Introducing our second sustainability report

Welcome to our second sustainability report covering the year ended 31 December 2007. In this report we aim to provide a balanced account of our performance on the socio-economic, ethical and environmental issues which are most material to ArcelorMittal South Africa Limited. While we want this report to be both objective and credible, we have not engaged in an independent assurance process. Our most material issues around pricing, our environmental impact and transformation are in the public realm and subject to active engagement with the stakeholders concerned.

We have been guided in the compilation of this report firstly by the principles of good governance as introduced by the King II Report of 2002. Further, we have used the Global Reporting Initiative’s (GRI) G3 Guidelines (see index appended) to reference our performance. In addition, the DTI’s Codes of Good Practice provides a yardstick to our progress against the government’s transformational imperatives.

The information in this report covers only the operations of ArcelorMittal South Africa Limited, and not those of the international group. While some of the operational and environmental information is presented separately for each production facility, most of the social impact information (e.g. the workplace, safety and health) has been aggregated for the company as a whole.

This report is printed on a “Triple Green” paper grade manufactured according to three environmental pillars: A minimum 60% of the pulp used in the production of this paper is sugar cane fibre, which is the material remaining after raw sugar has been extracted from sugar cane; the bleaching process is elemental chlorine-free; and the remaining pulp used in the production process comprises wood fibre which is obtained from sustainable and internationally-certified afforestation, using independently audited chains of custody.
The table summarises the most important sustainability issues of concern to ArcelorMittal South Africa and its stakeholders for the reporting period.

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<td>Improvement of energy efficiency</td>
<td>Society at large</td>
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We are committed to our vision to being a key player in the steel market in sub-Saharan Africa, while engaging with every stakeholder as a responsible corporate citizen.

Our primary duty to South Africa
Our South African economy is at a critical juncture on its road to successful transformation from a dual economy dividing rich from poor to an integrated nation that offers equal opportunities for all.
While this report deals with our impacts on society and the environment for 2007, we need also to look forward. The year 2008 began with instability on world markets following the stress placed on financial institutions by over-extension in the US sub-prime lending market. There is a worldwide energy crisis that has hit not only South Africa, but other countries as well, such as caused by unseasonal weather in China this past winter. And the potential impacts of global warming have brought home to every corner of the supply chain, from extractor to consumer, the need to reduce our emissions of greenhouse gases.
In this uncertain environment, our country needs every industry component to pull its weight to steady the ship. Steel is a fundamental input to our economy. It is the core material in the structures that carry our power and the cladding that protects the homes of so many of our people. It is our primary duty to continue growing our production for the benefit of all the downstream industries that depend on us. And it is a challenge that we intend to rise to as we continue with our capital expansion programme going forward.

Strengthening the leadership team
Recently, we announced the appointment of Nku Nyembezi-Heita, formerly Chief Officer: Mergers and Acquisitions at the Vodacom Group, as Chief Executive Officer and member of the Board of ArcelorMittal South Africa with effect from 1 March 2008. Nku Nyembezi-Heita has succeeded Rick Reato, who has been appointed as Vice President: Operational Excellence in the ArcelorMittal Group based in London, where he will focus on the group’s steel businesses in South Africa, Ukraine and Kazakhstan.
An agreement has been reached with Rick Reato to avail himself to assist with the transition to the new leadership.
The departure of Rick Reato has provided an opportunity for the board to restructure the management of the company to maximise success in achieving the very robust plan to increase output from 7 million tonnes of liquid steel per annum to 9.5 million tonnes by 2011. In this regard, the board was successful in getting the ArcelorMittal Group to release Luc Bonte, formerly the CEO of ArcelorMittal Gent, a business unit of ArcelorMittal based in Belgium, to join the company in the position of President and member of the board to take responsibility for operational management of the business.
Luc Bonte reports directly to the CEO, and assumed his duties on 1 March 2008.
This strengthened leadership team not only has the responsibility to increase the company's output whilst improving production efficiencies, but also to improve our performance in the areas of social, ethical and environmental impact. Transformation, for example, is one of our most important issues, and I, personally, chair the company’s transformation committee. Our responses to this and other material issues facing the company are dealt with in detail in this report. We are deeply engaged with our key stakeholders and remain committed to manage these challenges to the benefit of all parties affected by our dealings and our operations.
## Key company statistics

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<tr>
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<th>2007</th>
<th>2006</th>
</tr>
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<tbody>
<tr>
<td>Liquid steel production (tonnes)</td>
<td>6 375</td>
<td>7 055</td>
</tr>
<tr>
<td>Domestic sales (tonnes)</td>
<td>4 421</td>
<td>4 400</td>
</tr>
<tr>
<td>Export sales (tonnes)</td>
<td>1 408</td>
<td>1 794</td>
</tr>
<tr>
<td>Revenue (Rm)</td>
<td>29 333</td>
<td>25 350</td>
</tr>
<tr>
<td>EBITDA (Rm)</td>
<td>8 802</td>
<td>7 178</td>
</tr>
<tr>
<td>Operating profit (Rm)</td>
<td>7 703</td>
<td>6 082</td>
</tr>
<tr>
<td>Headline earnings (Rm)</td>
<td>5 741</td>
<td>4 730</td>
</tr>
<tr>
<td>Net cash flow (after capital reduction before other financing activities) (Rm)</td>
<td>(3 481)</td>
<td>2 200</td>
</tr>
<tr>
<td>Total assets (Rm)</td>
<td>28 205</td>
<td>31 175</td>
</tr>
<tr>
<td>Headline earnings per share (cents)</td>
<td>1 288</td>
<td>1 061</td>
</tr>
<tr>
<td>Dividends per share (cents)</td>
<td>429</td>
<td>347</td>
</tr>
<tr>
<td>Return on ordinary shareholders’ equity (%)</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Net cash to equity (%)</td>
<td>19</td>
<td>33</td>
</tr>
</tbody>
</table>
Message from Rick Reato
Chief Executive Officer

In pursuing our vision to be the most admired steel institution, we at ArcelorMittal South Africa recognise our responsibility to manage the social, environmental and business impact of our operations and products on all stakeholders who are touched by our business.

Our philosophy on sustainability is driven by the firm belief that the financial prosperity of the organisation is inextricably linked to the manner in which the company cares for its people, the environment and the communities in which it operates.

But achieving true sustainability is an ongoing journey that involves both successes and shortfalls against the principles we are guided by. This report, therefore, acknowledges those instances where we as a company have not managed to meet the high standards that we set for ourselves, and we commit to taking whatever corrective action is necessary to improve our sustainability record. This commitment exists at the highest level within ArcelorMittal South Africa.

Tackling the most material issues
During the year under review, the two most material sustainability issues for the company were its environmental impact and the pricing of its products:

• **Environmental exposure**: Following an audit by the Environmental Management Inspectorate (EMI) in October 2007, the company was accused of disposing hazardous waste at the Vaal Waste Disposal site without a permit. As it was impossible to take remedial steps immediately, the site was closed down and the company had to make alternative arrangements for the disposal of waste products. While we are well advanced with our R1 billion environmental mitigation programme, this event has exposed weaknesses in our management of the programme, as well as in our dealings with the relevant authorities. The environmental section of our Sustainability Report describes our exposure in more detail, as well as the plans we have in place to improve our performance.

• **Pricing**: During 2007, the Competition Tribunal found that ArcelorMittal South Africa was charging excessive prices on its flat steel products and imposed a fine of R692 million on the company. The company has also been found guilty of restrictive trade conditions. An appeal hearing is expected in the latter part of 2008 and we remain confident of our case. As we discuss in the chapter on managing our impact in the marketplace, we contend that our pricing policy is fair and that the export rebates we offer to companies further processing and exporting our products are not designed to protect our dominant position in the local market, but rather to encourage the export of value-added steel products. The substantial downstream industry thus supported, would to a large extent be unviable without this incentive scheme.

Power supply – a force majeure

Power failures are having an impact on ArcelorMittal South Africa’s production, threatening the supply of steel to customers. The extent of supply interruptions to customers will depend on the magnitude and duration of the power failures. The company is managing the situation to minimise production losses by optimising power between the various production facilities and between the company’s four steel works.
We welcome the opportunity that this 2007 Sustainability Report offers to engage with stakeholders on these two important issues. Our aim has been to tackle them head-on in a transparent manner, giving interested parties a fair reflection of the events and of our responses to the issues that have arisen. These include strategic plans that ArcelorMittal South Africa has implemented in order to take corrective action where it is required. As always, we welcome constructive feedback from all stakeholder groups that will help us achieve our goal of continuous improvement. For further reference to our material issues, see the summary table on page 1 of this report.

Embracing B-BBEE
The year under review also saw the release of the new DTI Codes of Good Practice. The company fully supports these Codes and government efforts to effect economic transformation through broad-based black economic empowerment (B-BBEE). Following the release of these Codes in February 2007, the company established a B-BBEE Steering Committee which is mandated with ensuring the achievement of goals laid out in our B-BBEE Transformation Policy. We are pleased to report that significant progress has already been made and that the year ahead will see an intensified focus on meeting our targets for all elements of the Codes.

Engaging our stakeholders
As part of the global ArcelorMittal Group, ArcelorMittal South Africa subscribes to the International Iron and Steel Institute’s position on sustainable development, at the heart of which lies a commitment to engage stakeholders and independent third parties in constructive conversations to the benefit of all. We describe within each section of this report the method of stakeholder engagement pertinent to the material issues concerned.

Looking ahead
The need for greater accountability among big business is a prerequisite for economic, social and environmental sustainability and ArcelorMittal South Africa will continue to engage in conversations with stakeholders and tackle the difficult issues. The way forward remains clear; the year ahead will see a renewed company commitment to implementing systems, policies and procedures that will improve our ability to deliver triple-bottom-line value to the benefit of all.

Mitigating our risks
Identification of risk areas as part of our drive to manage sustainability for the business has been an important focus area for 2007, especially following the Green Scorpions’ audit. A Risk Committee assesses the business’ key risk areas ranking them in order of importance and reporting to the board on their probability, potential impact on the company, the effectiveness of the controls in place to manage them and the mitigating action that the company is taking to reduce them. During the year under review, environmental risks were moved to the top ranking position, in keeping with our commitment to solve the challenges that we face in this regard.
ArcelorMittal South Africa is the largest steel producer on the African continent, supplying global and local markets with 6.4 million tonnes of steel products per annum. The industries we serve include local construction, heavy engineering, automotive, mining, packaging, pipe and tube manufacturing and furniture and appliance manufacturing.

Since 1928 the company has grown to become a modern, highly competitive organisation, now forming part of ArcelorMittal, the world’s leading steel producer. As the leader in all major global markets, we draw on global expertise, best practices, leading edge technology and outstanding distribution networks.

The company’s sustainability has been proven over many years of generating profit and delivering to the highest international steel standards, in spite of fluctuations in the steel cycle. This success is due to a process of intensive business re-engineering and the cultivation of a culture of continuous improvement that drives all our operations.

Foreign investment with local empowerment

66% of ArcelorMittal South Africa’s stock is held by foreign investors, including a 52% interest held by the global ArcelorMittal Group.

ArcelorMittal South Africa subscribes fully to the principles of broad-based black economic empowerment (B-BBEE).

Since the release of the revised DTI Codes of Good Practice in February 2007, the company has instituted a B-BBEE Steering Committee that is tasked with implementing the company’s B-BBEE Policy and driving the achievement of goals relating to all seven of the Codes. For the period under review black representation on the board is made up as follows; 26.6% non-executive, 16.7% executive directors and 57.1% independent representation. (Calculated in terms of the DTI’s Broad-based black economic empowerment Act (Interpretive Guide June 2007 – Code 200)).

Export

Foreign sales and distribution are done through Macsteel International, a joint venture in which ArcelorMittal South Africa holds a 50% interest.

Corporate Governance

As recommended in King II, ArcelorMittal South Africa has a unitary board structure, retaining full control over the affairs of the company, and ensuring that decisions on all material matters are handled by the board. Various board committees are in place to assist the board to discharge its responsibilities. In line with good corporate governance practices, ArcelorMittal South Africa’s board has a greater number of non-executive directors than executive directors, with a strong contingent of independent directors within the non-executive group.

For further details, see our full Corporate Governance Report in the annual report.
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<th>Vanderbijlpark Works</th>
<th>Saldanha Works</th>
<th>Vereeniging Works</th>
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<tbody>
<tr>
<td><strong>Description</strong></td>
<td>The largest inland steel mill in sub-Saharan Africa, including two blast furnaces, three electric arc furnaces and three basic oxygen furnaces.</td>
<td>Located close to the deep-sea port of Saldanha, this unit is the only steel mill in the world to have successfully combined the Corex and Midrex process into a continuous chain – replacing the need for coke ovens and blast furnaces. Leading edge technology makes Saldanha Works a world leader in emission control and environmental management.</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td>3.0 million tonnes of liquid steel per annum, which constitutes 78% of South Africa’s flat steel requirements.</td>
<td>1.2 million tonnes of liquid steel per annum, of which 54% is destined for export.</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>4 551</td>
<td>568</td>
</tr>
<tr>
<td><strong>Developments</strong></td>
<td>The rebuild of Blast Furnace D was completed during 2007. New direct reduction kilns 5 and 6 are on track for 2008.</td>
<td>The Corex and Midrex plants are scheduled for relines in 2008, as well as the ore screen and stockhouse upgrade (on track from commissioning in 2008).</td>
</tr>
</tbody>
</table>
| **Products**         | – Hot rolled sheet  
– Hot rolled steel plate  
– Hot rolled steel strip  
– Cold rolled steel sheet  
– Hot dip galvanized steel sheet  
– Electrolytically galvanised steel sheet  
– Colour coated steel sheet  
– Electrolytic steel plate  
– Tin plated steel sheet | – High quality thin and ultra thin (less than 1,2 mm) hot rolled coil (UTHRC). | – Billets and blooms  
– Round ingots  
– Forging quality steels  
– Seamless line pipes  
– Seamless casing and tubing |
<table>
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<th>Newcastle Works</th>
<th>Mozambique</th>
<th>Coke and Chemicals</th>
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<tbody>
<tr>
<td><strong>Description</strong></td>
<td><strong>Description</strong></td>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>The plant comprises one blast furnace, three basic oxygen furnaces and four rolling mills. Newcastle is rated among the lowest billet cash-cost producers in the world by a leading commodities research institute, bearing testimony to the success of an intensive re-engineering programme.</td>
<td>This newly acquired rolling mill is managed as part of the Newcastle Works business unit.</td>
<td>Two coke batteries in Vanderbijlpark and Pretoria, as well as a newly commissioned battery in Newcastle, produce commercial coke and by-products.</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td><strong>Production</strong></td>
<td><strong>Production</strong></td>
</tr>
<tr>
<td>1.8 million tonnes of liquid steel products annually, of which 19% is destined for export.</td>
<td>Capacity of 30 000 tonnes per annum.</td>
<td>Market coke – 840 000 tonnes per annum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tar – 150 000 tonnes per annum</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td><strong>Employees</strong></td>
<td><strong>Employees</strong></td>
</tr>
<tr>
<td>1 960</td>
<td>77</td>
<td>265</td>
</tr>
<tr>
<td><strong>Developments</strong></td>
<td><strong>Developments</strong></td>
<td><strong>Developments</strong></td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td><strong>Products</strong></td>
<td><strong>Products</strong></td>
</tr>
<tr>
<td>– Low carbon steels, medium carbon steels, high carbon steels, low alloy steels and micro alloy steels</td>
<td>Reinforcing bar for the Mozambican market.</td>
<td>– Market coke for the ferro-alloy industry, supplying more than half South Africa's requirements</td>
</tr>
<tr>
<td>– Blooms and billets</td>
<td></td>
<td>By-products (from metallurgical by-product processing)</td>
</tr>
<tr>
<td>– Structural sections</td>
<td></td>
<td>– Coal tar</td>
</tr>
<tr>
<td>– Straight and coiled round bar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Rails (for mines and sidings)</td>
<td></td>
<td></td>
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<tr>
<td><strong>ISO Standards</strong></td>
<td><strong>ISO Standards</strong></td>
<td><strong>ISO Standards</strong></td>
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The life blood of a developing nation

End product uses from our raw steel products

Catering and food industry
• Ovens
• Counters
• Refrigeration and appliances

Cables
• Suspension structures
• Palisade fencing
• Fasteners

Automotive
• Exhausts
• Panels
• Propshafts

Retail
• Lighting
• Architectural facades
• Shelves and counters

Refinery/power generation
• Steel structures
• Converying through seamless tubes

Our raw steel products
Flat Products - Vanderbijlpark, Saldanha

Hot rolled steel in coil and plate
Cold rolled
Hot-dipped galvanised

Electro-galvanised

Colour-coated
Long Products – Newcastle, Vereeniging

Tinplate coil and sheet
Rolled (rod, bar, window, and fencing profiles)
Seamless tube (hot and cold)
Construction
- Galvanised and colour coated sheet
- Roofing, cladding and flooring
- Structural framework
- Hydraulic and pneumatic cylinders

Housing
- Light steel frame for RDP homes
- Window frames

Packaging and containers
- Shipping containers
- Beverage cans and tinned food

Household
- Appliances and cutlery
- White goods eg. dishwashers, fridges, heaters, stoves
- Furnitures and fittings

Office buildings
- IT and office equipment
- Air-conditioning ducts
- Decor and fittings
- Structures and frames
The value added chart shows the total cash wealth created and how it was disbursed amongst the group’s stakeholders, leaving a retained amount which was re-invested in the group for the replacement of assets and the further development of operations.
Managing our impact in the marketplace

In order to ensure the sustainability of the steel industry, and therefore its business, ArcelorMittal South Africa recognises the importance of providing the downstream industry with the best quality product at a fair price.

The process of achieving this requires constant engagement with customers and knowledge of best practices around the globe.

While pricing has been the most prominent issue in 2007, managing our total impact in the marketplace, sustainably, raises broader issues too, such as those of transformation through enterprise development and product stewardship. These have been identified through engagement with various stakeholders, including government, the Competition Commission which acts as a watchdog on competition issues and independent watchdog groups, the media and local communities who have highlighted the need to ensure responsible management of the waste and by-products from our operations.

Identifying the most material issues

The most material issues relating to ArcelorMittal South Africa’s impact in the marketplace can therefore be summarised as follows:

**Pricing:** Steel products need to be priced in such a way as to make them accessible to as many customers as possible. The matter of ArcelorMittal South Africa’s pricing was brought before the Competition Tribunal, which issued its finding on the matter in March 2007. The section below on pricing deals with this issue and outlines the company’s position on pricing.

**Enterprise development:** The revised DTI Codes of Good Practice highlight the importance for established companies to help grow both upstream and downstream black-owned enterprises. Our efforts in growing an empowered upstream supplier base are dealt with in the chapter entitled Securing Our Supply Chain, while our downstream development efforts with regard to B-BBEE is outlined in this report.

**Product stewardship:** Companies have a responsibility to ensure that their products do not cause harm to people or the environment. In the case of ArcelorMittal South Africa’s products, the most pressing issues in this regard are recycling and the management of waste and by-products.

**Pricing**

The finding of the South African Competition Tribunal

Following its finding on 27 March 2007 that ArcelorMittal South Africa had “contravened the Competition Act by charging an excessive price for its flat products to the detriment of domestic consumers”, the South African Competition Tribunal imposed on the company a fine of R692 million and ordered remedies aimed at reducing the segmentation that the Tribunal found had been created in the market for flat steel products.

It is the Tribunal’s view that the structure of price rebates and the joint venture with Macsteel International ensures that local flat steel prices could be maintained at excessively high levels.

While the Tribunal notes that ArcelorMittal South Africa engaged extensively with the South African authorities (the DTI) to develop an acceptable pricing model, it contends that the company was able to use its alleged “super-dominant”
market position to implement a pricing model that resulted in excessive pricing in the domestic market, and then was able to protect this market through its restrictive trade agreements.

**ArcelorMittal South Africa’s stance on the issue**
The difficulty in establishing a fair market price for flat steel in South Africa arises because of at least three aspects characterising the market environment. The first is that within South Africa, ArcelorMittal South Africa is a major producer of steel, supplying to about 78% of the market of flat product. The second is that the cost of transporting steel from producers to customers in overseas countries is significant, and the third is that some steel producing and consuming countries engage in protectionist measures, that usually raise their domestic price base, mostly through export incentives and import duties.

**The conventional pricing model**
The most natural method of establishing a price in a market is through the free market mechanism, where supply and demand fundamentals determine the price. If there is no domestic alternative, the next best method is to determine the Import Parity Price (IPP), or the price which an importer would have to pay to obtain that commodity from abroad. The price is therefore made up of the best obtainable international price plus the cost of transport (and associated import costs) to the country of destination.

This generally recognised method was the model that ArcelorMittal South Africa used to determine prices for its flat steel products. The relatively low impact ArcelorMittal South Africa has on international market behaviour, due to its small output volumes in relation to world output volumes, was the justification for this methodology. However, the Tribunal’s view was that ArcelorMittal South Africa was unfairly exploiting its geographical advantage.

South Africa’s vulnerable position in a protectionist world
All primary steel imports to South Africa have been exempted from import duties, resulting in a relatively competitive and free market operating environment. This unprotected market position is further exacerbated by the export incentives offered by some countries especially those from the developing world. On the other hand, exporters suffer the disadvantage of duties payable in other countries which results in an uneven playing field. Given that the Tribunal advocates a single exit price for flat steel regardless if it is for domestic or export application, it is clear from the above that a company wishing to buy steel from ArcelorMittal South Africa and export it, would never be competitive in world markets unless one of two conditions existed:

- The single price from ArcelorMittal South Africa was calculated at the best international price less the cost of transport, other trading tariffs and foreign markets’ import duties
- The exporting company received some form of export subsidy

The first condition would result in a price that would be unsustainable for ArcelorMittal South Africa’s business.

The second condition existed in many industries in South Africa until the early 1990s. Seeing that this incentive is countervailing and contra-WTO regulations, the South African government has moved away from this form of industry incentive, requiring local industries to make their own way in the global market. Thus, a common price with no export assistance would greatly inhibit export activity.
Managing our impact in the marketplace

The basket of international domestic steel prices approach to local pricing
ArcelorMittal South Africa understands the need for a competitive pricing model that will satisfy all its stakeholders: local customers, exporters, the government and the company’s owners. The current model is based on the average of a basket of international domestic steel prices from developing and developed countries across the globe. The process is based on an ongoing engagement with the Department of Trade and Industry trying to reach consensus on the process and the specific countries chosen for the basket.

The rebate for value-added exports helps our steel industry to utilise dormant capacities
Despite the fact that the domestic market for end products is growing, there is also the opportunity to benefit from steel locally, and then export the finished steel products to customers abroad. Following the arguments put forward earlier, ArcelorMittal South Africa decided to create its own scheme enabling these customers to compete abroad and increase their capacity utilisation. This rebated price is calculated to be equivalent to the export parity price level of primary steel exports. In 2007, value-added export rebates came to approximately R243 million, proof that ArcelorMittal South Africa is supporting the downstream industry by contributing to employment creation and earning foreign exchange. If ArcelorMittal South Africa is forced to derive its income from a common market price that avoids this export incentive mechanism, this price would be uncompetitive in the international market, elevating the overall cost to the domestic market.

A litmus test for fairness in pricing
One way of examining whether the price of steel is excessive is to look at the dynamics in the market. Domestic despatches of ArcelorMittal South Africa’s flat products have risen by some 20% over the last two years, while the proportion of sales exported has dropped over the same period by around 45%. These dynamics would suggest that ArcelorMittal South Africa’s domestic price is not suppressing domestic demand. When one adds this evidence to the comparison of the price with the international basket of domestic prices, it is clear that ArcelorMittal South Africa is not charging excessive prices.

Ongoing development
The Harmony/DRD – Excessive price case
ArcelorMittal South Africa appealed against the ruling and administrative penalty of R692 million imposed by the Competition Tribunal.

An appeal hearing is expected during the latter part of 2008. We remain confident that we acted within the law and no provision has been raised. A contingent liability of R692 million was disclosed.

Barnes Fencing Industries – Price discrimination case on wire rod
The Competition Commission referred the Barnes application in respect of price discrimination to the Competition Tribunal. Barnes has since applied for intervention in the process by including additional complaints against ArcelorMittal South Africa concerning alleged contravention of Section 8 (Abuse of dominance) in terms of the Competition Act. The Tribunal determined 28 February 2008 as the hearing date. The outcome of this hearing is still pending.

Developments relating to other issues
Trade actions
Responsible export policies suppressed any new trade actions against South Africa. Favourable outcomes regarding the reviews on hot-rolled sheet were achieved in both the USA and Canada which terminated the duties. The review of duties in Argentina is still in progress but we have decided not to pursue and defend due to the insignificance of the market. The wire rod appeal matter before the United States International Trade Commission, which has been pending since 2001, is still in progress and it is not clear when an outcome can be expected.
Enterprise development

The sustainability of steel and steel producers such as ArcelorMittal South Africa will always rely on the existence of a market for steel products. Development of the downstream market is therefore beneficial for both the company and the economy of the country. However, due to South Africa’s political history, there is as yet very little evidence of a broad base of black economically empowered businesses in the downstream steel industry.

ArcelorMittal South Africa supports government efforts to transform and grow the economy through Broad-based black economic empowerment efforts and is wholly committed to helping to grow black-owned downstream steel enterprises in this regard. Realising that funding is one of the biggest barriers to entry facing black-owned enterprises, ArcelorMittal South Africa has established a downstream development fund to the value of R250 million to help establish and grow qualifying small enterprises. Plan for the coming five years include the establishment of an enterprise development forum that, with the assistance of universities and other institutions of higher learning, will offer support, mentorship, networking and workshop opportunities to manufacturers of finished goods that use steel.

Product stewardship

Although the company does not have control of its final products when they leave its operations, it does believe that it has a responsibility to ensure cradle-to-grave product stewardship, to ensure that its products, waste and by-products do not cause harm to people or the environment.

In this regard, ArcelorMittal South Africa has invested in the recycling of steel and is committed to finding new markets and applications for its waste and by-products. During the year, a new brick-making plant opened in Vanderbijlpark and started selling bricks commercially. This initiative is a result of research into how to make better use of BOF slag, one of the company’s key by-products.

For further details on recycling and the management of waste products, see the section on environmental impact, page 32.
Securing our supply chain

ArcelorMittal South Africa relies heavily on its large network of suppliers, which comprises both large corporations and small to medium businesses.

A close working partnership
In delivering high quality steel products to customers and profit to shareholders, ArcelorMittal South Africa relies heavily on its large network of suppliers, which comprises both large corporations and small to medium businesses. In light of the important partnership between the company and its suppliers, ArcelorMittal South Africa strives to develop a mutually beneficial relationship with these organisations and is committed to addressing the issues relating to this important stakeholder group.

Supporting economic transformation through B-BBEE
One of the most important developments affecting procurement going forward has been the release of the B-BBEE Codes of Good Practice.

• Code 500 relates to Preferential Procurement and outlines the ways in which companies can contribute to economic transformation by including organisations owned by previously disadvantaged groups (B-BBEE companies) on their supplier lists.

• Code 600 relates to black entrepreneurs that struggle to take their businesses from survivalist and/or micro level to a level of sustainability and profitability.

The process of accrediting verification agencies able to verify B-BBEE supplier information has not yet been completed at a national level. At the same time, all industry charters, including the Mining Charter, are in the process of aligning themselves with the DTI's Codes of Good Practice. Considering that these developments are still ongoing, ArcelorMittal South Africa has not been able to provide final B-BBEE figures for the 2007 reporting period.

Notwithstanding the above, we are committed to our B-BBEE strategy and the transformation of the steel industry in South Africa. In order to meet its B-BBEE targets ArcelorMittal South Africa embarked on two important initiatives during the year which were in line with plans laid out in 2006.

Building a B-BBEE database
ArcelorMittal South Africa strongly believes that true economic transformation and the goals of Broad-based black economic empowerment can only be achieved if the practice of fronting is eradicated so that established businesses can support the growth of genuine black-owned enterprises. As such, the company invested a substantial amount of time and effort in assessing the information received in 1 100 questionnaires from the company’s 1 800 active suppliers. Each supplier was required to have the information they supplied verified by a third party (B-BBEE verification agency or an independent auditing firm). ArcelorMittal South Africa also scrutinised all supplier information closely to ensure that those companies on the B-BBEE database are legitimately empowered.

Addressing B-BBEE supplier issues through engagement
In addition to having access to an updated database, ArcelorMittal South Africa's procurement officers need to engage with B-BBEE suppliers on a regular basis so that they can establish good working relationships with these organisations. As highlighted in the 2006 Sustainability Report, B-BBEE suppliers also need to showcase their goods and services to company representatives and granted the opportunity to put questions and concerns to the company about the difficulties they experience in the procurement process. During 2007, the most material of these issues were identified and can be summarised as follows:

– difficulty in meeting the high international standards required by the company, particularly among emerging suppliers;

– a lack of understanding of ArcelorMittal South Africa’s production processes, and

– a lack of understanding of ArcelorMittal South Africa’s procurement and tender processes.

Key procurement issues during 2007
• Meeting the procurement requirements of the DTI B-BBEE Codes of Good Practice
• Addressing the supply chain management skills shortage.

Broad-based Black Economic Empowerment is a driving force at ArcelorMittal South Africa. Since the release of the new Codes in February 2007, the company has finalised and implemented a B-BBEE strategy which is driven by a B-BBEE Steering Committee reporting to Exco. The implementation of policies relating to each of the seven codes, including preferential procurement, is driven by the Transformation Steering Committee, chaired by the Chairman of the board.
Initiative: B-BBEE Vendor Days

In order to address these issues and provide a networking platform for B-BBEE suppliers and procurement officers, ArcelorMittal South Africa implemented the B-BBEE Vendor Days during 2006. During 2007 this day was held at the Vanderbijlpark Works and attracted 480 B-BBEE suppliers from the surrounding Vanderbijlpark and Vereeniging areas.

The day included an exhibition that provided vendors with the opportunity to display their goods and services to procurement officers while networking with company representatives and other suppliers. Of those present, around 120 were new B-BBEE suppliers and could be added to the company’s growing B-BBEE database.

In order to help emerging suppliers improve their businesses and, in so doing, meet ArcelorMittal South Africa’s standards more easily, the company included a basic business acumen training programme on the Vanderbijlpark B-BBEE Vendor Day. It also invited two of the country’s major financial institutions to take part in assisting suppliers with information on business finance and accessing funding, which present common hurdles to success and sustainability.

This B-BBEE Vendor Day proved to be extremely successful and the company has plans to roll out similar events at all its operating units. In addition, it plans to engage other big industry players in networking events that will help these organisations share their B-BBEE databases to the benefit of all.

New initiatives to improve supply chain management

As highlighted in the 2006 Sustainability Report, a lack of sufficiently skilled and qualified supply chain management experts is an ongoing challenge. To address this issue, ArcelorMittal South Africa employed a number of supply chain candidates in training positions in 2006. Some of these candidates are now employed in permanent positions within the company and a second batch of trainees was admitted, thereby significantly boosting our supply chain talent pool.

In spite of these efforts, the company experienced the loss of a number of supply chain management employees during the year. To combat the effects of such losses and further increase its internal talent pool, it has compiled an in-task supply chain management training programme that employees can complete at their own pace. These trained employees will form an internal ‘fall back’ supply chain management skills force. In addition to these initiatives and to guard against skills poaching, ArcelorMittal South Africa is committed to ensuring that its supply chain management employees are retained.

Building a national supply chain management talent pool

The supply chain management skills shortage can only be resolved if the country’s overall talent pool in this area is increased. Recognising this, ArcelorMittal South Africa continued with its educational support programmes that encourage school leavers and university graduates to enter the supply chain management profession. These initiatives include a collaboration with the University of Johannesburg in which company representatives provide advice on course content and the supply chain management curriculum, thereby ensuring that graduates have the knowledge and skills necessary to meet the market’s supply chain demands. A number of company candidates have participated in this advanced course and now have the option to convert it to a Bachelor’s Degree in Supply Chain Management. ArcelorMittal South Africa has also played a similar curriculum advisory role to UNISA. It is hoped that this long-term approach to supply chain management education will provide the company, and the industry as a whole, with the skills needed in this important area of business.

Procurement and Logistics Centre of Excellence

The company’s Procurement and Logistics Centre of Excellence (CoE), established in 2006, has also borne fruit. During 2007, the global ArcelorMittal Group adopted a similar model which will see centre of excellence hubs established worldwide throughout the company. ArcelorMittal South Africa continued to engage global company representatives in knowledge management programmes (KMPs) that provide an important platform for supply chain management knowledge sharing across the group.

Securing strategic inputs

The future will see price increases among many of the company’s key local suppliers of raw materials, as well as Transnet Freight Rail and Eskom. In short, increased scarcity of certain strategic commodities has arisen as demand outstrips supply. We foresee a number of factors putting pressure on our raw material supply, both in terms of volume availability and prices:

- Eskom’s plan to buy an additional 45 million tonnes of coal to replenish depleted stock will put pressure on availability of coal and logistics;
- Weather conditions (flooding in Australia) and port delays will put pressure on the supply of our imported coal, impacting on both availability and prices;
- Decreased capacity and performance of Transnet Freight Rail; and
- Eskom’s request for a 10% curtailment on base line consumption.

Our main aim for 2008, therefore, is to secure the reliable supply of strategic commodities necessary to fulfil our commitment to supply the domestic demand for steel.
Engaging people in the workplace

The employees and contractors of ArcelorMittal South Africa play an integral role in the success of the company, providing it with the skills, expertise and manpower to drive profit and sustain its position as an industry leader.

Similarly, the company sustains employees and contractors by providing them with employment and a means of livelihood.

Recognising that its own growth, ongoing sustainability and success are directly reliant on its people, and in keeping with its commitment to the principles of good corporate citizenship, ArcelorMittal South Africa has invested in securing the safety, welfare, development and growth of all its employees. This commitment extends to all contractors who are included in all relevant statistics and reports.

Structures to facilitate understanding

A fine understanding of the most material issues facing employees is needed if the company is to meet this goal. This requires a relationship with all staff and contractors based on open and constructive, two-way communication. To this end, numerous internal committees and forums facilitate discussions between management and staff at all levels on the issues of safety, health, training and development and employment equity. These structures give employees and contractors a platform to raise issues of concern and afford the company the opportunity to take these on board when making decisions on such issues and, in turn, communicate important information about policies, procedures and changes that may occur.

In addition to these formal structures, ArcelorMittal South Africa is committed to the roll-out of an employee engagement strategy which was finalised in 2006. During the year under review, the company continued to conduct surveys among employees to identify barriers to engagement. Some of these barriers – such as lack of communication, and work-life balance issues – are within the scope and control of the various functional management teams and corrective action plans are already being implemented by task teams that have been set up for that purpose. Others, however, which include issues relating to lack of strategic alignment, quality of leadership, and remuneration disparities to the external market, require company-wide interventions and fall within the scope and control of senior top management. To address these, the company has designed targeted interventions which are in various phases of implementation.

One of the most valuable findings arising out of the employee engagement research process was the fact that sustainable leadership commitment and advocacy is vital to the establishment of a culture of meaningful engagement at ArcelorMittal South Africa. As a result, the company commenced with a three-year programme to build leadership capacity in this regard. This programme will encourage managers and leaders to act as conduits of employee commitment; facilitating greater understanding of and alignment to the organisation’s strategic intent, and promote a “One Company Philosophy”.
Key interventions to address the skills crisis

• Active involvement at various industry and government forums, both on a regional and national level, to advise and influence the national science and engineering educational agenda.
• Offering apprenticeship training to candidates in excess of the company’s own need. An additional 100 apprentices have been enrolled in the company’s artisan training programme.
• Successful application for a corporate permit to procure scarce technical skills from overseas. Foreign countries have been targeted and candidates identified to secure contracts.
• A recruitment drive which has involved approaching former employees for re-employment.

Supporting fair labour practice

A total of 78% of ArcelorMittal South Africa’s employees and contractors are members of one of three recognised unions: Solidarity, NUMSA (National Union of Metal Workers of South Africa) and UASA (United Association of South Africa). The company fully supports fair labour practice and welcomes the valuable input that unions bring to issues relating to its members. Such input is facilitated through structures at a strategic, corporate and business unit level:

• Strategic level: National trade union leadership participates in:
  – quarterly Safety, Health and Environment (SHE) meetings with company directors to discuss SHE performance, strategy and interventions
  – quarterly strategic meetings with the CEO and COO, where company performance, new initiatives, strategic direction and business objectives are discussed.

• Corporate level: Senior trade union leadership meets with management in a Salaries and Conditions of Service bargaining forum.

• Business unit level: Union representatives meet with business unit management and shop floor stewards, the Safety and Health, Training and Employment Equity Committees and departments on a monthly basis and in a quarterly business participative forum.

Issues identified

In addition to information gathered from its thorough engagement with employees, contractors and their representatives, ArcelorMittal South Africa is also guided by international best practices, government guidelines and legislation in formulating its response to the most important human sustainability issues. These are to:

• develop and retain talent, and
• increase diversity

An employee survey showed that quality of leadership is vital in order to establish a culture of meaningful engagement within the company. A three-year programme will build our leadership capacity to engage more effectively with all employees.
Engaging people in the workplace continued

Develop and retain talent

ArcelorMittal South Africa recognises how heavily its success depends on being able to attract, retain and develop talented people who can offer the skills critical to its operations. A national and industry-wide shortage of these skills threatens the sustainability of the company. In particular, poor maths and science performance at secondary school level poses challenges through the unsuitability of learners in all training pipelines and the lack of availability of employment equity candidates in the external labour market. Addressing these is a key priority. Targeted skills development programmes, career development initiatives and leadership training and knowledge management interventions are just some of the ways in which the company is working towards mitigating the skills shortage.

Securing a continuous supply of skills

Training – through bursaries, in-house programmes, apprenticeships and graduate development initiatives – is a key component of company efforts to secure a continuous supply of critical skills, both in the immediate and long-term future.

Bursary programme

Engineering skills are in particularly short supply, but the company’s highly successful engineering bursary programme is achieving results in delivering the talent needed by ArcelorMittal South Africa. A total of 76 bursars (comprising 36 black males, 7 black females, 27 white males and 6 white females) are currently studying engineering science through this programme, while 15 (8 black males, 1 black females and 6 white males) have completed their degrees and gone on to follow an engineer-in-training programme that complies with the requirements of the Board for Professional Engineers, before being assigned to permanent positions.

Apprenticeships

The capacity of the company’s in-house technical training centre was increased during the year under review. An additional 291 learners have started their apprenticeships through the programme, bringing the total number of learners in the training pipeline to 430. The training centre is accredited with the MERSETA (Manufacturing, Engineering and Related Services Sector Education & Training Authority) and aims to address not only ArcelorMittal South Africa’s own immediate need for artisans, but also the national skills development goals of JIPSA (Joint Initiative on Priority Skills Acquisition).

Interns

All 13 graduates-in-training recruited during 2006 successfully completed the first year of their two-year internship during 2007. The internship has, to date, given them a thorough understanding of the company’s overall business processes by exposing them to different departments. Following this rotation, each intern was recruited into the specific departments for which they were originally intended. As they have gained in responsibilities and skills, many of them have flourished and all have been found competent during their six-monthly evaluations by the Mentor Committee.

Building from the inside

Recognising that internal skills development is as important as externally-focused programmes, ArcelorMittal South Africa embarked on a new continuous academic development initiative for employees during 2007. A total of 67 employees embarked on ArcelorMittal university programmes in various areas with a total of 11 undertaking the MBA programme, 32 the Management Advancement Programme (MAP) and 19 various functional degrees. All applicants were approved in accordance with the application process which takes the business requirements as well as the company’s talent management and succession planning programme into account.

Career development reviews also form part of the company’s internal talent management programme and although this process has historically been aimed only at senior and middle management levels, it is also currently rolled out to first line managers as well. All other employees in the bargaining unit have an individual career development plan which guides competency declarations and enhances their future career prospects. Performance reviews are conducted biannually, with performance ratings determining annual remuneration adjustments of all salaried staff.
### Number of people trained per skills development category

<table>
<thead>
<tr>
<th>Skills development category</th>
<th>Programme description</th>
<th>Numbers trained 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Engineering bursars</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Functional degrees</td>
<td>19</td>
</tr>
<tr>
<td>B</td>
<td>Masters in Business Administration (MBA)</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Management Advancement Programme (MAP)</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Functional diploma</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Artisan to Technician conversion</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>Candidate Technician in Training</td>
<td>21</td>
</tr>
<tr>
<td>C</td>
<td>Graduates in Training (Staff division)</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>Candidate Engineers in Training</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td>Work Integrated Learning (WIL) for Learner Technicians (P1)</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Work Integrated Learning (WIL) for Learner Technicians (P2)</td>
<td>10</td>
</tr>
<tr>
<td>D</td>
<td>Learnership (metal production) employees</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Learnership (metal production) external learners</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Apprenticeships</td>
<td>430</td>
</tr>
<tr>
<td>E</td>
<td>Skills programme (engineering skills) for employees</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Skills programme (engineering skills) external learners</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Assessor and Moderator training</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Lifting equipment</td>
<td>1 800</td>
</tr>
<tr>
<td>F</td>
<td>External training</td>
<td>2 600</td>
</tr>
<tr>
<td>G</td>
<td>Informal based (competency based training)</td>
<td>6 179</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>11 398</td>
</tr>
</tbody>
</table>

### Current workforce profile

<table>
<thead>
<tr>
<th>Role</th>
<th>EE actual 2006 %</th>
<th>EE target 2007 %</th>
<th>EE actual 2007 %</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top and senior management</td>
<td>25</td>
<td>30</td>
<td>22</td>
<td>(8)</td>
</tr>
<tr>
<td>Middle management</td>
<td>33</td>
<td>35</td>
<td>39</td>
<td>4</td>
</tr>
<tr>
<td>First line management</td>
<td>38</td>
<td>40</td>
<td>33</td>
<td>(7)</td>
</tr>
<tr>
<td>Skilled and technical</td>
<td>43</td>
<td>43</td>
<td>45</td>
<td>2</td>
</tr>
</tbody>
</table>
Engaging people in the workplace continued

Knowledge management programmes (KMPs)
ArcelorMittal South Africa benefits enormously from the global group’s Knowledge Management Programme (KMP) which fosters knowledge sharing across a wide range of company disciplines. For example, a weekly networking forum on marketing and operational priorities attracts worldwide participation. In addition, the company holds regular KMP workshops at locations in nine countries. During the year under review ArcelorMittal South Africa representatives gained invaluable knowledge at these forums, bringing back experiences and best practices for application across a wide range of disciplines in the company. The scope of disciplines addressed at these forums during 2007 includes:

- Production processes and technology in steel making, iron making, rolling and coke making
- Maintenance processes and technology
- Environmental management
- Sales and Marketing
- Human Resources
- Information Technology
- Health and Safety

Increasing diversity
Embracing diversity at ArcelorMittal South Africa has become an essential part of our culture in building a loyal workforce and ensuring the retention of skills. This has become more important for the company as it continues on its journey of developing a single company culture. Programmes that contribute to this objective include:

- Completion of a company-wide EE audit;
- Reorganising and commissioning of representative EE forums that are fully compliant with statutory requirements;
- Completion of EE and skills development target setting as required by the Employment Equity Act, the Skills Development Act and the B-BBEE Codes;
- Commissioning of a governance structure to actively drive initiatives to facilitate compliance with score card elements. These comprise task teams of senior line managers and a Transformation Committee at board level to oversee transformation-related processes; and
- Building of a talent pool of high potential black female candidates for deployment to senior positions.

Although the company did not achieve its EE targets on the 2005 – 2007 plan, the year under review still showed reasonable progress in the employment of previously disadvantaged individuals within the business, particularly at the lower levels. The accompanying table reflects the current workforce profile

Plans to meet EE targets
ArcelorMittal South Africa is exploring various strategies to address some of the current challenges with regard to employment equity. Some, like the establishment of a sustainable pipeline for selected positions, will take some time to bear fruit, while others, like external recruitment, will be visible in the short term. Policies and practices have been implemented to support both short- and longer-term plans.

In addition, the company plans to implement a diversity training programme during 2008 to create an attractive working environment for all employees, irrespective of their backgrounds.
Spread of skills in the ArcelorMittal South Africa talent pipeline

<table>
<thead>
<tr>
<th>Discipline</th>
<th>EE</th>
<th>Non-EE</th>
<th>EE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified candidates who completed training in 2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering bursars</td>
<td>10</td>
<td>5</td>
<td>67</td>
</tr>
<tr>
<td>Candidate engineers</td>
<td>19</td>
<td>6</td>
<td>76</td>
</tr>
<tr>
<td>Learner technicians</td>
<td>15</td>
<td>1</td>
<td>94</td>
</tr>
<tr>
<td>Candidate technicians</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Artisan to technician conversion</td>
<td>7</td>
<td>2</td>
<td>78</td>
</tr>
<tr>
<td>Apprentices</td>
<td>61</td>
<td>11</td>
<td>85</td>
</tr>
<tr>
<td>Production learners (non-learnership)</td>
<td>23</td>
<td>4</td>
<td>85</td>
</tr>
<tr>
<td>Production learners (learnership)</td>
<td>10</td>
<td>2</td>
<td>83</td>
</tr>
<tr>
<td>Total</td>
<td>145</td>
<td>31</td>
<td>82</td>
</tr>
</tbody>
</table>

Additional measures implemented to ensure the achievement of equity goals

<table>
<thead>
<tr>
<th>Category</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment procedures</td>
<td>Policies were revisited to ensure preferential procurement of designated employees.</td>
</tr>
<tr>
<td>Appointments</td>
<td>Special provision was made to procure Black women to build a talent pool.</td>
</tr>
<tr>
<td>Remuneration and benefits</td>
<td>Market alignment with specific focus on attraction and retention of EE talent and scarce skills.</td>
</tr>
<tr>
<td>Career development</td>
<td>Job assignments and rotation.</td>
</tr>
<tr>
<td>Training and development</td>
<td>Ratios favouring designated employees were adopted for all intakes.</td>
</tr>
<tr>
<td>Performance management</td>
<td>Employment Equity targets were contracted and measured for reward allocation purposes.</td>
</tr>
<tr>
<td>Succession planning and talent management</td>
<td>Employees of designated groups are receiving more dedicated focus during talent management.</td>
</tr>
<tr>
<td>Diversity training programme and sensitisation</td>
<td>Pilot programmes have been completed in preparation for roll-out of diversity training company-wide.</td>
</tr>
<tr>
<td>Community investment and bridging programme</td>
<td>Social investment through the ArcelorMittal Science Centre and the Graduate-In-Training Programme.</td>
</tr>
<tr>
<td>Disability equity</td>
<td>Initiative has been launched to establish a disability profile of the current workforce in order to enhance reasonable accommodation and a supporting work environment.</td>
</tr>
</tbody>
</table>
The issue of health and safety is given the highest level of priority at ArcelorMittal South Africa and the company is committed to continuous safety improvement to reach its goal of zero injuries and occupational diseases.

**Securing the safety of employees and contractors**

**Structures to govern health and safety issues**

In meeting this mandate, the company is guided by the Safety, Health and Environment (SHE) policy which is implemented at board, Exco, business unit, division, department and shift level and which is governed by the SHE Committee of the board.

The CEO, COO, general managers of each of the company’s business units, Company Secretary and Executive Director: Human Resources (currently vacant) sit on this committee, which meets quarterly to discuss safety performance and the progress on safety strategy. During 2007, a union representative from Solidarity (NUMSA participated in 2007) also attended the SHE Committee meetings following a decision made in 2006. Each year a representative from a different union will hold this seat which will be allocated on a rotational basis. SHE Committee meetings are held at the operating facilities and include a plant walkabout where committee members and plant management get an opportunity to engage shopfloor employees on safety and health matters. SHE issues are the first item on the agenda at the Executive Committee (Exco), Operations Committee (Opsco) monthly meetings and other management meetings. CEO SHE meetings which include a safety walkabout, are also held six monthly at each operating unit where the CEO, COO and Group Manager SHE have an opportunity to review safety performance and progress on improvement initiatives. At these meetings, the Business Unit General Manager also presents the safety performance of the previous six months and provides a progress report on the implementation of safety plans.

At business unit level, safety issues are covered in monthly management meetings, and unions are also involved and updated on safety performance and progress made in improving safety performance and culture. At plant level, safety meetings are, in most cases, held on a monthly basis or, at the very least, every three months, as is required by

**Safety records in 2007**

Newcastle Works achieved its best ever safety performance in 2007 with an LTIFR of 1.25, while the safety performance of ArcelorMittal South Africa as a whole in 2007 was also at an all-time best of 2.2 (an equivalent of 0.44 when measured on 200 000 hours).

**Responsibilities of the SHE Committee**

- Ensure that the management of safety, health and the environment in the company is aligned with the overall business strategy of the company and is geared towards compliance and fulfilment of its commitments and obligations in this field;
- Consider and approve corporate safety, health and environmental strategies and policies, and monitor compliance;
- Consider and approve major safety, health and environmental projects;
- Ensure that its members are informed about all significant impacts on the company in the safety, health and environmental field and how these are managed; and
- Monitor the company’s safety, health and environmental performance, progress and continuous improvement.

SHE meetings are now held on site, allowing the Business Unit General Manager to gain greater insight into specific safety issues. Key issues are:

- secure the safety of employees and contractors
- safeguard the health of employees
law. Health and Safety Committees are representative of all sections, in compliance with the Occupational Health and Safety Act, and supervisors discuss safety issues with staff at the beginning of each shift (where shift patterns allow for a meeting prior to the commencement of work). In these discussions, employees are made aware of any potential dangers associated with that area of work or tasks about to be undertaken. Contractor employees also form part of the plant safety meetings and initiatives.

Measuring safety performance
During 2007, the company changed its safety indicator from the Disabling Injury Frequency Rate (DIFR) to the Lost Time Injury Frequency Rate (LTIFR). This international indicator is used worldwide by the ArcelorMittal group and alignment by the South African operation in this regard makes for easier and more relevant measurement and comparison and obviates the need for duplicated reporting. The Lost Time Injury Frequency Rate is also an official measure for safety performance in the International Iron and Steel Institute.

A Lost Time Injury (LTI) is an injury sustained at work by an employee or contractor which results in time lost from work of one shift or more. The LTIFR is calculated as the number of occurrences of such injuries divided by the total number of hours worked by all workers, for each one million hours worked.

The 2006 LTIFR, when converted from the DIFR in which it was originally expressed, was 2.8. The year 2007 saw a 21% improvement in this rate to 2.2 which is better than the 2007 LTIFR goal of 2.5.

Fatalities during 2007
In spite of this improvement and all our efforts to meet a zero fatality rate, however, we lost one employee and one contractor in two fatal incidents. An employee of our Coke and Chemicals Division sustained fatal injuries when the car she was driving collided with a locomotive at a rail crossing. The second incident occurred at Saldanha Works where a contractor employee died when the forklift he was driving capised. Corrective actions were implemented to prevent recurrence of similar incidents.

Our condolences go to the families and friends of these two people.

The death of any one of our colleagues is felt as a severe blow by everyone within the company and such incidents only strengthen our commitment to improve safety standards, entrench safe behaviour among all workers and eradicate such tragedies in future.
Evidence from incident investigations indicate that the majority of injuries and fatalities occur as a result of non-compliance with safety standards and that common causes of such incidents in the steel industry include failure to follow procedures relating to confined work space, work at elevated positions and work involving moving machinery and mobile equipment.

In this regard, the 2007 fatalities proved no exception, highlighting the need to work harder at ensuring behavioural compliance. In the wake of these tragedies the company formed a task team which investigated ways in which safety standards and behavioural compliance can be improved, particularly in relation to the specific causes of the two deaths. Recommendations from this team have since been implemented at all our operations.

Contractors as stakeholders in the issue of safety
Contractors make up a significant portion of ArcelorMittal South Africa’s workforce (around 10 000 individuals) and the company views them as equally important stakeholders when it comes to safety. As such, the company includes statistics on both contractors and employees when measuring safety performance and, during 2007, completed the first phase of a contractor safety management intervention begun in 2006.

Following the formation of a task team and the identification of best safety practices for contractors, the company initiated a project to revise its contractor safety management process. The revision integrates health and safety aspects in all stages of contractor management, from contractor selection to post-contract evaluation. All personnel involved in contractor safety management processes (contractors included) have been trained on the new requirements. Audits were also initiated during the last quarter of 2007 to evaluate contractor compliance to new requirements. At the end of 2007, 30% of our major contractors were already certified under OHSAS 18001 health and safety management systems. The aim is to have all major contractors certified under OHSAS 18001 and 14001 by December 2008.

This intervention confirmed suspicions that large contracting companies have a big impact on SHE incident figures and that by focusing on the compliance of this important stakeholder group, the company can dramatically improve its overall safety performance. The revised process has improved communication with contractors and fostered a better understanding on their part of company expectations and safety standards.

Key safety initiatives during 2007
During the year under review, a number of initiatives were undertaken to improve the overall safety performance of the company and help ArcelorMittal South Africa reach its safety goals. These included the following key interventions:

• **SMAT Training**
  2007 saw the training of all managers in the Du Pont Safety Management Audit Technique (SMAT), which will help to improve the overall quality of management safety walkabouts and ensure the implementation of a consistent approach when dealing with non-compliance to safety standards. SMAT, a behaviour audit technique, is one of the important initiatives implemented by the organisation to improve the safety culture. It is a structured and positive interaction on safety matters amongst peers as well as between staff and managers.
  Whilst the company strongly believes in positive interaction on safety matters, systems have also been put in place to ensure that SMATs do not replace the enforcement of discipline but complement it.

• **2007 Health and Safety Day**
  It has been a tradition at ArcelorMittal South Africa to hold annual safety, health and environment days where management, employees, contractors and unions dedicate a full day to SHE matters. 2007 was a special year in this regard as the company participated in the first Global Health and Safety Day organised by the ArcelorMittal Group.
On 6 March 2007, over 300 000 people in around 27 countries across the globe mobilised to make health and safety the number one priority for the ArcelorMittal Group. The day, endorsed by the attendance of politicians, community members, customers, suppliers, unions, employees and management, proved to be extremely successful.

- **Knowledge Management Programme (KMP)**
  Knowledge Management Programmes are used within the ArcelorMittal Group to leverage the company’s knowledge through the sharing of best practices. A Health and Safety KMP was held during 2007 with representatives from all the company’s business units. Attended by senior management, safety professionals, employees and line managers, the KMP served as an important platform to share knowledge and challenges. It also highlighted areas that still require attention going forward, and led to initiatives for implementation in 2008.

  Knowledge sharing was not only limited to local KMPs, but involved the implementation of lessons learnt from international KMPs and other forums such as the IISI (International Iron and Steel Institute) and SAISI (South African Iron and Steel Institute) meetings. Cross Business Unit SHE Audits were also implemented to evaluate the understanding and implementation of corporate SHE standards across the group.

- **Safety standards and procedures**
  Continuous revision of safety standards and procedures to capture best practices and changes in the external environment remains one of the focus areas of the safety improvement programme. Standards and procedures currently receiving high priority are those relating to work in confined spaces, work at elevated positions, rail safety and lock-outs and isolation. Experience has proven over time that failure to observe these standards is the major cause of fatalities and significant incidents.

  - **Introduction of common guidelines for ‘permit to work’ procedures across the organisation**
    ‘Permit to work’ is one of the crucial processes for managing safety in the work place. Failure to observe ‘permit to work’ procedures has been associated with a number of catastrophic incidents in the industrial world.

    During 2007 a task team was set up to review current practice with respect to ‘permit to work’ and establish common guidelines to be implemented across this organisation. An improved ‘permit to work’ process was finalised and will be rolled out during 2008.

  **Looking ahead: safety plans and goals for 2008**
  All future safety plans and interventions are underpinned by the goal of achieving a zero injury rate. During 2008 the company will focus on:

    - Achieving an LTIFR of 2.0;
    - Achieving a 10% improvement in the severity rate achieved at the end of 2007 (This rate is a measure introduced in 2007 and is defined as follows: Severity Rate = (number of days lost due to lost time injuries x 1000)/hours worked);
    - Implementing world class standards for the key causes of fatalities;
    - Enhancing the SMAT programme by focusing on the quantity and quality of SMATs conducted by leaders on the shop floor;
    - Roll out the revised ‘permit to work’ process;
    - Implementing the 5S programme to improve the standard of housekeeping across the organisation;
    - Further entrenching the revised contractor safety management programme;
    - Holding a corporate Health and Safety Day at each facility; and
    - Health and safety awareness and mobilisation.
Safeguarding the health of employees

Occupational health and hygiene are governed by the company’s SHE policy and all issues relating to this area are overseen by the SHE Committee of the board. When employees and contractors fall ill as a result of occupational hazards, the productivity of the entire company suffers, but apart from this clear business case, ArcelorMittal South Africa recognises both its legal and moral responsibility to protect the health of its workers. The company is committed to identifying, managing and eliminating any undesirable impacts that its operations may have on the health of employees, contractors and any other stakeholders.

Identifying key areas of concern

Every work area within ArcelorMittal South Africa is subjected to routine workplace health assessments that help the company to identify where the key health risks lie. In addition, employees provide input on their occupational health concerns and a risk-based medical surveillance programme continually monitors the health of company workers. Together this information has identified noise, dust and heat exposure as the most material occupational health issues.

Occupational health performance

ArcelorMittal South Africa uses the Occupational Diseases Frequency Rate (ODFR) to measure its occupational health performance over time. ODFR indicates the number of occupational diseases reported for every million man hours worked. Previous years have been characterised by a pleasing downward trend and the year under review was no exception, with a decrease in the ODFR from 0,50 in 2006 to 0,3 in 2007. These results are due to ongoing interventions – from awareness campaigns and stricter controls to engineering changes in the work environment – to reduce the risks to occupational health.

Investing in employee wellness

Employee wellness, which includes HIV/AIDS, is a standard reporting point on the agenda of the SHE Committee of the Board and its quarterly progress is overseen by a corporate steering committee at management level. The Employee Wellness Programme Management forum convenes bi-monthly to track and coordinate company-wide initiatives, while structures at operating unit management level monitor local initiatives. Monthly reports on HIV/AIDS and other wellness areas are tabled at the human resources management committee. Unions and employees are represented at each operating level.

Following the adoption of a new employee wellness strategy in 2006, ArcelorMittal South Africa began integrating all employee wellness-related initiatives into a coordinated framework during the year under review. This began with the establishment of a governance structure that will see both the human resources and SHE disciplines working together to coordinate the planning and execution of employee wellness initiatives. HIV/AIDS and disability management are already consolidated into the Employee Wellness Governance Structure, which during 2007, oversaw the finalisation of two new strategies, one for the management of substance abuse and the other to promote a healthy work-life balance among employees and contractors.

Responding to the HIV/AIDS crisis

As is the case across a variety of industries in South Africa, HIV/AIDS remains a key area of concern and one that poses a serious threat to the sustainability of businesses across the board. ArcelorMittal South Africa has adopted a holistic approach to responding to this national crisis, which includes voluntary testing and counselling (VCT), education and awareness campaigns and a structured behavioural change strategy to reduce the infection rate.
The company has continued the group-wide Know-Your-Status campaign launched in 2003/2004, of which the voluntary testing and counselling (VCT) programme launched in 2006 is a cornerstone. This programme aims to achieve a 100% employee VCT rate by the end of 2008. While some areas and departments have already met this target, the cumulative average for the entire company to date currently stands at 62% participation. This has revealed a 4% HIV-positive prevalence rate.

One of the key HIV/Aids management goals for 2007 was to facilitate access of these HIV-positive employees to support programmes. In this regard, permanent HIV/Aids coordinators have been employed and to date have helped 200 HIV-positive employees gain assistance from the company support programme.

ArcelorMittal South Africa also plans to implement a behavioural change programme during 2008 to address the issues of stigma, misinformation and unfair discrimination, and to strengthen the supportive role of the workplace for employees living with HIV. Best practices show that the success of such a programme will depend on the company’s ability to gain valid information about the prevailing knowledge, attitudes and perceptions (KAP) of employees in the company. To this end, a KAP study was conducted at the Vanderbijlpark Works, which, as the biggest operation in the company, will serve as a pilot study for the behavioural change programme. The study was completed in June 2007 and the company is now in the process of designing a behaviour change strategy that can be applied to all other operational areas. The components of this strategy will include:

- Capacity-building interventions and training to improve leadership advocacy and foster a non-discriminating environment.
- Ongoing stigma reduction and mitigation programmes.
- A VCT road show programme that will facilitate workplace access for testing of employees and provide all employees – even those who choose not to be tested – with pre-test counselling.
- An on- and off-site prevention campaign that will focus on empowering employees with knowledge about their rights and impart sexual negotiation skills to female employees in particular.
Managing our environmental impact

As a corporate citizen concerned about the welfare and sustainability of the environment, ArcelorMittal South Africa is committed to manage the impact of its operations on the natural world.

The company recognises that the steelmaking process and its waste and by-products have many potentially harmful effects, which include:

• the emission of CO₂ gases as a result of the considerable carbon used to manufacture steel;
• particulate and other air emissions such as SO₂;
• pollution due to the generation of slag and other waste;
• water consumption, pollution and wastage; and
• energy consumption.

Of these five issues, the company regards the issue of particulate and other air emissions as being the most important, and many of our large investment projects are directed towards improving our performance in this area.

This section of the report deals with the issues identified above, as well as with the current pressing issue relating to the company’s management of its environmental impact at the Vaal waste disposal site and other sites.

Policy and commitments

Our Safety, Health and Environment policy provides the framework for setting objectives and targets within the group. This policy is given the highest level of consideration, having been established by the executive committee, chaired by the Chief Executive Officer and approved by the SHE Committee of the board.

The following long-term objectives were formulated during 2006, and are updated periodically as technologies develop:

• Improve energy efficiency by 15% by 2014, with the year 2000 being the baseline;
• Reduce CO₂ emissions per tonne of crude steel by 7% by 2014, with the year 2005 being the baseline;
• Achieve and maintain ambient PM10 dust levels of 40μg/m³ (annual average), measured along the fence line, by 2012;
• Reduce water abstraction per tonne of crude steel produced by 40% by 2010, with the year 2005 as the baseline; and
• Improve our material efficiency rate by 20% by 2011, from current levels.

Disposal at the Vaal Waste Disposal site – our most pressing environmental issue

In May 2007, the Environmental Management Inspectorate (EMI) of the Department of Environmental Affairs and Tourism (DEAT), otherwise known as the ‘Green Scorpions’, conducted an inspection at ArcelorMittal South Africa’s Vereeniging Works as part of Operation Ferro, a national environmental compliance campaign targeting the iron, steel and ferro-alloy industries.

The audit resulted in the closure of the Vaal disposal site. The waste in question comprises slag, spent refractories and building rubble. Arc furnace dust which contains cadmium, chrome and lead was previously disposed of at this site, but ArcelorMittal South Africa decided not to continue with this practice in February 2007 due to the potential adverse impacts on the environment.

ArcelorMittal South Africa’s immediate compliance action

All waste that used to be destined for this disposal site is currently being disposed of at alternative disposal sites that are fully compliant with legal requirements. A magnetite stockpile was found when ArcelorMittal South Africa purchased USKO steelworks in 1991. The stockpile was leaching contaminants into the groundwater and ArcelorMittal South Africa is in progress of removing this material from the disposal site with a planned completion date of December.
2008. Besides halting all disposal activities at the Vaal Waste Disposal site (Vereeniging Works), the company has also submitted a comprehensive Rehabilitation Plan to the authorities and once comments and approval are received and the magnetite stockpile has been removed, the rehabilitation project can commence.

ArcelorMittal South Africa’s position on this issue
ArcelorMittal South Africa is committed to ensuring that all its sites become legally compliant as soon as is possible. We initiated an internal investigation into all waste disposal sites to re-assess their legal compliance. The company is now also attempting to fast track its outstanding permit applications with the Department of Environmental Affairs and Tourism for certain sites, a process which can take years.

Regrettably, there is no immediate ‘quick-fix’ solution. Some of the disposal sites were designed 60 years ago without the benefit of modern environmental guidelines. Waste products have, therefore, been allowed to build up over decades, resulting in a substantial challenge for rehabilitation. When the company first became aware of this issue in the 1990s, it already began to take steps to solve the legacy problems, initiating a R1 billion capital improvement plan that is due for completion in the next four years, while all our waste disposal sites will be legally compliant by 2010.

Due to the long-term nature of the solutions that can be implemented, the company may, in spite of these actions, still be legally non-compliant when future Green Scorpions audits are conducted in 2008. However, it is our firm commitment to take all the necessary steps to speed the resolution of this environmental issue.

Directive received in terms of section 28 of NEMA
On 17 October 2007 Vereeniging Works received a directive from Gauteng Department of Agriculture and Environment (GDACE) issued in terms of section 28 of NEMA stating the following:
1. The Vaal Waste Disposal site should be closed within 5 working days.
2. A revised rehabilitation plan for the Vaal Waste disposal site is to be submitted within 15 working days.
3. Alternative disposal options are to be submitted within 5 working days for the GDACE’s approval.
4. A plan for the removal of the approximately 75 000 tonnes of magnetite is to be submitted within 7 working days.
5. All magnetite needs to be removed from the site by December 2008.
6. An external audit report for the site is to be submitted within 7 working days.
7. An undertaking needs to be submitted that no further non-compliances will occur on this site.

Points 1, 3, 4, and 6 were immediately complied with and as an interim measure, all slag and refractory waste are currently taken to the Holfontein disposal site. We have sourced a market for the magnetite stockpile at the Vaal Waste Disposal site, 25 000 tonnes of which have already been sold, and we are confident that we will meet the December 2008 deadline for the removal of the remaining 75 000 tonnes. More feasible long-term disposal options are currently being considered. GDACE granted an extension till 7 January 2008 regarding point 2, and we have complied. Point 7 will be addressed once a new authorisation is received from the authorities.

Any further directives received in the 2008 calendar year will be reported on next year.
Managing our environmental impact

Background to the Vaal Waste Disposal site issue

The waste disposal site in question dates back to steelmaking operations at Vereeniging and in many respects is a legacy that ArcelorMittal South Africa inherited in the period prior to the acquisition of the company. It became clear that previous mismanagement of this and other waste disposal sites posed a serious environmental risk for which ArcelorMittal South Africa is now responsible. Recognising the need to rectify the situation, the company implemented a two-phase environmental management plan in 2000/1.

The first phase of this plan focused on the most immediate problem of ground and water pollution, which has direct bearing on the disposal of waste at unlined waste disposal sites such as the Vaal site. Consultation with industry and environmental experts resulted in a ten-year plan to which the company committed R1 billion. Known as the Master Plan, this proposal was distributed to the national Department of Water Affairs and Forestry – the relevant authority at the time – for its input and buy-in. Although never formally approved by the Department, the plan received tacit consent as the Department linked the renewal of licences and permits to ArcelorMittal South Africa’s achievement of certain milestones laid out in the plan.

To date, ArcelorMittal South Africa has spent some R750 million implementing the changes outlined in the Master Plan. Due to the nature of the ground and water challenges facing the company, it has been necessary to complete certain aspects of the plan before others (such as the waste disposal sites) could be tackled. The first phase of the plan focused mainly on water consumption and the reduction of effluent, with significant progress towards completion being made at all the works.

Prior to the audit conducted by the Green Scorpions, the company was in the process of rehabilitating the site with a view to eventually closing it in line with the milestones laid out in the Master Plan. The role of the Green Scorpions, however, is to assess legal compliance with regard to environmental management, not to consider whether a company is on track towards achieving milestones agreed upon with other authorities, and it is for this reason that the Vaal waste disposal site was closed. Over time, government structures dealing with environmental affairs have changed and this in itself has presented further complications impacting on the validity of any understanding that may have been in place regarding the rehabilitation plan for certain ArcelorMittal South Africa sites. Within the water regime the plans served a valuable purpose, but due to legislative changes implemented over the last years, they are not appropriate to address other environmental risks, such as air quality, which the company now faces.

Reporting failures

Issues of legacy aside, however, ArcelorMittal South Africa recognises that there are a number of instances where it has failed to meet required standards, specifically with regards to environmental reporting to authorities. This issue arose largely out of a temporary but severe environmental skills and resource shortage in the company, which has since been addressed, bringing environmental reporting back on track.

Taking corrective action

Although the company has almost completed Phase One of its environmental action plan, it is clear that greater corrective measures need to be implemented. To this end, the company has put in place an action plan that addresses all instances of non-compliance against an urgent time frame.
Emissions to air
Particulate and other air emissions are one of the most material issues facing the company in 2008. These emissions comprise primarily of dust and SO₂. We know that the emissions from some of our older plants put our performance in this regard below worldwide standards, indeed also by ArcelorMittal’s standards. New legislation in South Africa has incorporated much more stringent standards from abroad, necessitating that we improve our standards as a matter of priority. Further, the Vaal Triangle has been declared a Priority Airshed Area. Considering that ArcelorMittal South Africa’s Vanderbijlpark and Vereeniging plants are situated here, it is clear that priority needs to be given to our emissions from these plants.

The second phase of the company’s commitment to improve environmental performance involves implementing significant changes to reduce air pollutants. Similar to the Ground and Water Master plan, the company has committed R1 billion to this initiative. The company’s revised air emissions strategy is in process of being finalised and provides guidelines for implementation and targets for reducing these emissions. The company continued to make progress in gathering comprehensive data on pollutants and fugitive emissions for all plants and these data have been included in the Air Emission Reduction Strategy to provide a baseline for future measurement.

Last year we published the schedule for a number of projects that were in the pipeline for 2007, as part of our strategy to achieve annual average PM10 values of below 40μg/m³ in ambient air. The revised and updated schedule for these projects is:

**Vanderbijlpark Works**
- The coke plant gas and water cleaning project scheduled for 2007 is now on track for April 2008. At a cost of R310 million, it is expected to have a significant impact, reducing sulphur dioxide emissions by 43% or 5 600 tonnes per annum.
- Following delays due to mechanical failure of key components in the sinter clean gas project, the first module could not go into operation in 2007, but is now on track for Q1: 2008. Due to difficulty in proving the chosen technology, the company has now opted for an alternative technology, which we will begin installing in 2008, for completion in 2010. Once complete, it will reduce particulate emissions by a further 1 848 tonnes per annum (19% of base load in 2004), and SO₂ emissions by a significant amount (exact SO₂ reduction not available yet). The total cost of this project will amount to R168 million.
- Electric Arc Furnace Building: A new secondary dust and fume extraction system is planned to reduce the amount of dust escaping through the roof of the building. A Record of Decision (ROD) was received from the authorities for this project to commence. The cost and duration estimates are R400 million, between 2008 and 2010.
Vereeniging Works
Last year we discussed our plan to install a new dust and fume extraction system at the electric arc furnace meltshop of Vereeniging Works. Detailed engineering has commenced on site, with a planned completion date around the end of 2009.

Newcastle Works
The process of completing and commissioning a sulphur recovery plant for coke oven gas reported last year was delayed, but is now on track for completion in 2008. This will result in a 30 – 40% reduction in SO2 emissions, and will cost R48 million.

Managing carbon emissions and increasing energy efficiency
The steelmaking process uses a considerable amount of carbon-based fuel and is therefore a significant contributor to CO2 emissions. Recognising that these emissions are directly linked to the energy consumption of its operations, ArcelorMittal South Africa has accepted the challenge to reduce its carbon footprint by increasing its energy efficiency.

One of the important ways in which this can be achieved is by utilising gases that are traditionally flared as waste. The 110MW power plant planned for the Vanderbijlpark Plant will significantly reduce the company’s CO2 emissions by employing this strategy. However, the year under review saw a delay in the progress of this plant following a decision to proceed with the project alone instead of together with the company originally identified as a possible partner. Following this decision, ArcelorMittal South Africa had to wait for the authorisation originally granted to both parties to lapse before applying to authorities for a new EIA process to be followed in order to obtain a Record of Decision (ROD) to continue with construction single-handedly. A similar power plant is currently under investigation for Newcastle Works and could form part of the planned expansion of this facility.

ArcelorMittal South Africa experienced an upward trend in CO2 emissions per ton of crude steel produced and energy efficiency in 2007 due to production restraints and increased market coke production for the alloy industry.

Vanderbijlpark and Saldanha Works are zero-effluent with Newcastle Works destined for this achievement by end 2008. ArcelorMittal South Africa managed to maintain its good water management record and freshwater intake figures are comparable with the best in the world (see accompanying graph).

Becoming zero-effluent
A R220 million water treatment and desalination plant commissioned in 2006 has helped Vanderbijlpark Works achieve zero-effluent discharge status, while the state-of-the-art Saldanha Works has been a zero-effluent operation since its inception. During the year under review progress was made on achieving zero-effluent status at Newcastle Works. Construction of the water evaporator crystalliser is in progress and yet to be completed and as such we look forward to achieving zero-effluent status at this operation by the end of 2008.

Vereeniging Works represents the company’s biggest area of challenge regarding effluent and, in particular, fluoride concentrations in the effluent emanating from this plant remain unacceptably high. In order to correct this situation in the immediate short term, the company is investigating the possibility of having the effluent treated at the local municipality’s sewerage treatment plant, where the infrastructure exists to treat the effluent effectively. Negotiations are currently in the early stages but look promising.

Tackling the challenge of salt production
The desalination process so central to making a plant zero-effluent unfortunately is not without its own by-products. Chief among these is the increase in the production of salts, of which NaCl and gypsum salts (CaSO4) have potential uses. The company is investigating the possibility of selling these salts to the cement and agricultural industries.

Water usage and pollution
South Africa is a water-scarce country and water-intensive industries such as ours have a responsibility to ensure that they conserve water and prevent pollution. ArcelorMittal South Africa’s key focus in this regard is to obtain zero effluent status for three of its four steel-producing facilities.
Note: The water intake figure for Newcastle Works is higher than previous years, reflecting various problems experienced in the water treatment field during 2007. The figure for Vereeniging Works is higher due to the inclusion of the Dunswart Direct Reduction Plant’s intake figure which was previously not available.

Notes on CO₂ emission graph: International Iron and Steel Institute (IISI) methodology used to calculate CO₂ emissions. CO₂ emissions associated with electricity generation included. CO₂ emission credits for by-products included. Increases in CO₂ emissions per tonne of crude steel produced are due to production restraints and increased coke production in 2007.

Notes on Energy consumption: International Iron and Steel Institute (IISI) methodology used to calculate CO₂ emissions. Energy consumption per tonne of crude steel produced increased mainly due to production restraints and increased coke production during 2007.
Managing our environmental impact continued

Improving the management of by-products, material efficiency and recycling

By-products and material efficiency

In the production of its 6.4 million tonnes of liquid steel in 2007, ArcelorMittal South Africa produces a total of 4.7 million tonnes per year of steel by-products, which are either sold to external customers, reused internally, recycled, or disposed of.

Not only is it more environmentally friendly to sell, reuse or recycle by-products, but it makes sustainable business sense as well, generating income for ArcelorMittal South Africa and contributing to cost reduction of raw materials in the iron and steel production process. Disposal on the other hand is costly to the organisation, affecting both the company’s bottom line profitability and its reputation. The company is, therefore, heavily invested in finding ways to reduce the volume of by-products dumped.

A dedicated team in the Coke and Chemicals operation is tasked with reducing disposal by increasing sales to existing customers, finding new markets, adding value to currently disposed of by-products and increasing internal recycling of by-products. The company’s goal is to improve its Material Efficiency rate by 20% on current levels by 2011. The biggest challenge is to find markets for steelmaking slag which forms the bulk of the by-products, generated.

During the year under review 48.7% of the company’s by-products were sold to different industries, while 16% was recycled internally and 35.6% disposed of. These disposal figures show a year-on-year improvement since 2003 within ArcelorMittal South Africa (as detailed in the accompanying graph) due to a market developed for steelmaking slag at our Newcastle Works. ArcelorMittal South Africa realises that more work is required in this field. Many of the current initiatives focus on the reduction of hazardous or undesirable waste streams which will not immediately show an improvement due to their relative small tonnages in comparison to the slag volumes.

Last year, we included a number of targets we intended to achieve, and these can be updated as we look forward:

- There is as yet no major breakthrough in developing further markets for Basic Oxygen Furnace (BOF) and Electric Arc Furnace (EAF) slag. While BOF slag is highly desirable for highway construction, the cost and inconvenience (high mass) of transporting the aggregate long distances limits the use to a certain radius around Newcastle.
- As reported on last year, we do separate carbon from the dolomitic slags for use in steelmaking. This project should be fully functional during 2008.

Measuring material efficiency

The material efficiency is a waste indicator that is actively managed within ArcelorMittal South Africa.

Material efficiency = (Crude steel production – waste) / Crude steel production x 100%
## Table listing uses and initiatives for by-products

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Application</th>
<th>Tonnes/year disposal reduction</th>
<th>Planned implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate market</td>
<td>External sales</td>
<td>&gt;120 000</td>
<td>Implemented but should expand in 2008 especially in Vanderbijlpark area</td>
</tr>
<tr>
<td>Clay Brick Project Phase 1</td>
<td>External sales</td>
<td>70 000</td>
<td>To commence in 2008</td>
</tr>
<tr>
<td>Carbon Separation</td>
<td>Internal recycling</td>
<td>36 000</td>
<td>To gain momentum in 2008</td>
</tr>
<tr>
<td>Air Granulation of Steelmaking slag (Ecomaster)</td>
<td>External sales</td>
<td>35 000</td>
<td>Project completed but currently no production takes place due to Cr(VI) formation in granulated product</td>
</tr>
<tr>
<td>Sinter Mix Projects at Vanderbijlpark and Newcastle</td>
<td>Internal recycling</td>
<td>45 000</td>
<td>July 2008</td>
</tr>
<tr>
<td>Briquetting of EAF dust at Vereeniging</td>
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Note: The reason for the slight drop is due to the fact that Crude Steel production is used in the calculation of this indicator which was significantly less during 2007 due to the rebuild of Blast Furnace D at Vanderbijlpark. Activities like coke production however continued at maximum levels during this period resulting in the slight decline.
• With regard to improving the recycling of undesirable by-products in the sinter processes, the EIA processes have been completed in 2007 and implementation is to follow in 2008.

• There is ongoing improvement in the efficient use of raw materials, such as the active management of fuel rates to save coal consumption.

Identifying new markets and applications for its by-products and reducing the amount of waste at manufacturing facilities will help the company to increase its material efficiency percentage, which for the year under review, was 73.7%.

To this end, the company is assisting with the sponsorship of a research project being conducted at the University of Pretoria, where the use of slag as a liming agent in agricultural applications is being investigated. Slag contains large amounts of lime, silicates and some trace metals, which could be beneficial to agriculture.

 Investigations during the year under review also resulted in the successful separation of carbon from the dolochar waste stream for use in the steelmaking process. A plant was constructed for this purpose and will be fully operational during 2008. The by-product from which carbon is separated will be supplied to a clay brick-maker on site at Vanderbijlpark and the total waste reduction will amount to 114 000 tonnes per annum.

Recycling
Steel is one of the most recyclable products in the world, losing little of its inherent value in the recycling process. More than 95% of steel products get recycled eventually, making the material one of the most sustainable in the world. ArcelorMittal South Africa currently makes use of 20% of scrap steel in its processes to produce crude steel. It also plays a pivotal role in supporting the Collect-A-Can initiative, which is the most successful steel beverage recycling project in the world. (See the Community section for more on this project and ArcelorMittal South Africa’s involvement.)

Remediation and rehabilitation of old disposal sites and contaminated land

Due to our operations dating back to 1922, we have landholdings that could be classified as contaminated. We regard land as a valuable resource for future generations and where the condition of historically degraded land constitutes a potential environmental risk we take steps to manage this. Our Pretoria Works is in a state of partial decommissioning and rehabilitation with one coke battery and a rolling facility still in operation. We are in the process of transforming this old plant into an industrial hub for light industry, a process that commenced in the late 1990s. Large amounts of slag were reclaimed, processed and sold to the civil industry from the Pretoria site to date as part of the remediation process.

Our remediation effort currently focuses on four historic or “legacy” disposal (landfill) sites which pose a potential threat to the environment and need to be managed. These sites have not been used since the late 1980s. Various investigations were conducted to determine the footprint of these sites and we are proud to announce that the bulk of investigative work is nearing completion. Unfortunately, many of the disposed materials found on these sites cannot be recycled or sold, making treatment and re-disposal on lined disposal sites the option of choice – especially materials that are potentially hazardous. The four “legacy” sites receiving attention in order to commence with rehabilitation and remediation are:

• Mooiplaats disposal site in Pretoria – situated in a dolomite quarry to the west of Laudium in Pretoria.
• Zwartkops disposal site – situated due east of the Zwartkops race track.
• Dunswart disposal site – situated in the Benoni area.
• Klip disposal site – part of the old USCO Works of which a part is now our Vereeniging Works. This site is situated on the banks of the Klip River in Vereeniging.
The planned projects to rehabilitate and remediate the above mentioned disposal sites are long term due to a complex legal process that needs to be followed. The legal processes for the rehabilitation of the Mooiplaats and Kip sites are the most advanced at this stage, but regrettably could still take some time before rehabilitation activities may commence.

**Stakeholder engagement – public complaints**

ArcelorMittal South Africa used to receive very few complaints from the public, partly because channels of communication were not well publicised, nor was the public as aware of environmental issues as they are now.

In order to promote open dialogue with interested and affected parties, we have instituted a set of procedures within the Environmental Department to ensure that all incoming complaints are distributed to relevant parties internally and responses drawn up for complainants. Complaints are also reported within 24 hours to all members of the executive committee of the company.

We are already seeing the benefit of this action, with ten complaints (all relating to air emissions) being received and responded to in 2007.

**Looking ahead**

For the year ahead, ArcelorMittal South Africa plans to meet the following environmental goals:

- To improve legal compliance to a level that is acceptable to our stakeholders and the authorities. Green Scorpion audits will be conducted at Saldanha Works in May 2008 and February 2009 at Vanderbijlpark Works.

- The implementation of various projects to install emission abatement equipment as mentioned under the “Emissions to air” section. Planned completion dates for these projects differ, but it is envisaged that from 2010 onwards a visible improvement will be achieved for our Vanderbijlpark and Vereeniging plants, where air emissions are a challenge. The larger projects will be supplemented by various smaller projects to abate groundlevel emissions due to material handling, wind and vehicle traffic. The accomplishment of such projects will assist the company to achieve ambient PM10 dust levels of 40ug/m³ (annual average) along its fence-line.

- To make significant progress at our Newcastle Works regarding water treatment and to obtain zero-effluent status.

- To reduce energy consumption by 10% during 2008 in line with ESKOM’s requirements. Such reductions will also contribute to a CO₂ emission reduction of the same order necessitating a review of CO₂ reductions that will be achieved.

- The implementation of various waste minimisation/recycling/re-use projects that will assist the company to achieve its Material Efficiency target of 95%.

- To continue with the rehabilitation/remediation of old legacy disposal sites.

**ISO 14001 Certification**

All ArcelorMittal South Africa’s major manufacturing facilities are certified in accordance with the ISO 14001 standard for environmental management systems, with the exception of the satellite Dunswart and Pretoria operations. Whilst Pretoria Works is not scheduled for certification due to closure of operations, Dunswart is in line to achieve this milestone by 2008.
An historical legacy of wilful neglect of entire communities means South Africa faces substantial social challenges.

Poverty, unemployment, lack of access to basic services and poor education standards are among the many daily hurdles that still characterise the lives of thousands of South Africans. The security, sustainability and economic health of the country will be determined by how well we as a nation are able to collectively find workable solutions to these problems. Big businesses, such as ArcelorMittal South Africa, are key stakeholders in this concern and together with government, NGOs and civil society, have a vitally important role to play in helping to uplift historically disadvantaged communities to the benefit of all. Doing so is not only the right thing to do, but also makes good business sense. Thriving communities that have educated, skilled and employable people are better able to serve the needs of businesses such as ArcelorMittal South Africa.

Alignment with national imperatives

The company strongly believes that, in order for this social transformation to be meaningful and have relevant impact in the communities where the greatest need lies, social development efforts need to be co-ordinated to work towards common goals. As such, ArcelorMittal South Africa has aligned its social development goals with those of government. The company’s focus areas seek to address common national development challenges even though its geographic reach extends only to the communities in the company’s areas of operation, namely Vanderbijlpark, Vereeniging, Newcastle and Saldanha.

The needs of our stakeholders

People living in these areas are directly affected by the business of ArcelorMittal South Africa. Their homes, schools, hospitals and neighbourhoods are located close to the company’s plants, which are often the main source of employment in the area.

These communities share the same key challenges as many impoverished groups throughout the country. The company recognises the importance of understanding who its stakeholders are within each of its communities and what their specific challenges are. By engaging with municipalities and local government, ArcelorMittal South Africa has been able to identify the most pressing needs in each community. Although each geographic area is different, communities face similar challenges. A synopsis of each community has highlighted the most common as being poor education facilities and underperformance in maths and science, general unemployment, lack of housing and a high rate of HIV/Aids infection.

Vanderbijlpark and Vereeniging

The 3,8 million people who reside in Vanderbijlpark and Vereeniging are divided among more affluent suburbs and historically disadvantaged townships. The townships represent the areas of greatest need and it is on these that ArcelorMittal South Africa necessarily focuses most of its CSI projects. They include Boipatong, Bophelong, Evaton, Loch Vaal, Sebokeng, Sharpeville and Tshepiso in Vanderbijlpark, and Meyerton, Eikenhof, Walkerville, Henley-on-Klip, Randvaal, Risiville, Suikerbosrand, Sicero, Roshnee, Rust-Ter-Vaal and Orange Farm in Vereeniging. A staggering 46.1% of the economically active people living in these communities are unemployed, a problem which is further compounded by the poor educational facilities and lack of properly skilled educators at schools which serve the children of this community. Without proper education, the future generations in Vereeniging and Vanderbijlpark will fall victim to the same cycle of poverty that characterises the lives of their parents and grandparents. For this reason, ArcelorMittal South Africa has placed a strong emphasis on uplifting educational facilities, educator capacity and learner performance in these communities.

Newcastle

Situated in KwaZulu-Natal, Newcastle is home to approximately 900 000 people, the most disadvantaged of whom reside in Madadeni, Blaubosch, Osizweni, Utrecht and Paulpietersburg. The KwaZulu-Natal province has experienced the ravages of HIV/Aids more severely than any other area
in South Africa. Soaring infection and death rates have left many families without breadwinners and headed by children or ageing grandparents. While this has necessitated a strong focus on prevention of the disease and care for those who are terminally ill, it has also highlighted the need for sustainable poverty-relief efforts, including skills development, education and job creation through small enterprise development.

Saldanha
Around 90 000 people live in the communities of Saldanha, Langebaan, Velddrif and Vredenburg on the Western Cape Coast. The area is far from most major industries and unemployment thus represents the biggest challenge for historically disadvantaged groups. As is the case with Vanderbijlpark and Vereeniging, education remains a key area of need and the pass rate of learners in these communities, particularly in the areas of maths and science, is very poor.

Distributing our resources
The company addresses these challenges through the vehicle of its Corporate Social Responsibility (CSR) Programme, which is centralised within the Corporate Affairs Department at ArcelorMittal South Africa.

Focus areas
Careful consideration of the key challenges facing its community stakeholders has led the company to identify the following as its primary corporate social investment focus areas:

• education (with specific emphasis on maths and science development): 89%
• job creation: 2%

Secondary focus areas include:
• health (with specific emphasis on HIV/AIDS): 4%
• sports development: 5%

Approach
In delivering on these focus areas, the company seeks to partner communities in long-term, group-driven projects that will have a sustainable impact. During 2007, a decision was taken to focus on large projects instead of smaller ad hoc ones. The prevailing wisdom among CSR practitioners is that this approach helps to increase impact, one of the key outcomes of all ArcelorMittal South Africa’s CSR initiatives. However, discussions held with representatives from the company’s operating units highlighted the need for funds to be made available for once-off, localised community projects to be implemented on a small scale by the business units themselves. In 2007, the company, therefore, made a small portion of the CSR budget available for localised initiatives selected at the discretion of each of the company’s operating units.

CSR and SED
Code 700 of the DTI’s Codes of Good Practice encourages companies to engage in Socio-Economic Development (SED), mainly initiatives aimed at uplifting disadvantaged communities. This is a new term that largely overlaps the still current concept of Corporate Social Investment (CSI). ArcelorMittal use the term interchangeably. For further information on these terms, see the 10th edition of Trialogue’s CSI Handbook, published in November 2007.
Principles
All projects, no matter what their size are, however, underpinned by the company’s overarching CSR principles:

- address socio-economic imbalances
- contribute to meaningful transformation
- align objectives with government programmes such as AsgiSA (Accelerated Share Growth Initiative of South Africa)
- empower historically disadvantaged communities to become self-sufficient
- promote employee participation in social projects.

Budget
Discussions are taking place between ArcelorMittal South Africa and the government regarding our commitment to build ten schools. Planning is already far advanced and implementation of the school building programme is expected to commence within the 2008 financial year. Following the release of the revised DTI Codes of Good Practice, the company has committed itself at the highest level to meeting the 1% target in 2008. A budget of R57 million has been approved and the company will meet the 1% of after-tax profit target.

Flagship projects
ArcelorMittal South Africa Science Centre
Poor science and maths performance at the secondary education level, and the unpopularity of the sciences as a career path at the tertiary level, are two of the key challenges facing South Africa. Highlighted by President Thabo Mbeki as a key development area, the situation will have a direct affect on the growth and future competitiveness of the entire country. Without scientists, technologists and engineers, South Africa will be unable to maintain or extend the infrastructure and economic strength required for it to compete meaningfully on a global stage.

The issue is also one that directly affects the business and sustainability of ArcelorMittal South Africa, whose core business relies heavily on being able to access skilled people in the scientific, engineering and technological fields. Improving maths and science performance at schools in the communities around the company’s areas of operation will, therefore, not only provide a vital sustainable resource for ArcelorMittal South Africa, but will also work towards alleviating a national skills crisis.

It is against this backdrop that ArcelorMittal South Africa embarked on its most important flagship project to date in the establishment of the ArcelorMittal South Africa Science Centre. Opened in 2006 in Sebokeng, Vanderbijlpark, the centre represents a close partnership with the Department of Education. It serves learners and educators in the entire Vaal region, providing them with classrooms, science laboratories and interactive science exhibitions that allow them to experience first-hand the wonders of science and technology.

Importantly, the centre also provides secondary school learners from historically disadvantaged schools with instruction in Department of Education curriculum-linked science and maths classes. In its pilot year, 571 grade 10 learners from 15 schools benefited from these classes, improving their overall performance and instilling in them an interest in the sciences. This group graduated to grade 11 in 2007 and continued to receive instruction at the centre. In addition, a new group of grade 10 learners was recruited from 12 new schools, bringing the total number of participants in this programme to 1 604. Each year will see a new batch of learners benefiting from what the centre has to offer.

However, while such instruction will undoubtedly improve the performance of these particular groups of learners, ArcelorMittal South Africa recognises that true sustainability and far-reaching impact can only be achieved if educators are involved as well. As such, the centre provides maths and science educators with training to improve their subject knowledge and teaching ability. To date 30 teachers have benefited from such training.
The year also saw the completion of a state-of-the-art computer laboratory, complete with 42 computers, software and printers. Initially, this will serve to train educators in basic computer skills but it is envisaged that learners will also be able to use the laboratory in 2008 and will receive similar training.

Collect-a-Can
The Collect-a-Can initiative, a joint project between ArcelorMittal South Africa and Nampak, addresses multiple challenges through one intervention. It removes waste steel from the environment, contributes to steel recycling efforts, provides a sustainable income for unemployed and unskilled people across South Africa and presents an environmental educational opportunity.

One of the beauties of steel is its almost infinite ability to be recycled without losing its inherent value. In fact, 48 000 tonnes of waste steel is recycled every year to make prime steel across the world. In South Africa, used beverage cans represent an important scrap steel resource.

Collect-a-Can contributes significantly to South Africa being one of the best steel beverage can recoverers in the world, with a 67% recovery rate (comparable to many First World countries). It pays individuals and small enterprises a higher-than-reigning-steel-price rate to recover the cans. This not only removes the cans from the environment, but it also provides 37 000 unemployed people with a sustainable income and has inspired a vital entrepreneurial endeavour. Small collector enterprises have been established, some of which employ as many as 65 people and generate a monthly income of R30 000.

In addition, Collect-a-Can runs environmental education campaigns at schools, raising awareness among future generations of the importance of recycling. Around 700 schools participate in collecting competitions, reaching an estimated 1 million children. In light of the increased focus on environmental conservation, the Collect-a-Can initiative represents a prime example of how simple solutions, when managed effectively and supported by big business, can make a significant difference.

Lightweight steel structure schools
During 2007, ArcelorMittal South Africa entered into an agreement with the Department of Education and the Department of Public Works to build ten schools across the country using lightweight steel structures. A first-of-its-kind, the project will act as a prototype from which lessons can be drawn to drive similar construction projects for homes, crèches, clinics and community centres. Although virtually unknown in South Africa, lightweight steel construction is recognised in many First World countries — particularly Australia — as a fast, durable and effective means of building and ArcelorMittal South Africa is extremely excited to be part of a venture that could, in the future, play an integral part in alleviating the country's massive shortage of houses and schools.

Although the value of the project is still to be determined ArcelorMittal South Africa will assist with the training necessary for this type of construction. Government departments will select those areas where the schools are to be built, and labour and expertise will be drawn from these communities, thereby providing skills, training and jobs to local people. This initiative will make up a significant proportion of the increase in ArcelorMittal South Africa’s CSR budget for the 2008 financial year.
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* AR = Annual report
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