly controlled entities of R9 million (2016: R8 million) is included in note 6.

The group purchased goods and services to the value of R92 million (2016: R42 million) from, and sold goods to the value of R6 082 million (2016: R4271 million) to its equity-accounted entities.

The outstanding balances at year-end are:

- Included in trade and other receivables, R465 million (2016: R35 million)
- Included in trade payables, Rnil (2016: Rnil)

Included in the carrying value of jointly controlled entities are non-current loans of R138 million (2016: R140 million).

Subsidiaries

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

ArcelorMittal South Africa Ltd received a management fee of R261 million (2016: R270 million) from Saldanha Steel (Pty) Ltd for ArcelorMittal South Africa Ltd employees employed at Saldanha Works.

Directors

Executive directors are defined as key management personnel. Details relating to directors' remuneration and shareholdings (including share options and LTIP units) in the company are disclosed in note 32. In 2017, Noma Namuhla Trading and Projects (Pty) Ltd, a company owned by Nomavuso Mnxasana, made sales to ArcelorMittal South Africa totalling R133 000. In 2016, a loan of R350 000 was given to Noma Namuhla Trading and Projects (Pty) Ltd. This loan is still outstanding.

Senior employees and prescribed officers

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

Shareholders

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

29. Post-employment benefits

29.1 Pensions

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

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

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

Defined contribution plans

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

	Working members		Employer contributions	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
ArcelorMittal South Africa Selector Pension and Provident Funds	**5 379**	5 139	**111**	145
Iscor Employees' Umbrella Provident Fund	**3 713**	3 320	**54**	66
Total	**9 092**	8 459	**165**	211

Defined benefit plans

Iscor Retirement Fund

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

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

The last full statutory actuarial valuation was performed at 31 December 2016. The actuaries were of the opinion that the fund was adequately funded. The fund outsourced the pensioners to Old Mutual Corporate Annuity Funds with effect from 31 December 2017 with an inflation-linked insurance policy in the name of the fund. The aim is to liquidate the fund within the foreseeable future according to the procedures prescribed by the Financial Services Board in line with the Pension Funds Act of 1956, as amended.

	Iscor Retirement Fund	
Membership	**2017 Rm**	2016 Rm
As at 31 December		
Active members	**–**	–
Pensioner members	**808**	519
Unclaimed members	**362**	–
Pension fund assets		
The major categories of plan assets are as follows:		
Fixed income securities (including cash)	**86**	176
Equity securities	**74**	120
Real estate	**4**	6
Other	**15**	–
Total	**179**	302

Principal actuarial assumptions

Weighted average assumptions used for the purposes of the actuarial valuations by an independent actuary.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2017

29. Post-employment benefits continued

29.1 Pensions continued

	Iscor Retirement Fund	
	2017 %	2016 %
At valuation date		
Discount rate	**9.4**	8.9
General inflation rates	**6.4**	6.9
Salary inflation	**4.9**	6.4

	2017 Rm	2016 Rm
Amounts recognised in other comprehensive income in respect of the defined benefit plans are:		
Remeasurement (gains)/losses		
Return on plan assets (excluding amounts recognised in net interest expense)	**102**	(39)
Changes in the irrecoverable surplus in excess of interest	**(98)**	65
Actuarial gains arising from changes in financial assumptions	**(9)**	–
Actuarial losses/(gains) arising from experience adjustments	**6**	(25)
Components of defined benefit costs recognised in other comprehensive income	**1**	1
Asset restriction adjustment	**(1)**	(1)
Total	**–**	–

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

	2017 Rm	2016 Rm
For the year ended 31 December		
Projected benefit obligation	**155**	181
Fair value of plan assets	**(179)**	(302)
Surplus	**(24)**	(121)
Asset restriction adjustment[1]	**24**	121
Net (asset)/liability recognised	**–**	–

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

29. Post-employment benefits continued

29.1 Pensions continued

Movement in present value of benefit obligation

	Iscor Retirement Fund	
	2017 Rm	2016 Rm
For the year ended 31 December		
Projected benefit obligation at the beginning of the year	**181**	233
Interest cost	**16**	19
Benefits paid	**(39)**	(46)
Remeasurement (gains)/losses		
– Actuarial gains arising from changes in financial assumptions	**(9)**	–
– Actuarial losses/(gains) arising from experience adjustments	**6**	(25)
Projected benefit obligation at the end of the year	**155**	181

Movement in present value of plan assets

	2017 Rm	2016 Rm
For the year ended 31 December		
Fair value of plan assets at the beginning of the year	**302**	280
Interest income on plan assets	**18**	32
Expected return	**(9)**	–
Benefits paid	**(39)**	(46)
Actuarial (losses)/gains	**(93)**	36
Fair value of plan assets at the end of the year	**179**	302

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

Sensitivity analysis

2017

ArcelorMittal South Africa Pension Fund

	Expected longevity	Salary inflation	Salary inflation	Discount rate	Discount rate
Percentage increase/(decrease) (%)		1	(1)	1	(1)
Increase by number of years	1				
Ending net surplus/(deficit)	1	1	(1)	1	(1)

29. Post-employment benefits continued

29.1 Pensions continued

Iscor Retirement Fund

	Expected longevity	Discount rate (-1%)	Discount rate (+1%)
Percentage increase/(decrease) (%)		10	(9)
Increase by number of years	7		
Ending net surplus/(deficit)	7	10	(9)

29.2 Medical benefits

The company contributes to medical aid schemes for the benefit of retired employees and their dependants, where those qualifying retirees accepted early retirement in 1994. At 31 December 2017 there were 20 qualifying retirees (2016: 26).

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

30. ArcelorMittal South Africa B-BBEE transaction

In 2016, there was a special general meeting (SGM) of the shareholders of ArcelorMittal South Africa Ltd held on 18 November 2016 where the shareholders approved the increase in the authorised share capital of ArcelorMittal South Africa through the creation of new class ordinary shares (ArcelorMittal South Africa empowerment shares) for the purposes of the B-BBEE ownership scheme. The scheme 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 Empowerment Share Trust (representing 17% and 5.1% respectively of the voting rights in ArcelorMittal South Africa) through a notional loan.

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

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

There is a 10-year vesting period for the share-based payment benefit provided to the Isabelo 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.

30. ArcelorMittal South Africa B-BBEE transaction continued

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

Key assumptions	Amandla we Nsimbi (Pty) Ltd	Isabelo Empowerment Share Trust
Fair value of "in-substance" option on grant date (R)	3.29	3.30
Expected attrition rate (%)	n/a	42.56%
Average days until fully vested	n/a	3 255
Lock-in-period (years)	10	10
30-day volume weighted average price*	8.00	8.00
Interest rate on notional loan	JIBAR plus 6%	JIBAR plus 6%
Dividend yield	0%	0%
Expected risk-free rate over the 10-year period**	7.31% to 8.66%	7.31% to 8.66%
Expected volatility on ArcelorMittal share price***	40%	40%
Number of Monte Carlo simulations	100 000	100 000
Equity upside (value in excess of future ArcelorMittal South Africa share price on transaction date)	7.35	7.44

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

Determination of fair value at grant date

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

The "economic substance" of the transaction represents a deemed option granted to Amandla we Nsimbi (Pty) Ltd and the Isabelo Empowerment Trust. The underlying value of this option is driven by the 10% discount granted on the 30-day VWAP and volatility in the ArcelorMittal South Africa share price. Expected future dividends were assumed to be nil.

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

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

Expense recognised in profit or loss

Amandla we Nsimbi (Pty) Ltd

Amandla we Nsimbi (Pty) Ltd whose shares are owned by a broad-based black consortium, Likamva Resources, subscribed for 243 240 276 A1 ordinary shares in ArcelorMittal South Africa, representing 17% of the voting rights in ArcelorMittal South Africa. A1 ordinary shares were issued at a nominal value through a notional loan structure. An income statement charge of Rnil (2016: R800 million) was recognised in the statement of comprehensive income in terms of IFRS 2 *Share-Based Payments.*

Isabelo Empowerment Share Trust

The Isabelo Broad-Based Employee Share Trust subscribed for 72 972 083 A2 ordinary shares in ArcelorMittal South Africa, representing 5.1% of the voting rights. A2 ordinary shares were also issued at a nominal value through a notional loan structure. The vesting conditions attached to this scheme require the beneficiaries of the scheme to remain in the employ of ArcelorMittal South Africa for a period of 10 years. An excepted attrition rate was then applied to determine the best estimate of shares expected to vest at the end of the vesting period. An income statement charge of R15 million (2016: R1 million) was recognised in the statement of comprehensive income in terms of IFRS 2 *Share-Based Payments.*

In 2016 transaction costs amounting to R70 million were incurred and were recognised in the statement of comprehensive income.

Notes to the group and company annual financial statements continued

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31. Share-based payments

Equity-settled share plan – local employees

Long-term incentive plan

The long-term incentive plan (LTIP) was adopted for the first time in 2012. The LTIP 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 is made in the event of change of effective control of the company, retrenchment, retirement or death.

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

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

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 a 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. In 2017, total outstanding shares of 2 632 091 of the granted shares have not yet become effective. 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 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.

31. Share-based payments continued

Equity-settled share plan – local employees continued

Isabelo empowerment share trust (B-BBEE)

Refer to note 30.

Key assumptions

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

	Isabelo		ESOP		LTIP		Share options	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Weighted average fair value on grant date (R)*	**3.30**	3.30	**9.13**	9.13	**9.76**	14.46	**n/a**	n/a
Expected attrition rate over the life of the scheme (%)	**36.47**	42.56	**16.33**	23.63	**15.07**	15.07	**15.07**	15.07
Charge to statement of comprehensive income (Rm)	**15**	1	**31**	22	**22**	14	**–**	26

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

Shares available for distribution	**2017 million**	2016 million
Opening balance	**44.5**	13.6
Utilisation	**(8.5)**	(8.8)
Adjustment to number of shares issued following rights issue	**–**	34.6
Additional share options granted after rights issue	**–**	4.8
Revision of shares available	**(3.1)**	(2.3)
Releases, forfeitures, resignations	**2.9**	2.6
Closing balance	**35.8**	44.5

Reconciliation of outstanding LTIP units/share options/shares

	Isabelo		ESOP		LTIP		Share options	
	2017 million	2016 million	**2017 million**	2016 million	**2017 million**	2016 million	**2017 million**	2016 million
Outstanding at the beginning of the year	**72.6**	–	**19.0**	20	**12.1**	5.8	**3.5**	3.0
Granted/reinstatement	**–**	73	**–**	–	**8.5**	8.8	**–**	4.8
Expired/cancelled/forfeited/exercised	**(3.6)**	–	**(0.5)**	(1)	**(2.2)**	(2.5)	**(0.6)**	(4.3)
Outstanding at the end of the year	**69.0**	73	**18.5**	19	**18.4**	12.1	**2.9**	3.5

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	Isabelo		ESOP		LTIP		Share options	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
31. Share-based payments continued								
Exercisable options/units								
Weighted average remaining contractual life in days at year-end								
Average days until fully vested	**3 255**	3 620	**1 004**	1 369	**756**	601	**n/a**	n/a
Average days until expiry	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1 394**	1 136
Weighted average prices applicable per transaction type								
Granted (R/unit)	**3.30**	3.30	**9.13**	9.13	**7.62**	9.75	**–**	6.50
Exercised strike price (R/unit)	**n/a**	n/a	**n/a**	n/a	**5.30**	10.92	**–**	6.50
Lapsed/cancelled (R/unit)	**n/a**	n/a	**n/a**	n/a	**7.25**	35.97	**62.00**	57.63
Outstanding (R/unit)	**3.30**	3.30	**9.13**	9.13	**12.51**	17.43	**56.69**	61.71

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

	Isabelo		ESOP		LTIP		Share options	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Latest expiry date	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**2021**	2021
Exercise price range (R)	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**6.50 – 250**	6.50 – 250
Number of outstanding units/options	**69 083 946**	–	**18 471 128**	18 899 379	**18 359 658**	12 049 472	**2 864 753**	3 496 961
Total proceeds to employees if exercised immediately (Rm)*	**267**	–	**71**	217	**71**	139	**–**	–
Total intrinsic value of out-of-the-money options (Rm)**	**n/a**	n/a	**n/a**	n/a	**–**	–	**(108)**	(176)
ArcelorMittal South Africa closing price at 31 December (R)	**3.87**	11.50	**3.87**	11.50	**3.87**	11.50	**3.87**	11.50

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

Terms of the options outstanding at the reporting date are:

	Options			
	Exercise price range 2017 R	**Outstanding numbers 2017 Units**	Exercise price range 2016 R	Outstanding numbers 2016 Units
For the year ended 31 December				
Expiry date details				
2017	**0 – 140**	**3 570**	6.5 – 140	517 380
2018	**6.5 – 250**	**640 139**	6.5 – 250	678 589
2019	**6.5 – 106.50**	**577 751**	6.5 – 121.50	577 935
2020	**6.5 – 87.20**	**125 605**	6.5 – 85.1	35 825
2021	**6.5 – 87.20**	**1 517 688**	6.5 – 87.20	1 687 232
Total		**2 864 753**		3 496 961

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31. Share-based payments continued

Restricted/performance stock unit plan

The ArcelorMittal group commenced with the restricted/performance stock unit plan in 2011. The stock units are issued for the benefit of senior executives of the group. The restricted stock unit entitles the holder of the unit to receive one ArcelorMittal group share on or after the vesting date of the restricted stock unit, subject to the vesting conditions being met. Restricted stock units vest after three years of continued employment within the group. Performance stock units vest upon continued employment as well as specific performance conditions being met. This plan replaces the Executive International Mobility Share Option Plan. The charge to the group and company for the year amounted to Rnil (2016: Rnil).

	Group and company	
	2017	2016
Latest vesting date	**20 December 2020**	18 June 2019
Number of units outstanding	**186 117**	156 469
Units fully vested	**13 300**	19 375
Weighted average fair value at grant date (USD)	**4.51**	10.02
Average days until fully vested	**540**	539
Reconciliation of outstanding restricted stock units	**Units**	Units
Outstanding at the beginning of the year	**156 469**	58 850
Granted	**8 697**	112 300
Transfers	**34 251**	17 244
Exercised	**(13 300)**	–
Expired/cancelled/forfeited	**–**	(31 925)
Outstanding at the end of the year	**186 117**	156 469

32. Remuneration of directors and prescribed officers

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

	Notes	Salary[1]	Retirement funding R	Short-term incentives[2] R	Equity incentives[3] R	Retention/ sign on bonus R	Other[4] R	Total remuneration 2017 R	Total remuneration 2016 R
Executive directors									
WA de Klerk	5	8 458 833	521 151	680 000	1 192 646	1 600 000	54 812	**12 507 442**	6 337 696
D Subramanian		2 567 119	223 034	237 000	490 323	1 439 498	188 893	**5 145 867**	4 987 804
PS O'Flaherty	12	–	–	–	–	–	–	**–**	1 595 675
Subtotal		11 025 952	744 185	917 000	1 682 969	3 039 498	243 705	**17 653 309**	12 921 175
Prescribed officers and highest paid employees									
M Adam		2 928 950	243 106	76 500	1 001 588	1 057 352	44 590	**5 352 086**	5 582 818
R Bardien	6	2 012 929	167 075	17 000	351 188	–	42 460	**2 590 652**	370 341
RI Holcroft		1 675 065	252 997	58 000	587 049	642 000	77 530	**3 292 641**	2 596 591
WA Nel		2 405 272	199 640	55 000	742 392	–	62 308	**3 464 612**	4 664 087
AM Ngapo		2 979 498	247 302	53 500	522 486	–	43 697	**3 846 483**	2 172 222
HPR Orsoni	7	3 327 000	–	212 000	–	–	1 225 210	**4 764 210**	5 443 296
RH Torlage		2 268 732	192 216	75 500	732 015	–	172 881	**3 441 344**	4 836 913
W Venter	8	1 778 391	147 609	98 500	343 129	642 000	249 688	**3 259 317**	2 917 435
CTW Whitcher		1 819 795	159 898	13 000	325 377	668 000	151 003	**3 137 073**	171 495
C Hautz	9	916 132	–	–	–	–	985 397	**1 901 529**	–
TG Nkosi	13	–	–	–	–	–	–	**–**	2 707 686
KS Kumar	14	–	–	–	–	–	–	**–**	1 711 278
Subtotal		22 111 764	1 609 843	659 000	4 605 224	3 009 352	3 054 764	**35 049 947**	33 174 162
Total		33 137 716	2 354 028	1 576 000	6 288 193	6 048 850	3 298 469	**52 703 256**	46 095 337

Notes to the group and company annual financial statements continued

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32. Remuneration of directors and prescribed officers continued

	Notes	Directors' fees R	Committee fees R	Other[4] R	Total remuneration/ fees 2017 R	Total remuneration/ fees 2016 R
Non-executive directors						
PM Makwana		1 355 952	–	888	**1 356 840**	1 339 045
L Cele		174 500	256 434	171	**431 105**	431 628
LP Mondi	10	72 708	72 700	–	**145 408**	336 962
NP Mnxasana		174 500	561 767	1 295	**737 562**	646 410
JRD Modise	16	174 500	525 840	675	**701 015**	681 910
NF Nicolau		174 500	319 877	4 381	**498 758**	442 951
NP Gosa		174 500	174 478	–	**348 978**	29 080
KMM Musonda	11	94 521	87 240	–	**181 761**	–
LM Khangala (Ikageng)		–	14 540	–	**14 540**	–
MS Tonjeni (Ikageng)		–	14 540	–	**14 540**	–
DCG Murray	15	–	–	–	**–**	245 521
PS O'Flaherty	12	–	–	–	**–**	163 450
Total		2 395 681	2 027 416	7 410	**4 430 507**	4 316 957

[1] Cash salary includes basic salary (cash component).
[2] The short-term incentive relates to bonus earned for the 2016 financial year, paid in June 2017.
[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, international mobility, telephone costs, death benefit, employer contribution to medical aid and travel allowance.
[5] The CEO, WA de Klerk, tendered his resignation at the end of October 2017, his last day of service was 31 January 2018. HJ Venter commenced as CEO designate on 2 January 2018.
[6] General manager, human resources and transformation, R Bardien, tendered her resignation at the end of November 2017, her last day of service was 31 January 2018.
[7] HPR Orsoni was appointed as chief technology officer effective 1 July 2017, his previous position was general manager Vanderbijlpark Works.
[8] W Venter was appointed as general manager Vanderbijlpark Works effective 1 July 2017, his previous position was chief technology officer.
[9] C Hautz was appointed as chief marketing officer effective 1 September 2017.
[10] LP Mondi non-executive director retired on 24 May 2017.
[11] KM Musonda was appointed as a non-executive director on 12 June 2017.
[12] PS O'Flaherty announced his resignation as CEO effective 4 February 2016. It was proposed that he assumed a role as a non-executive director with effect from 1 March 2016. Subsequent to this appointment he resigned as non-executive director effective 1 August 2016.
[13] TG Nkosi resigned as general manager: human resources, transformation and communications effective July 2016.
[14] KS Kumar resigned as chief marketing officer with effect from 30 July 2016.
[15] DCG Murray retired as a non-executive director effective 26 May 2016.
[16] JRD Modise's fees were paid to Batsomi Enterprises (Pty) Ltd.

32. Remuneration of directors and prescribed officers continued

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

The following table reflects the status of unvested LTIPs held by executive directors and the highest paid senior employees as at 31 December 2017:

Names of executives	Award type	Award date	Number of allocations at the start of the year	Number of allocations made during the year	Adjustment for units not expected to vest	Number of allocations at the end of the year	Number of allocations vested at the end of the year	Issue price (R)	Present value of unvested share units at the end of the year (R)
WA de Klerk	LTIP	10/10/2016	871 794		312 687	559 107		10,74	2 163 745
		08/05/2017		892 867	499 339	393 528		7,62	1 522 953
			871 794	892 867	812 026	952 635	–		3 686 698
D Subramanian	LTIP	10/10/2016	474 923		170 341	304 582		10,74	1 178 733
		08/05/2017		317 515	177 571	139 944		7,62	541 582
			474 923	317 515	347 912	444 526	–		1 720 315
M Adam	LTIP	18/05/2015	147 387		136 313	11 074		18,73	42 855
		10/10/2016	390 407		140 027	250 380		10,74	968 969
		08/05/2017		333 203	186 345	146 858		7,62	568 341
			537 794	333 203	462 685	408 312	–		1 580 165
R Bardien	LTIP	08/05/2017		372 117	208 108	164 009		7,62	634 716
			–	372 117	208 108	164 009	–		634 716
RI Holcroft	LTIP	27/05/2014	35 709		24 307	–	11 402	34,89	–
		18/05/2015	83 629		77 346	6 283		18,73	24 316
		10/10/2016	237 046		85 021	152 025		10,74	588 335
		08/05/2017		202 313	113 144	89 169		7,62	345 083
			356 384	202 313	299 818	247 477	11 402		957 734
WA Nel	LTIP	27/05/2014	81 263		55 316	–	25 947	34,89	–
		18/05/2015	104 733		96 864	7 869		18,73	30 453
		10/10/2016	267 170		95 826	171 344		10,74	663 101
		08/05/2017		273 628	153 027	120 601		7,62	466 724
			453 166	273 628	401 033	299 814	25 947		1 160 278
AM Ngapo	LTIP	08/05/2017		553 624	309 616	244 008		7,62	944 310
			–	553 624	309 616	244 008	–		944 310
RH Torlage	LTIP	27/05/2014	51 669		35 171	–	16 498	34,89	–
		18/05/2015	99 887		92 382	7 505		18,73	29 044
		10/10/2016	308 681		110 715	197 966		10,74	766 129
		08/05/2017		263 452	147 336	116 116		7,62	449 367
			460 237	263 452	385 604	321 587	16 498		1 244 540
W Venter	LTIP	27/05/2014	13 222		–	–	13 222	34,89	–
		18/05/2015	20 255		18 733	1 522		18,73	5 889
		10/10/2016	197 538		70 851	126 687		10,74	490 279
		08/05/2017		202 313	113 144	89 169		7,62	345 083
			231 015	202 313	202 728	217 378	13 222		841 251
CTW Whitcher	LTIP	27/05/2014	11 385		–	–	11 385	34,89	–
		18/05/2015	24 211		22 392	1 819		18,73	7 040
		10/10/2016	81 030		29 063	51 967		10,74	201 112
		08/05/2017		217 980	121 906	96 074		7,62	371 806
			116 626	217 980	173 361	149 860	11 385		579 958

Note:
LTIP shares vest within three to five years.

Notes to the group and company annual financial statements continued

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32. Remuneration of directors and prescribed officers continued

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

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

Names of executives	Award type	Award date	Number of allocations at the start of the year	Number of allocations made during the year	Number of allocations at the end of the year	Number of allocations vested at the end of the year	Issue price (USD)	Present value of unvested share units at the end of the year (USD)
HPR Orsoni	RSU	17/12/2014	5 000		–	5 000	10.96	–
		18/12/2015	5 000		5 000		3.83	161 600
	PSU	17/12/2014	5 000		5 000	5 000	10.96	161 600
		18/12/2015	5 000		5 000		3.83	161 600
		30/06/2016	89 400		89 400		4.58	2 889 408
		30/06/2016	17 880		17 880		4.39	577 882
		20/12/2017		4 480	4 480		1.18	144 794
			127 280	4 480	126 760	10 000		4 096 883
C Hautz	RSU	17/12/2014	1 500		–	1 500	10.96	–
		18/12/2015	1 500		1 500		3.83	48 480
	PSU	17/12/2014	1 500		–	1 500	10.96	–
		18/12/2015	1 500		1 500		3.83	48 480
		30/06/2016	42 900		42 900		4.58	1 386 528
		30/06/2016	8 580		8 580		4.39	277 306
		20/12/2017		4 097	4 097		1.18	132 415
			57 480	4 097	58 577	3 000		1 893 209

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
33. Contingent liabilities				
Financial guarantees				
The value of financial guarantee contracts issued in the normal course of business from which it is anticipated that no material liabilities will arise are:	**24**	24	**24**	24
Total	**24**	24	**24**	24

The company has issued guarantees to the value of R761 million (2016: R756 million) for which all liabilities have been raised on the statement of financial position.

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
34. Commitments				
Capital expenditure commitments on property, plant and equipment				
Capital expenditure authorised and contracted for	**754**	796	**685**	716
Capital expenditure authorised but not contracted for	**2 634**	3 320	**2 634**	3 320
Total	**3 388**	4 116	**3 319**	4 036
In accordance with the Competition Commission settlement agreement concluded in 2016, ArcelorMittal South Africa is committed to spend additional capital expenditure on qualifying projects of R4 600 million over five years subject to affordability and feasibility. In total, R1 635 million (2016: R947 million) has been invested in various projects to date.				
Operating lease commitments				
Plant, equipment, vehicles and buildings				
The future minimum payments under non-cancellable standalone and embedded operating leases are:				
– Less than one year	**309**	21	**308**	20
– More than one year and less than five years	**136**	89	**133**	81
– More than five years	**–**	–	**–**	–
Total	**445**	110	**441**	101

35. Subsequent events

Apart from the covenant holiday as detailed in note 36, the directors are not aware of any matter or circumstances arising since the end of the financial year to the date of this report, not otherwise dealt with in this report or in the group and company annual financial statements that would significantly affect the operations, the results and the financial position of the group and company.

It should be noted that the rand/US dollar exchange rate remains volatile and that the rand has strengthened further post-year-end.

Notes to the group and company annual financial statements continued

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36. Going concern

As at 31 December 2017 the current assets of the group and company exceeded its current liabilities by R785 million (2016: R1 039 million) and R637 million (2016: R873 million) respectively.

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

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

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

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

As stated previously, the group and company are very vulnerable to the exchange rate and the recent strengthening in the rand against the US dollar has had a negative impact on the financial statements, and in particular, the valuation of property, plant and equipment.

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

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

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

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

Based on the group's 12-month funding plan, continued support from the holding company ArcelorMittal Holdings AG as set out above and cash-generating initiatives, the board believes that the group and company will have sufficient funds to pay their debts as they become due over the next 12 months, and therefore will remain a going concern.

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

Corporate information

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