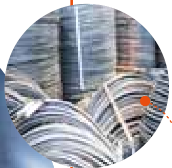
ArcelorMittal

Reviewed condensed consolidated financial statements for the six months ended 30 June 2019

Our values

These underpin our strategic objectives and impact our stakeholders.

Our products



Flat steel products

Long steel products

Coke and Chemicals

ArcelorMittal South Africa, the company or the group

View this report online:
https://southafrica.arcelormittal.com/InvestorRelations/InterimResults.aspx

Our vision

To add value to all our stakeholders through our market leadership position in sub-Saharan Africa by producing quality steel products safely, being an employer and supplier of choice while striving to be among the lowest-cost steel producers in the world.

Our mission

We aim to achieve our vision by:

- Keeping our people safe
- Pursuing operational excellence in all business processes
- Producing innovative high-quality steel solutions for our customers on time
- Protecting our environment and caring for the communities in which we operate
- Being a fair employer as well as a career and skills developer

Salient features

▼ 2% reduction

in South Africa's

apparent steel consumption

▼ 13% lower

international steel prices

▼ 4% decrease

in liquid steel production

with a 9% reduction in steel sale volumes

▲ 15% increase

in cost per tonne of liquid steel

driven by sharp rises in the iron ore price and increases in electricity, rail and transport tariffs

EBITDA decreased by

▼ R1 420 million

to R167 million

R4 500 million

borrowing-base facility renewed

Aggressive focus on cash generation

containing cash outflow to R1 266 million resulting in higher net debt of R1 741 million

Sale of business agreement

concluded in relation to the acquisition by ArcelorMittal South Africa of the Highveld Structural Mill

Successfully completed the interim stave repair

at the blast furnace at Vanderbijlpark Works, and restarted the Vereeniging electric arc furnace

Business Transformation Programme –

to improve international cost competitiveness – is gaining momentum

Improved health and safety record

with lost time injury frequency rate (LTIFR) decreasing from 0.83 to 0.38

The analysis below relates to the six months ended 30 June 2019 (current period) compared to the six months ended 30 June 2018 (prior period) except where otherwise indicated.

Commentary

Overview

After a positive 2018, the global steel industry is facing challenging market conditions in the current year as a result of weaker international steel prices, increases in primary raw material costs and lower demand. Locally, the South African steel industry continues to face significant challenges. The domestic economy has remained close to recessionary levels as investment and infrastructural spending in the country remained subdued. In the first quarter of the year, the economy contracted the most in a decade mainly due to the decline in activity in the mining and manufacturing sectors. Business sentiment remains subdued. Apparent steel consumption decreased by a further 2% for the period and is now at 70% of the apparent steel consumption of the first half of 2008 – a 10-year low.

The group's results reflect this challenging operating environment during this period.

Total steel imports for the six months are 18% higher with flat products imports increasing by 23%. These increases consist mainly of hot rolled coils imported from China, Russia and Taiwan. Imports once again constitute 20% of South Africa's apparent steel consumption compared to 17% in the comparable period. In order to assist the downstream steel fabrication industry to effectively compete against the import of semi-finished and finished fabricated steel goods additional import tariff protection is required.

Cash preservation and generation, and cost control remain the group's primary focus areas. The group's strategic imperative of improving its cost competitiveness against, in particular, China-sourced steel and that of domestic producers, is being severely hampered by structural disadvantages associated with unaffordable electricity, port and rail tariffs and raw material costs.

Increases in electricity, port and rail tariffs have already made the group uncompetitive internationally. These unaffordable increases resulted in R168 million of additional costs against the comparable period. Winter tariffs add on average R110 million to the monthly electricity cost of the company.

International iron ore prices have increased sharply by 28% while steel prices have decreased by 13%. Higher iron ore prices have negatively impacted earnings by R700 million against the comparable period.

Export sales declined due to a decrease in international demand, and, in the case of flat products, the build-up of slab inventory to compensate for the planned repair outage of the blast furnace at Vanderbijlpark Works, enabling the uninterrupted supply of domestic customers.

The two-month unprotected labour strike had no notable impact on sales and production volumes during the period.

Reduction of its carbon footprint is a key imperative for the group. Timing, however, of the introduction of carbon tax effective 1 June 2019, from which imported steel is exempted, will place further financial pressure on the business. This necessitated the implementation of a carbon tax levy on certain steel products, effective 1 July 2019.

ArcelorMittal South Africa's operating profit decreased from a profit of R1 224 million to a loss of R222 million, which resulted in a headline loss of R638 million compared to headline earnings of R54 million for the same period last year.

The volatility of the rand/USD exchange rate continues to impact the group's performance.

As part of its strategy, the group has embarked on several initiatives to improve efficiencies and address expenditure within its control. More significant measures have become necessary to return to profitability and generate positive cash flows.

Safety remains the group's number one priority. The group's efforts to improve its health and safety record resulted in no fatalities at its operations for the period. The group continues to focus on this critical area with LTIFR improving from 0.83 to 0.38 and total injury frequency rate (TIFR) increasing to 7.41 from 6.33.

Markets

Despite the negative sentiment in global markets, global crude steel production increased to 925 million tonnes, which is 5% higher than the comparable period. In the first half of 2019, crude steel production increased in China and North America by 10% and 14%, respectively. However, Europe and South America crude steel production declined. Even with plant closures and environmental shutdowns, Asia's market share increased to 71%, growing by 7%. China's market share increased to 53% from 50% in the comparable period. India, who has replaced Japan as the second largest crude steel producer in 2018, has maintained its position during the period. Africa's output increased by 9% due to production increases in Egypt.

As reported locally, South Africa's apparent steel consumption decreased by 2% due to a depressed market and minimal growth. Even though the government has introduced safeguards, imports into the country increased by 18% compared to the comparable period.

Financial results

Revenue

Revenue decreased by 5% to R21 743 million primarily as a result of the lower sales volumes of 9%, with local and exports sales volumes decreasing by 8% and 12%, respectively. This is partly offset by 6% increase in average net realised steel prices, from R8 827 per tonne to R9 337 per tonne. Although the international steel prices decreased, the realised prices in rand terms were higher due to the weaker exchange rate compared to the previous period. Revenue from the Coke and Chemicals business was also lower on account of a 38 000 tonnes or 29% due to internal consumption.

Operating expenses

Cash cost per tonne of liquid steel produced increased by 15% to R8 519 per tonne. Raw materials, namely iron ore, coal and scrap, which accounted for 51% of total costs, increased by 21%. Consumables and auxiliaries, which represented approximately 27% of costs, increased by 11%. Fixed cost increased by 4%; however, fixed costs per tonne increased by 8% due to liquid steel production reducing by 4%.

Total fixed cost for the group decreased by 3%.

Profit/(loss) from operations

The profit from operations decreased by R1 446 million to a loss of R222 million, given the lower sales volumes, higher raw material and regulated tariff-based costs.

Loss for the period

The loss for the period improved by R958 million. This was largely attributable to the non-recurring negative fair value adjustment of R1 652 million on the asset held for sale recognised in the comparable period. Financing costs were R726 million lower, driven by lower unrealised exchange rate losses of R651 million.

Income from equity-accounted investments decreased by R142 million after the sale of the group's 50% interest in Macsteel International Holdings BV in the second half of 2018.

Headline (loss)/earnings

Headline earnings decreased from a profit of R54 million to a loss of R638 million. The decrease was on account of the loss for the period, partly offset by lower finance cost.

Borrowing position

The net borrowing position of R1 888 million in the comparable period improved to R1 741 million at 30 June 2019. Against the financial year-end of December 2018, the net borrowing position increased by R1 266 million. The group continued to invest in critical capital projects.

Operational

The group's capacity utilisation was 76% compared to 85% for the previous period. Liquid steel production for the half-year was 2.5 million tonnes, a decrease of 99 000 tonnes (4%).

Flat products' liquid steel production decreased by 201 000 tonnes and plant utilisation decreased to 78% compared to 87% in 2018. This was due to lower production at Vanderbijlpark Works of 182 000 tonnes as a result of the planned interim stave repair of blast furnace D.

Long products' liquid steel production increased by 102 000 tonnes as a result of the restart of the Vereeniging electric arc furnace (39 000 tonnes) and higher production at Newcastle Works due to improved plant efficiencies. Long products utilisation was 74% compared to 79% in 2018. If the impact of the production ramp-up of the Vereeniging electric arc furnace is removed, the utilisation improved from 79% to 86%.

Sustainability

- The Business Transformation Programme, initiated to address cost competitiveness, improve efficiencies, to de-bottleneck steel production at all sites and optimise procurement contracts, is yielding the desired results and outcomes. This is supported by the decrease in fixed costs of 3% in this period.

- The group is re-evaluating steel and raw material inventory levels considering the lower market demand with the aim of improving cash generation.

- The group continues to focus on environmental compliance and engagement with the authorities on certain environmental matters.

- On 10 July 2019 the group announced that it will commence with a consultation process in terms of section 189(3) of the Labour Relations Act 66 of 1995. A large-scale restructuring is contemplated, and it is anticipated that in excess of 2 000 positions may be affected. The final outcome and number of positions affected is subject to a formal consultation process.

- On 26 July 2019 the group successfully refinanced the borrowing-base facility to a value of R4 500 million for a tenure of three years. This facility was concluded with HSBC (coordinator), Absa bank and other lenders on substantially the same terms and conditions as the 2017 facility agreement. Shareholders are notified in terms of section 45(5) of the Companies Act of 2008 that, as part of the transaction ArcelorMittal South Africa and its subsidiary, Saldanha Steel resolved, inter alia, to provide financial assistance to each other in the form of guarantees for each other's obligations in terms of the facility agreement.

- The group has entered into a sale of business agreement to acquire the Highveld Structural Mill. The mill is capable of producing heavy section structural steel for infrastructural development and, with further investment, mainline rails. The localisation of mainline rails will support jobs, strengthen industrial capability and enable export opportunities, while allowing for the transfer of specialised intellectual property and skills associated with rail production.

The purchase consideration consists of an initial payment of R150 million on the effective date. A second conditional payment of R150 million is due on:

(i) the conclusion of the commercial arrangement for the long-term supply of sizable mainline rail volumes, and
(ii) the funding for this payment is secured from the IDC (or similar financial institution), with a long stop date of 31 December 2023.

As a Category Two transaction, it is addressed in a separate SENS announcement in which the material terms are detailed.

Regulatory matters

- The Carbon Tax Act was implemented from 1 June 2019 and the group has provided for this accordingly. The first payment will be made on 1 July 2020. This will place further financial pressure on the company, necessitating the implementation of a carbon tax levy on certain steel products effective 1 July 2019.

- On 3 June 2019 shareholders were notified that the summons instituting criminal proceedings against the group on account of three alleged transgressions of its atmospheric emissions licence at its Vanderbijlpark Works was served on 30 May 2019. The group has obtained legal advice from Senior Counsel regarding these matters and will continue to adhere to the relevant legal processes that will follow. Management assessment of any financial exposure in terms of a fine remains at R15 million.

Changes to the board of directors

No changes to the board of directors for the six months ended 30 June 2019.

Dividends

No dividends were declared for the six months ended 30 June 2019.

Outlook for the second half of 2019

International steel prices are expected to improve while the raw material basket is likely to be lower. Domestic steel demand will remain under pressure until real infrastructure spend and economic growth improve. Regulated tariffs will continue to impact the group's cost competitiveness. The group will intensify engagements with key stakeholders to reduce the electricity, rail and iron ore costs. The completion of the restructuring (section 189) will improve the productivity.

The volatility of rand/USD exchange rate is also likely to continue to have an impact on the group's results.

ArcelorMittal South Africa has implemented various initiatives to return the group to profitability and to generate positive cash flows. The group will continue to drive interventions to address the challenges it faces as part of its turn-around and strategy implementation.

On behalf of the board of directors

HJ Verster
Chief Executive Officer

AD Maharaj
Chief Financial Officer

1 August 2019

Key statistics

	Six months ended 30 June 2019	Six months ended 30 June 2018
Unreviewed information		
Operational		
Liquid steel production (000 tonnes)	**2 460**	2 559
Total steel sales (000 tonnes)	**2 162**	2 366
Local steel sales (000 tonnes)	**1 586**	1 715
Export steel sales (000 tonnes)	**576**	651
Capacity utilisation (%)	**76**	85
Commercial coke and tar sales (000 tonnes)	**93**	131
Average net realised price (R/t)	**9 337**	8 827
Safety		
Lost time injury frequency rate	**0.38**	0.83
Reviewed information		
Financial		
Revenue (R million)	**21 743**	22 868
(Loss)/profit from operations (R million)	**(222)**	1 224
Loss for the period (R million)	**(644)**	(1 602)
Loss per share (cents)	**(59)**	(147)
Headline (loss)/earnings (R million)	**(638)**	54
Headline (loss)/earnings per share (cents)	**(58)**	5
Net borrowings (R million)	**(1 741)**	(1 888)
Ratios		
Return on ordinary shareholders' equity per annum:		
– Attributable loss (%)	**(16.7)**	(43.4)
– Headline (loss)/earnings (%)	**(16.6)**	1.4
– Net borrowings (%)	**(23.4)**	(28.1)
Share statistics		
Ordinary shares (thousands):		
– in issue	**1 138 060**	1 138 060
– outstanding	**1 093 510**	1 093 510
– weighted average number of shares	**1 093 510**	1 093 510
– diluted weighted average number of shares	**1 093 510**	1 093 510
Share price (closing) (rand)	**2.41**	2.12
Market capitalisation (R million)	**2 635**	2 318
Net asset value per share (rand)	**6.81**	6.14

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

In millions of rand	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
(Loss)/profit from operations	**(222)**	1 224
Adjusted for:		
– Depreciation	**384**	355
– Amortisation of intangible assets	**5**	8
EBITDA	**167**	1 587

Independent auditor's review report on the interim financial statements

TO THE SHAREHOLDERS OF ARCELORMITTAL SOUTH AFRICA LIMITED

We have reviewed the condensed consolidated financial statements of ArcelorMittal South Africa Limited, contained in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 30 June 2019 and the condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes.

Directors' responsibility for the interim financial statements

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

Auditor's responsibility

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of ArcelorMittal South Africa Limited for the six months ended 30 June 2019 are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

Deloitte & Touche
Registered Auditor

Per: SI. Rajcoomar
Partner

1 August 2019

Buildings 1 & 2
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead
Sandton
2052

Condensed consolidated statement of comprehensive income

In millions of rand	Notes	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Revenue		**21 743**	22 868
Raw materials and consumables used		**(13 900)**	(12 617)
Employee costs		**(2 309)**	(2 275)
Energy		**(2 316)**	(2 037)
Movement in inventories of finished goods and work in progress		**474**	(613)
Depreciation		**(384)**	(355)
Amortisation of intangible assets		**(5)**	(8)
Impairment loss on trade and other receivables		**(48)**	–
Other operating expenses		**(3 477)**	(3 739)
(Loss)/profit from operations		**(222)**	1 224
Impairment of other assets		**(7)**	(5)
Finance and investment income	7	**155**	47
Finance costs	8	**(627)**	(1 353)
Fair value adjustment on asset held for sale	9	**–**	(1 652)
(Loss)/income after tax from equity accounted investments		**(5)**	137
Loss before taxation		**(706)**	(1 602)
Income tax credit	10	**62**	–
Loss for the period		**(644)**	(1 602)

In millions of rand	Notes	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Other comprehensive profit/(loss)			
Items that will not be reclassified to profit or loss:			
Income on available-for-sale investment taken to equity		**(13)**	(16)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(1)**	286
Cash flow hedges – effective portion of changes in fair value		**215**	(32)
Reclassification of cash flow hedges to profit or loss		**(51)**	4
Tax related to cash flow hedges		**(58)**	–
Share of other comprehensive income of equity accounted investments		**–**	47
Total comprehensive loss for the period		**(552)**	(1 313)
Loss attributable to:			
Owners of the company		**(644)**	(1 602)
Total comprehensive loss attributable to:			
Owners of the company		**(552)**	(1 313)
Attributable loss per share (cents)			
– basic		**(59)**	(147)
– diluted		**(59)**	(147)

Condensed consolidated statement of financial position

In millions of rand	Note	As at 30 June 2019 Reviewed	As at 30 June 2018 Reviewed	As at 31 December 2018 Audited
ASSETS				
Non-current assets		**9 949**	8 840	9 696
Property, plant and equipment		**9 276**	8 480	8 995
Intangible assets		**70**	75	73
Equity-accounted investments		**201**	227	220
Investment held by environmental trust		**348**	–	332
Non-current receivable		**–**	19	10
Other financial assets		**54**	39	66
Current assets		**20 596**	21 907	18 864
Inventories		**12 704**	10 449	12 179
Trade and other receivables		**4 747**	4 522	3 972
Asset classified as held-for-sale	9	**–**	3 018	-
Taxation		**132**	58	132
Other financial assets		**254**	198	56
Cash and bank balances		**2 759**	3 662	2 525
Total assets		**30 545**	30 747	28 560
EQUITY AND LIABILITIES				
Shareholders' equity		**7 443**	6 717	7 961
Stated capital		**4 537**	4 537	4 537
Non-distributable reserves		**(3 545)**	751	(3 659)
Retained income		**6 451**	1 429	7 083
Non-current liabilities		**5 955**	5 938	5 636
Borrowings		**2 700**	2 700	2 700
Other payables		**722**	387	572
Finance lease obligations		**86**	35	46
Provisions		**1 875**	1 959	1 774
Other financial liabilities		**572**	857	544
Current liabilities		**17 147**	18 092	14 963
Trade payables		**12 870**	12 599	12 304
Taxation		**94**	81	91
Borrowings		**1 800**	2 850	300
Finance lease obligations		**24**	53	15
Provisions		**364**	260	406
Other payables		**1 614**	1 596	1 475
Other financial liabilities		**381**	653	372
Total equity and liabilities		**30 545**	30 747	28 560

Condensed consolidated statement of cash flows

In millions of rand	Notes	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Cash flows from operating activities		**(396)**	1 998
Cash (utilised in)/generated from operations	14	**(244)**	2 552
Interest income		**52**	42
Finance cost		**(178)**	(372)
Income tax refund/(paid)		**7**	(1)
Realised foreign exchange movement		**(33)**	(223)
Cash flows from investing activities		**(850)**	(587)
Investment to maintain and expand operations		**(862)**	(600)
Investment in associates and joint ventures		**3**	(2)
Dividend from equity-accounted investments		**8**	10
Proceeds on disposal or scrapping of assets		**1**	–
Interest income from investments		**–**	5
Cash flows from financing activities		**1 481**	(896)
Borrowings raised/(repaid)		**1 500**	(850)
Finance lease obligation repaid		**(19)**	(44)
Cash settlement on Management Share Trust		**–**	(2)
Increase in cash and cash equivalents		**235**	515
Effect of foreign exchange rate changes on cash and cash equivalents		**(1)**	9
Cash and cash equivalents at beginning of the period		**2 525**	3 138
Cash and cash equivalents at end of the period		**2 759**	3 662

Condensed consolidated statement of changes in equity

In millions of rand	Stated capital	Treasury share equity reserve	Other reserves	Retained earnings	Total
Six months ended 30 June 2018 (Reviewed)					
Balance as at 31 December 2017	4 537	(3 918)	4 281	3 158	8 058
Total comprehensive income/(loss)	–	–	289	(1 602)	(1 313)
Share-based payment reserve	–	–	(26)	–	(26)
Transfer between reserves	–	–	127	(127)	–
Cash settlement on Management Share Trust	–	–	(2)	–	(2)
Balance as at 30 June 2018 (Reviewed)	4 537	(3 918)	4 669	1 429	6 717
Six months ended 31 December 2018					
Balance as at 30 June 2018	4 537	(3 918)	4 669	1 429	6 717
Total comprehensive (loss)/income	–	–	(1 764)	2 972	1 208
Share-based payment reserves	–	–	36	–	36
Transfer between reserves	–	(1)	(2 681)	2 682	–
Balance as at 31 December 2018 (Audited)	4 537	(3 919)	260	7 083	7 961
Six months ended 30 June 2019 (Reviewed)					
Balance as at 31 December 2018	4 537	(3 919)	260	7 083	7 961
Total comprehensive income/(loss)	–	–	92	(644)	(552)
Share-based payment reserves	–	–	34	–	34
Transfer between reserves	–	–	(12)	12	–
Balance as at 30 June 2019 (Reviewed)	**4 537**	**(3 919)**	**374**	**6 451**	**7 443**

Notes to the condensed consolidated financial statements for the six months ended 30 June 2019

1. Corporate information

ArcelorMittal South Africa Limited is a public company domiciled in the Republic of South Africa and listed on the JSE Limited. These condensed consolidated financial statements for the six months ended 30 June 2019 comprise the company and its subsidiaries (together referred to as the group). The group is one of the largest steel producers on the African continent.

2. Basis of preparation

The condensed consolidated interim financial statements for the period ended 30 June 2019 have been prepared in accordance with and contains the information required by IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and in accordance with the requirements of the JSE Limited Listings Requirements for interim reports as well as the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of International Financial Reporting Standard (IFRS) and are consistent with those applied in the previous consolidated annual financial statements, apart from IFRS 16 *Leases*.

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

3. Accounting policies

The accounting policies and methods of computation applied in the preparation of these condensed consolidated interim financial statements are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except as disclosed below.

IFRS 16 *Leases*, which became effective for the year which commenced on 1 January 2019, were adopted by the group. IFRS 16 *Leases*, replaces IAS 17 *Leases*, and sets out updated requirements on recognition and measurement of leases. The company adopted IFRS 16 using the cumulative catch up approach and measuring assets at an amount equal to the liability. Comparatives for the 2018 reporting periods were not restated.

Adjustments recognised on adoption of IFRS 16 *Leases*

On adoption of IFRS 16 *Leases*, the group recognised lease liabilities and right-of-use assets in relation to leases which were previously classified as operating leases under the principles of IAS 17 *Leases*. These liabilities and assets were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate used to measure the lease liabilities on 1 January 2019 was 8.2%.

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

- Increase in right-of-use assets by R62 million
- Increase in lease liabilities by R62 million.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating lease with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases shorter than 12 months. Low-value assets are assets that are below the group's capitalisation threshold.

4. Segment report

Flat steel products

	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Revenue (R million)	**14 843**	15 817
– External	**14 262**	15 436
– Internal	**581**	381
EBITDA (R million) (unreviewed)	**86**	1 183
EBITDA margin (%) (unreviewed)	**0.6**	7.5
Average net realised price (R/t) (unreviewed)	**9 659**	8 995
Depreciation and amortisation (R million)	**(190)**	(173)
(Loss)/profit from operations (R million)	**(104)**	1 010
Unreviewed information		
Liquid steel production (000 tonnes)	**1 613**	1 814
Steel sales (000 tonnes)	**1 410**	1 616
– Local	**1 108**	1 160
– Export	**302**	456
Capacity utilisation (%)	**78**	87

4. **Segment report** continued

Long steel products

	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Revenue (R million)	**7 722**	7 704
– External	**6 950**	6 718
– Internal	**772**	986
EBITDA (R million) (unreviewed)	**(66)**	336
EBITDA margin (%) (unreviewed)	**(0.9)**	4.4
Average net realised price (R/t) (unreviewed)	**8 734**	8 465
Depreciation and amortisation (R million)	**(150)**	(163)
(Loss)/profit from operations (R million)	**(216)**	173
Unreviewed information		
Liquid steel production (000 tonnes)	**847**	745
Steel sales (000 tonnes)	**752**	750
– Local	**478**	555
– Export	**274**	195
Capacity utilisation (%)	**74**	79

4. Segment report continued

Coke and Chemicals

	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Revenue (R million)	576	730
– External	531	714
– Internal	45	16
EBITDA (R million) (unreviewed)	108	201
EBITDA margin (%) (unreviewed)	18.8	27.5
Depreciation and amortisation (R million)	(35)	(40)
Profit from operations (R million)	73	161
Unreviewed information		
Commercial coke produced (000 tonnes)	67	94
Commercial coke and tar sales (000 tonnes)	93	131

Corporate and other

	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
EBITDA (R million) (unreviewed)	39	(133)
Depreciation and amortisation (charge)/credit (R million)	(14)	13
Profit/(loss) from operations (R million)	25	(120)

5. Related party transactions

The group is controlled by ArcelorMittal Holdings AG, which effectively owns 69% (June 2018: 69%) of the group's shares. At 30 June 2019, the outstanding ArcelorMittal Holdings AG subordinated loan amounted to R2 700 million (2018: R2 700 million). Interest is payable at the South African prime lending rate and an amount of R137 million (2018: R136 million) was incurred for the six months ended 30 June 2019.

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

6. Fair value measurements

In millions of rand	**Six months ended 30 June 2019 Reviewed**	Six months ended 30 June 2018 Reviewed	Fair value hierarchy	Classification
Financial assets				
Hedging instruments designated for hedge accounting	**220**	5	Level 2	FVTOCI
Other forward exchange contracts	**34**	193	Level 2	FVTPL
Equity securities	**54**	39	Level 1	FVTOCI
Equity securities	**348**	–	Level 1	FVTPL
Trade and other receivables	**300**	190	Level 3	FVTOCI
Financial liabilities				
Hedging instruments designated for hedge accounting	**6**	33	Level 2	FVTOCI
Other forward exchange contracts	**1**	175	Level 2	FVTPL

FVTPL – Fair value through profit or loss.
FVTOCI – Fair value through other comprehensive income.

6. Fair value measurements continued

Valuation techniques

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

Observable market data

Level 2: Fair value measurements are those derived from inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.

Level 3: Inputs for the assets or liability that are based on observable market data (unobservable inputs).

Included in trade and other receivables are trade receivables subject to the TSR programme. The fair value measurement of these receivables were determined based on the invoice amount net of TSR expense payable, a level 3 unobservable input. The TSR expense is insignificant due to the rate applicable and the short timeframe between the time of the sale and the invoice due date. Therefore, the fair value of TSR programme receivables equals the carrying amount.

All the resulting fair value estimates are included in level 1 or level 2 except for the trade and other receivables, which is a level 3 financial asset. The movements in the fair value of the level 3 financial asset are shown as follows:

In millions of rand	**Six months ended 30 June 2019 Reviewed**	Six months ended 30 June 2018 Reviewed	31 December 2018 Audited
Balance at the beginning of the period	**57**	–	–
Additions	**300**	190	57
Disposals	**(57)**	–	–
Balance at the end of the period	**300**	190	57

There were no changes made to any of the valuation techniques applied as of 31 December 2018.

7. Finance and investment income

In millions of rand	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Finance income		
Bank deposit and other interest income	**52**	42
Net foreign exchange gains on financing activities	**96**	–
Investment income		
Interest received from jointly controlled entities	**7**	5
Finance and investment income	**155**	47

8. Finance cost

In millions of rand	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Interest expense on loans	**440**	534
Interest expense on finance lease obligations	**6**	8
Net foreign exchange losses on financing activities	**–**	651
Discount rate adjustment of the provisions	**32**	11
Unwinding of the discounting effect on provisions	**103**	82
Unwinding of the discounting effect on financial liabilities	**46**	67
Finance cost	**627**	1 353

9. Assets held-for-sale

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

In millions of rand	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Macsteel investment		
Fair value	–	2 752
Equity-accounted investment	–	(4 404)
Fair value adjustment on asset held-for-sale recognised for the period	–	(1 652)

10. Taxation

The effective tax rate of 8.8% (compared to the statutory tax rate of 28%) for the six months ended 30 June 2019 is primarily as a result of not recognising the deferred tax asset on the available income tax losses, and the derecognition of a deferred tax liability that originated from unrealised gains from cash flow hedges. The deferred tax asset was only recognised to the extent of available deferred tax liabilities. Management believes that the turnaround initiatives will result in the group returning to profitability at some point in the future. However, based on considerations presented, management believes it is premature to conclude at this stage that it is more likely than not for sufficient future taxable profits to be available against which the full proposed deferred tax asset can be utilised.

11. Restricted cash and securities

At 30 June 2019, ArcelorMittal South Africa has restricted cash of R1 252 million (2018: R1 524 million). This consists of R 941 million (2018: R922 million) regarding the True Sales Receivables (TSR) facility and R311 million (2018: R602 million) for environmental rehabilitation obligations.

Eligible inventories and receivables are provided as securities to the lenders of the borrowing-base facility to the extent of the draw down. At 30 June 2019 R1 800 million (2018: R2 850 million) was drawn down on the borrowing-base facility and R2 325 million (2018: R1 650 million) was still available.

Bank accounts of R481 million (2018: R310 million) were ceded in favour of the lenders of the borrowing-base and TSR facilities.

12. Headline (loss)/earnings

In millions of rand	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Loss for the period	**(644)**	(1 602)
Adjusted for:		
– Impairment charge	**7**	5
– Profit on disposal or scrapping of assets	**(1)**	(2)
– Fair value adjustment on investment held-for-sale	**–**	1 652
– Tax effect	**–**	1
Headline (loss)/earnings for the period	**(638)**	54
Headline (loss)/earnings per share (cents)		
– basic	**(58)**	5
– diluted	**(58)**	5

13. Cash flow

In millions of rand	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
(Loss)/profit from operations	**(222)**	1 224
Adjusted for:		
Depreciation and amortisation	**389**	363
Write-down/(reversal of write-down) of inventory to net realisable value	**98**	(236)
Other non-cash movements	**52**	(28)
Changes in:		
(Increase)/decrease in inventories	**(602)**	1 306
Increase in trade and other receivables	**(849)**	(1 524)
Changes in financial assets and liabilities	**–**	327
Increase in trade and other payables	**873**	889
Other payables raised, released and utilised relating to employee benefits	**86**	268
Utilisation of provisions	**(69)**	(37)
	(244)	2 552

During the period a write-down of inventory to net realisable value of R98 million was recognised in profit or loss. This is as a result of lower steel sales prices in comparison to 2018.

14. Commitments

In millions of rand	Six months ended 30 June 2019 Reviewed	Six months ended 30 June 2018 Reviewed
Capital expenditure authorised and contracted for	1 102	774
Capital expenditure authorised but not contracted for	1 751	2 663
Total	**2 853**	3 437

Included in capital expenditure above is an amount of R604 million for equipment to address emissions at Vanderbijlpark Works over the next three years. The installation and construction phase of this project has not yet been approved or contracted for.

15. Going concern

The group's result for the six months ended 30 June 2019 reflects the significant challenges that the South African steel industry faces. The group recognised a net loss of R644 million (2018: R1 602 million) for the period mainly due to an increase in cost and a decrease in international steel prices, resulting in lower margins. Current assets exceed current liabilities by R3 449 million (2018: R3 815 million).

ArcelorMittal South Africa has implemented various initiatives to return the group to profitability and to generate positive cash flows. In order to address the current challenges, the group is exploring several additional initiatives, including additional cost-saving interventions, assessing the profitability of various product lines and the implementation of structural changes (restructuring) in the next six months.

The group has successfully renegotiated the refinancing of the borrowing-base facility for a tenure of three years. As at 30 June 2019, the group is in compliance with all covenants. At 30 June 2019 the balance of the borrowing-base facility was R1 800 million (2018: R2 850 million) with R2 325million (2018: R1 650 million) remaining undrawn.

Based on the group's 12-month funding plan, together with available banking facilities, the directors believe that the group will be able to comply with their financial covenants and be able to meet their obligations as they fall due, and accordingly have concluded that the group remains a going concern.

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

The financial performance of the group is dependent upon the wider economic environment in which the group operates. Factors which are outside the control of management can have an impact on the business, specifically volatility of the rand/US dollar exchange rate as well as commodity and steel prices. The directors and management continue to monitor, develop and improve business plans and liquidity models in order to effectively deal with the effects of these factors.

16. Subsequent events

On 10 July 2019 the group announced that it will commence with a consultation process in terms of section 189(3) of the Labour Relations Act 66 of 1995. A large-scale restructuring is contemplated, and it is anticipated that in excess of 2 000 positions (full time equivalents) may be affected. The final outcome and number of positions affected is subject to a formal consultation process.

On 26 July 2019 the group successfully refinanced the borrowing-base facility to a value of R4 500 million for a tenure of three years. This facility was concluded with HSBC (coordinator), Absa bank and other lenders on substantially the same terms and conditions as the 2017 facility agreement.

On 31 July 2019, as announced on 1 August 2019, the group entered into an agreement to acquire Highveld Structural Mill for an amount of R150 million in cash and a potential further R150 million that is contingent upon certain requirements being met. Subject to the conditions precedent being satisfied or waived, it is anticipated that the effective date of the transaction will be no later than 1 December 2020.

The directors are not aware of any other matters or circumstances arising since the end of June 2019 to the date of this report that would significantly affect the operations, the results of the financial position of the group.

Forward looking statements

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

Corporate information

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

Directors

Non-executive directors

PM Makwana* (chairman), BE Aranha°, LC Cele*, GS Gouws, NP Gosa, R Karol+, NP Mnxasana*, JRD Modise*, KMM Musonda*^, NF Nicolau*

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

Executive directors

HJ Verster (Chief Executive Officer), AD Maharaj (Chief Financial Officer)

Company secretary

NB Bam

Sponsor

Absa Bank Limited (acting through its Corporate and Investment Banking division), 15 Alice Lane, Sandton, 2196. Private Bag X10056, Sandton, 2146

Auditors

Deloitte & Touche

Deloitte Place, Buildings 1 & 2, The Woodlands, 20 Woodlands Drive, Woodmead, 2052, South Africa

Telephone: +27 (0) 11 806 5000 Facsimile: +27 (0) 11 806 5118

Release date: 1 August 2019

ArcelorMittal South Africa Limited

Registration number: 1989/002164/06 Share code: ACL ISIN: ZAE 000134961

(ArcelorMittal South Africa, the company or the group)

Disclaimer

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

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

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

ArcelorMittal

www.southafrica.arcelormittal.com