ArcelorMittal South Africa Limited Annual Report 2007

The lifeblood of a developing nation

ArcelorMittal

http://www.arcelormittal.com/southafrica/

Mission

ArcelorMittal South Africa Limited is a South African-based producer of carbon (flat and long) steel products and a beneficiator of its by-products.

Vision

ArcelorMittal South Africa Limited strives to be one of the highest operating margin steel producers globally, while being a key player in the steel market in sub-Saharan Africa.

This report should be read in conjunction with the 2007 Sustainability Report

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 certified, 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.

Values

- **Reliable**
  We do what we say. We stand by our promises. In the steel industry, a secure, reliable line of supply is critical to the success of our business and that of our customers. As a reliable and secure employer, we support our employees and their communities.
- **Strong**
  We don't give up. We are determined to achieve our goals and will pursue them single-mindedly regardless of the prevailing wind of opinion.
- **Expert**
  Whether in technology, manufacturing, human resources, acquisitions or community activity, we pride ourselves on being the best in our respective fields. Continual learning is key to retaining expertise.
- **Confident**
  Great achievements require confidence. We believe in ourselves and what we are doing. We have strength of character and self-belief that gives us the edge.
- **Authority**
  We are the voice of steel. The world turns to us to learn about new processes and innovations and to get the facts about our industry. Our authority comes from an objective standpoint built on years of experience.
- **Influential**
  Already influential in the steel industry, we aim to broaden our sphere of influence in associated industries, local communities and new markets. Our employees are given the power to influence their careers and our business.
- **Innovative**
  Everybody says they are innovative; we truly are. We not only pioneered the use of DRI in the manufacturing process, we reinvented the steel industry. We encourage experimentation and reward new ideas. Now innovation is a way of life for all of us at ArcelorMittal South Africa.
- **Open**
  While we always protect our business, we are clear in what we say and encourage transparency in our business dealings given our responsibilities to our stakeholders.

Our global presence

- ArcelorMittal is the world's number one steel company, with 310 000 employees in more than 60 countries. It has led the consolidation of the world steel industry and today ranks as the only truly global steelmaker.
- ArcelorMittal is the leader in all major global markets, including automotive, construction, household appliances and packaging. The group leads in R&D and technology, holds sizeable captive supplies of raw materials and operates extensive distribution networks.
- Its industrial presence in Europe, Asia, Africa and America gives the group exposure to all the key steel markets, from emerging to mature. ArcelorMittal will be looking to develop positions in the high-growth Chinese and Indian markets.
- ArcelorMittal key financials for 2007 show revenues of USD 105,2 billion, with a crude steel production of 116 million tonnes, representing around 10% of world steel output.

Strategic goals

We have set clear goals for ourselves as we enter the next phase of our journey towards transformation. We believe that we are well equipped to realise key objectives and to meet whatever challenges the future may bring. We use both objective and subjective criteria to measure our ability to create value. From an external point of view, we consider the value propositions that will drive the share price of ArcelorMittal South Africa over time. From an internal point of view, we assess and analyse our business fundamentals, which include: strategy, operational effectiveness and the quality of our human resources assets. As a result of these processes, the board of ArcelorMittal South Africa has developed and approved the following strategic goals:

- **Industry leading value-creation for our shareholders**
  – Positive economic value add (EVA) over the steel price cycle
- **Improve operating capabilities**
  – Value-creating throughput increases
  – Substantial reduction in hot rolled coil/billet cash cost in real terms
- **Build on our existing performance culture**
  – Create an environment that generates true employee pride and attracts, develops and retains top-perfoming people
- **Be a responsible corporate citizen**

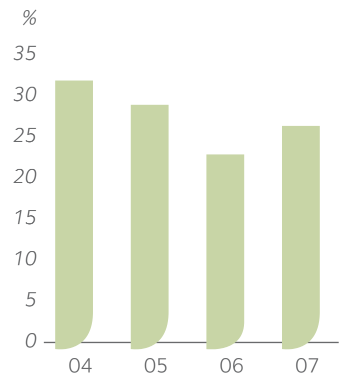
ArcelorMittal

The lifeblood of a developing nation

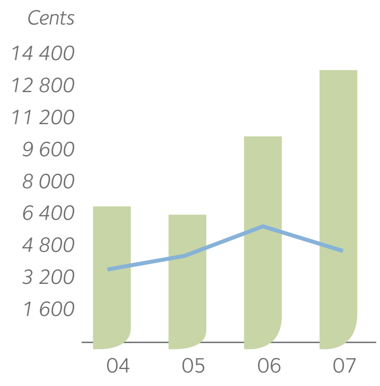
We know that our position in the steel industry brings unique responsibilities. We are committed to setting globally recognised standards with the needs of future generations in mind.

Business objectives

	Return on equity	Competitiveness	Cash generation	Shareholder value release
Objective				
	At least cost of capital (currently 15%)	Remain in the lowest quartile of global cost curve	Positive cash flow before major new investments throughout commodity cycle	Share price to reflect at least underlying net equity value
Achievement				
	26,2% for the year	Most recent cost curves confirm lowest quartile ranking	Cash flow positive before capital reduction	Average share price of R125,25 was higher than the average net equity value of R49,18
Future initiative				
	To exceed EVA by improving earnings through: – Cost reductions – Value added products and – Higher throughput	To maintain lowest quartile ranking at all plants despite Rand strength through cost leadership	To maintain positive free cash flow through focusing on cost, working capital reduction and improvement of margins	To maximise shareholder's value through capital productivity and margins, coupled with stability in earnings over the cycle, which will translate into added wealth for our shareholders



Return on equity (headline)



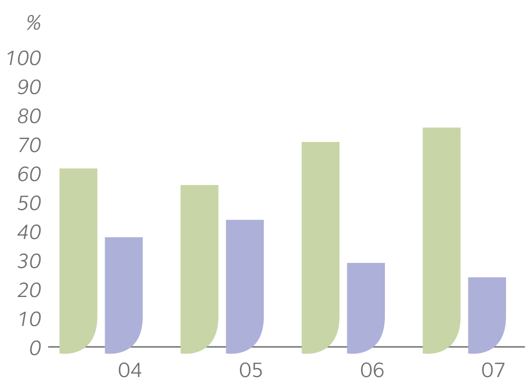
Net asset value versus share price

Share price
Net asset value

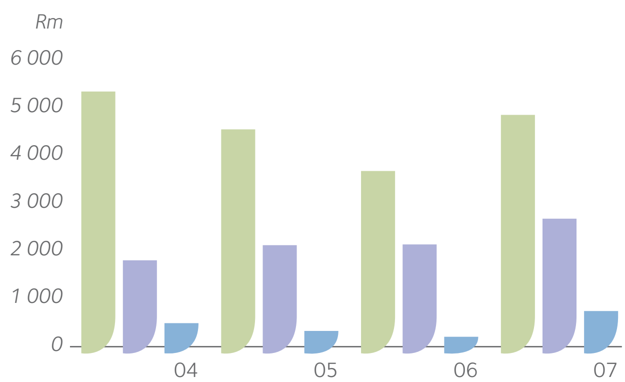
Financial summary

	31 December 2007	31 December 2006
Physical ('000 tonnes)		
Liquid steel production	**6 375**	7 055
Domestic sales	**4 421**	4 400
Export sales	**1 408**	1 794
Financials (Rm)*		
Revenue	**29 333**	25 350
EBITDA	**8 802**	7 178
Profit from operations	**7 703**	6 082
– Flat products	**4 827**	3 644
– Long products	**2 661**	2 111
– Coke and Chemicals	**727**	184
– Corporate and other	**(512)**	143
Headline earnings	**5 741**	4 730
Net cash flow (after capital reduction before other financing activities)	**(3 481)**	2 200
Total assets	**28 205**	31 175
Share information (cents)		
Headline earnings per share	**1 288**	1 061
Dividends per share	**429**	347
Financial ratios (%)		
Return on shareholders' equity (headline)	**26**	22
Net cash to equity	**19**	33

**31 December 2006 amounts were restated. Full details of restatement are disclosed on pages 76 and 77.*



Local and export sales as a % of total sales

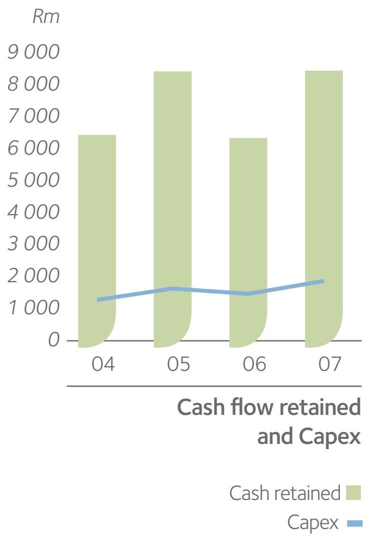


Operating profit per business unit

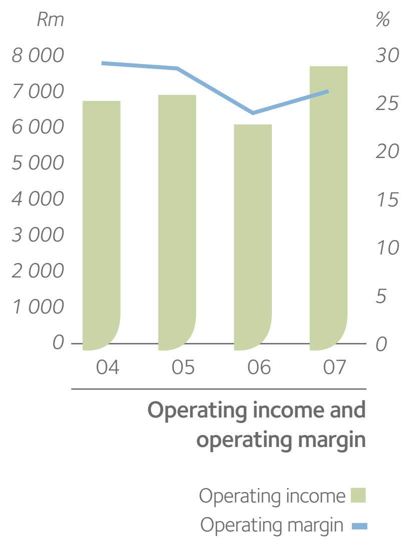
Five year review

	2007 Rm	Year ended 31 Dec 2006* Rm	2005 Rm	2004 Rm	Six months ended 31 Dec 2003 Rm	Year ended 30 Jun 2003 Rm
GROUP INCOME STATEMENTS						
Revenue	**29 333**	25 350	23 984	23 053	9 175	19 082
Profit from operations						
Flat products	**4 827**	3 644	4 518	5 310	1 048	2 880
Long products	**2 661**	2 111	2 109	1 783	328	878
Coke and Chemicals	**727**	184	301	462	99	142
Business assistance agreement remuneration				(731)	(613)	
Corporate and other	**(512)**	143	(34)	(97)	(137)	(166)
Total	**7 703**	6 082	6 894	6 727	725	3 734
Gains and losses on changes in foreign exchange rates and financial instruments designated as held for trading at fair value through profit and loss	**(131)**	301	246	(52)		
Net interest income/(finance costs)	**325**	193	(29)	(139)	(71)	(144)
Income from investments	**4**	7	5	5	2	8
Income after tax from equity accounted investments	**270**	135	277	258	67	85
Income tax expense	**(2 455)**	(2 022)	(2 327)	(2 245)	(258)	(1 201)
Minority interest				(6)	(3)	
Adustments to attributable income for headline earnings	**25**	34	25	36	3	9
Headline earnings	**5 741**	4 730	5 091	4 584	465	2 491
Headline earnings per share (cents)	**1 288**	1 061	1 139	1 020	104	557
Dividends per share (cents)	**429**	347	380	400	75	200
CASH FLOW STATEMENTS						
Cash flows from operations	**4 623**	3 463	2 616	5 228	(486)	3 107
Sale of assets	**8**	9	6	14	46	88
Capital expenditure	**(1 852)**	(1 446)	(1 608)	(1 254)	(499)	(1 176)
Investments	**(16)**			(5)		2
Capital reduction	**(6 352)**					
Other	**108**	174	43	11	116	(132)
Net cash flow before other financing activities	**(3 481)**	2 200	1 057	3 994	(823)	1 889

**31 December 2006 amounts were restated. Full details of restatement are disclosed on pages 76 and 77.*



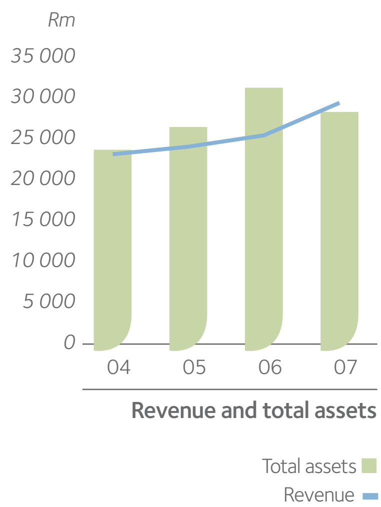
Cash flow retained and Capex



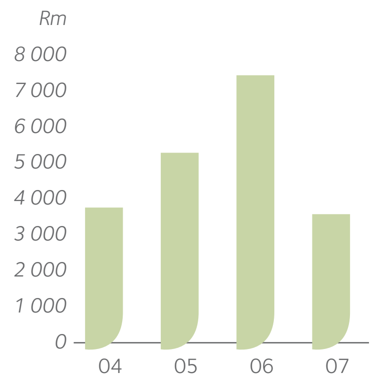
Operating income and operating margin

					Six months ended 31 Dec	Year ended 30 Jun
		Year ended 31 Dec				
	2007 Rm	2006* Rm	2005 Rm	2004 Rm	2003 Rm	2003 Rm
GROUP BALANCE SHEET						
Assets						
Non-current assets						
Property, plant and equipment	**15 525**	14 973	14 260	12 701	12 218	12 221
Intangible assets	**58**	58	74	114	32	33
Goodwill				11	32	43
Unlisted equity accounted investments	**1 109**	953	912	596	418	375
Other financial assets	**195**	134	61			
Current assets						
Cash and cash equivalents	**4 034**	7 750	5 219	4 064	1 107	852
Other	**7 284**	7 307	5 811	6 098	4 767	4 885
Total assets	**28 205**	31 175	26 337	23 584	18 574	18 409
Equity and liabilities						
Capital and reserves						
Total shareholders' equity	**20 583**	23 260	19 451	15 895	12 971	12 815
Minority interest				7	5	2
Non-current liabilities						
Borrowings and other payables	**52**	61	71	81	92	92
Non-current provisions	**1 290**	1 327	1 288	1 201	1 084	1 047
Finance lease obligations	**328**	502	596			
Deferred taxation	**2 603**	2 485	2 007	1 708	1 122	1 059
Current liabilities						
Borrowings	**10**	10	10	10	988	10
Finance lease obligations	**88**	93	89			
Other	**3 251**	3 437	2 825	4 682	2 312	3 384
Total equity and liabilities	**28 205**	31 175	26 337	23 584	18 574	18 409

**31 December 2006 amounts were restated. Full details of restatement are disclosed on pages 76 and 77.*



Revenue and total assets



Net cash

Five year review continued

		Year ended 31 Dec			Six months ended 31 Dec	Year ended 30 Jun
	2007	2006	2005	2004	2003	2003
RATIOS						
Profitability and asset management						
Return on net assets (%) - annualised	**30,3**	24,3	33,9	38,8	10,4	25,6
Return on ordinary shareholders' equity (%) - annualised						
– Attributable earnings (%)	**26,1**	22,0	28,7	33,8	7,2	21,0
– Headline earnings (%)	**26,2**	22,1	28,8	31,8	7,2	20,8
Return on invested capital (%) – annualised	**40,0**	33,6	43,4	47,2	11,1	27,4
Operating margin (%)	**26,3**	24,0	28,7	29,2	7,9	19,6
Net asset turn (times) –annualised	**1,2**	0,9	1,0	1,1	1,1	1,3
Solvency and liquidity						
Financing cost cover (times)			237,7	48,4	10,5	27,5
Current ratio (times)	**3,4**	4,3	3,8	2,1	1,6	1,6
Net debt to equity ratio (%)	**19,3**	33,0	22,9	25,0	0,2	5,9
Cash realisation rate (%)	**67,3**	58,7	40,5	87,6	(41,3)	80,1
Number of years to repay net debt (years)					0,7	
Productivity						
Average number of employees ('000)	**9,1**	9,8	10,9	12,0	12,9	13,2
– Steel	**8,2**	9,1	10,1	11,4	12,7	13,0
– Corporate	**0,9**	0,7	0,8	0,6	0,2	0,2
Revenue per average employee (R'000) - annualised	**3 220**	2 594	2 195	1 925	1 440	1 446
Cash value added (Rm)	**11 059**	8 695	10 627	9 440	2 845	6 674
Average prices (actual invoiced) US$/t C&F						
Hot rolled coil export price	**659**	531	560	541	320	324
Low carbon wire rod export price	**592**	508	490	445	310	265

	Five-year annual compound growth rate*		Year ended 31 Dec			Six months ended 31 Dec	Year ended 30 Jun
	%	**2007**	2006	2005	2004	2003	2003
SHARE PERFORMANCE							
Number of shares in issue (million)		**446**	446	446	446	446	446
Weighted average in issue (million)		**446**	446	446	446	446	446
Earnings per ordinary share							
– Basic earnings basis (cents)	1,2	**1 282,3**	1 053,5	1 136,5	1 094,3	103,9	562,6
– Headline earnings basis (cents)	49,9	**1 287,9**	1 061,1	1 139,0	1 020,3	103,6	556,5
Dividend per ordinary share (cents)	53,9	**429,0**	347,0	380,0	400,0	75,0	200,0
Dividend cover (times)		**3,0**	3,1	3,0	2,6	1,4	2,8
Net equity per ordinary share (cents)	11,9	**4 618**	5 218	4 360	3 567	2 910	2 876

**Annualised*

		Five-year annual compound growth rate* %	2007	Year ended 31 Dec 2006	2005	2004	Six months ended 31 Dec 2003	Year ended 30 Jun 2003
SOUTH AFRICAN STEEL MARKET ('000 tonnes)								
Country total (including imports)		4,6	**5 807**	5 869	4 587	4 872	2 067	4 449
Supplied by ArcelorMittal South Africa (excluding DSP)		4,8	**3 954**	3 627	2 998	3 288	1 359	3 043
ArcelorMittal South Africa market share (excluding re-rollers) %	Ave	66,1	**68**	62	65	67	66	68
STEEL								
Liquid steel production ('000 tonnes)								
Flat Products		(0,9)	**4 231**	4 863	5 067	4 855	2 515	4 962
Long Products		1,2	**2 144**	2 192	2 194	2 178	1 080	2 161
Total		(0,2)	**6 375**	7 055	7 261	7 033	3 595	7 123
Sales								
Local ('000 tonnes)								
Flat Products		3,7	**2 886**	2 968	2 402	2 728	1 126	2 573
Long Products		7,5	**1 535**	1 432	1 083	1 151	496	965
Total		4,9	**4 421**	4 400	3 485	3 879	1 622	3 538
SA customers (%)	Ave	62,3	**76**	71	56	62	50	59
Export ('000 tonnes)								
Flat Products		(6,5)	**1 042**	1 300	1 881	1 601	1 160	1 639
Long Products		(11,5)	**366**	494	864	743	443	863
Total		(8,0)	**1 408**	1 794	2 745	2 344	1 603	2 502
Export (%)	Ave	37,7	**24**	29	44	38	50	41

	Five-year annual compound growth rate %	2007	Year ended 31 Dec 2006	2005	2004	2003	2002
INTERNATIONAL CRUDE STEEL PRODUCTION (million tonnes)							
Worldwide	8,5	**1 322**	1 240	1 129	1 035	945	886
Asia	14,5	**734**	666	584	485	436	391
Europe	0,4	**210**	235	218	193	208	204
Northern America	1,9	**132**	131	127	133	123	124
Former USSR	4,0	**124**	120	113	107	106	100
Other	10,1	**122**	88	87	117	72	67

**Annualised*

Board of directors






From left:
Top: **Khotso Mokhele, Eric Diack**
Middle: **Johnson Njeke, Chris Murray, Lumkile Mondi**
Bottom: **Thandi Orleyn, Malay Mukherjee**

Khotso Mokhele (52) *Independent non-executive director and chairman*/BSc (Agric), MSc (Food Science), PhD (Microbiology)

Independent non-executive director since February 1998 and Chairman of Board since 1 January 2007. Chairman of the Transformation Committee of the Board and Member of the Safety, Health and Environmental (SHE) committee as well as of the Human Resources and Nominations Committee. Independent non-executive director of the following companies: Impala Platinum Holdings Limited, African Oxygen Limited and Tiger Brands Limited. Non-executive director of Zimplats Holdings Limited and Trustee of the Hans Merensky Foundation. Vice President for Scientific Planning and Review of the International Council for Science.

Johnson Njeke (49) *Independent non-executive director*/BCom, BCompt (Hons), CA(SA), HDip Tax Law

Appointed non-executive director on 1 January 2002.

Chairman of the Audit Committee. Deputy Chairman of Kagiso Media. Director of numerous companies including NM Rothschild (SA) (Pty) Limited, Compass Group (SA) (Pty) Limited, Resilient Property Income Fund Limited, Metropolitan Holdings Limited and MTN Group Limited.

Thandi Orleyn (52) *Independent non-executive director*/BJuris; BProc LLB; Hon-PHD

Appointed non-executive director on 1 February 2007. Chairman of the Human Resources and Nominations Committee. Director of South African Reserve Bank, Implats, Toyota SA, Reunert Limited and FreeWorld Coatings Limited.

Eric Diack (50) *Independent non-executive director*/BAcc, CA(SA), AMP (Harvard)

Appointed non-executive director on 16 March 2007.

Chairman of the Risk Committee. Director of Ayavuna Appliance Holdings (Pty) Limited, Deplian Investments Limited and Ayavuna Appliance Investment (Pty) Limited, previously Chief Executive Director of Anglo American Ferrous Metals and Industries Division.

Chris Murray (63) *Independent non-executive director*/ BCom, CA(SA), MBL

Appointed non-executive director on 11 May 2007.

Chairman of the Safety, Health and Environment Committee. Previously Chief Executive Director of Haggie Group of Companies.

Since retirement from Haggie in 2004, has acted for Steel and Engineering Industries Federation of South Africa (SEIFSA – an Employers' association) in the following capacities:

- Representative on BUSA's Retirement Reform technical task team.
- Trustee of all SEIFSA long-term Funds – Pension, Provident, Permanent Disability and Sick-pay Funds.
- Director of Metal Industries Benefit Funds Administrators (MIBFA).
- Member of MIBFA and Merseta Audit committees.
- Member of SEIFSA Exco.

Director of SA Ballet Theatre and chairman of SABT's Finance committee.

From left:
Top: **Michel Wurth, Davinder Chugh, Luc Bonte**
Middle: **Sudhir Maheshwari, Rick Reato**
Bottom: **Nku Nyembezi-Heita, Kobus Verster**

Lumkile Mondi (45) *Non executive director*/BCom (Hons) (Economics), BCom (Advanced Corporate Finance and Value Creation), MA (Economics)

Appointed non-executive director on 11 May 2007.

Chief economist and executive vice president of professional services at the Industrial Development Corporation.

Malay Mukherjee (60) *Non-executive director*/BSc, MA (Mining), Completed an Advanced Management Program

Appointed non-executive director on 6 September 2006.

Appointed as Member of the Group Management Board in August 2006 responsible for Asia Africa Mining and Stainless.

Michel Wurth (52) *Non-executive director*/MSc (Economics), LLM, MA (Political Science)

Appointed non-executive director on 30 November 2006. Senior Executive Vice President; member of the Group Management Board of ArcelorMittal Group.

Sudhir Maheshwari (44) *Non-executive director*/ BCom (Hons), CA CS

Appointed non-executive director in December 2002. Executive Vice President of ArcelorMittal Group, member of the ArcelorMittal Management Committee, responsible for Finance and Mergers and Acquisitions.

Davinder Chugh (51) *Non-executive director*/BSc, LLB, MBA

Appointed non-executive director on 15 September 2006. Appointed Senior Executive Vice President and member of the Group Executive Committee of ArcelorMittal Group in September 2006. Previously Chief Executive Officer of ArcelorMittal South Africa from September 2004 to September 2006. Previously Executive Director, Commercial, since May 2002.

Executive directors

Rick Reato (51) *Former Chief Executive Officer*/BSc (Elec Eng), Management Development Programme Certificate, Executive Management Programme (Darden Business School)

Appointed Chief Executive Officer on 15 September 2006. Previously Chief Operating Officer at ArcelorMittal South Africa. Resigned as Chief Executive Officer with effect from 29 February 2008 to take up another position within ArcelorMittal.

Nku Nyembezi-Heita (48) *Chief Executive Officer*/ BSc (Hons)(Elec Eng), MSc (Elec Eng), MBA

Non-executive chairman of the following companies: Arivia.Kom (Pty) Limited and Bond Exchange of SA. Non-executive director of ACSIS and director of Denel.

Appointed as Chief Executive Officer and a member of the Board with effect from 1 March 2008.

Luc Bonte (53) *President*/MSc (Elec Eng), PhD (Applied Sciences), MBA

Appointed with effect from 1 March 2008 as President responsible for the operations and a member of the Board.

Kobus Verster (41) *Executive Director, Finance*/BCom (Hons), MBL, Executive Management Program (Darden Business School)

Appointed Executive Director, Finance 17 February 2006. Previously worked as General Manager Corporate Treasury at Mittal Steel NV in Rotterdam.

Chairman and Chief Executive's report

Creating opportunities every day

ArcelorMittal South Africa has risen to a number of challenges in 2007. Our experience gained in dealing with each of these, both at the plant as well as in the marketplace, is strengthening our ability to emerge as the leading steel producer in sub-Saharan Africa. Renewed plants, great products and enduring business partnerships continue to create value for our shareholders.

Overview

Dear shareholder

By any number of measures, ArcelorMittal South Africa endured a difficult year in 2007, a year in which a variety of operational and environmental challenges tested the company significantly. Not all these challenges are yet completely behind us; however, as we look back on the year, we can be tremendously proud of our entire team, from our new leadership team to every worker involved in maintaining, repairing or renewing our various operational plants around the country. Every hurdle cleared strengthens the company's ability to meet its strategic goals and we are confident that this report will show that ArcelorMittal South Africa:

- offers industry leading value creation for our shareholders;
- has achieved significant improvement in operational capabilities;
- is absolutely focused on building a culture of performance through employee development; and
- is a responsible corporate citizen.

This report focuses primarily on operational issues; however there are a number of important issues, including the Competition Tribunal's finding on excessive pricing and the Environmental Management Inspectorate's (EMI) closure of the Vaal disposal site which were widely reported on in the media. Our stakeholders need clarity on the rationale for the company's actions and the principles which guide its responsible stewardship of these issues.

Tackling the most material issues

During the year under review, the three most material issues for the company were its environmental impact, the pricing of its products and the costs and reliability of production inputs:

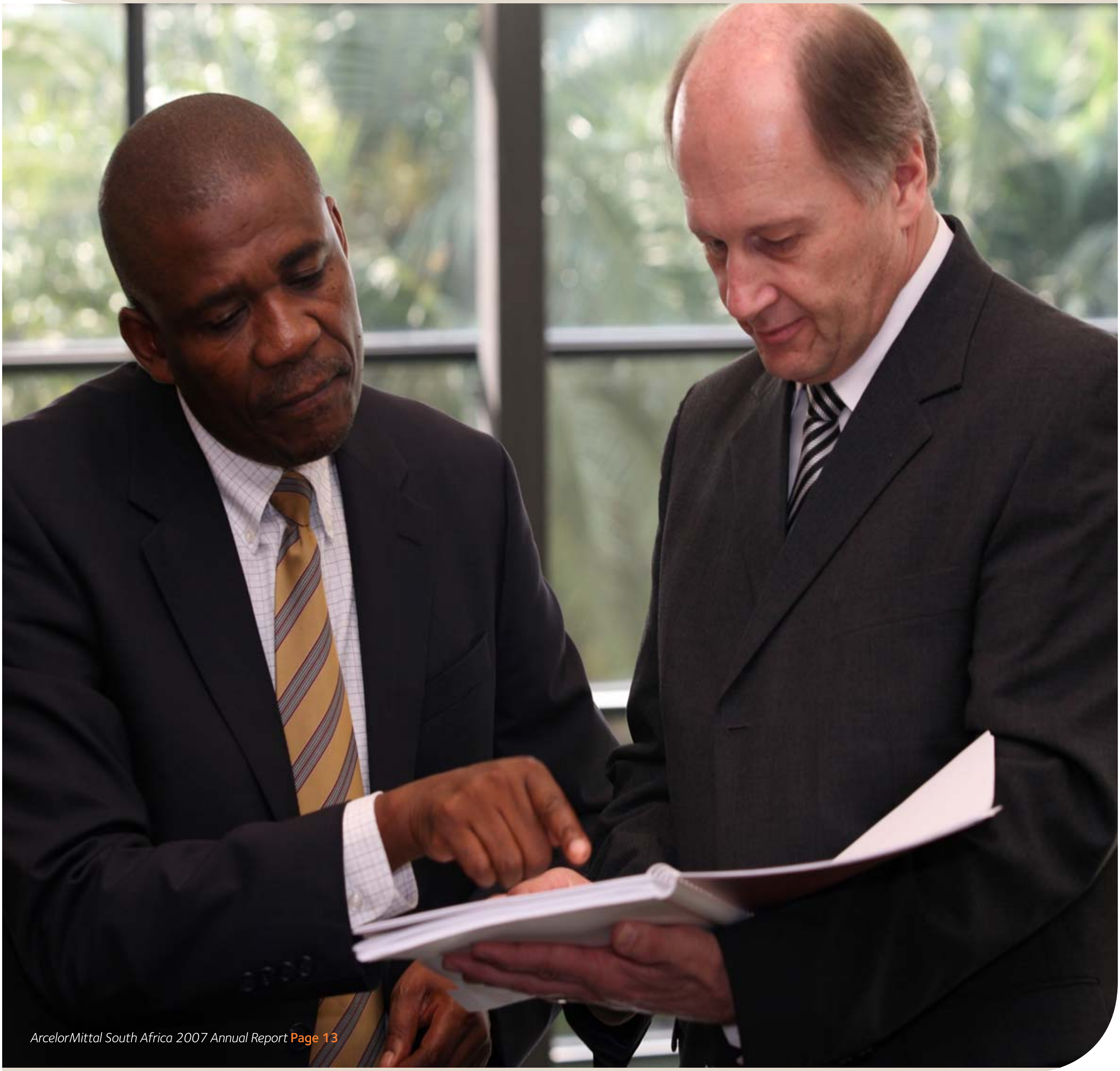
Environmental exposure

Following an audit by the Environmental Management Inspectorate (EMI) in October 2007 at Vereeniging Works, the company was found to be disposing hazardous waste at a site without a permit, causing possible pollution to the surface and groundwater in the area. As it was impossible to comply immediately, the site was closed down and we had to make immediate 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.

Excessive pricing

During 2007, the Competition Tribunal found that ArcelorMittal South Africa was charging excessive prices on its flat 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 in our Sustainability Report, we contend that our pricing policy is fair and that the export rebates we offer to companies exporting

Khotso Mokhele (Chairman) and Rick Reato (Former Chief Executive Officer)



our products are not designed to protect our dominant position in the local market, but rather to enable the export of our surplus production. The substantial industry thus supported would be unviable without this incentive scheme.

Cost and reliability of production inputs
Our biggest import cost remains the import of metallurgic coking coal and iron ore pellets for Saldanha Works. During 2007, 64% of our coking coal requirements had to be imported. Other coal requirements, used in the manufacturing of market coke and to inject as pulverised coal in our blast furnaces, are 100% sourced through domestic supply agreements. The outlook for 2008 needs also to take into account the uncertainty of electricity supply to the South African economy.

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.

Group performance

Supported by strong local and international macro-economic conditions, ArcelorMittal South Africa's performance for the year ended December 2007 indicates that we have built a solid platform for growth. Domestic markets remained buoyant, with domestic sales constituting 76% of total sales, compared to 71% the previous year. Total shipments to Africa (including South Africa) now constitute in excess of 88% of the company's total sales, compared to 80% the previous year, reflecting our commitment to the African continent.

Despite a number of operational difficulties during the year and increases in raw material input costs of 14%, headline earnings for the year remained strong at R5 741 million. This 21% increase when compared to the previous year is an all-time record and due to the significant increase in international steel prices, a weaker than average R/USD exchange rate and a substantial increase in the sales volume and prices of market coke, all of which were offset by lower steel production volumes and an increase in the cost of input material. Liquid steel production fell 10% mainly due to the extended rebuild period of Blast Furnace D and the cold hearth conditions experienced during August and December.

ArcelorMittal South Africa's cost of steel on a Rand per sales tonne basis increased by 17% compared to last year. This was driven by increases in the cost of coal, imported iron ore pellets, tin, ferro-alloys, scrap and iron ore as well as lower production volumes.

Dividend

In line with ArcelorMittal South Africa's policy of distributing one third of headline earnings, the board declared a final cash dividend of 196 cents per share, which resulted in a total dividend of 429 cents per share in respect of 2007 earnings. This represents an increase of 23,6% compared to the 347 cents dividend declared in respect of the 2006 earnings.

Capital reduction of R6 352 million or 1 425 cents per share was also paid during the year and over the period the company distributed a total of 1 854 cents per share to shareholders.

Economic and steel market review

International steel consumption increased by 7,5% from 1,121 billion tonnes in 2006 to 1,243 billion tonnes in 2007, driven mainly by the BRIC (Brazil, Russia, India and China) countries where demand increased by 12,8%.

The company is managing power failures by optimising power between the various production facilities

Our biggest import cost remains the import of metallurgic coking coal and iron ore pellets for Saldanha

Following a fairly sharp decline in the latter half of 2006, international steel prices recovered strongly in the first half of 2007 and following a brief recess, continued an upward trend in the remainder of the year. Further increases are expected in the 2008 financial year, initiated by an equilibrium in the supply and demand situation, rising raw material prices, possible slowing of Chinese exports and the rationalisation of Chinese production.

China's steel production increased by 15,7% in 2007 and now represents 36,5% of total world production. This double digit steel production growth was due to its own rapid economic development and global growth in which steel consumers are increasingly using Chinese steel. During this period, apparent crude steel consumption increased by 12,4%. China's net exports of finished steel amounted to 47 million tonnes, up 103% compared with the same period in 2006. This increase occurred notwithstanding Chinese government policies and measures to curb production and exports.

ArcelorMittal South Africa's export volumes decreased by 22% during 2007 due to buoyant domestic demand and technical problems which limited steel supplies. Average export prices for hot rolled coil were 24% up on last year, while the average low carbon wire rod prices increased by 17% due to relatively strong international prices and the fact that the lower export volumes made it easier to concentrate on more lucrative markets.

South African steel-consuming sectors performed well during most of 2007 but following four interest rate increases since June 2007, growth in demand from sub-sectors in the durable spending category started to decline while domestic automobile sales declined significantly. Growth in the building industry, especially in the residential building sector, slowed down markedly in the wake of a rising trend of interest rates and the associated decline in the growth of house prices. Civil construction is currently the main driver behind steel demand, driven by public corporations' fixed spending and accelerated government fixed spending aimed at alleviating infrastructural bottlenecks and the build-up to the 2010 Soccer World Cup. A relatively strong Rand in the second half of 2007 eroded the competitiveness of domestically manufactured exports attributing to lower growth rates in this sector towards the end of 2007.

The generally favourable economic conditions resulted in a marginal 0,5% growth in our despatches to the domestic market in 2007. Figures issued by the South African Iron and Steel Institute (SAISI) show that apparent consumption declined marginally from an all time high of 5,9 million tonnes for 2006 to 5,8 million tonnes in 2007. Imports of primary steel products into South Africa as reported by Customs and Excise have declined to 406 600 tonnes from 494 600 tonnes the previous year.

Global consolidation in the steel industry continued with ArcelorMittal Group entering into a shareholders' agreement with the controlling shareholders of China Oriental Group Company Limited, which will enable ArcelorMittal Group to eventually raise its equity stake in the company to 73,1%. Other deals included several smaller takeovers, with the largest being the Tata/Corus deal. Looking ahead, expectations are that we will see a further consolidation in the steel industry.

Share performance

ArcelorMittal South Africa has out-performed the market by two-and-a-half times over the past five years and four-and-a-half times during 2007, with a dividend yield of 5,7% over five years compared to the 2,8% market average.

Operations

Although production was affected in some areas due to events such as the rebuild of Blast Furnace D at Vanderbijlpark Works and unstable Corex conditions at Saldanha Works, the company nevertheless was able to post excellent performance figures, with some plants breaking production records.

In spite of the rebuild challenges experienced at Vanderbijlpark, the plant posted record outputs for galvanising material in October 2007 and achieved an annual record of 105 000 tonnes on colour-coated material. The coke ovens at the plant achieved their second highest annual output of 1,33 million tonnes.

ArcelorMittal South Africa's long steel plants experienced a good year, underpinned by stable operating conditions. Liquid steel production at the Newcastle Works was 1,75 million tonnes and Vereeniging Works produced 399 000 tonnes, both in line with 2006. The liquid steel production at Newcastle Works was achieved despite the deteriorating hearth conditions at Blast Furnace N5, due for a mini-reline in mid-2008. Newcastle Works also posted an excellent performance on their other operations and broke several annual efficiency records. They also achieved their best ever safety and health performance.

In spite of a four-week planned maintenance stop, the Special Profile Mill in Pretoria produced three successive monthly records and would easily have set a new per annum record if the demand had remained high throughout the fourth quarter. The Forge operations also set a new per annum record, whilst the mills at Vereeniging Works enjoyed a stable production year, limited only by the order book for special profiles. Major capacity was created for the long products division by developing profiles traditionally rolled at the Newcastle Mills. This boosted the division's capacity to handle overbooking, particularly at the Bar Mill in Newcastle. The DRI plant in Boksburg, which has an impact on the billet cash cost of Vereeniging Works, showed an 8% increase from 2006.

The rebuild of Blast Furnace D at our Vanderbijlpark Works was the main reason for the 10% drop in liquid steel production. However, the furnace is back in full operation. Excess metallurgical coke capacity during the rebuild contributed to the record performance delivered by Coke and Chemicals division during 2007.

The company's Saldanha operation produced 1,22 million tonnes of liquid steel in 2007, 2% more than 2006. Total liquid iron and DRI production remained the same as in 2006 at 1,28 million tonnes. Excellent progress was made in the hot rolling area by increasing the percentage of ultra thin gauge material from 16% in 2006 to 24% in 2007. The Corex and Midrex plants are scheduled for relines in the beginning of 2008. Saldanha continues to be a leader in emissions and environmental management, performing to world-class environmental standards.

Extensive refurbishment has recently been completed at the newly acquired Rolling Mill in Maputo. Production started in February 2008. The Mill, which will be managed as part of the Newcastle Works' business unit, will produce reinforcing bar for the Mozambiquan market and will supply jobs to approximately one hundred full-time employees.

Coke and Chemicals division delivered a record performance during 2007. There were three important contributing factors: a full year's production output from our newly commissioned battery in Newcastle, the use of excess metallurgical coke capacity to produce commercial coke during the Blast Furnace D rebuild at Vanderbijlpark, and an upturn in international prices for coke during the second half of the year. Local demand for commercial coke remains strong and despite added coke capacity, the ferro-alloy industry still relies on imports to meet their requirements due to expansions.

The rolling mill in Maputo will produce reinforcing bar for the Mozambican market

The special profile mill in Pretoria produced three successive monthly records

Our commitment to service South Africa's steel requirements

- Focus on production stability
- Divert exports to domestic sales
- Maintain production capacity with the furnace reline programme
- Invest in additional capacity

Progress on our strategic mission

Our strategic mission is to fulfil our commitment to supply domestic demand for steel, translating into a medium term goal of increasing output from 7 million tonnes of liquid steel per annum to 9,5 million tonnes by 2011.

The investment programme for our flat products is focused mainly on our Vanderbijlpark Works, where two new DRI kilns will be commissioned in 2008 increasing capacity by 350 000 tonnes per annum. In addition, a new colour line and a new galvanising line will be installed in 2010 and 2011, respectively. With the uncertainty of electricity supply going forward, we are considering a 110 MW power plant at Vanderbijlpark ready to start supplying power in 2011.

The investment programme for our long products business is intended not only to supply the current and future expected shortages in South Africa, but also to the rest of sub-Saharan Africa. The major investment going forward to 2011 will be the installation of a new Blast Furnace N6 at Newcastle with a capacity of three million tonnes compared to the current capacity of two million tonnes for Blast Furnace N5. In order to maintain current capacity however, we will be undertaking a mini reline of Blast Furnace N5 during the second quarter of 2008 lasting approximately 45 days and costing an estimated R170 million. The small mill we purchased in Maputo will have an estimated capacity of 30 000 tonnes per annum.

During the year under review, ArcelorMittal South Africa maintained its focus on continuous improvement in order to secure its position as a competitive player in both local and global steel markets. The merger between Arcelor SA and Mittal Steel Company NV has afforded the company a global footprint and given ArcelorMittal South Africa access to industry best-practices and leading technology, research and development. This expertise is proving invaluable in dealing with the challenges of our current furnace reline programme, as well as for our bold expansion programme going forward.

Report on issues relating to responsible practices

ArcelorMittal South Africa appealed against the ruling and administrative penalty of R692 million imposed by the Competition Tribunal in the Harmony case. A hearing date is expected later in 2008. The Competition Commission referred the Barnes Fencing Industries 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 5 (Prohibited virtual practices) and Section 8 (Abuse of dominance) in terms of the Competition Act. There were no new trade actions against ArcelorMittal South Africa in 2007.

Favourable outcomes in so far as the import duty 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.

The Alternative Dispute Resolution process followed with SARS regarding the tax deductibility of payments made in terms of the Business Assistance Agreement is still in progress. The full amount at risk is R403 million of tax plus interest and penalties. R80 million was provided at year-end based on the 20% settlement offer made.

Managing our human capital

The ability to attract and retain talented, skilled people is central to the ongoing success of the company. In a climate of national and industry-wide skills shortages, ArcelorMittal South Africa places particular emphasis on human capital management.

During the year under review the company invested in bursaries, in-house training programmes, apprenticeships and graduate development initiatives to secure a continuous supply of critical skills in both the immediate and long-term future. A further 100 learners started apprenticeships at the company's MERSETA-accredited training centre and all of the 13 graduates-in-training recruited for the first intake in 2006 successfully completed year one of their two-year internship.

Recognising that skills development needs to be both internally- and externally focused, ArcelorMittal South Africa also embarked on a new continuous academic development initiative for employees, with 69 staff members embarking on various ArcelorMittal South Africa University Programmes. The Group's Knowledge Management Programme (KMP) saw global participation in weekly networking forums on marketing and operational priorities and facilitates knowledge-sharing of best practices across all the Group companies.

The year under review also saw a renewed focus on increasing the diversity of people in our organisation. Following the release of the Department of Trade and Industry (DTI) Codes of Good Practice in February 2007, the company completed a full employment equity (EE) audit and reorganised representative EE forums to ensure compliance with statutory requirements. EE targets were set against the B-BBEE scorecard, the achievement of which will be driven by task teams comprising senior line managers and representatives from the newly-formed Transformation Committee.

Read more about the company's human capital management in the sustainability report.

Broad-Based Black Economic empowerment

ArcelorMittal South Africa is committed to bring about meaningful social and economic transformation by the application of the DTI's Codes of Good Practice and associated Broad-Based Black Economic Empowerment (B-BBEE) scorecard. The implementation of broad-based BEE across all aspects of the business is central to the achievement of meaningful change and forms an integral part of our business strategy.

To this end, the company established a transformation policy during the year under review. A Transformation Committee has been tasked with ensuring the achievement of goals laid out in this policy relating to all seven of the new codes. This committee is chaired by Khotso Mokhele, Chairman of the board of ArcelorMittal South Africa. Significant progress has already been made, particularly with regard to preferential procurement and enterprise development. During the year, we began work on building a B-BBEE database of suppliers and held the first B-BBEE vendor day to provide a networking platform for B-BBEE suppliers and company procurement officers. Our commitment to the establishment of black-owned downstream steel enterprises is evident in the R250 million downstream development fund established to assist qualifying small enterprises.

For the period under review black representation on the board is healthy, being made up as follows, 26,6% non-executive, 16,7% executive directors and 57,1% independent representation. At top and senior management level, 22% of individuals employed come from historically disadvantaged groups, with 39% at middle management level, 33% at first line management level and 45% at skilled and technical levels. Of the candidates who have completed training in the company's various bursar and learnership programmes, 82% are from historically disadvantaged backgrounds (calculated in terms of the DTI's Broad-Based Black Economic Empowerment Act (Interpretive Guide June 2007 – Code 200)).

See our Sustainability Report for more information on B-BBEE.

The safety of both our employees and contractors are of paramount concern

In a climate of national and industry wide skill shortages we place particular emphasis on human capital managment

Corporate governance and sustainability

In its dealing with all stakeholders – including shareholders, employees, suppliers and communities – ArcelorMittal South Africa's business practice is underpinned by a strict adherence to the standards outlined in the King Report on Corporate Governance for South Africa 2002.

Its commitment to ethical conduct and the highest standards of integrity is reflected in the company's Code of Business Conduct, which aims to engender a culture of adherence and provides guidelines on the principles and practices to which ArcelorMittal South Africa is committed.

The Sustainability Report serves to highlight the most material sustainability issues facing the company and its progress on triple-bottom-line performance. This report is a reflection of the company's desire to engage in meaningful and transparent communication with all stakeholder groups on its economic, social and environmental impact.

Health, safety and environment

The audit and subsequent closure of the company's Vaal Waste Disposal Site by the Environmental Management Inspectorate (see above section 'Dealing with the most material issues') was the most pressing environmental issue facing the company during the year under review.

A detailed overview of the issue and ArcelorMittal South Africa's response can be found in the Sustainability Report, but suffice to say that the company remains committed to reducing its environmental impact and ensuring environmental compliance at all costs. Although certain areas and issues still require attention, great strides have been made over the past 10 years through our R1 billion master plan for ground and water pollution and we are already well into the implementation of our strategy to reduce air pollution, to which an additional amount of R1 billion has been committed.

The safety of our employees and contractors to the company is of paramount concern to ArcelorMittal South Africa. The lost-time injury frequency rate dropped during the year under review from 2,8 to 2,2 bringing us ever closer to our goal of 2,0 less than half the IISI average for steel plants around the globe.

The company ascribes the highest level of priority to the issue of safety of both employees and contractors and is committed to reaching its goal of zero fatalities. The lost-time injury frequency rate (measured over a million man hours) dropped during the year under review from 2,8 to 2,2 exceeding our 2007 target of 2,5. We implemented various safety initiatives focusing on visible management commitment, review and implementation of critical safety standards and its mobilisation.

Sadly, in spite of the safety progress made in these and other areas, we lost one employee and one contractor in fatal accidents during the year under review. We extend our condolences to the family, friends and colleagues of these individuals. A full investigation was carried out following each fatality, in accordance with legislation and company health and safety policy, and the company is investigating new ways in which behavioural compliance with safety standards can be improved.

HIV and Aids

HIV and Aids pose a real threat to the sustainability of businesses in all industries and ArcelorMittal South Africa has adopted a holistic approach to responding to this crisis.

We have continued with our *Know Your Status* campaign and the voluntary testing and counselling (VCT) campaign started in 2006. The response from employees has been extremely positive and some areas and departments achieved their 100% VCT target during 2007. Overall, 62% of our employees have volunteered to be tested for HIV.

A key development during the year under review was the employment of permanent HIV/Aids coordinators, who have facilitated access of our HIV-positive employees to the company support programme.

In the ongoing fight against discrimination and stigmatisation, we also conducted an employee knowledge, attitudes and perceptions (KAP) survey during the year at our biggest operation in Vanderbijlpark, which acted as a trial for a behavioural change programme. This trial, completed mid-2007, informed the company's behaviour change strategy, which will now be rolled out to all operational areas.

A more detailed synopsis of our response to HIV and Aids can be found in the sustainability report.

Corporate Social Investment

Code 700 of the DTI's Codes of Good Practice encourages companies to engage in socio-economic development (SED) initiatives aimed at uplifting disadvantaged communities. We recognise that transformation can only take place if all stakeholders – including business – play a role in contributing to such development. For its part, ArcelorMittal South Africa has invested in a number of projects through our corporate social investment vehicle.

Our approach has been to align Corporate Social Investment (CSI) goals with those of government in order to address common national development challenges. Education, housing and job creation remain our biggest focus areas, with specific projects being implemented in our areas of operation.

During the year under review we expanded our flagship ArcelorMittal South Africa Science Centre, recruiting new learners from 15 historically disadvantaged schools into the programme and bringing the total number of learners to 1 900. We also completed the construction of a state-of-the-art computer laboratory that will initially act as a training centre for educators, before being opened to learners themselves.

We look forward to partnering with government on a new initiative to build 10 lightweight steel structure schools, a pilot project from which we hope valuable lessons can be drawn to drive similar construction projects for homes, crèches, clinics and community centres across the country.

Appreciation

We would like to extend our thanks to all members of the Board for their strong support and ongoing advice and guidance during the year under review, and to our employees for their invaluable contribution to our position as industry leader. We remain committed to providing real value to all our stakeholders through sustainable business practices.

Khotso Mokhele
Chairman

Rick Reato
Former Chief Executive Officer

Board changes to pursue strategic growth plan

Recently, we announced the appointment of Nku Nyembezi-Heita, previously 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 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 whereby he has made capacity available 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, currently 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. Bonte reports directly to the CEO, and assumed his duties on 1 March 2008.

Dr Khotso Mokhele was appointed as Chairman of the board with effect from 1 January 2007. The board also appointed three new non-executive directors. Eric Diack and Chris Murray took up positions as independent non-executive directors and were appointed on 16 March and 11 May 2007 respectively, while Lumkile Mondi was appointed non-executive director on 11 May 2007. The board welcomes these new members. Juba Mashaba resigned as Executive Director, Human Resources on 30 September 2007.

Luc Bonte

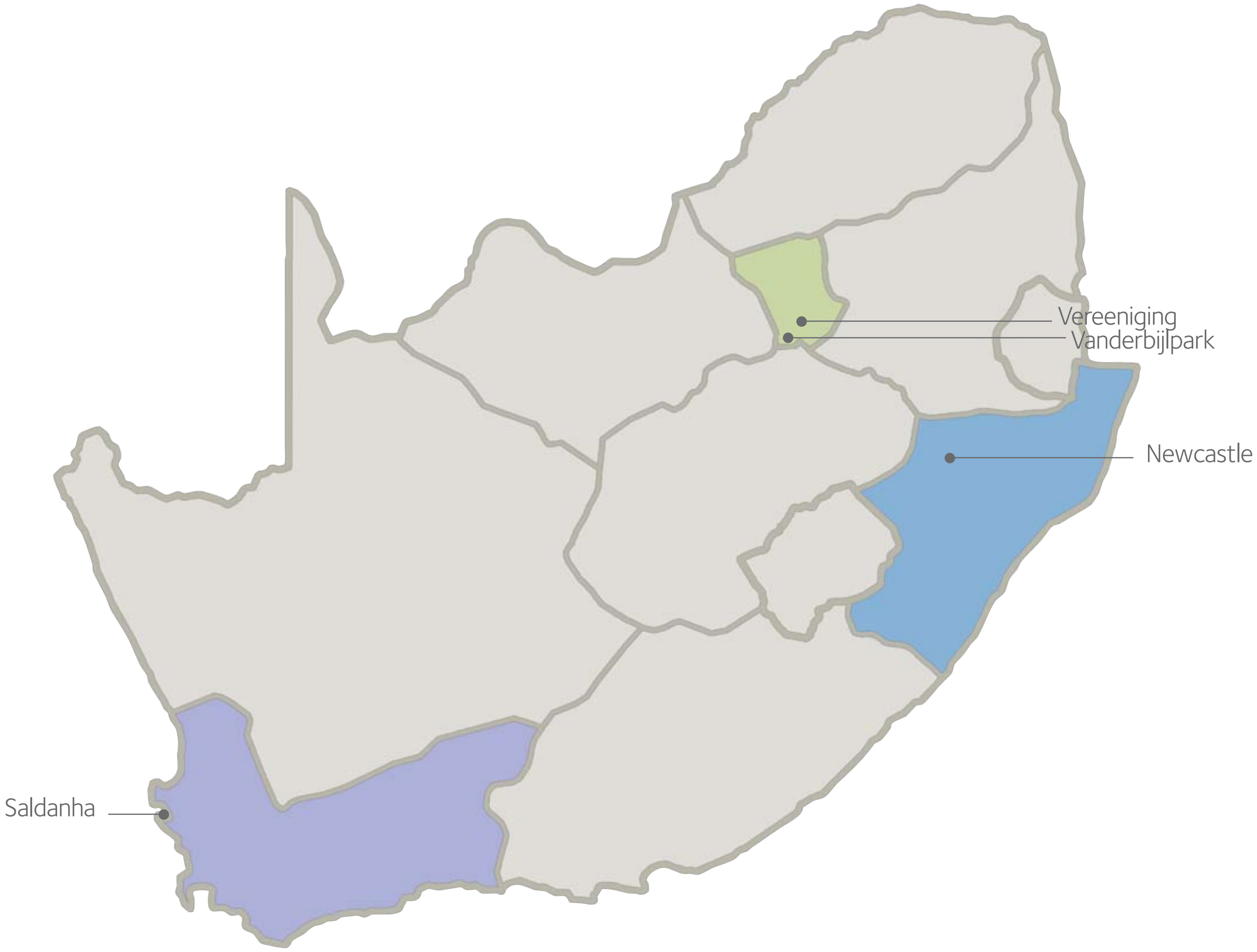
Luc Bonte served as chairman of the Management Committee of ArcelorMittal Gent, where he was responsible for turning the operation into one of the group's most profitable businesses. He was previously Technical Director Sollac Atlantique and General Manager Blast Furnaces and Sinter Plants for SIDMAR (which became ArcelorMittal Gent). He has 30 years of experience in the steel industry and has a PhD in Applied Sciences and a Master of Electrical Engineering from the State University of Ghent as well as a Middle Management MBA from the Vlerick School of Management, Ghent.

Nku Nyembezi-Heita

As Chief Officer: Mergers and Acquisitions Nku Nyembezi-Heita was responsible for mergers and acquisitions and continental business development for the Vodacom Group. Prior to joining Vodacom, she had served as chief executive officer of Alliance Capital Management (Pty) Limited and chairman of Alliance Capital Namibia. She has extensive general management and marketing experience and graduated from the University of Manchester Institute of Science and Technology with a BSc Honours (Elec Eng), and an MSc (Elec Eng) from the California Institute of Technology and holds an MBA from the Open University Business School (UK).

Operational review

Operational locations



Cover image: Steel courses through the arteries of South African commerce. Our products form the foundation, the structure and the action driving the country's progress towards an integrated economy offering opportunities for all. We know that our position in the steel industry brings unique responsibilities. Thus we are committed to playing our part in our nation's development so that we can meet the needs of future generations.

Vanderbijlpark

Saldanha

Vereeniging

Newcastle

Vanderbijlpark Works	Saldanha Works	Vereeniging Works	Newcastle Works
Description The largest inland steel mill in sub-Saharan Africa, including two blast furnaces, three electric arc furnaces and three basic oxygen furnaces.	**Description** 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.	**Description** The country's major supplier of speciality steel products, seamless tube and forge products.	**Description** With plant comprising 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.
Production 3,0 million tonnes of liquid steel per annum, which contributes to 78% of South Africa's flat steel requirements.	**Production** 1,2 million tonnes of liquid steel per annum, of which 54% is destined for export.	**Production** 0,4 million tonnes of liquid steel per annum, of which approximately 20% is destined for export.	**Production** 1,8 million tonnes of liquid steel annually, of which 19% is destined for export.
Employees 4 551	**Employees** 568	**Employees** 908	**Employees** 1 960
Developments The rebuild of Blast Furnace D completed during 2007. New direct reduction kilns 5 and 6 on track for 2008.	**Developments** The Corex and Midrex plants are scheduled for relines in 2008, as well as the ore screen and stockhouse upgrade (on track for commissioning in 2008).	**Developments** EAF dust extraction, as well as crane replacement and gantry upgrade in 2008.	**Developments** The plant has been extensively refurbished (upgrade of Coke Ovens Phase 2 – see under Coke & Chemicals) during 2006, and broke several safety, health and efficiency records in 2007. New evaporator crystalliser and RO plant in 2008; blast furnace N5 is scheduled for a mini-reline in 2008.
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	**Products** – High quality thin and ultra thin (less than 1,2 mm) hot rolled coil (UTHRC).	**Products** – Billets and blooms – Round ingots – Seamless line pipes – Seamless casing and tubing – Forging quality steels	**Products** – Low carbon steels, medium carbon steels, high carbon steels, low alloy steels and micro alloy steels – Blooms and billets – Structural sections – Straight and coiled round bar – Rails (for mines and sidings)
ISO Standards ISO 9002 and ISO 14001 accredited.	**ISO Standards** ISO 9002 and ISO 14001 accredited.	**ISO Standards** ISO 9002 and ISO 14001 certification.	**ISO Standards** ISO 9002 and ISO 14001 certification.

Flat products

ArcelorMittal South Africa produces flat products at its Vanderbijlpark and Saldanha operations. Vanderbijlpark is the largest supplier of flat steel products in sub-Saharan Africa. It has the capacity to produce 4,4 million tonnes of liquid steel each year, which is cast into slabs and hot rolled into heavy plate or coils. These are sold as hot rolled strip or through further processing, into cold rolled and coated products such as tinplate and hot dip galvanised, electro-galvanised and pre-painted sheet. Vanderbijlpark meets around 78% of South Africa's flat steel requirements.

Saldanha, which produces thin and ultra thin gauge hot rolled coil for domestic and select export markets, is the only steel mill in the world to have a continuous production chain that obviates the need for coke ovens and blast furnaces. Together with the Vanderbijlpark Works, its 1, 2 million tonnes of liquid steel per annum amount to a combined capacity of 5,6 million tonnes.

Markets

	% of total sales	
	2007	2006
Geographical sales distribution		
South Africa	**74**	70
Africa	**15**	10
Asia	**10**	13
Europe	**1**	5
Americas	**0**	2
Local market segmentation		
Building and construction	**36**	33
Pipe and tube (welded)	**25**	26
Packaging	**13**	14
Automotive	**14**	15
Mining, energy, water, chemicals and gas	**5**	5
Furniture and appliances	**3**	3
Machinery and equipment	**2**	2
Agriculture	**1**	1
Transportation	**1**	1

Domestic

Notwithstanding a marginal decline of 2% on the previous year, the demand for flat products remained relatively buoyant during 2007 which was driven by an economy where gross domestic product increased by about 5%. Demand from flat-steel-consuming industries such as those connected to durable spending remained fairly robust despite the four interest rate increases since June 2007, with the impact only becoming more evident in the fourth quarter of last year. Demand from the building and construction sector increased significantly due to high demand from the civil construction sector, increased government spending on infrastructure and the build-up to the 2010 Soccer World Cup. During 2007, the flat product division's domestic sales volumes represented 74% of total flat product sales, compared to 70% the previous year.

International

Decreased liquid steel production and our commitment to supply the domestic market led to a decrease in export sales of 20%. Export sales of flat products during 2007 accounted for only 26% of total flat product sales, which is down from 2006's 30%. Export outside the African region accounted for 11% of total flat steel product sales, compared to 20% in the previous year, in line with our strategy to focus on the African continent as our target market. Global export prices for flat products increased during the year, with the average price of hot rolled coil increasing by 24%.

Operational results

	Year ended 31 December	
	2007	2006
Revenue (Rm)	**19 240**	17 341
Net operating income (Rm)	**4 827**	3 644
Liquid steel production ('000 t)	**4 231**	4 863
Sales volumes ('000 t)	**3 928**	4 268
– Domestic	**2 886**	2 968
– Export	**1 042**	1 300
Domestic sales (%)	**73**	70
Capital expenditure (Rm)	**1 443**	949
Average hot rolled coil export price – USD/t (c&f)	**659**	531
Number of employees	**5 119**	5 085
Total HRC cash cost Rand per tonne	**2 538**	2 150
Total HRC cash cost US Dollar per tonne	**360**	318

The operating profit for flat products increased by 32% during the year, to R4 827 million. This is particularly pleasing given the previous year's decline in operating profit for flat products, and considering the fact that the flat steel plants experienced a number of operational challenges during the year.

The rebuild of Blast Furnace D at Vanderbijlpark, cold hearth conditions experienced in August 2007 and December 2007 as well as unstable conditions at the Corex plant at Saldanha, which is nearing the end of its campaign life, resulted in a decline in liquid steel production of 13% to 4 231 ktonnes.

Saldanha made excellent progress to increase the percentage ultra thin gauge hot rolled material from 16% in 2006 to 24% in 2007. In spite of the reline challenges experienced at Vanderbijlpark, the plant posted record outputs for galvanising material in October 2007 and achieved an annual record of 105 000-tonne on colour-coated material. The coke ovens at the plant achieved their second highest annual output of 1,334 million tonnes.

Capital expenditure

	Year ended 31 December	
	2007 Rm	2006 Rm
Value adding	**490**	224
Replacements	**907**	648
Environmental	**46**	77
TOTAL	**1 443**	949

During the year under review, ArcelorMittal South Africa invested R1 443 million in capital expenditure at Flat Products. The major investment projects completed during 2007 include, at Vanderbijlpark Works, the rebuild of Blast Furnace D at a cost of R650 million; the installation of a Blast Furnace slag granulation facility at a cost of R59 million; and the upgrade of the plate treatment plant for quenched products at a cost of R29 million. At Saldanha, a total of R260 million was invested in preparing the Corex and Midrex plants for the reline scheduled in 2008 and the continued upgrade of the ore screen and stockhouse, for which completion is scheduled for early 2009.

Safety, health and environment

The safety performance at the flat steel division, as measured by the lost-time injury frequency rate (LTIFR), improved year-on-year from 2,6 in 2006 to 2,5 in 2007. Vanderbijlpark Works

Saldanha enjoyed excellent progress in the increase of Ultra thin hot rolled gauge material of 24%

Domestic flat steel demand is expected to remain strong due to the support of the building of the 2010 soccer stadiums

achieved 1 million lost time injury free hours seven times, while Saldanha Works achieved the same once and enjoyed 171 days without any LTI incidents.

However, in spite of this positive LTI performance during the year under review, Saldanha experienced one fatality, which was related to a lack of behavioural compliance with company safety standards. Safety is given the highest level of priority by the ArcelorMittal South Africa board and the company remains wholly committed to eliminating any fatalities and achieving its zero-fatality target. Safety improvement plans have focused on ensuring a higher level of behavioural compliance following the fatality at Saldanha.

Both Vanderbijlpark Works and Saldanha Works continued to benefit from a downward trend in occupational health issues during 2007.

The closure of the Vaal Waste Disposal site at the Vereeniging Works precipitated a full audit of environmental risk exposure areas at all company operations, including Saldanha and Vanderbijlpark, with a view of ensuring compliance as a foremost priority. Mitigating action has been outlined for all risks relating to these two areas of operation, the details of which are listed fully in the environmental section of the Sustainability Report.

The year ahead

Domestic flat steel demand is expected to remain strong during 2008, mainly backed by the activity in the construction industry, supported by national infrastructural development and the building of the 2010 soccer stadiums. Higher expected steel prices will be supported by rising raw material prices and increased logistical costs.

International steel consumption is expected to remain strong but to increase at a moderately lower rate than the 7,5% in 2007. Following the last couple of year's lucrative steel demand, marginal production will now come on-stream at substantially increased raw material prices that may result in short supply internationally. This is expected to lead to further price increases during the first half of the year.

ArcelorMittal South Africa's investment programme includes a number of important projects for its flat steel producing operations.

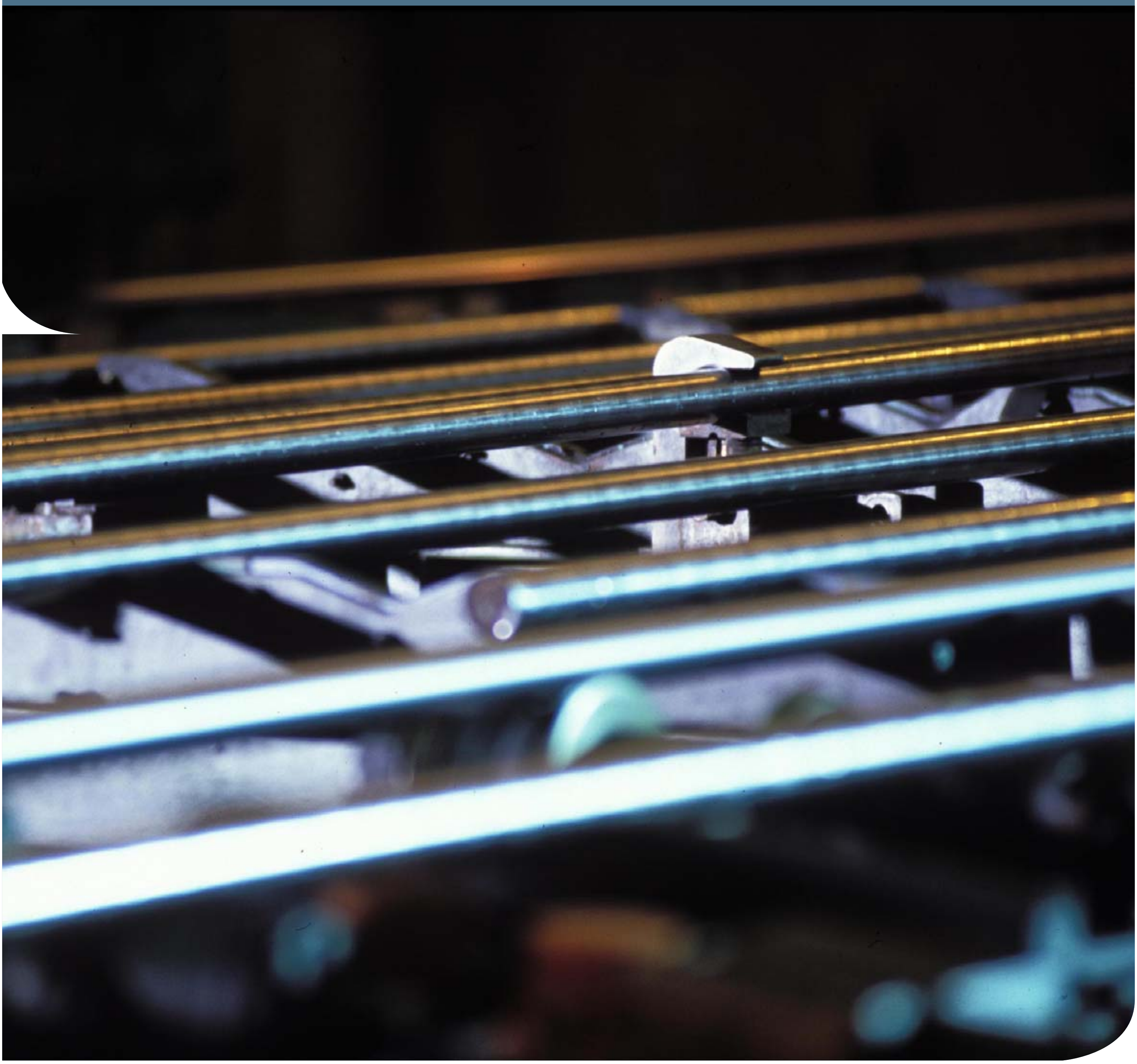
Two new DRI kilns have been scheduled to be commissioned in 2008 at Vanderbijlpark Works at an estimated cost of R600 million, these will have a combined capacity of 350 000 tonnes per annum. Vanderbijlpark will also see the installation of a new galvanising line during 2011 (capacity still to be decided) and a new colour line during 2010 with a 100 000-tonne capacity per annum. To mitigate the risks caused by power shortages, the company also plans to construct a power plant at Vanderbijlpark Works during 2011 with a capacity of approximately 110MW.

Saldanha Works will not be operating at full capacity during the first half of 2008 due to the relining of its Corex and Midrex plants. In ensuring this process runs smoothly and according to plan, we are taking valuable lessons learned through the rebuild of Blast Furnace D at Vanderbijlpark during the year under review into account. The project, which costs in the region of R275 million, has a planned duration of 70 days. The ore screen and stockhouse upgrade, a R50 million capital investment project, is scheduled for completion during the first quarter of 2009.

Long products

The long products division produces a range of long products at the integrated steel works at Newcastle and the electric arc furnace-based facility at Vereeniging Works. These products include bar, billets, blooms, hot-finished and cold-draw seamless tubes, window and fencing profiles, rod and light, medium and heavy sections. The biggest market for them includes the building and construction industry, which accounted for 46% of total long steel product sales during the year. Other significant markets includes the mining, automotive, agricultural, engineering, manufacturing and petrochemical industries.

The division's combined annual production output is 2,1 million tonnes, with Newcastle Works producing 1,7 million tonnes and Vereeniging 0,4 million tonnes of finished product. It supplies around 50% of the local market's demand for long steel products and is a strong competitor in the global market, thanks to its ability to provide high-quality products at competitive prices.



Markets

	% of total sales	
	2007	2006
Geographical sales distribution		
South Africa	**81**	74
Africa	**10**	6
Asia	**6**	9
Europe	**2**	3
Americas	**1**	8
Local market segmentation		
Building and construction	**46**	43
Machinery and equipment	**21**	22
Mining, energy, water, chemicals and gas	**18**	18
Automotive	**8**	9
Agriculture	**5**	5
Furniture and appliances	**2**	3

Domestic

The demand for long products during 2007 increased further from the previous year's high level due to the massive shortage of infrastructural capacity in areas such as power stations, water and sanitation, housing, transport, harbour and airport facilities as well as the run-up to the 2010 Soccer World Cup and beyond. The division's domestic steel volumes increased by 7% during 2007, which represents 81% of total long product sales compared with 74% the previous year.

Infrastructure-related fixed investment spending represents a growth rate of about 20% in 2008 while spending on machinery and equipment increased by an estimated 8%. Sustained employment growth in the economy and the lack of infrastructure will support the demand for long products during 2008.

International

Export sales of long products were 26% down on last year's figures. Sales outside the African region accounts for only 9% of total long steel product sales, compared with 20% in the previous year. This was driven by stronger demand for construction steel, backed by our commitment to first serve the domestic market before we allocate volumes to the export markets. The cash cost of billets increased by 16% due to an increase in the cost of coal, scrap, iron ore, and ferro-alloys. The average export prices for low carbon wire rod, which is indicative of long steel market trends, experienced a year-on-year increase of 17%, ending on a record-high towards the end of 2007.

Operational results

	Year ended 31 December	
	2007	2006
Revenue (Rm)	**9 238**	7 687
Net operating income (Rm)	**2 661**	2 111
Liquid steel production ('000 t)	**2 144**	2 192
Sales volumes ('000 t)	**1 901**	1 926
– Domestic	**1 535**	1 432
– Export	**366**	494
Domestic sales (%)	**81**	74
Capital expenditure (Rm)	**249**	169
Average low carbon wire rod export price – USD/t (c&f)	**592**	508
Number of employees	**2 868**	2 890
Total Billet cash cost Rand per tonne	**2 310**	1 993
Total Billet cash cost US Dollar per tonne	**327**	295

The net operating income of the long steel products division increased by 26% to R2 661 million in 2007 due to the increase in selling prices and higher domestic volumes.

The year saw a 57 000 tonne decline in liquid steel production at Newcastle Works due to the Blast Furnace N5 reaching the end of its campaign life. This was slightly offset by a 2,3% improvement in liquid steel production on the Electric Arc Furnace (EAF) at Vereeniging Works, which produced a record 399 000 tonnes. Overall the year's total liquid steel production for long steel products was down 2,2%.

Capital expenditure

	Year ended 31 December	
	2007 Rm	2006 Rm
Value adding	**14**	27
Replacements	**159**	125
Environmental	**76**	17
TOTAL	**249**	169

ArcelorMittal South Africa invested R249 million during the year in projects aimed at continuously maintaining and improving the long steel product division's performance. Newcastle Works expensed R199 million which included expenditure on the environmental evaporator crystalliser and reverse osmosis plant project scheduled for completion during the fourth quarter of 2008, as well as the mini-reline of Blast Furnace N5 which will take place during the second quarter of 2008. At Vereeniging Works, R50 million was invested for an EAF dust extraction project and crane replacement and gantry upgrade, both of which are scheduled for completion in 2008.

Safety, health and environment

The long steel division achieved an impressive safety performance during 2007. Newcastle Works achieved its best ever safety performance during the year, with a lost-time injury frequency rate of only 1,25 and the achievement of 1 million disabling injury free hours six times during the year, while Vereeniging achieved 1 million disabling injury free hours once during the year. Safety of employees and contractors alike remains a critical issue and we will continue to reinforce correct behaviours and implement improvements wherever possible in our quest to achieve a zero-injury goal.

The net operating income of the long steel products division increased to R2 661 million in 2007

The average export prices for low carbon wire rod experienced a record high towards the end of 2007

From an environmental point of view, Vereeniging Works experienced a difficult year with the closure of the Vaal disposal site following an audit conducted by the Environmental Management Inspectorate ('Green Scorpions') and a finding of non-compliance with hazardous waste disposal regulations. The site was closed immediately and the hazardous waste disposed of at an alternative site. Full details of the audit and ArcelorMittal South Africa's response and mitigating actions regarding the plant's environmental risks can be found in the environmental section of the Sustainability Report.

The year ahead

Both domestic and international demand for long steel products are expected to remain strong with further price increases expected in the year ahead. This view is supported by an expected marginal short supply in world markets, rising raw material cost to steel makers and a more controlled export policy from China.

During 2008, Blast Furnace N5 will undergo a mini-reline that will last approximately 45 days. The furnace is nearing the end of its production life and will therefore not get a full reline, as there are plans to build a new, larger furnace. This new Blast Furnace N6 is planned for completion during 2011 and will have a capacity of three million tonnes, compared with the current two million tonne capacity of N5. It will be erected together with a new billet caster and new bar/section mill, and will supply the current and expected future shortage in South and sub-Saharan Africa.

At Vereeniging Works' Steelmaking facility, the replacement of the crane and the gantry upgrade will be completed during the last quarter of 2008.

On the environmental front, Newcastle Works will become a zero effluent discharge plant during 2008 with the commissioning of an evaporator crystalliser plant at a cost of R100 million. We also plan to install a calcium carbide desulphurisation plant at Newcastle Works during 2009. Vereeniging's dust extraction system for the Electric Arc Furnace will be commissioned during 2009.

Coke and Chemicals

Coke and Chemicals' core business is the production of market coke for the ferro-alloy industry from coke batteries located in Pretoria, Newcastle and Vanderbijlpark. The business also processes and beneficiates metallurgical and steel by-products, including coal tar.

Operational results

	Year ended 31 December	
	2007	2006
Revenue (Rm)	**2 065**	1 033
Net operating income (Rm)	**727**	184
Capital expenditure (Rm)	**59**	325
Sales volumes ('000 t)	**2 250**	1 899
– Coke	**992**	597
– Tar	**143**	133
– Other	**1 115**	1 169
Number of employees	**265**	268

An upturn in international coke prices and a full year's production output from the new coke battery at Newcastle Works, commissioned during November 2006, as well as sales prices for market coke which increased by 48,9%, contributed to the division posting record performance figures for the year under review. Revenue increased from R1 033 million in 2006 to R2 065 million in 2007, with net operating profit showing a drastic improvement on 2006 from R184 million to R727 million.

Performance was also enhanced by the use of excess metallurgical coke capacity to produce market coke during the Blast Furnace D reline at Vanderbijlpark. The new Newcastle battery produced 426 000 tonnes. Overall, the coke ovens achieved their highest market coke annual output of 840 000 tonnes.

Capital expenditure

In 2006 Coke and Chemicals spent R325 million on capital projects, the majority of which relates to the new coke oven battery in Newcastle and in 2007 capital expenditure of R59 million which consists mainly of maintenance, safety and environmental projects.

Continuous improvement

The division continued to achieve cost savings during 2007 through a continuous improvement programme which saw various initiatives culminate in higher productivity.

Safety, health and environment

Safety, health and environmental issues and impacts are in line with ArcelorMittal Group's commitment to provide a safe and healthy workplace for its employees, contractors, and visitors.

The safety performance at Coke and Chemicals, as measured by the lost-time injury frequency rate (LTIFR), increased from 1,6 to 2,4 year-on-year. Unfortunately there was a fatal train accident in February 2007.

The year ahead

The financial performance for 2008 is expected to be in line with 2007, with higher expected coke prices to be offset by the unavailability of the excess metallurgical coke capacity realised in 2007. Domestic demand for market coke remains strong. The upsurge of the international coke prices is expected to be sustained for the first half of the year.

Finance report

Our strategy continues to drive cost reduction with the aim of maintaining our position of being within the lowest cost quartiles of world operations.

Future actions include the following projects:

- Improvement of operational stability;
- Increase in throughput to reduce fixed cost per tonne;
- Improvement of various operational efficiencies;
- Reduction in the cost of iron input mix by the use of direct reduction iron; and
- Reduction of coke usage by increasing the use of less expensive pulverised coal injection.

Basis of preparation

The group financial results have been prepared on the historical cost basis, except for the revaluation of financial instruments. The group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007.

The principal accounting policies and methods of computation are consistent with those applied in the previous year except for the adoption of IFRS 7, *Financial Instruments: Disclosures* and the following new standards and interpretations which have been early adopted:

- IAS 23 (Revised), *Borrowing Costs;*
- IFRIC13, *Customer Loyalty Programmes; and*
- IFRIC14, IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

The adoption of these standards and interpretations had no impact on the group's accounting policies or financial results.

The following reclassifications have been processed:

- Reclassification of fair value gains and losses on derivative instruments in designated hedge accounting relationships and bifurcated embedded derivates in terms of IAS 39 – *Financial Instruments: Measurement and Recognition.* An amount of R24 million loss (December 2006: R180 million gain) was reclassified from the income statement category, gains and losses on changes in foreign exchange and financial instruments, to the categories revenue amounting to R3 million gain (December 2006: R13 million loss) and operating expenses amounting to R27 million loss (December 2006: R193 million gain). This reclassification had no impact on operating results;
- Reclassification of value added tax refundable amounting to R92 million (December 2006: R120 million) from trade and other payables to trade and other receivables; and
- Net profit from equity accounted investments was disclosed as after tax, whereas previously it was disclosed as before tax. The taxation charge for 2007 was R78 million and for 2006 was R60 million.

The following restatement has been processed:

- Following an impairment reversal in the accounts of Saldanha Steel (Proprietary) Limited which was reversed on consolidation, further analysis of the detail of the initial impairment recognition in 2001 and the acquisition of the remaining 50% shareholding from the IDC in November 2002 at fair value, the depreciation charge at group level had to be re-assessed and restated. This resulted in a decrease in the depreciation charge of R69 million (December 2006: R70 million) and an increase in taxation expense of R20 million (December 2006: R20 million). The carrying value of fixed assets increased by R69 million (December 2006: R447 million), deferred taxation liability increased by R20 million (December 2006: R130 million) and opening retained earnings for 2006 increased by R267 million. The earnings for 2006 increased by R50 million.

The prior year results have been restated for the above matters in compliance with IAS 8, *Accounting policies changes in accountings estimates and errors.*

The new standards, IFRS 8, *Operating Segments,* IAS 1 (Revised), *Presentation of Financial Statements,* IFRS 2 (Revised), *Share-based Payment – Vesting conditions and cancellations* and IAS 27 (Revised), *Consolidated and Separate Financial Statements* effective for annual periods beginning on or after 1 January 2009 and IFRS 3 (Revised), *Business Combinations,* effective for annual periods beginning on or after 1 July 2009 have not yet been adopted. Adoption of these standards will have no material impact on the group's financial position or results.

Headline earnings

Headline earnings for the year increased by 21% from R4 730 million to R5 741 million. This increase was driven by a significant improvement in operating income, higher interest income and higher equity accounted earnings from our marketing and shipping joint venture, Macsteel International Holdings B.V. This increase was however offset by a loss on foreign exchange due to the strengthening of the Rand against the US Dollar.

The following table provides a comparable view of earnings relating to the periods under review:

	Year ended 31 December		
	2007 Rm	% change	2006 Rm
Revenue	**29 333**	16	25 350
Profit from operations	**7 703**	27	6 082
Gains and losses on changes in foreign exchange rates and financial instruments designated as held for trading at fair value through profit and loss	**(131)**	(144)	301
Net interest income	**325**	68	193
Income from investments	**4**	(43)	7
Income after tax from equity accounted investments	**270**	100	135
Income tax expense	**(2 455)**	21	(2 022)
Profit attributable to equity holders of the company	**5 716**	22	4 696
Earnings per share (cents)	**1 282**	22	1 054
Profit for the year	**5 716**	22	4 696
Adjusted for:			
Loss on disposal or scrapping of assets	**31**	(35)	48
Book value of assets held-for-sale written off	**4**	100	—
Tax effect	**(10)**	(29)	(14)
Headline earnings	**5 741**	21	4 730
Headline earnings per share (cents)	**1 288**	21	1 061

Profit from operations increased from R6 082 million to R7 703 million due to the strong demand for steel combined with higher selling prices in all segments and a 4,4% weakening in the average US Dollar/ZAR exchange rate. This increase was further supported by a substantial improvement in the contribution from the Coke and Chemicals business, due to an increase in international coke prices and an increase in production volumes.

Gains and losses on changes in foreign exchange rates and financial instruments designated as held for trading at fair value through profit and loss amounted to a loss of R131 million compared to a gain of R301 million in the previous year. Net loss on changes in foreign exchange rates amounted to R150 million (2006: R411 million gain) following the strengthening of the ZAR.

Net interest income increased due to an increase of R80 million in interest earned on a higher average cash balance and a decrease in interest cost of R52 million mainly due to an increase in the discount rate used in calculating the present value of the carrying amounts of the environmental rehabilitation and onerous contract provisions.

Income from equity accounted investments mainly represents our share of the profit generated by Macsteel International Holdings B.V., responsible for international marketing and shipping operations. This increase was due to the strong international steel trading conditions and a buoyant shipping market.

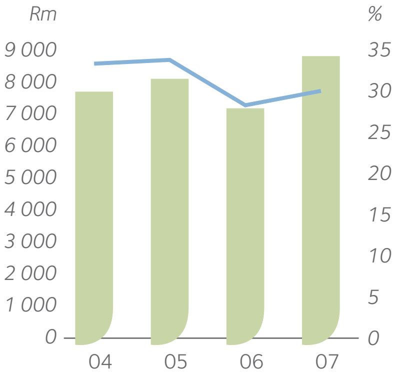
The effective tax rate was 30,0% compared to 30,1% for 2006. Excluding the impact of secondary tax on companies the effective rate was 24,1% compared to 27,7% for 2006. The lower rax rate in 2007 is due to a deferred tax credit of R277 million that was recognised as a consequence of the amendments to relevant tax legislation regarding the tax deductibility of environmental expenditure as promulgated in the Revenue Law Amendments Act of 2007.

Earnings before interest, tax, depreciation and amortisation

The following table of quarterly earnings before interest, tax, depreciation and amortisation (EBITDA) demonstrates the earnings trend, and the impact of price and exchange rate movements on the stability of earnings:

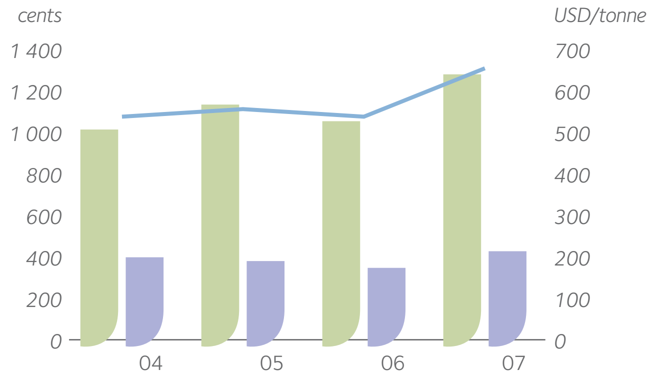
	HRC sales price CFR USD/t	EBITDA USDm	EBITDA Rm	Exchange rate R/USD
Average 2005	**560**	**318**	**2 016**	**6,35**
March 2006	448	212	1 297	6,13
June 2006	504	233	1 505	6,45
September 2006	583	310	2 219	7,16
December 2006	589	295	2 157	7,31
Average 2006	**531**	**266**	**1 795**	**6,76**
March 2007	605	308	2 233	7,24
June 2007	687	339	2 404	7,10
September 2007	676	310	2 202	7,11
December 2007	669	290	1 963	6,77
Average 2007	**659**	**312**	**2 201**	**7,06**

Evident from the above table is the relatively stable EBITDA earnings, especially in US Dollar terms, over the past three years.



EBITDA and EBITDA margin

EBITDA
EBITDA margin



Headline earnings per share, dividends per share and HRC export prices

Headline earnings per share
Dividends per share
HRC export prices

Operating profit

The details per segment of operating profits are provided below:

	Year ended			
	2007		2006	
	Rm	Margin %	Rm	Margin %
Flat products	**4 827**	**25**	3 644	21
Long products	**2 661**	**29**	2 111	27
Coke & Chemicals	**727**	**35**	184	18
Corporate and other	**(512)**		143	
Net operating profit	**7 703**	**26**	6 082	24

Operating profit for the year increased by 26,7% compared to the previous year. Flat products increased by 19%, long products by 26% and Coke and Chemicals by 295%. Overall the operating margin increased from 24% to 26%.

The main reasons for the increase in operating profit of flat and long products were the increase in international steel prices. The average hot rolled coil US Dollar export price on a C&F basis increased by 24% compared to 2006 and the average low carbon wire rod US Dollar export price increased by 17%. This was partially offset by lower sales volumes of 6% compared to 2006 and an increase in the cost of input materials.

The Coke and Chemicals business witnessed a substantial increase in the international prices of market coke. Sales volumes of market coke increased by 67% compared to 2006 due to the coke battery at Newcastle Works which was in full production for the year under review after it was commissioned in the latter part of 2006.

Cost performance

Cash cost per tonne of hot rolled coil and billets increased by 18% and 16% respectively compared to 2006. This is mainly because of increases in the cost of coal, scrap, iron ore, imported iron ore pellets, tin and ferro-alloys as well as lower production volumes.

Our strategy continues to drive cost reduction with the aim of maintaining our position of being within the lowest cost quartiles of world operations.

Future actions include the following projects:

- Improvement of operational stability;
- Increase in throughput to reduce fixed cost per tonne;
- Improvement of various operational efficiencies;
- Reduction in the cost of iron input mix by the use of direct reduction iron; and
- Reduction of coke usage by increasing the use of less expensive pulverised coal injection.

Management of exchange rate and base metal exposures

We are exposed to both economic and transaction risks arising from the volatility in exchange rates, particularly the Rand/US Dollar, and the pricing of commodities in US Dollars. During 2007, the Rand weakened 4% on average against the US Dollar, while comparison of year-end closing rates show this exchange rate strengthened by 3%.

The following table provides the quarterly Rand/US Dollar exchange rates:

	2007 Average	**2007 Closing**	2006 Average	2006 Closing
March	**7,24**	**7,28**	6,13	6,20
June	**7,10**	**7,07**	6,45	7,17
September	**7,11**	**6,88**	7,16	7,77
December	**6,77**	**6,81**	7,31	6,99
Year	**7,06**	**6,81**	6,76	6,99

In Rand terms, changes in the exchange rate have a significant influence on our earnings with approximately 27% of our products being exported on average over the last two years, our domestic sales prices are also influenced by the direction of the movements in the exchange rate. Our pricing model benchmarks our prices against a basket of domestic prices in developing and developed countries across the globe.

We continue to manage the exchange rate exposure by matching foreign currency revenue with foreign currency expenditure and other hedging policies.

We manage our risk to movements in base metal price movements by an active hedging policy in conjunction with our holding company.

Dividend

A final dividend of 204 cents per share in respect of 2006 earnings was declared by the board on 19 February 2007, which resulted in a total dividend of 347 cents per share in respect of 2006 earnings. This final dividend together with the 12,5% secondary tax thereon is recorded in the 2007 financial results.

Considering our current cash position, future capital expenditure and working capital requirements, the board has decided to distribute one third of 2007 headline earnings.

The board declared an interim dividend of 233 cents per share on 30 July 2007. The dividend was recorded in the 2007 financial results together with the 12,5% secondary tax on companies thereon. Payment was made to shareholders on 3 September 2007.

The board approved on 30 July 2007 a capital reduction of 1 021 cents per share payable on 3 September 2007 in terms of the general authority granted to them by the shareholders at the shareholders' meeting of 11 May 2007. At the general meeting of shareholders on 3 October 2007 a further cash distribution of 404 cents per share payable on 29 October 2007 was approved.

The total cash distribution out of stated capital for the year amounted to 1 425 cents per share. The secondary tax on companies levied on the capital reduction amounted to R238 million.

A final dividend of 196 cents per share was declared by the board on 8 February 2008, which resulted in a total dividend in respect of the 2007 earnings of 429 cents, covered three times by headline earnings. The payment of the final dividend will be made on 17 March 2008 to shareholders registered on 14 March 2008. This final dividend together with the 10% secondary tax on companies thereon will be recorded in the 2008 financial results.

Cash flow

The cash flow is summarised below:

	Year ended 31 December	
	2007 Rm	2006 Rm
Cash profit from operations	**9 044**	7 359
Working capital	**(605)**	(1 033)
Cash generated from operations	**8 439**	6 326
Capital expenditure	**(1 852)**	(1 446)
Net interest income	**369**	294
Investment income	**108**	174
Taxation	**(2 209)**	(1 660)
Dividends	**(1 948)**	(1 261)
Capital reduction	**(6 352)**	
Realised foreign exchange rate movements	**(28)**	(236)
Investment in associate	**(16)**	
Proceeds from disposal of property, plant and equipment	**8**	9
Net cash before other financing activities	**(3 481)**	2 200
Working capital		
Increase in inventories	**(41)**	(890)
Increase in trade and other receivables	**(118)**	(347)
(Decrease)/increase in trade and other payables	**(446)**	204
Net working capital movement	**(605)**	(1 033)

Net cash flow before capital reduction of R6 352 million and other financing activities for 2007 was strong at R2 871 million (2006: R2 200 million) driven by cash profits of R9 044 million and interest and investment income of R477 million offset by an increase in working capital of R605 million, capital expenditure of R1 852 million, tax paid of R2 209 million and dividend paid of R1 948 million.

The increase in working capital was made up as follows:

- Increase in inventories of R41 million mainly due to higher input material costs partly offset by the lower inventory levels;
- Debtors increased by R118 million mainly due to higher selling prices; and
- Creditors decreased by R446 million mainly due to the abnormally high creditors at December 2006 due to the import of slabs for Vanderbijlpark Works related to the rebuild of Blast Furnace D and the insurance pre-payment from the group to Ferrosure.

Capital expenditure

Capital expenditure for the year was 28% higher than that for the previous year, details of which are as follows:

	Year ended 31 December	
	2007 Rm	2006 Rm
Value-adding capital	**654**	536
Replacements	**1 072**	806
Environmental	**126**	104
Total	**1 852**	1 446
Depreciation charge	**1 088**	1 080

Of the R1 852 million spent on capital projects 35% went towards new value-adding projects, 58% towards replacements and 7% towards environmental projects.

Financial management

Our financial facilities at 31 December 2007 were as follows:

	Facility Rm	Drawn Rm	Available Rm	Term
Supplier loan	61	(61)		6 annual repayments
Standby facilities				
– Working capital lines	2 484		2 484	Demand facility
	2 545	(61)	2 484	
Cash balance		4 034		
Net cash balance/funds available		3 973		

We have a strong balance sheet with virtually no debt. Our cash position at the end of the year decreased by R3 716 million to R4 034 million due to the capital reduction of R6 352 million that was paid during 2007.

Some of the available funds are earmarked for dividends and tax payments as well as investments in our expansion programmes. We plan to meet all our investment needs from internal cash resources.

Share performance

The average share price for the 12 months was R125,25 with a high of R153,00 during December 2007 and a low of R91,53 during January 2007. For the previous year ended December 2006 the average was R72,86 with a high of R99,00 in December 2006 and a low of R56,40 in January 2006.

Liquidity in our shares remains high with 117% of the available shares for trade being traded during the 12 months (116% the previous twelve months ended December 2006) with an average daily value of R122 million (R67 million during the previous twelve months).

Throughout the past 12 months ArcelorMittal South Africa was ranked in the JSE Limited Top 40 Index in terms of total market capitalisation. Average market capitalisation for the 12 months was R56 billion and for the previous 12 months R33,2 billion. Our position in the Top 40 Index at 31 December 2007 was number 19 (at December 2006: 21) for total market capitalisation.

Corporate governance

Corporate governance is an integral part of ArcelorMittal South Africa's business practice and is fully endorsed by the board of ArcelorMittal South Africa. Principles contained in the King Report on Corporate Governance for South Africa 2002 (King II) are reflected in the company's corporate governance structures.

ArcelorMittal South Africa is committed to upholding the corporate governance standards of King II and during the year under review complied materially with the Code of Corporate Practices and Conduct contained therein. Because principles and policies alone do not ensure good corporate governance, ArcelorMittal South Africa ensures that all its operations are subjected to a stringent corporate governance framework.

Board of directors

In accordance with the recommendations of King II, the board of ArcelorMittal South Africa is unitary in structure and comprises more non-executive directors (10) than executive directors (three), with five of the non-executive directors being independent. All this is in keeping with the principles of good corporate governance to which the ArcelorMittal South Africa board of directors wholly subscribes. The executive directors are the Chief Executive Officer, the President and the Executive Director, Finance.

Board committees oversee various areas of responsibility and assist the board in carrying out its duties, while the board itself retains full control over the affairs of the company and makes decisions on all material matters.

The Corporate Laws Amendment Act 2006 took effect in February 2008 and the board has implemented the necessary changes required by the Act. It has also made preparations in anticipation of further changes which the Act will require.

Board changes

During the year under review the following changes to the board took place:

- Dr KDK Mokhele was appointed Chairman of the board with effect from 1 January 2007;
- Three new non-executive directors were appointed to the board. Messrs EK Diack and DCG Murray are both independent non-executive directors and were appointed on 16 March and 11 May 2007 respectively. Mr LP Mondi, a non-executive director, was appointed on 11 May 2007;
- Mr JJA Mashaba resigned as Executive Director, Human Resources on 30 September 2007;
- The Chief Executive Officer, Mr EM Reato, resigned with effect from 29 February 2008;
- Ms MNC Nyembezi-Heita has been appointed Chief Executive Officer and member of the board with effect from 1 March 2008; and
- Mr LGJJ Bonte has been appointed with effect from 1 March 2008 in the position of President responsible for the operations and as a member of the board.

Company Secretary

Ms C Singh was appointed as Company Secretary on 1 December 2007 in the place of Ms XB Motswai who resigned on 31 May 2007.

The company secretary's main duties are to:

- provide the directors collectively and individually with guidance as to their duties, responsibilities and powers;
- make the directors aware of all law and legislation relevant to or affecting the company, and report at any meeting of shareholders of the company, or of the company's directors, any failure to comply with such law or legislation;
- ensure that minutes of all shareholders' meetings, directors' meetings and the proceedings of any committee of the directors are properly recorded in accordance with the Companies Act;

- certify in the annual financial statements of the company that the company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date;
- ensure that a copy of the company's annual financial statements is sent to every person entitled thereto in terms of the Companies Act;
- ensure that the company complies with the JSE Limited Listings Requirements; and
- ensure that the company adheres to good corporate governance practices and procedures.

The board and its committees were constituted as follows:

Board of directors	Committees
Non-executive directors **Independent** Khotso Mokhele[1] Johnson Njeke Thandi Orleyn[2] Eric Diack[3] Chris Murray[4]	**Audit Committee** Johnson Njeke *(Chairman)* Eric Diack Chris Murray **Human Resources and Nominations Committee** Thandi Orleyn *(Chairman)* Khotso Mokhele Davinder Chugh Bernard Fontana (*Representative of ArcelorMittal Group)*
Non-executive directors Lumkile Mondi[5] Malay Mukherjee Michel Wurth Sudhir Maheshwari Davinder Chugh	**SHE Committee** Khotso Mokhele *(Chairman)* Chris Murray *A representative of one of the recognised trade unions on an annual rotational basis* **Risk Committee** Eric Diack *(Chairman)* Johnson Njeke Lumkile Mondi
Executive directors Rick Reato *(former CEO)*[6] Nku Nyembezi-Heita *(CEO)*[7] Luc Bonte *(President)* [8] Kobus Verster *(Finance)* Juba Mashaba [9] *(Human Resources)*	**Transformation Committee** Khotso Mokhele *(Chairman)* Davinder Chugh Lumkile Mondi Thandi Orleyn

1) Appointed as Chairman of the board on 1 January 2007
2) Appointed as non-executive independent director on 1 February 2007
3) Appointed as non-executive independent director on 16 March 2007
4) Appointed as non-executive independent director on 11 May 2007
5) Appointed as non-executive director on 11 May 2007
6) Resigned as CEO with effect from 29 February 2008
7) Appointed as CEO with effect from 1 March 2008
8) Appointed as an executive director and President with effect from 1 March 2008
9) Resigned as executive director, human resources on 30 September 2007

Additional information regarding our directors can be found on the following pages of the annual report:

- Short curriculum vitae, including age and date of appointment – pages 10 and 11;
- Remuneration – pages 66 and 67; and
- Shareholding – pages 68 and 69.

The Board

The board accepts that it is ultimately accountable and responsible for the affairs of the company. Therefore, the board:

- retains full and effective control of the company;
- gives strategic direction to the company;
- monitors management in implementing plans and strategies as approved by the board;
- appoints the Chief Executive Officer and executive directors;
- ensures effective succession planning;
- identifies and regularly monitors key risk areas and key performance indicators of the business;
- ensures that the company complies with relevant laws, regulations and codes of business practice;
- ensures that the company communicates with shareholders and relevant stakeholders openly and promptly;
- identifies and monitors relevant non-financial matters;
- establishes a formal and transparent procedure for appointment to the board, as well as a formal orientation programme for incoming directors;
- regularly reviews processes and procedures to ensure effectiveness of internal systems of control and accepts responsibility for the total process of risk management; and
- assesses the performance of the board, its committees and its individual members on a regular basis.

The charter also addresses issues such as the composition and size of the board, board procedures, matters reserved for board decision, frequency and proceedings of board meetings, directors' share dealings and declaration of directors' interests.

Meetings and related matters

The Board meets regularly and retains full and effective control over the company. It monitors management in implementing board plans and strategies. The information needs of the directors are considered on an annual basis and directors are given unrestricted access to all company information, records, documents and property.

Attendance at meetings of the board

	2007-02-19	2007-04-20	2007-05-11	2007-07-13	2007-07-30	2007-10-03	2007-11-16	2007-12-11
KDK Mokhele	✓	✓	✓	✓	✓	✓	✓	✓
DK Chugh	✓	✓	✓	✓	T	✓	T	T
EK Diack[(1)]		✓	✓	✓	✓	✓	✓	✓
S Maheshwari	T	T	X	✓	X	X	X	X
JJA Mashaba[(2)]	✓	✓	✓	X	T			
LP Mondi[(3)]				✓	✓	✓	✓	X
M Mukherjee	X	✓	X	✓	T	✓	X	T
DCG Murray[(4)]				✓	✓	X	✓	✓
MJN Njeke	✓	X	✓	✓	✓	✓	✓	X
ND Orleyn	✓	✓	✓	✓	✓	✓	✓	✓
EM Reato	✓	✓	✓	✓	✓	✓	✓	✓
HJ Verster	✓	✓	✓	✓	✓	✓	✓	✓
M Wurth	X	X	✓	X	X	✓	T	X

1) Appointed to the board on 2007-03-16
2) Resigned from board on 2007-09-30
3) Appointed to the board on 2007-05-11
4) Appointed to the board on 2007-05-11

X Apology; T via telephone conference facility

Board committees

The committees listed below have been established to assist the board in fulfilling its responsibilities. The nature and scope of authority for each committee is detailed in the respective committee's terms of reference as approved by the board. The terms of reference also address issues such as composition and number of meetings, duties and responsibilities, reporting and accountability as well as authority of each committee. As concerns composition, the terms of reference of all the committees of the board make provision for non-board members who possess the requisite expertise, skill and knowledge to be appointed to serve on the committees where the board, through the Human Resources and Nominations Committee, deems it appropriate.

- **Audit Committee**

  The Audit Committee assists the board in carrying out its responsibilities to stakeholders in respect of the company's accounting, auditing, internal control and financial reporting practices. Represented on the committee are members of executive management including the Chief Executive Officer, Executive Director - Finance, Chief Operations Officer and the Group Managers of Internal Assurance, Information Management, Statutory Reporting, Treasury and Taxation. In addition, senior partners of the external auditor sit on the committee by invitation, which meets at least four times a year.

  The committee consists of three independent non-executive directors and at 31 December 2007, comprised Messrs MJN Njeke (Chairman), EK Diack and DCG Murray. Messrs M Mukherjee and S Maheshwari resigned from the committee on 11 May 2007, being replaced by Messrs EK Diack and DCG Murray, appointed to the committee on the same date.

  For the year under review, the Audit Committee has performed its duties and responsibilities as they relate to the company's accounting, auditing, internal control and financial reporting practices. These duties can be summarised as follows:

1. **In respect of external auditors and audit, the committee:**
   - considers and make recommendations to the board on all aspects relating to the appointment, retention, resignation/dismissals of external auditors, including the determination and payment of fees. It also ensures that the process complies with all relevant legislation.
   - reviews the audit, evaluating the performance of the auditors and their independence; and
   - obtains an annual written statement from the auditors that their independence was not impaired, and obtains assurances that adequate records are being maintained.
2. **In respect of financial statements, the commitee:**
   - examines all reports relating to the company's results, including all financial information to be made public prior to approval by the board, and ensures that the results present a balanced and understandable assessment of the financial position, performance and prospects of the company;
   - reviews the external auditors' proposed audit report;
   - considers the appropriateness of the accounting policies adopted and the treatment of unusual or contentious issues; and
   - considers any problems identified and reviews any significant legal matters.
3. **In respect of internal control and internal audit, the committee:**
   - reviews and approves the internal audit charter and audit plans and evaluates the independence, effectiveness and performance of the internal audit function/department and compliance with its mandate;
   - reviews the company's systems of internal control including financial controls;
   - reviews significant issues raised by the internal audit process; and
   - reviews policies and procedures for preventing and detecting fraud.
4. **In respect of risk management, the committee:**
   - reviews and ensures that the process and procedures followed by the Risk Management Committee are adequate to ensure enterprise risks are identified and monitored; and
   - reviews tax and technology risks, in particular how they are managed.
5. **In respect of organisational integrity/ethics, the committee:**
   - reviews any statements on ethical standards for the company and how they are promoted and enforced; and
   - reviews significant cases of unethical activity by employees or by the company itself.

6. In general, the committee:

- gives due consideration to the Listing Requirements of the JSE Limited and the principles of governance and codes of best practice as contained in the Report on Corporate Governance for South Africa; and
- obtains assurance from legal counsel and/or management on procedures followed to ensure compliance with applicable laws and regulations.

Attendance at meetings of the Audit Committee

	2007-02-19	2007-05-11	2007-07-30	2007-11-16
MJN Njeke	✓	✓	✓	✓
EK Diack(1)			✓	✓
S Maheshwari(2)	T	X		
M Mukherjee(3)	X	X		
DCG Murray(4)			✓	✓

1) Appointed to the committee on 2007-05-11; *2) Resigned from the committee on 2007-05-11;*
3) Resigned from the committee on 2007-05-11; *4) Appointed to the committee on 2007-05-11.*

X Apology; T via telephone conference facility

Risk Committee

The Risk Committee assists the board in its duty to establish and maintain a sound system of internal control to safeguard shareholders' investments and ArcelorMittal South Africa's assets, specifically by:

- reviewing and assessing the adequacy of management's risk identification, assessment, mitigation, and disclosure;
- reviewing and assessing the adequacy of the risk strategies with respect to insurance cover;
- periodically reviewing the effectiveness of the risk management strategy, policy and procedures;
- conducting an annual self-evaluation of the performance of the committee, including its effectiveness and compliance with duties;
- reporting regularly to the Audit Committee and board on the general status of risk management and on findings and recommendations of the committee; and
- considering the control environment directed toward the proper management of risk.

The Risk Committee is chaired by Mr Eric Diack who was appointed on 11 May 2007 and who replaces Mr Johnson Njeke as chairman, although Mr Njeke remains part of the committee. Mr L Mondi was also appointed to the committee on 11 May 2007.

The chairman of the committee (or a person nominated by the chairman of the committee for that purpose) must report on all matters relevant to the committee's proceedings and decisions to the board following each meeting.

Attendance at meetings of the Risk Committee:

	2007-02-09	2007-04-30	2007-07-27	2007-10-30
MJN Njeke	✓	✓	✓	✓
EK Diack(1)			✓	✓
A Chopra(2)	X	T		
LP Mondi(3)			✓	✓

1) Appointed to the committee on 2007-05-11 *2) Resigned from the committee on 2007-05-11*
3) Appointed to the committee on 2007-05-11

X Apology; T via telephone conference facility

Human Resources and Nominations Committee

This committee is responsible for assisting the board with:

- the determination and agreement of the framework or broad policy for the remuneration of the company's executive and senior management;
- the determination of the targets and rules for any performance-related pay schemes operated by the company;
- the determination of the rules for any share incentive scheme;
- the approval of general salary increases and mandates for negotiations with trade unions and the review and assessment of any *ad hoc* remuneration matters;
- the determination of the total individual remuneration packages for each executive director, including, where appropriate, bonuses, incentive payments and share options;
- the determination of the policy for and scope of pension arrangements, service agreements for the executive management team, termination payments and compensation commitments, giving due regard to the principles of good corporate governance;
- the overseeing of any major changes in employee benefit structures throughout the company;
- the disclosure of remuneration, including pensions, as required in terms of the Listings Requirements of the JSE Limited of South Africa;
- the development of a proper system of succession planning for top management and the monitoring of succession planning in the rest of the organisation;
- the confirmation of appointment to senior management;
- the approval of the employment equity plans for implementation;
- the approval of the Aids strategy of the company and the implementation of any relevant plans;
- the review of board structure, size and composition, making recommendations to the board on the composition of the board in general and any adjustments that are deemed necessary, including the balance between executive, non-executive and independent non-executive directors;
- the identification and nomination of candidates for the approval of the board to fill board vacancies (executive and non-executive directors);
- the succession planning, in particular for the chairperson and executive directors;
- the performance contract of the Chief Executive Officer; and
- the formalisation of the annual performance reviews of the board as a whole, the respective board committees and individual board members.

The Human Resources and Nominations Committee consists of three non-executive directors and is chaired by Ms ND Orleyn who was appointed on 11 May 2007. Ms ND Orleyn replaces Dr KDK Mokhele as chairman, although Dr KDK Mokhele remains a member of the committee. As at 31 December 2007, the committee comprised of Ms ND Orleyn (Chairman), Dr KDK Mokhele, Mr DK Chugh and Mr B Fontana. The following members resigned from the committee during the year: Mr I Walia on 11 May 2007 and Mr JJA Mashaba on 30 September 2007. Mr B Fontana was appointed to the committee on 11 May 2007.

Attendance at meetings of the Human Resources and Nominations Committee

	2007-02-20	2007-04-20	2007-05-09	2007-08-20	2007-10-29
KDK Mokhele(1)	✓	✓	✓	X	✓
DK Chugh	T	✓	T	T	T
B Fontana(2)				T	T
JJA Mashaba(3)	✓	✓	✓	✓	
ND Orleyn(4)				✓	✓
I Walia(5)	T	✓	T		

1) Outgoing chairperson of the committee on 2007-10-29
2) Appointed to the committee on 2007-05-11
3) Resigned from the committee on 2007-09-30
4) Appointed to the committee on 2007-05-11
5) Resigned from the committee on 2007-05-11

X Apology T via telephone conference facility

Safety, Health and Environment (SHE) Committee

The Safety, Health and Environment (SHE) Committee assists the board in executing its critical responsibility of ensuring the sound management of safety, health and environmental matters. The committee comprises three members, one of whom is a representative of one of the recognised unions. The union representation rotates on an annual basis among the three recognised unions. The main duties of the committee are to:

- 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 legal compliance and the fulfilment of its commitments and obligations in these fields;
- consider and approve corporate safety, health and environmental strategies and policies;
- monitor compliance with such strategies and policies;
- 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 (process and activities);
- monitor the company's safety, health and environmental performance, progress and continuous improvement; and
- deal with any other matters formally delegated by the board to the committee from time to time.

Attendance at meetings of the SHE Committee

	2007-02-05	2007-05-04	2007-09-11
KDK Mokhele	✓	✓	✓
DK Chugh[1]	T	X	
DCG Murray[2]			✓
MS Maake[3]	✓		
C Pienaar[4]	✓	✓	✓
JJA Mashaba[5]	✓	✓	✓

1) Resigned from the committee on 2007-05-11 *2) Appointed to the committee on 2007-05-11*
3) Rotating union member (NUMSA) for the period January – December 2006
4) Rotating union member (Solidarity) for the period January– December 2007
5) Resigned from the committee on 2007-09-30

X Apology; T via telephone conference facility

Transformation Committee

Following the Department of Trade and Industry's release in February 2007 of the revised Codes of Good Business Practice on Broad-based Black Economic Empowerment (B-BBEE), a Transformation Committee was established to drive strategy and the achievement of B-BBEE targets at ArcelorMittal South Africa.

The committee is chaired by Dr KDK Mokhele and comprises Mr DK Chugh, Mr LP Mondi and Ms ND Orleyn.

Attendance at meetings of the Transformation Committee:

	2007-09-10	2007-11-01
KDK Mokhele	✓	✓
DK Chugh	T	T
ND Orleyn	✓	✓
LP Mondi	✓	✓

X Apology; T via telephone conference facility

Additional committees

Executive Committee

This committee is chaired by the Chief Executive Officer and comprises the executive directors of the company and members of the senior management team. It meets formally on a monthly basis. The Executive Committee and its members are individually mandated, empowered and held accountable for implementing the strategies and key policies determined by the board; managing and monitoring the business and affairs of the organisation in accordance with approved business plans and budgets; prioritising the allocation of capital and other resources; ensuring compliance with laws and adherence to good governance principles; and establishing best management and operating practices.

Capital Review Committee

The Chief Executive Officer chairs this committee, which members consist of the Executive Director, Finance and other senior managers. The committee meets formally on a monthly basis and is responsible for reviewing all requests for capital expenditure involving amounts exceeding R10 million and for monitoring the effective functioning of the capital expenditure management process, including the post-implementation review system.

Policies and procedures

Professional advice

The directors are entitled, at the company's expense, to seek independent professional advice about the affairs of the company regarding the execution of their duties. They also have access to the advice and services of the Company Secretary, who plays an active role in the corporate governance of the company.

Price-sensitive information

The board acknowledges its responsibility for ensuring the equal treatment of all shareholders. To this end, a disclosure of information policy is in place and sets out the necessary guidelines that have to be adhered to at all times in the external communication of the company's affairs.

Insider trading

In line with best practice, no employee or director may deal, directly or indirectly, in ArcelorMittal South Africa shares on the basis of unpublished price-sensitive information regarding the business or affairs of the company. Furthermore, no director or any employee who participates in the management share scheme, may trade in ArcelorMittal South Africa shares during the embargo periods determined by the board. These include the periods between the end of the quarterly, interim and annual reporting periods respectively, and the announcement of financial and operating results for such periods.

In accordance with the Listings Requirements of the JSE Limited, procedures have been put in place to ensure that no director of the company trades in the company's shares without the requisite approval.

Approach to remuneration

Fee structures for remuneration of board members are recommended to the board by the Human Resources and Nominations Committees and reviewed annually. The committee takes cognisance of market norms, practices and benchmarks as well as additional responsibilities placed on board members by new legislation, regulations and corporate governance guidelines. The board recommends the fee structure for the next year to the company's shareholders at the AGM for approval. The Company Secretary administers the annually approved remuneration schedule.

Non-executive directors

Non-executive directors receive an annual fee and in addition are paid a fee for attending and contributing to board meetings. The Chairman receives a fixed annual fee that is inclusive of all board and board committee attendances. ArcelorMittal South Africa reimburses non-executive directors for all travelling and accommodation expenses in respect of board and board committee meetings in accordance with company policy.

Executive directors

Executive directors are paid a base salary as well as a variable performance-linked bonus and also participate in the company's share scheme. These are established in terms of ArcelorMittal South Africa's remuneration principles, which aim to reward directors appropriately in line with the market as well as with regard to their performance. The Human Resources and Nominations Committee undertakes an annual review of each executive director's pay, including that of the Chief Executive Officer. It also approves the bonus structure including performance parameters each year.

Annual financial statements

The board acknowledges its responsibility for ensuring the preparation of the annual financial statements in accordance with International Financial Reporting Standards (IFRS) and the responsibility of the external auditors to report on these financial statements. The board is responsible for ensuring the maintenance of adequate accounting records and effective systems of internal control. During the year under review, nothing has come to the board's attention to indicate that any breakdown in the functioning of the internal controls and systems has occurred, which could have a material impact on the business.

The annual financial statements are prepared from the accounting records on the basis of the consistent use of appropriate accounting policies supported by reasonable and prudent judgements and estimates that fairly present the state of affairs of the company.

The financial statements have been prepared on a 'going concern' basis and there is no reason to believe that the company will not continue as a going concern in the next financial year. ArcelorMittal South Africa places strong emphasis on achieving the highest levels of financial management, accounting and reporting to stakeholders. Our accounting policies and practices also conform to IFRS.

Sustainable development

Sustainable development is a cornerstone of our management philosophy, in line with our company philosophy of boosting economic viability whilst ensuring social equity and protecting ecological integrity.

We acknowledge the need to report to all relevant stakeholders on our sustainability initiatives and our aim is to move towards reporting in accordance with the Global Reporting Initiative guidelines.

ArcelorMittal South Africa is an active member of the International Iron and Steel Institute (IISI) and contributes to and supports its policies and initiatives on sustainable development. Specific initiatives aimed at achieving our objectives with regard to sustainable development were undertaken during the year under review and are covered extensively within the sustainability report section contained in this report. These include:

- social responsibility;
- safety, health and environmental management, policies and practices;
- employee issues such as employment equity, the potential impact of HIV/Aids on our activities and the development of human capital;
- initiatives to support broad-based black economic empowerment; and
- the identification and management of risk.

Internal assurance

The internal assurance department has made a major contribution to ensuring effective corporate governance processes. Its main areas of focus include all aspects concerning internal controls, risk management, control self-assessment, compliance, the reliability of the financial records and the safeguarding of assets. With the active involvement and support of the Audit Committee, the internal assurance team assists the board in ensuring a sound system of risk management, internal control and governance.

In its day-to-day operations the department enjoys the full support of the Audit Committee of the board, management and the external auditors. The internal assurance department is fully mandated by and accountable to the Audit Committee as an appraisal activity for the review of all operations. The Audit Committee approves the internal audit work plan for the year and monitors the department's performance against the plan. The internal audit charter defines the purposes, authority and responsibility of the internal audit function.

The head of internal audit has full access to the Chairman of the company, as well as the chairman of the Audit Committee. The external auditors are copied on all internal audit reports issued.

Code of business conduct

The code of business conduct aims to engender a culture of adherence to the highest ethical standards by all company stakeholders, including shareholders, customers, suppliers, employees, communities where the company does business, government, etc. The code covers various aspects, including:

- compliance with laws;
- competition and antitrust;
- gifts to government officials;
- trading in the company's securities;
- conflicts of interest;
- receiving gifts or benefits;
- political activities and corporate opportunities relating to the corporate board of directors;
- fair dealing;
- customer relations;
- supplier relations;
- confidentiality of company information;
- proper use and protection of company assets;
- discrimination and harassment;
- occupational health and safety; and
- respect for the environment.

Employees have access to the Company Secretary's advice and guidance should they have questions relating to the code. There is a hotline in place to enable anonymous reporting of unethical behaviour, and employees are encouraged to use it when they have concerns or suspect unethical behaviour.

Supplementary information

Definitions

Cash and cash equivalents

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

Current ratio

Current assets divided by current liabilities. Current liabilities include short-term borrowings and interest-free liabilities other than deferred taxation.

Dividend cover

Headline earnings per ordinary share divided by dividends per ordinary share.

Dividend yield

Dividends per ordinary share divided by the year-end share price at the JSE Limited.

Earnings per ordinary share

- Attributable earnings basis
  Basic earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

- Headline earnings basis
  Earnings attributable to ordinary shareholders adjusted for profits and losses on items of a capital nature recognising the taxation and minority impacts on these adjustments divided by the weighted average number of ordinary shares in issue during the year.

- Diluted earnings basis
  Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year increased by the number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Financial cost cover

Net operating profit divided by net financing costs.

Financial gearing (debt:equity ratio)

Interest-bearing debt less cash and cash equivalents as a percentage of total shareholders' equity.

Headline earnings yield

Headline earnings per ordinary share divided by the year-end share price at the JSE Limited.

Invested capital
Net equity, interest-bearing debt, non-current provisions and deferred taxation less cash and cash equivalents.

Net assets
Sum of non-current assets and current assets less all current interest-free liabilities.

Net asset turn
Revenue divided by closing net assets.

Net equity per ordinary share
Ordinary shareholders' equity divided by the number of ordinary shares in issue at the year-end.

Number of years to repay interest-bearing debt
Interest-bearing debt divided by cash flow from operating activities before dividends paid.

Operating margin
Net operating profit as a percentage of revenue.

Price-earnings ratio
The closing share price on the JSE Limited divided by earnings per ordinary share.

Return on ordinary shareholders' equity
- Attributable earnings
  Basic attributable earnings to ordinary shareholders as a percentage of average ordinary shareholders' equity.

- Headline earnings
  Headline earnings attributable to ordinary shareholders as a percentage of average ordinary shareholders' equity.

Return on invested capital
Net operating profit plus income from non-equity accounted investments plus income from investments in associates and incorporated joint ventures as a percentage of the average invested capital.

Return on net assets

Net operating profit plus income from non-equity accounted investments plus income from investments in associates and incorporated joint ventures as a percentage of the average net assets.

Revenue per employee

Revenue divided by the average number of employees during the year.

Weighted average number of shares in issue

The number of shares in issue at the beginning of the year, increased by shares issued during the year, weighted on a time basis for the period which they have participated in the income of the group. In the case of shares issued pursuant to a share capitalisation award in lieu of dividends, the participation of such shares is deemed to be from the date of issue.

Weighted average price paid per share traded

The total value of shares traded each year divided by the total volume of shares traded for the year on the JSE Limited.

JSE Limited

Statistics

		Year ended 31 Dec			Six months ended 31 Dec	Year ended 30 Jun
	2007	2006	2005	2004	2003	2003
Number of ordinary shares traded (m)	**251**	248	294	298	160	353
Number of transactions ('000)	**136**	90	87	50	20	43
Value of ordinary shares traded (Rm)	**31 887**	18 069	15 953	11 518	3 377	7 240
% of issued shares traded (Rm)	**56**	56	66	67	36	79
Year-end market price/headline earnings ratio (times) – annualised	**10,6**	9,3	5,4	6,4	13,8	2,9
Headline earnings yield at year-end (%) – annualised	**9,4**	10,8	18,6	15,6	14,4	34,8
Dividend yield at year-end (%) – annualised	**3,1**	3,5	6,2	6,1	5,2	12,5
Market price per ordinary share (cents)						
– year-end	**13 650**	9 825	6 125	6 550	2 880	1 600
– highest	**15 300**	9 900	6 930	6 850	2 901	2 530
– lowest	**9 153**	5 640	4 160	2 650	1 545	1 440
– weighted average price per share trade	**12 724**	7 286	5 426	3 865	2 111	2 051
Year-end market price/net equity per ordinary share (times)	**2,96**	1,88	1,40	1,84	0,99	0,56
Market capitalisation at year-end (Rm)	**60 845**	43 795	27 302	29 197	12 838	7 132
ArcelorMittal South Africa share price index (base:2002=0)	**620**	447	278	298	131	73
JSE Actuaries index – Industrial (base 2002=0)	**395**	342	249	188	132	100

Selected group financial data translated into US Dollars and Euros

for the year ended 31 December 2007

	2007 USD million	2006 USD million	2007 Euro million	2006 Euro million
Income statements				
Revenue	4 155	3 750	3 037	2 972
Operating expenses	(3 064)	(2 850)	(2 239)	(2 259)
Profit from operations	1 091	900	797	713
Gains and losses on changes in foreign exchange rates and financial instruments designated as held for trading at fair value through profit and loss	(19)	45	(14)	35
Net interest income	46	29	34	23
Income from investments	1	1		1
Income after tax from equity accounted investments	38	20	28	16
Profit before tax	1 157	994	846	788
Income tax expense	(348)	(299)	(254)	(237)
Profit for the year	810	695	592	551
Attributable earnings per share (cents)	182	156	133	124
Headline earnings	813	700	594	555
Headline earnings per share (cents)	182	157	133	124

Selected group financial data translated into US Dollars and Euros continued

for the year ended 31 December 2007

	2007 USD million	2006 USD million	2007 Euro million	2006 Euro million
Balance sheet				
Assets				
Non-current assets	2 480	2 306	1 684	1 754
Property, plant and equipment	2 280	2 142	1 548	1 629
Intangible assets	9	8	6	6
Unlisted equity accounted investments	163	136	111	104
Other financial assets	29	19	19	15
Current assets	1 662	2 154	1 128	1 638
Assets classified as held for sale		1		1
Inventories	703	683	478	520
Trade and other receivables	337	316	229	241
Taxation	16	26	11	19
Other financial assets	14	19	9	15
Cash and cash equivalents	592	1 109	402	843
Total assets	4 142	4 460	2 812	3 392
Equity and liabilities				
Shareholders' equity	3 022	3 328	2 052	2 531
Stated capital	5	914	4	695
Non-distributable reserves	111	98	75	74
Retained income	2 906	2 316	1 973	1 761
Non-current liabilities	627	626	426	476
Borrowings and other payables	8	9	5	7
Finance lease obligations	48	72	33	55
Deferred income tax liability	382	356	260	270
Non-current provisions	189	190	129	144
Current liabilities	492	506	334	385
Trade and other payables	422	452	286	344
Borrowings	1	1	1	1
Finance lease obligations	13	13	9	10
Other financial liabilities	10	1	7	1
Current provisions	46	38	31	29
Total equity and liabilities	4 142	4 460	2 812	3 392

Selected group financial data translated into US Dollars and Euros continued

for the year ended 31 December 2007

	2007 USD million	2006 USD million	2007 Euro million	2006 Euro million
Condensed cash flow statement				
Cash inflows from operating activities	**655**	512	**479**	406
Cash outflows from investing activities	**(248)**	(187)	**(181)**	(148)
Net cash flow before financing activities	**407**	325	**297**	258
Cash outflows from financing activities	**(912)**	(13)	**(666)**	(10)
(Decrease)/increase in cash and cash equivalents	**(505)**	312	**(369)**	247
Effect of foreign exchange rate changes	**(12)**	(26)	**(72)**	(98)
Cash and cash equivalents at beginning of year	**1 109**	823	**843**	694
Cash and cash equivalents at end of year	**592**	1 109	**402**	843

The group statements on these pages have been expressed in USD and Euro for information purposes. The average R/USD and R/Euro rate for the year has been used to translate the income and cash flow statements, while the balance sheet has been translated at the closing rate as at the last day of the reporting period.

R = USD at year-end	**6,81**	6,99		
R = USD average for the year	**7,06**	6,76		
R = Euro at year-end			**10,03**	9,19
R = Euro average for the year			**9,66**	8,53

Annual financial statements

ArcelorMittal

Contents

Directors' responsibility and approval of the group and company annual financial statements

for the year ended 31 December 2007

To the members of ArcelorMittal South Africa Limited

The directors are required by the South African Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the group and company annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements present fairly the state of affairs of the group and company as at the end of the financial year and the results of its operations and cash flow for the financial year, in conformity with International Financial Reporting Standards, JSE listing requirements and applicable legislation. The group's external auditors are engaged to express an independent opinion on the group and company annual financial statements.

In order for the directors to discharge their responsibilities, management has developed and continues to maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. The directors, primarily through the audit committee which consists of non-executive directors, meet periodically with the external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The group's internal auditors independently evaluate the internal controls. The external auditors are responsible for reporting on the financial statements. The external and internal auditors have unrestricted access to all records, property and personnel as well as to the audit committee. The directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review.

The directors are of the opinion, based on the information and explanations given by management and the internal auditors that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the group and company annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's and company's financial budgets for the year to 31 December 2008. In light of the current financial position and existing borrowing facilities, they consider it appropriate that the annual financial statements be prepared on the going-concern basis.

The external auditors have audited the annual financial statements of the group and company and their unmodified report appears on page 61.

Against this background the directors of the company accept responsibility for the annual financial statements which were approved by the board of directors on 10 March 2008 and are signed on its behalf by:

NMC Nyembezi-Heita
Chief Executive Officer
10 March 2008

HJ Verster
Executive Director Finance
10 March 2008

Certificate by Company Secretary

In my capacity as the Company Secretary, I hereby confirm, in terms of the South African Companies Act, 1973 as amended, that for the year ended 31 December 2007, ArcelorMittal South Africa Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

Ms C Singh
10 March 2008

Report of the independent auditors

To the shareholders of ArcelorMittal South Africa Limited

We have audited the annual financial statements and group annual financial statements of ArcelorMittal South Africa Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2007, the income statement and the consolidated income statement, the statement of recognised income and expense and the consolidated statement of recognised income and expense and cash flow statement and the consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 62 to 193.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as at 31 December 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Per RM Duffy
Partner
10 March 2008

Deloitte & Touche
Buildings 1 and 2, Deloitte Place
The Woodlands Office Park, Woodlands Drive
Woodmead Sandton

Docex 10 Johannesburg
Private Bag X6, Gallo Manor 2052
South Africa

National Executive: GG Gelink, Chief Executive; AE Swiegers, Chief Operating Officer; GM Pinnock, Audit; DL Kennedy, Financial Advisory Services and Tax; L Geeringh, Consulting; L Bam, Corporate Finance and Strategy; CR Beukman, Finance; TJ Brown, Clients and Markets; NT Mtoba, Chairman of the Board.

A full list of partners and directors is available on request.

The directors have pleasure in presenting their report for the year ended 31 December 2007.

Change of name

The group changed its name from Mittal Steel South Africa Limited to ArcelorMittal South Africa Limited after the adoption of a special resolution at a general meeting of shareholders held on 3 October 2007.

Nature of business

ArcelorMittal South Africa Limited, incorporated in South Africa, is the leading steel producer on the African continent, producing long and flat products and beneficiating its by-products.

Financial results and activities

	Year ended 2007	Year ended 2006
Basic earnings (Rm)	**5 716**	4 696
Headline earnings (Rm)	**5 741**	4 730
Basic earnings per share (cents)	**1 282**	1 054
Headline earnings per share (cents)	**1 288**	1 061
Net asset value (Rm)	**20 583**	23 260
Net asset value per share (cents)	**4 618**	5 218

Detailed reports on the activities and performance of the group and the various divisions of the group are contained in the report on pages 22 to 33.

Accounting policies, restatements and reclassifications

The group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007.

The adoption of IFRS 7, *Financial Instruments: Disclosures*, had no impact on the financial results of the group apart from changes in disclosure described in note 2.1 to the financial statements on page 74.

The following revised standards and interpretations have been early adopted:

- IAS 23 (Revised), *Borrowing Costs*
- IFRIC 13, *Customer Loyalty Programmes*
- IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

During the current year the following impairment reversals occurred:

- R2 799 million investment impairment against the investment in Saldanha Steel (Proprietary) Limited in the entity-own accounts of ArcelorMittal South Africa Limited.
- R489 million impairment against the property, plant and equipment of Saldanha Steel (Proprietary) Limited in its entity-own accounts.

As described in note 2.5.1 to the financial statements on page 76, the reversals had no impact on the group's results.

In accounting for the reversals, an adjustment was identified to correctly reflect the net carrying amount of the property, plant and equipment of Saldanha Steel (Proprietary) Limited from a consolidated group perspective. The financial impact at the beginning of the comparative period and on the profit for the year ended 31 December 2006 and 2007 in the consolidated group accounts is described in note 2.5.1 to the financial statements on page 76.

The revision to IAS 23 and adoption of IFRIC 13 had no impact on the financial results of the group. The adoption of IFRIC 14, whilst having no impact on the financial results of the group, formed part of the enhanced disclosure in respect of IAS 19, *Employee Benefits* as described in note 34 to the financial statements on page 175.

Reclassification relating to IFRS 7 and additional reclassifications made as part of the continuous accounting improvement programme of the group are described in note 2.5.2.

The new standards, IFRS 8, *Operating Segments*; IAS 1 (Revised), *Presentation of Financial Statements*; IFRS 2 (Revised), *Share-based Payment – Vesting conditions and cancellations* and IAS 27 (Revised), *Consolidated and Separate Financial Statements* effective for annual periods beginning on or after 1 January 2009 and IFRS 3 (Revised), *Business Combinations* effective for annual periods beginning on or after 1 July 2009 have not yet been adopted. Adoption of these standards will have no impact on the group's financial position or results.

Dividends and capital reduction

A final dividend of 204 cents per share for the financial year ended 31 December 2006 was declared on 19 February 2007 and paid to shareholders on 26 March 2007.

The board declared an interim dividend of 233 cents per share on 30 July 2007 payable on 3 September 2007.

The total dividend for the year amounted to 437 cents per share (December 2006: 283 cents per share).

The capital reduction approved by the board on 30 July 2007 resulted in a cash distribution out of stated capital of 1 021 cents per share payable on 3 September 2007.

The shareholders approved, at the general meeting held on 3 October 2007, a further cash distribution of 404 cents per share payable on 29 October 2007.

The total cash distribution out of stated capital for the year amounted to 1 425 cents per share. The Secondary Tax on Companies (STC) levied on the capital reduction amounted to R238 million.

The board has declared a final dividend of 196 cents per share for the financial year ended 31 December 2007, payable to shareholders registered at close-of-business on 14 March 2008. Dividends will be paid on or about 17 March 2008. The Secondary Tax on Companies (STC) on the final dividend declared amounts to R87 million.

Property, plant and equipment

There was no change in the nature of the property, plant and equipment of the group or in the policy regarding their use during the year under review.

Capital expenditure for the year amounted to R1 852 million (December 2006: R1 446 million). Details are contained in the divisional reports.

The estimated R2 139 million capital expenditure envisaged to be spent during the 2008 financial year will be funded from internal resources.

Insurance

In accordance with the Enterprise-Wide Risk Management Policy adopted by the group, all insurable exposures were covered. Insurance cover was obtained in both the local and offshore markets through the group captive insurers. The largest exposure to the group is the potential material damage or business interruption losses from damage to the group assets. The insurance premium for the year amounted to R95 million, of which R79 million was for cover on assets valued at R112 663 million.

Shareholders' resolutions

At the nineteenth annual general meeting of shareholders, held on 11 May 2007, the following resolutions were passed:

- renewal of authority that unissued shares be placed under the control of the directors;
- authority to directors to issue ordinary shares for cash;
- general authority to directors to make payments to shareholders; and
- special resolution to authorise directors to repurchase company shares.

At the general meeting of shareholders, held on 3 October 2007, the following resolutions were passed:

- special resolution to change the name from Mittal Steel South Africa Limited to ArcelorMittal South Africa Limited;
- approval of capital distribution by way of cash out of stated capital; and
- authorisation of directors to take all necessary steps to implement the special and ordinary resolution.

The subsidiaries of ArcelorMittal South Africa Limited have passed no other ordinary or special resolutions of material interest or of substantive nature.

Stated capital

Authorised

The authorised capital of 1 200 000 000 ordinary shares remained unchanged during the year.

Issued

The total number of ordinary shares in issue remained unchanged during the year at 445 752 132 shares.

Shareholders

The issued shares of the company are widely held by the public. An analysis of shareholders and shareholdings appears on page 194. Mittal Steel Holdings AG, as controlling shareholder, has a shareholding of 52,02%.

Investments in joint ventures, associates and subsidiaries

Associate

ArcelorMittal South Africa Limited acquired a 20% shareholding in Toyota Tsusho South Africa Processing (Proprietary) Limited for a consideration of R16 million on 23 November 2007. This investment is regarded as being of strategic importance to the execution of the automotive strategy by improving efficiencies, technologies and service relationships.

Subsidiaries

Mittal Steel African Investments, registered in Mauritius, was formed on 25 January 2007. This company owns 98% of the shares of the newly formed company, ArcelorMittal Maputo SA, registered in Mozambique. The remaining 2% of shares are held by two other subsidiary companies of ArcelorMittal South Africa Limited.

The bar mill and wire drawing assets of Companhia Siderúgica De Mocambique S.A.R.L (CSM) and Companhia Mocambicana De Trefilaria S.A.R.L (Trefil) were purchased at the beginning of 2007. These assets are housed in Mittal Steel Maputo SA. Operations will commence during 2008.

The financial information in respect of interests in jointly controlled entities, associates and subsidiaries of the company is disclosed in notes 18 and 19 and Annexure 1 and 2 to the financial statements.

Borrowing powers

The borrowing powers of the company are limited to total equity (refer note 32.5, page 142).

Directorate and shareholdings

The names of the directors in office and serving on the various committees of the board at the date of this report are set out on page 43.

The following changes occurred to the board:

Resignations

- JJA Mashaba — Resigned with effect 30 September 2007
- EM Reato — Resigned with effect 29 February 2008 as Chief Executive Officer

Appointments

- ND Orleyn — Appointed 1 February 2007
- EK Diack — Appointed 16 March 2007
- LP Mondi — Appointed 11 May 2007
- DCG Murray — Appointed 11 May 2007
- NMC Nyembezi-Heita — Appointed 1 March 2008 as Chief Executive Officer
- LGJJ Bonte — Appointed 1 March 2008 as President

Both executive and non-executive directors are subject to retirement by rotation.

The following non-executive directors will retire by rotation and, being eligible for re-election, have offered themselves for re-election:

- EK Diack
- LP Mondi
- DCG Murray
- MJN Njeke

The following executive directors will retire by rotation and, being eligible for re-election, have offered themselves for re-election:

- LGJJ Bonte
- NMC Nyembezi-Heita

The details of the direct and indirect interests of directors in the shares of the company are set out in the directors' remuneration report.

Auditors

Deloitte & Touche continued in office as auditors of ArcelorMittal South Africa Limited and its subsidiaries. At the annual general meeting of 7 May 2008 shareholders will be requested to appoint Deloitte & Touche as auditors of ArcelorMittal South Africa Limited for the 2008 financial year and it will be noted that Mr RM Duffy will be the individual registered auditor that will undertake the audit.

Secretary

Ms X Motswai resigned on 31 May 2007.

Mr JH Venter was appointed as Acting Company Secretary on 30 July 2007 and resigned on 30 November 2007.

Ms C Singh was appointed as Company Secretary on 1 December 2007. Her business and postal addresses appear on the inside back cover.

Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in this report or in the group financial statements that would significantly affect the operations or the results of the group.

Directors' remuneration report

Governance structures

Accountability for the design and implementation of compensation and benefits policies and practices in accordance with good corporate governance is vested in the Human Resources and Nominations Committee. This forum is a sub-committee of the ArcelorMittal South Africa Limited board and assists the board and its directors in discharging their duties and responsibilities. Its terms of reference, as approved by the board of directors on 27 May 2004, mandate the committee to, amongst others, perform the following duties:

- Determine and agree with the board the policy framework for remuneration of directors, senior management and all other employee categories;
- Determine the targets and rules for any performance-related pay schemes as well as long-term incentives;
- Approve general salary and wage adjustments;
- Within policy determine the remuneration packages of executive and non-executive directors;
- Determine the policy and scope regarding pension arrangements and service agreements for the executive directors;
- Ensure compliance with the company's succession planning for top management;
- Recommend all executive appointments to the board;
- Ensure market competitiveness of remuneration for non-executive directors; and
- Ensure that the board and its sub-committees have the capacity to discharge their responsibilities in the most effective and knowledgeable way.

The committee is composed of four members; three of whom are non-executive directors. Two are independent, Ms ND Orleyn (the Chairman) and Dr KDK Mokhele and one represents the holding company, Mr DK Chugh. Mr B Fontana, the Executive Vice President, Human Resources of ArcelorMittal Group is the fourth member in order to strengthen the committee's knowledge base on global human resource management practices.

The Chief Executive Officer and Human Resources Director of ArcelorMittal South Africa attend meetings ex officio.

Remuneration of directors

- The remuneration strategy and practice for executive directors does not differ from that of other senior managers of the company. The annual remuneration consists of two components: a fixed component and a variable component comprising an annual performance bonus which is aligned to the ArcelorMittal Group performance incentive scheme. Long-term incentives consist of participation in the share option scheme.

  Fixed salaries are reviewed and aligned with market benchmarks annually; based on the scope of the individual's responsibilities as well as performance. Performance bonuses are paid based on business performance moderated by strategic behaviour requirements such as achievement of safety and employment equity targets.

  Benefits include subsidised membership of the company's accredited medical aid schemes as well as retirement and risk benefits, like life cover and death-in-service benefits. The scope and nature of these benefits are the same as for any other managerial employee.

  Executive directors have standard employment service agreements with notice periods ranging from 30 to 60 days.

- Only external non-executive directors receive directors' fees based on the scope and extent of their responsibilities. These fees are reviewed annually to maintain alignment with market benchmarks. The fees are approved by shareholders at an annual general meeting.

  In terms of the company's articles of association one-third of the directors retire at the annual general meeting held each year. Retiring directors shall be eligible for re-election.

Directors' remuneration for ArcelorMittal South Africa and its subsidiaries

	Notes	Fees R	Basic salary R	Bonuses/ per-formance-related payments R	Allow-ances (note 9) R	Other benefits (note 10) R	Retire-ment contribu-tions R	Loss of office (note 11) R	Total R
For the year ended 31 December 2007									
Executive directors									
EM Reato			2 245 410	816 046	96 712	64 609	199 300		3 422 077
HJ Verster			1 759 869	587 553		8 604	146 549		2 502 575
JJA Mashaba	1		1 191 298	599 670	99 000	6 222	107 461	220 036	2 223 687
LL van Niekerk	8							1 312 500	1 312 500
Sub-total			5 196 577	2 003 269	195 712	79 435	453 310	1 532 536	9 460 839
Non-executive directors									
KDK Mokhele	2	798 536			1 474				800 010
MJN Njeke	3	384 246							384 246
ND Orleyn	4	276 446			1 397				277 843
DCG Murray	5	154 495			1 463				155 958
EK Diack	6	232 710							232 710
LP Mondi	7	184 495							184 495
Sub-total		2 030 928			4 334				2 035 262
Total		2 030 928	5 196 577	2 003 269	200 046	79 435	453 310	1 532 536	11 496 101
For the year ended 31 December 2006									
Executive directors									
EM Reato	12		562 375		48 347	19 954	50 578		681 254
HJ Verster	13		1 205 911		233 733	11 180	114 950		1 565 774
JJA Mashaba			1 234 788	247 883	132 000	13 359	114 057		1 742 087
DK Chugh	14		1 283 912	405 992	85 000	253 205			2 028 109
HC Banthia	15		183 951	77 463					261 414
V Sethuraman	16			27 099					27 099
LL van Niekerk	8							1 312 500	1 312 500
Sub-total			4 470 937	758 437	499 080	297 698	279 585	1 312 500	7 618 237
Non-executive directors									
K Ngqula	17	370 000							370 000
KDK Mokhele		365 000							365 000
MJN Njeke	3	293 000							293 000
SE Jonah	18	129 125							129 125
Sub-total		1 157 125							1 157 125
Total		1 157 125	4 470 937	758 437	499 080	297 698	279 585	1 312 500	8 775 362

Notes

1. *Resigned 30 September 2007.*
2. *Appointed as non-executive chairman 1 January 2007.*
3. *Fees paid to Kagiso Media in Mr Njeke's capacity as Deputy Chairman of that company.*
4. *Appointed as non-executive director 1 February 2007.*
5. *Appointed as non-executive director 11 May 2007.*
6. *Appointed as non-executive director 16 March 2007.*
7. *Appointed as non-executive director 11 May 2007. Fees paid to Industrial Development Corporation in Mr Mondi's capacity as Chief Economist and Executive Vice President of Professional Services of that Company.*
8. *Resigned 12 December 2004. Payment made on 31 March 2006 and 30 March 2007 for restraint of trade.*
9. *Includes travel, entertainment, telephone, computer and relocation allowances.*
10. *Includes deferred compensation and medical aid.*
11. *Includes remaining restraint of trade payments, retrenchment packages and the payment of bonus and remaining leave benefit.*
12. *Appointed as Chief Executive Officer on 15 September 2006.*
13. *Appointed 17 February 2006.*
14. *Resigned as Chief Executive Officer on 14 September 2006 and appointed as non-executive director.*
15. *Resigned 17 February 2006.*
16. *Resigned 8 August 2005.*
17. *Resigned as non-executive chairman on 31 December 2006. Fees paid to South African Airways (2005 and 2006) in Mr Ngqula's capacity as Chief Executive Officer of that company.*
18. *Resigned 7 November 2006.*

Directors' share options

Options issued to and shares purchased by the directors, which form part of the 44,6 million (December 2006: 44,6 million) shares allocated to the Management Share Trust (note 36.2), totalled 419 695 as at 31 December 2007 (December 2006: 376 056), as follows:

	Balance as at 1 January 2007				Issues					Sold/forfeited			Balance as at 31 December 2007
Name	Sub-scription price R	Number	Date of issue	Period granted (years)	Sub-scription price R	Number of options/ shares	Date of issue	Period granted (years)	Notes	Number during the year	Gross gains on options/ shares	Notes	Number
For the year ended 31 December 2007													
DK Chugh	56,50	38 046	2005/09/28	6	50,26	4 830	2007/08/01	6	1				42 876
	60,00	42 980	2005/12/12	10	53,38	5 542	2007/08/01	10	1				48 522
JJA Mashaba	37,25	78 050	2004/07/23	6	37,25	7 823	2007/08/01	6	1	15 000	1 259 850	4	
										63 050	5 905 263	5	
										7 823		6	
HJ Verster	18,15	26 760	2002/05/07	6	16,15	5 726	2007/08/01	6	1				32 486
	16,10	7 000	2003/03/18	6	14,32	869	2007/08/01	6	1				7 869
	94,29	52 470	2006/11/08	10	83,88	7 053	2007/08/01	10	1				59 523
	92,20	5 250	2006/12/12	10	82,02	700	2007/08/01	10	1				5 950
					133,50	34 020	2007/11/20	10	2				34 020
EM Reato	60,00	35 720	2005/12/12	10	53,38	4 606	2007/08/01	10	1				40 326
	60,91	9 600	2006/03/01	10	54,19	1 242	2007/08/01	10	1				10 842
	94,29	55 190	2006/11/08	10	83,88	7 418	2007/08/01	10	1				62 608
	86,00	24 990	2006/11/20	10	76,51	3 323	2007/08/01	10	1				28 313
					133,50	46 360	2007/11/20	10	3				46 360
Total		376 056				129 512				85 873	7 165 113		419 695

Directors' share options continued

	Balance as at 1 January 2006				Issues					Sold/forfeited			Balance as at 31 December 2006
Name	Sub-scription price R	Number	Date of issue	Period granted (years)	Sub-scription price R	Number of options/ shares	Date of issue	Period granted (years)	Notes	Number during the year	Gross gains on options/ shares	Notes	Number
For the year ended 31 December 2006													
DK Chugh	56,50	38 046	2005/09/28	6								7	38 046
					60,00	42 980	2005/12/12	10	8			7	42 980
HC Banthia	51,00	150 300	2005/09/07	6						150 300		9	
JJA Mashaba	37,25	140 070	2004/07/23	6						42 020	1 459 775	10	78 050
										20 000	846 000	11	
V Sethuraman	37,25	140 070	2004/07/23	6						42 020	1 008 060	12	
										98 050			
HJ Verster	18,15	26 760	2002/05/07	6									26 760
	16,10	7 000	2003/03/18	6									7 000
					94,29	52 470	2006/11/08	10	13				52 470
					92,20	5 250	2006/12/12	10	13				5 250
EM Reato					60,00	35 720	2005/12/12	10	8,14				35 720
					60,91	9 600	2006/03/01	10	14				9 600
					94,29	55 190	2006/11/08	10	14				55 190
					86,00	24 990	2006/11/20	10	14				24 990
Total		502 246				226 200				352 390	3 313 835		376 056

The directors, other than Mr DCG Murray, have no beneficial or non-beneficial interest in the ordinary share capital of the company. As at 31 December 2007, Mr DCG Murray held 630 ordinary shares.

Notes

1. *Additional share options as a result of the capital reduction announced on 1 August 2007.*
2. *Offer accepted in November 2007.*
3. *Offer accepted in November 2007.*
4. *Sold on 26 March 2007 at R121,24.*
5. *Sold on 20 September 2007 at R126,80.*
6. *Resigned on 30 September 2007.*
7. *Resigned as Chief Executive Officer on 14 September 2006 and appointed as non-executive director.*
8. *Offer accepted in January 2006.*
9. *Resigned 17 February 2006.*
10. *Sold on 21 June 2006 at R71,99.*
11. *Sold on 14 September 2006 at R79,55.*
12. *Resigned 8 August 2005.*
13. *Appointed 17 February 2006. Balance of shares brought forward prior to appointment date represent shares held prior to being appointed as an executive director.*
14. *Appointed as Chief Executive Officer on 15 September 2006. Share options issued prior to appointment date represent shares held prior to being appointed as executive director.*

Group and company income statements

for the year ended 31 December 2007

		Group		Company	
	Notes	2007 Rm	Restated 2006 Rm	2007 Rm	2006 Rm
Revenue	7	**29 333**	25 350	**25 754**	22 567
Raw materials and consumables used		**(12 141)**	(11 071)	**(11 186)**	(10 936)
Employee costs	8	**(2 210)**	(2 243)	**(2 210)**	(2 243)
Energy		**(1 364)**	(1 332)	**(1 032)**	(1 043)
Movement in inventories of finished goods and work in progress		**(21)**	623	**(82)**	943
Impairment reversal	9			**2 799**	
Depreciation	8	**(1 088)**	(1 080)	**(743)**	(758)
Amortisation of intangible assets	8	**(11)**	(16)	**(9)**	(14)
Other operating expenses		**(4 795)**	(4 149)	**(4 042)**	(3 529)
Profit from operations		**7 703**	6 082	**9 249**	4 987
Gains and losses on changes in foreign exchange rates and financial instruments designated as held for trading at fair value through profit and loss	10	**(131)**	301	**(151)**	245
Net interest income	11	**325**	193	**337**	203
Interest received		**442**	362	**426**	331
Finance costs		**(117)**	(169)	**(89)**	(128)
Income from investments	12	**4**	7	**285**	182
Income after tax from equity accounted investments	18	**270**	135		
Profit before taxation		**8 171**	6 718	**9 720**	5 617
Income tax expense	13	**(2 455)**	(2 022)	**(2 029)**	(1 681)
Profit for the year		**5 716**	4 696	**7 691**	3 936
Attributable to:					
Equity holders of the company		**5 716**	4 696		
Attributable earnings per share (cents)	14				
– basic		**1 282**	1 054		
– diluted		**1 279**	1 052		
Dividend per share (cents)	15				
– interim		**233**	143		
– final (declared after balance sheet date)		**196**	204		

Group and company balance sheets

as at 31 December 2007

	Notes	Group 2007 Rm	Group Restated 2006 Rm	Company 2007 Rm	Company 2006 Rm
ASSETS					
Non-current assets					
Property, plant and equipment	16	**15 525**	14 973	**9 161**	8 613
Intangible assets	17	**58**	58	**32**	32
Unlisted equity accounted investments	18	**1 109**	953	**48**	32
Investments in subsidiaries	19			**5 715**	3 597
Other financial assets	20	**195**	134	**124**	237
Total non-current assets		**16 887**	16 118	**15 080**	12 511
Current assets					
Assets classified as held for sale	21		6		6
Inventories	22	**4 790**	4 775	**4 196**	4 383
Trade and other receivables	23	**2 292**	2 212	**2 007**	1 950
Taxation		**108**	179	**164**	234
Other financial assets	20	**94**	135	**94**	134
Cash and cash equivalents		**4 034**	7 750	**3 660**	7 367
Total current assets		**11 318**	15 057	**10 121**	14 074
Total assets		**28 205**	31 175	**25 201**	26 585
EQUITY AND LIABILITIES					
Capital and reserves					
Stated capital	24	**37**	6 389	**37**	6 389
Non-distributable reserves	25	**757**	684	**(108)**	80
Retained income	25	**19 789**	16 187	**19 980**	14 237
Total shareholders' equity		**20 583**	23 260	**19 909**	20 706
Non-current liabilities					
Borrowings and other payables	26	**52**	61	**1**	
Finance lease obligations	27	**328**	502	**174**	337
Non-current provisions	28	**1 290**	1 327	**1 282**	1 318
Deferred income tax liability	29	**2 603**	2 485	**1 007**	1 218
Total non-current liabilities		**4 273**	4 375	**2 464**	2 873
Current liabilities					
Trade and other payables	30	**2 873**	3 161	**2 386**	2 645
Borrowings	26	**10**	10		
Other financial liabilities	20	**67**	7	**67**	6
Finance lease obligations	27	**88**	93	**79**	86
Current provisions	28	**311**	269	**296**	269
Total current liabilities		**3 349**	3 540	**2 828**	3 006
Total equity and liabilities		**28 205**	31 175	**25 201**	26 585

Group and company cash flow statements

for the year ended 31 December 2007

	Notes	Group 2007 Rm	Group Restated 2006 Rm	Company 2007 Rm	Company 2006 Rm
Cash generated from operations	31	**8 439**	6 326	**7 088**	5 307
Interest income		**442**	362	**426**	331
Finance cost		**(73)**	(68)	**(41)**	(27)
Dividends paid	31	**(1 948)**	(1 261)	**(1 948)**	(1 261)
Income tax paid	31	**(2 209)**	(1 660)	**(2 125)**	(1 637)
Realised foreign exchange movements		**(28)**	(236)	**(33)**	(225)
Cash flows from operating activities		**4 623**	3 463	**3 367**	2 488
Investment to maintain operations	31	**(1 198)**	(910)	**(987)**	(827)
Investment to expand operations	31	**(654)**	(536)	**(512)**	(525)
Proceeds from disposal of property, plant and equipment		**8**	9	**8**	2
Investment in associate		**(16)**		**(16)**	
Investment in other non-current assets					75
Dividend from equity accounted investments		**104**	167		
Income from investments – dividends				**281**	175
Income from investments – interest		**4**	7	**4**	7
Cash flows from investing activities		**(1 752)**	(1 263)	**(1 222)**	(1 093)
Interest-bearing borrowings repaid		**(10)**	(10)		
Finance lease obligation repaid		**(15)**	(55)	**(6)**	(43)
Decrease in loans to subsidiaries				**681**	1 210
Increase in loans to the Management Share Trust and other		**(58)**	(24)	**(51)**	(38)
Capital reduction		**(6 352)**		**(6 352)**	
Cash flows from financing activities		**(6 435)**	(89)	**(5 728)**	1 129
(Decrease)/increase in cash and cash equivalents		**(3 564)**	2 111	**(3 583)**	2 524
Effect of foreign exchange rate changes on cash and cash equivalents		**(152)**	420	**(124)**	330
Cash and cash equivalents at beginning of year		**7 750**	5 219	**7 367**	4 513
Cash and cash equivalents at end of year		**4 034**	7 750	**3 660**	7 367

Group and company statement of recognised income and expense

for the year ended 31 December 2007

	Group		Company	
		Restated		
	2007	2006	**2007**	2006
	Rm	Rm	**Rm**	Rm
Profit for the year	**5 716**	4 696	**7 691**	3 936
Other recognised income and expenses				
Exchange differences on translation of foreign operations	**(63)**	102		
Gains on available-for-sale investment taken to equity	**62**			
Movement in gains and losses deferred to equity on cash flow hedges	**(111)**	23	**(111)**	23
Income tax on amounts taken directly to equity	**27**	(5)	**27**	(5)
Total recognised income and expense for the year	**5 631**	4 816	**7 607**	3 954
Attributable to:				
Equity holders of the company	**5 631**	4 816		

1. GENERAL INFORMATION

ArcelorMittal South Africa Limited (the company) and its subsidiaries (together the group) manufactures and sells long and flat products and beneficiated by-products. The group's operations are primarily concentrated in South Africa with a sales focus domestically and internationally, with specific emphasis on Sub-Saharan Africa.

The company is a limited liability company incorporated and domiciled in South Africa. The address of the registered office is detailed on the inside back cover.

The company's functional currency is the South African Rand (ZAR).

The company is listed on the JSE Limited in Johannesburg, South Africa, and is a subsidiary of Mittal Steel Holdings AG, which is part of the ArcelorMittal Group.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards, amendments and interpretations effective in 2007

In the current year, the company and group have adopted IFRS 7, Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007. The complementary amendment to IAS 1, *Presentation of Financial Statements – Capital Disclosures* was early adopted in the previous reporting period.

The adoption of IFRS 7 had no impact on the company's and group's accounting policies or financial results. Its impact has however been to expand the disclosures provided in these financial statements regarding the company's and group's financial instruments.

Apart from the reclassifications detailed in note 2.5.2, the adoption of IFRS 7 resulted in a number of amendments to the classification of certain items. Most notable are:

- The segmentation of financial assets at fair value through profit and loss (FVTPL) into two distinct sub-classifications as required by IAS 39, namely those:
  - held for trading at FVTPL; and
  - carried at FVTPL.

  The former consists of over-the-counter stand-alone derivative instruments that are not designated in hedge accounting relationships, whilst the latter consists of bifurcated embedded derivatives;
- Cash and cash equivalents is categorised as part of the financial asset category 'Loans and receivables';
- Non-current interest-free receivables of R4 million previously disclosed as 'Loan receivables' have been reclassified as Other receivables in the 'Trade and Other Receivables' balance sheet line item, as these items have no fixed tenure;
- Presentation pertaining to over-the-counter base metals and foreign currency stand-alone derivatives has been further granulated; and
- The finance lease obligation component relating to raw material supply contracts is non-interest bearing. Previously, its fair value was regarded as being equal to its carrying amount. With the adoption of IFRS 7, this view has been revised. Consequently the comparative fair value amount for the group and company for this component has been revised, as presented in note 32.18.

Four interpretations issued by the International Financial Reporting Interpretations committee are effective for the current period. These are:

- IFRIC 7, *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*;
- IFRIC 8, *Scope of IFRS 2;*
- IFRIC 9, *Reassessment of Embedded Derivatives;* and
- IFRIC 10, *Interim Financial Reporting and Impairment*.

These interpretations were early adopted in the previous reporting period.

2.2 Early adoption of standards and interpretations

In addition, the group and company have elected to adopt the following standards and interpretations in advance of their effective dates:

- IAS 23 (Revised), *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008); and
- IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

The revisions to IAS 23 had no impact on the group's and company's accounting policies or financial results. The principal change to the standard, was to eliminate the previously available option to expense all borrowing costs when incurred. This had no impact on these financial statements because it has always been the group's and company's accounting policy to capitalise borrowing costs incurred on qualifying assets.

The adoption of IFRIC 13 had no impact on the group's and company's accounting polices or financial results as neither operates customer loyalty programmes.

The adoption of IFRIC 14 had no impact on the group's and company's accounting policies or financial results. The interpretation does not change the rules on funding, though it clarifies how entities should account for the effect of any statutory or contractual funding requirements. It further clarifies when a surplus in a defined benefit retirement plan can be recognised and aims to ensure that the accounting for surpluses is consistent and transparent. With the adoption of IFRIC 14, the group and company embarked upon an improvement project to enhance current year and comparative disclosures made in respect of IAS 19, *Employee Benefits,* specifically with regards to its defined benefit retirement plans. The improvements had no impact on the group's and company's accounting policies or financial results. The enhanced disclosures are detailed in note 34.

2.3 Standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements, other than the standards and interpretations adopted by the group and company in advance of their effective dates (as described in 2.2 above) the following standards were in issue, but not yet effective:

- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009);
- IAS 1 (Revised), *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009);
- IFRS 3 (Revised), *Business Combinations* (effective for annual periods beginning on or after 1 July 2009);
- IFRS 2 (Revised), *Share-based Payment – Vesting Conditions and Cancellations* (effective for annual periods beginning on or after 1 January 2009); and
- IAS 27 (Revised), *Consolidated and Separate Financial Statements,* and consequential amendments to IAS 28, *Investments in Associates* and IAS 31, *Interests in Joint Ventures* (effective for annual periods beginning on or after 1 January 2009).

No interpretations were in issue but not yet effective that still have to be adopted by the group and company.

IFRS 8 is a disclosure standard which requires the adoption of the "management approach" to reporting on the financial performance of operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. To the extent that such information is different from what is used to prepare the income statement, statement of recognised income and expense and the balance sheet, explanations and reconciliations are required. This standard does not have any impact on the financial position and performance of the group's and company's operating segments, and is not expected to have a material impact on the existing segmental disclosures.

IAS 1 (Revised) is a disclosure standard, with the main changes being the:
- presentation of all non-owner changes in equity in a new statement of comprehensive income;
- presentation of a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement;
- disclosure of income tax relating to each component of other comprehensive income; and
- disclosure of reclassification adjustments relating to components of other comprehensive income.

The standard is not expected to have a material impact on the group's and company's disclosures.

IFRS 2 (Revised), *Share-based Payment* was amended to clarify the terms 'vesting conditions' and 'cancellations' as follows:
- vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions; and
- all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore any amount unrecognised that would otherwise have been charged is recognised immediately.

The standard is not expected to have an impact on the group's and company's financial results or disclosures.

IFRS 3 (Revised) and IAS 27 (Revised) with consequential changes to IAS 28 (Revised) and IAS 31 (Revised):

- place greater emphasis on the use of fair value;
- focus on changes in control as a significant economic event, introducing requirements to re-measure ownership interests to fair value at the time when control is achieved or lost, and recognising directly in equity the impact of all transactions between controlling and non-controlling (previously known as minority) shareholders not involving a loss of control; and
- focus on what is given to the seller as consideration, rather than what is spent to achieve the acquisition. Transaction costs, changes in the value of contingent consideration, settlement of pre-existing contracts, share-based payments and similar items will generally be accounted for separately from business combinations and will generally affect profit or loss.

The standard is not expected to have an impact on the group's and company's financial results or disclosures.

2.4 Authoritative guidance and circulars issued by the South African Institute of Chartered Accountants

In compliance with the JSE Listings Requirements the following authoritative guidance issued by the South African Institute of Chartered Accountants (SAICA) in 2007, was considered:

- CC 08/07, Headline Earnings (effective for interim or annual periods ending on or after 31 August 2007).

2.5 Restatements and reclassifications

2.5.1 Restatement

IFRS 3, *Business Combinations* and IAS 16, *Property, plant and equipment*

As part of the group's continuous accounting improvements process, the current year's reversal (as described completely in note 9) of the:

(a) remaining impairment of R2 799 million against the investment in Saldanha Steel (Proprietary) Limited in the entity-own accounts of ArcelorMittal South Africa Limited, and

(b) the remaining impairment of R489 million against the property, plant and equipment in the entity-own accounts of Saldanha Steel (Proprietary) Limited,

enabled the group to re-assess the accounting treatment of Saldanha Steel (Proprietary) Limited following it becoming a subsidiary in the 2002 financial year.

Specific focus was given to the accounting treatment of property, plant and equipment. The originating impairment charge of R3 000 million against the property, plant and equipment in the entity-own accounts of Saldanha Steel (Proprietary) Limited was reversed between 2002 to 2004, with the final reversal being recognised in the current financial year.

When the impairment originated, Saldanha Steel (Proprietary) Limited was a jointly controlled entity. Consequently, only R1 500 million of the originating charge was recognised in the group's consolidated retained earnings. With subsequent reversals of the impairment charge, only 50% could be recognised by the group, with the remainder being eliminated on consolidation.

Given that ArcelorMittal South Africa's piecemeal acquisition of Saldanha Steel (Proprietary) Limited straddled the originating impairment, the application of purchase accounting resulted in the gross carrying amount of the assets in the subsidiary exceeding that from a group perspective.

As the underlying assets are depreciated over time, it is necessary for the remaining R1 500 million to be unwound on consolidation in order to avoid a duplicate reduction in the net carrying amount of the property, plant and equipment from a group perspective.

For the group the impact at the beginning of the comparative period is the recognition of:

- a decrease in accumulated depreciation of R377 million;
- an increase in the deferred tax liability of R110 million;
- an increase in retained earnings of R267 million; and
- an increase in earnings per share and headline earnings per share of 60 cents per share.

Profit for the year ended 31 December 2006 increased by R50 million, corresponding to:
- a decrease in accumulated depreciation of R70 million;
- an increase in the deferred tax liability of R20 million; and
- an increase in earnings per share and headline earnings per share of 11 cents per share.

Profit for the year ended 31 December 2007 increased by R49 million, corresponding to:
- a decrease in accumulated depreciation of R69 million;
- an increase in the deferred tax liability of R20 million; and
- an increase in earnings per share and headline earnings per share of 11 cents per share.

2.5.2 Reclassifications

2.5.2.1 IAS 39, *Financial Instruments: Measurement and Recognition* – Inclusion in Revenue and Operating expenses of fair value gains and losses on cash flow hedges and bifurcated embedded derivatives

Coinciding with the adoption of IFRS 7, the group and company re-classified fair value gains and losses on:
- derivative instruments in designated hedge accounting relationships; and
- bifurcated (i.e. separately recognised) embedded derivatives,

from the previously named income statement line item 'Gains and losses on financial instruments' to a component of the 'Revenue' or 'Operating expenses' line items, as applicable.

Gains and losses on stand-alone derivatives classified as held-for-trading at fair value through profit and loss, continue to be disclosed in the renamed income statement line item 'Gains and losses on changes in foreign exchange rates and financial instruments'.

Whilst IAS 39 permits either method of disclosure, the reclassification:
- aims to better reflect the economic consequences of appropriately designed and effective hedging relationships, and bifurcated embedded features in supply contracts; and
- achieve better alignment with the classification of the greater ArcelorMittal Group.

The reclassification has no impact on the financial results of the group and company.

For the year ended 31 December 2006:
- the 'Revenue' line item of the group and company decreased by the inclusion of fair value losses transferred from equity on derivative instruments designated as cash flow hedges, net of ineffectiveness, of R13 million and R7 million, respectively. Conversely, the line item 'Gains and losses on changes in foreign exchange rates and financial instruments' increased by the aforementioned amounts.
- the 'Operating expense' line item of the group and company:
  - decreased by the inclusion of fair value gains:
    - transferred from equity on derivative instruments designated as cash flow hedges, net of ineffectiveness arising, of R48 million and R47 million, respectively; and
    - R145 million on changes in the fair value of embedded derivative instruments for both the group and company.
  - Conversely, the line item 'Gains and losses on changes in foreign exchange rates and financial instruments' decreased by the aforementioned amounts.

For the year ended 31 December 2007:
- the 'Revenue' line item of the group and company results includes fair value gains transferred from equity on derivative instruments designated as cash flow hedges, net of ineffectiveness arising from those cash flow hedges, of R3 million and R1 million respectively.
- the 'Other operating expense' line item of the group and company includes fair value:
  - gains transferred from equity on derivative instruments designated as cash flow hedges, net of ineffectiveness, of R6 million and R5 million respectively; and
  - losses of R33 million on changes in the fair value of embedded derivative instruments for both the group and company.

2.5.2.2 IAS 39, *Financial Instruments: Measurement and Recognition* – Financial guarantee contracts issued
The group and company re-assessed the reclassification of contracts issued previously regarded as financial guarantees.

Contracts that are "letters of comfort" and those that can be triggered by the group and company do not meet the definition of financial guarantee contracts issued.

This amendment had no impact on the group's and company's financial results. However, as a consequence the amendment had a corresponding impact on the face value of financial guarantees shown as contingent liabilities.

At 31 December 2006, the face value of financial guarantees shown as contingent liabilities amounted to R115 million and R56 million for the group and company, respectively. This has been revised as follows in terms of the accounting policy described in note 3.18:

	Group Rm	Company Rm
– Face value of financial guarantee contracts issued	43	102
– Amounts held in legal trust accounts	12	12
	55	114

The corresponding amounts as at 31 December 2007 are described in note 35.

2.5.2.3 IAS 1, *Presentation of Financial Statements* – Value Added Tax receivable disclosed within the Trade and Other Receivables line item
Coinciding with the adoption of IFRS 7, the group and company reclassified Value Added Tax (VAT) receivable from 'Trade and Other Payables' to 'Trade and Other Receivables'.

The reclassification had no impact on the financial results of the group and company.

For the year ended 31 December 2006, the 'Other Payables' component within the balance sheet line item 'Trade and Other Payables' increased by R120 million for the group and company. Correspondingly, the 'Other Receivables' component within the balance sheet line item 'Trade and Other Receivables' increased by the aforementioned amounts.

For the year ended 31 December 2007, the 'Other Receivables' component within the balance sheet line item 'Trade and Other Receivables' contains a VAT Receivable of R92 million and R73 million for the group and company respectively.

2.5.2.4 IAS 28, *Investments in Associate*, and IAS 31, *Interest in Joint Ventures* – After-tax income from equity accounted investments
The group amended its disclosure method for 'Income from equity accounted investments' from a before tax to an after tax basis.

The reclassification had no impact on the financial results of the group.

For the year ended 31 December 2006, the income statement line item 'Income from equity accounted investments' decreased by R60 million to R135 million on an after tax basis.

For the year ended 31 December 2007, the income statement line item 'Income from equity accounted investments' of R270 million is disclosed after deducting a tax charge of R78 million.

2.5.3 Policy adoption and restatements
Other than those disclosed in note 2.1, no new policy adoptions were made during the financial year ended 31 December 2007.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the comparative years presented. The restatements and reclassifications described in note 2.5 do not relate to new policy adoptions.

3.1 Statement of compliance

The consolidated financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2007 and those standards early adopted as described in note 2.2.

3.2 Basis of preparation

The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of:

- derivative financial instruments that are designated as effective hedging instruments in a cash flow hedge relationship;
- derivative financial instruments that are designated as held for trading at fair value through profit and loss (FVTPL);
- embedded derivative financial instruments bifurcated from their host contracts; and
- investments in equity instruments classified as available-for-sale.

The preparation of financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's and group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 and 5 respectively.

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

The company accounts for all investments in subsidiaries, joint ventures and associates using the cost method.

The cost method of accounting for an investment is whereby the investment is recognised at initial historic cost. Income is recognised from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognised as a reduction of the cost of the investment.

The accounting for subsidiaries, joint ventures and associates by the group is detailed in the accounting policies below.

3.4 Basis of consolidation – subsidiaries

The consolidated financial statements incorporate financial statements of the company and its subsidiaries.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies so as to obtain benefits from the entities' activities. Generally control is accompanied with a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

3.5 Business combinations – investments in subsidiaries

The acquisition of subsidiaries and businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquirer, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations*, are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations,* which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the resultant excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at these shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3.6 Interests in joint ventures

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

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

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

The group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The post-acquisition profit or losses recognised in retained earnings are subsequently transferred to an equity accounting reserve, distinct from retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

3.7 Investments in associates

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

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The post-acquisition profit or losses recognised in retained earnings are subsequently transferred to an equity accounting reserve, distinct from retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

3.8 Goodwill and net fair value of the identifiable assets, liabilities and contingent liabilities over cost of an acquired interest

Goodwill

Goodwill arising on the acquisition of a subsidiary, a jointly controlled entity or an associate, represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, jointly controlled entity or an associate recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, a jointly controlled entity or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The group's policy for goodwill arising on the acquisition of a jointly controlled entity and an associate is described in note 3.6 and 3.7, respectively above.

Net fair value of the identifiable assets, liabilities and contingent liabilities over cost of an acquired interest

Where such an interest exceeds the cost of the business combination, the identification and measurement of the acquired identifiable assets, liabilities and contingent liabilities, and the measurement of the cost of the combination is reassessed; with any excess remaining after the reassessment recognised immediately in profit or loss.

3.9 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Segment information is reported on both a business unit (primary) and geographic marketing region (secondary) basis. The basis of segment reporting is representative of the internal structure used for management reporting.

3.10 Foreign currency translation

Functional and presentation currency

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

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

As referred to in note 3.17, Financial Assets, in the context of available-for-sale financial assets, changes in the fair value of such monetary securities denominated in foreign currency are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amounts are recognised in equity.

Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

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

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The group used the following exchange rates for financial reporting purposes:

	Rate at 31 December	
	2007	2006
ZAR to one USD	**6,8133**	6,9879
	Average annual rate for the year ended 31 December	
	2007	2006
ZAR to one USD	**7,0555**	6,7608

3.11 Property, plant and equipment
The net carrying amount, being the capitalised initial and subsequent costs (i.e. gross carrying amount) less subsequent accumulated depreciation and impairment losses of property, plant and equipment is measured and recognised on an historical cost basis.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Initial and subsequently recognised costs are componentised in order to substantially reflect the useful lives of the significant asset components.

All assets are regarded as depreciable assets, other than for freehold land which is reflected at historical cost less accumulated impairment losses.

The gross carrying amount of purchased and self-constructed assets includes all initial and subsequent costs necessary to place the assets in a condition necessary to meet their intended use. Of specific note are the following:
- A fair, pro rated portion of directly allocable fixed overhead costs is charged to self-constructed assets; and
- The present value of asset retirement costs (on initial recognition and subsequent changes thereto) where these costs are reliably determinable and measurable, as detailed in note 3.28.

Directly attributable costs are recognised in the gross carrying amount of an item of property, plant and equipment during a commissioning period relating to the physical preparation for use, in which it is not possible to operate at normal levels because of the need to run-in machinery, test equipment, or to ensure the proper operation of the equipment. Capitalisation of these costs ceases once the asset is capable of being operated at normal levels.

For depreciable assets, depreciation commences once the aforementioned intended usable condition has been reached. Temporary interruptions in the assets' intended use does not result in the cessation of depreciation.

The asset's residual value represents the best estimate of the current recoverable amount of the asset at the end of its useful life. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Useful lives and depreciation rates of property, plant and equipment are reassessed on an annual basis.

Depreciation is charged so as to write off the cost of assets, other than land and assets under construction, over their estimated useful lives, using the straight-line method.

In order to achieve comparability with other international steel companies, the following maximum useful lives are applied as guidelines in practice:

• Buildings and infrastructure	50 years
• Plant, machinery and related equipment (including mill rolls and plant specific reconditionable spares)	25 years
• Mobile equipment, integrated process computers and general reconditionable spares	15 years
• Non-integrated computer hardware	5 years

The above guidelines are re-assessed on an annual basis, and revised as appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Land and buildings with available spare capacity that are applied to earn incidental rental revenue are not classified as investment properties.

Maintenance and repairs which neither materially add to the value of assets nor appreciably prolong their useful lives are charged to profit or loss for the period.

3.12 Start-up activities

Start-up activities are defined broadly as one-time activities related to opening a new facility, introducing a new product, conducting business in a new country, initiating a new process in an existing facility, or commencing some new operation. The costs include pre-opening costs, pre-operating costs and organising costs.

Costs associated with such activities are expensed as incurred.

3.13 Accounting for finance leases as lessee

Finance lease arrangements consist of those transactions that are:

- leases in both economic substance and legal form; and
- those that arise out of commercial arrangements that in economic substance represent leases, though not in legal form.

The group and company lease certain property, plant and equipment. Leases of property, plant and equipment where the group and company have substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased property, plant and equipment and the present value of the minimum lease payments of the lease.

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

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

3.14 Non-current assets (or disposal groups) held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

When the requirements for classification as held for sale are no longer met, the asset (or disposal group) is reclassified out of the held for sale category. Such asset (or disposal group) are carried at the lower of (i) its carrying amount before being classified as held for sale, adjusted for any amortisation or revaluations that would have been recognised had it not been classified as held for sale; and (ii) its recoverable amount at the date of the subsequent decision not to sell.

3.15 Intangible assets

Internally-generated intangible assets – research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs include the cost of material, direct labour and an appropriate portion of overheads and are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life. Capitalised development expenditure is shown at cost less accumulated amortisation and accumulated impairment losses.

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

Purchased intangible assets other than goodwill

(i) Right-of-use operating licences

The cost of acquisition of operating licences, other than those obtained from the government authorities, is capitalised at its historical cost as intangible assets, and amortised over the right-of-use period. This period is reviewed at least annually.

Environmental impact certifications and general operating licences granted by the authorities to operate a facility are not regarded as separable intangible assets. This cost-of-compliance is recognised as an integral component of the specific property, plant and equipment items to which it relates.

(ii) Patents, trademarks and licences

Acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, typically between three to five years.

(iii) Non-integrated computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives, typically not exceeding seven years.

(iv) Mineral rights

Mineral rights are stated at historical cost less accumulated amortisation and impairment losses.

3.16 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the company and group review the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In order to ensure completeness of the impairment assessment of individual assets, all tangible assets and intangible assets are allocated to the cash-generating unit to which they belong. An impairment assessment is then undertaken on the individual cash-generating units.

Recoverable amount is defined as the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Cash-generating units are defined as the business units of Vanderbijlpark Works, Newcastle Works, Saldanha Works, Vereeniging Works, and Coke and Chemicals. Recoverable amount in the context of these cash generating units is defined as the enterprise value computed using a discounted cash flow methodology based on the latest budgets and forecasts. A 20-year time horizon is used to project the cash flows supplemented by a terminal value based on a static growth factor in perpetuity. Cash flows are segmented into ZAR- and USD-denominated elements that are discounted using a ZAR- and USD pre-tax weighted average cost of capital respectively in order to derive a value-in-use for comparison against net carrying amount of tangible and intangible assets.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

3.17 Financial assets

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

Financial assets are classified into the following specified categories:
- financial assets as at 'fair value through profit or loss' (FVTPL);
- 'held to maturity' investments;
- 'available-for-sale' (AFS) financial assets; and
- 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method for financial assets
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL
Financial assets are classified as at FVTPL where the financial asset is either:
- held for trading; or
- designated as at FVTPL.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the group and company manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

When a derivative that was previously designated as an effective hedging instrument no longer qualifies as such, or when a derivative becomes a designated and effective hedging instrument, such circumstances are not considered to be reclassification into or out of FVTPL in terms of the general prohibition on reclassifications into and out of this category.

A financial asset other than a financial asset held for trading, may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the group's and company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis;
- it forms part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL; or
- it is a bifurcated embedded derivative separately measured at FVTPL where the host contract is not fair valued as detailed in note 3.19.

Financial assets classified as held for trading are classified as current or non-current depending on the maturity profile of the instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 32.18.

Held-to-maturity investments

Securities and similar instruments with fixed or determinable payments and fixed maturity dates that the group and company have the positive intent and ability to hold to maturity are classified as held-to-maturity investments.

Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

AFS financial assets

Listed shares and similar securities held by the group and company that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 32.18.

Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the group's and company's right to receive payment is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

The movement in the AFS investment reserve is detailed in the statement of changes in owners' equity and in note 25.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Financial guarantee contracts held
IAS 39, *Financial Instruments: Recognition and Measurement*, does not prescribe the accounting for the holder of a financial guarantee contract. The group and company have concluded that it is reasonable to adopt an accounting policy that is symmetrical to that applied for financial guarantee contracts issued.

Such contracts are initially recognised at fair value, and subsequently recognised at the higher of amortisation of the initial fair value, and the amount that can be recorded as a contingent asset under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, where the impact of discounting is significant.

The carrying amount of all financial assets is reduced directly by the impairment loss with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance for doubtful debts account.

When a trade receivable is uncollectible, it is written off against this allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Other allowances against trade receivables relate to complaints and settlement discount.

Increases or decreases in trade and other receivable allowances that affect profit or loss, are reflected in the income statement line item 'other operating expenses'.

With the exception of AFS equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

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

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

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

Compound instruments
- The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the

instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently re-measured.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out in note 3.29.

Financial guarantee contracts include financial stand-by letters of credit but exclude commercial letters of credit. The latter are documents issued by a financial institution on behalf of its client authorising a third party to draw amounts on the institution up to a stipulated amount and with specified terms and conditions.

IAS 39, *Financial Instruments: Recognition and Measurement*, does not contain exemptions for financial guarantee contracts issued between parents, subsidiaries or other entities under common control. Therefore, those contracts issued by the company in favour of its subsidiaries are reflected only in the accounts of the company.

Financial liabilities

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

(i) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

– it has been incurred principally for the purpose of repurchasing in the near future;
– it is a part of an identified portfolio of financial instruments that the group and company manages together and has a recent actual pattern of short-term profit-taking; or
– it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
– the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the group's and company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis;
– it forms part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL; or
– it is a bifurcated embedded derivative separately measured at FVTPL where the host contract is not fair valued as detailed in note 3.19.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 32.18.

(ii) Other financial liabilities

Other financial liabilities, including borrowings and finance lease obligations (as described in note 3.13), are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Effective interest method for financial liabilities
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

3.19 Derivative financial instruments
The group and company enter into a variety of derivative financial instruments to manage exposure to commodity price risk, foreign exchange rate risk and freight rate risk, including:
- cash-settled over-the-counter base metal forward purchase and option contracts;
- cash-settled over-the-counter foreign exchange forward and option contracts; and
- embedded derivative features in highly selective host procurement contracts.

Further details of derivative financial instruments are disclosed in note 32 to the financial statements.

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

The group and company designate certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

Derivatives not designated into an effective hedge relationship are classified as held for trading at FVTPL as detailed in note 3.17 and 3.18.

Bifurcated embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. Bifurcated embedded derivatives are classified as financial assets or liabilities at FVTPL as detailed in note 3.17 and 3.18.

Hedge accounting
The group and company designate certain stand-alone hedging instruments transacted to economically mitigate commodity price risk and foreign currency risk as either cash flow hedges or fair value hedges.

Generally hedges of:
- the USD commodity price risk of highly probable forecasted base metal purchase transactions; and
- the foreign exchange risk of highly probable forecasted export steel sale transactions, are accounted for as cash flow hedges.

The forward, as opposed to the spot rate, is designated as the hedged risk.

At the inception of the hedge relationship the group and company document the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group and company document whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows or fair values of the hedged item.

Note 32 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the cash flow hedging reserve in equity are detailed in the statement of changes in equity, note 25 and note 32.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses remain in equity and are not included in the initial measurement of the cost of the asset or liability. The deferred gains and losses are only recycled to the income statement when the forecast transaction, through its recognition as a purchase or sale is ultimately recognised in profit or loss. The recycled gains and losses are recognised as a component of revenue and cost of sales, as appropriate.

For cash flow hedge relationship designation purposes, the group and company model the underlying hedge item using the hypothetical derivative method on a one-to-one (one hedging instrument to one hedged item) basis.

Cash flow hedge effectiveness is assessed using the hypothetical derivative method, as follows:
- USD base metal hedging relationships: regression analysis using the parameters:
  - Coefficient of determination: R2 > 0.8;
  - Slope: 0.8 to 1.25;
  - Statistical significance: F-test >0.95; and
  - Foreign exchange hedging relationship contracts: dollar off-set method in the 0.8 to 1.25 range.

Ineffectiveness is measured as the absolute amount by which the change in the fair value of the hedging instrument exceeded the change in the fair value of the hedged item, modelled as a hypothetical derivative.

Hedge accounting is discontinued when the group and company revoke the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the group and company revoke the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

The effectiveness of fair value hedging relationships is assessed using the dollar off-set method in the 0.8 to 1.25 range.

For fair value hedging, the hedged item may be a single asset or liability or a portfolio of similar assets or liabilities.

If similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities must share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio must be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributable to the hedged risk. The group's and company's interpretation of "approximately proportional" is that fair value changes in the amounts of individual items comprising the portfolio must be within a 90% to 110% of the fair value changes in average portfolio.

3.20 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Raw material inventories are measured using the standard cost measurement formula, which approximates actual cost. Consumable stores inventory is measured using a moving average cost formula.

Raw materials and consumable store inventory are carried at cost inclusive of freight, shipping and handling costs.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity incurred in bringing the inventories to their present location and condition. It excludes borrowing costs.

For finished goods inventory destined for overseas export sale, the distribution and handling costs to the port of sale, are capitalised as inventorial cost. Distribution and handling costs incurred after the risks and reward of ownership have passed, are not.

Costs of inventories exclude the transfer from equity of any gains/losses on qualifying cash flow hedges for the purchase of base metals.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.21 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment for trade and other receivables is established when there is objective evidence that the group and company will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, where significant.

The impairment of trade and other receivables is described in note 3.17.

3.22 Cash and cash equivalents

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

3.23 Stated capital

Equity instruments issued by the group and company are classified according to the substance of the contractual arrangements entered into and the definitions of an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group and company after deducting all liabilities.

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax effects, from the proceeds.

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

Capital distributions to shareholders through capital reduction programmes are credited against stated capital. Income tax consequences of such and similar transactions are charged to profit and loss and not stated capital.

3.24 Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

3.25 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the group and company have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.26 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxes on movements in exchange differences on translation of foreign operations transferred to equity, are correspondingly transferred to equity to the extent that such transactions represent temporary differences.

Deferred taxes on movements in gains and losses deferred in equity on cash flow hedges are correspondingly transferred to equity, without affecting the tax charge in the income statement.

3.27 Employee benefits

Retirement

Contributions to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the group's and company's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Only obligations recognised in the balance sheet represent the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

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

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions, is recognised during the period in which the employee renders the related service.

Bonus plans
The group and company recognise a liability and an expense for bonuses, based on a formula that takes into consideration cost, profit, cash generation, employment equity and safety targets.

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

The group and company recognise termination benefits when it is demonstrably committed to either:
- terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal; or
- provide termination benefits as a result of an accepted offer made to encourage voluntary redundancy in exchange for these benefits.

Share-based compensation
Refer to the share-based payments, note 3.32.

3.28 Provisions, contingent assets and contingent liabilities

Provisions
Provisions for asset retirement obligations, environmental remediation obligations, onerous contracts, restructuring costs and legal claims are recognised when:
- a present legal or constructive obligation exists as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

The nature, background and treatment of asset retirement obligations and environmental remediation provisions is detailed in note 28.

Onerous contract provisions comprise primarily operating lease termination penalties.

Restructuring provision comprises employee termination payments and other directly related expenditure not associated with ongoing activities.

Provisions are not recognised for future operating losses or for capital expenditure of an environmental nature relating to an operational facility.

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

The increase in the provision due to passage of time is recognised as accretion expenses within finance charges.

Contingent liabilities

(i) Legal claims

Legal claims are assessed using a cumulative probability methodology in order to:

- determine if a present obligation exists; and
- measure the obligation.

Management applies its judgement to the facts and advice it receives from its attorneys, advocates and other advisers. Loss estimates and individual probabilities of occurring are attached to the identified possible outcomes. A cumulative probability of occurring is determined, being the cumulative sum of individual probabilities, where the loss estimates of each possible outcome are sorted in descending order.

A present obligation, classified as a provision, is recognised as probable and is measured as the estimated loss of that outcome that is more than 50% likely when measured on a cumulative probability basis.

For claims that are regarded as reasonably possible, being between 20% and 50% when measured on a cumulative probability basis, the facts and circumstances of the possible loss and an estimate of the amount, if determinable, are disclosed.

Remote claims, being <20% on a cumulative probability basis are not disclosed or provided for.

(ii) Financial guarantees

Financial guarantee contract liabilities are accounted for as detailed in note 3.18. For those guarantees not recognised, the financial position of the beneficiary entity is assessed using the cumulative probability basis noted above in order to assess how the guarantee should be treated.

Contingent assets

Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

3.29 Revenue recognition

Sale of goods

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the group's and company's activities. Revenue is shown net of value added tax, returns, rebates, discounts and, in the case of the consolidated amount, after eliminating sales within the group.

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

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

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

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

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group and company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend income
Dividend income is recognised when the right to receive payment is established.

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.31 Borrowing costs
Incurred borrowing costs calculated in accordance with the effective interest rate method and directly attributable to the acquisition, construction or production of qualifying assets, for those assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

Fair value determination of equity-settled share-based transactions is measured using the Binomial Matrix pricing model. The key assumptions for staff turnover per annum, the early-exercise multiple, risk-free rate, share price volatility and dividend yield are based on management's best estimates at the date of valuation. The reasonability of the pricing estimate is simultaneously assessed against the Black-Scholes-Merton pricing model.

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

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005.

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

3.33 Government or parastatal grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the group and company will comply with all required conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Government grants that take the form of benefits that are available in determining taxable income or are determined or limited on the basis of income tax liability (such as special infrastructural project allowances, income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates) are recognised as a reduction in tax charge and the corresponding liability.

3.34 Taxation

Income tax expense represents the sum of the tax currently payable (being South African Normal Tax), deferred tax, and Secondary Tax on Companies (being a South African tax on dividends).

Normal tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax
Refer to note 3.26.

Secondary tax on Companies (STC)
STC is treated as part of the income tax expense in the income statement for the period. It is recognised as an expense in the same period as the related dividend is accrued as a liability. As the level of dividends may vary between reporting periods, the resulting tax charge in the income statement may be disproportionate to pre-tax earnings.

3.35 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the company's shareholders.

3.36 Offset

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

3.37 Comparative figures

When necessary, comparative figures have been adjusted to conform with changes in presentation in the current period. Any such changes are disclosed in note 2.5 and in applicable notes to the financial statements.

4. CRITICAL JUDGEMENTS

In the process of applying the group's and company's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimation, which are dealt with in note 5).

4.1 Derivative and embedded derivative instruments

The group and company follow the guidance of IAS 39, *Financial Instruments: Recognition and Measurement*, in identifying derivative contracts and contracts containing embedded derivatives. Other than for over-the-counter stand-alone derivative contracts, most of the group's and company's contracts encompass non-financial items. Consequently, the identification process requires significant judgement.

In assessing if an embedded derivative requires separate identification and measurement from the host contract, management assesses the available facts with regards to the impact the embedded derivative instrument has on the underlying value of the host contract. Judgement was applied as to whether the correlation between the host contract and derivative instrument could be regarded as closely related. Where the correlation relationship was judged to be weak, the embedded derivative instrument is separately identified (i.e. bifurcated).

In synthesising the value of a bifurcated embedded derivative, judgement is applied as to how best to model the derivative, for example, as a forward, an option etc.

4.2 Asset retirement and environmental remediation obligations

Upon decommissioning of a facility or business operation, the group and company have a legal obligation with regards to the retirement of the facility and the related environmental remediation. The plant removal and housekeeping costs that are not of a legal nature, are not provided for, unless a definitive constructive obligation exists that can be subject to objective measurement and recognition criteria. Management applied its judgement and the advice received from its external environmental experts in recognising such obligations as liabilities in terms of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

4.3 Contingent liabilities and uncertain tax positions

Management applied its judgement to the facts and advice it receives from its attorneys, advocates and other advisers in assessing if a loss outcome is probable, reasonably possible, or remote. Such judgements are used to determine if the obligation is recognised as a liability or disclosed as a contingent liability in terms of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and IAS 12, *Income Taxes.*

4.4 Consolidation of subsidiaries and special purpose entities

In assessing all its major procurement, sales and investment relationships, management has applied its judgement in the assessment of whether the commercial and economic relationship is tantamount to *de facto* control. Based on the facts and management's judgement, if such control exists, the relationship of control is recognised in terms of IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities.*

4.5 Equity-settled compensation benefits

Share-based payment transactions in which an entity receives services as consideration for its own equity instruments should be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement.

Management has classified its share option plan as equity-settled based on its assessment of its role, that of the Management Share Trust, employees and the brokerage firm in the transactions. In applying its judgement, management consulted with external expert advisers in the share-based payment advisory industry.

4.6 Determination of the functional currencies of foreign operations

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires the functional currency of each individual foreign operation of the group to be the currency used in the primary economic environment in which a foreign operation operates, which it uses to primarily generate and expend cash. To aid the decision, the standard details primary, secondary and other indicators to be considered.

In the majority of situations, the above indicators are mixed and the functional currency is not obvious. Consequently management applied its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Priority is given to primary indicators.

4.7 Classification of acquisitions as either business combinations or asset purchases

Where it is unclear whether an acquisition constitutes a business combination to be accounted for in terms of IFRS 3, *Business Combinations*, or an asset purchase to be accounted for in terms of IAS 16, *Property, Plant and Equipment*, management applied its judgement as follows in determining if the acquired assets constitute a business:

- identification of the elements included in the acquired set of activities and assets;
- comparison of the asset set to a complete set of elements necessary to conduct business, and identify any missing elements; and
- for the missing elements, an assessment is made of the level of investment/degree of difficulty needed to obtain these elements, with conclusions drawn relative hereto as to whether the elements acquired constitute a business.

4.8 Distinguishing between finance and operating leases in commercial arrangements containing leases

Once a lease is identified as being embedded within a commercial arrangement, the indicators in IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*, are assessed as to whether the lease is either a finance or an operating lease. When the assessment yields mixed results, management applied its judgement in making the classification by further considering, *inter alia*:

- location of the asset;
- availability of an alternative asset;
- cost of installation of an alternative asset;
- interruption to customer service as a result of an asset replacement;
- future use of a replaced asset; and
- asset replacement patterns.

4.9 Impairment of the available-for-sale financial asset

The group and company follow the guidance of IAS 39, *Financial Instruments: Recognition and Measurement*, to determine if its available-for-sale financial asset is impaired. The investee, Hwange Colliery Company Limited (HCCL) operates in and is listed in Zimbabwe, a hyperinflationary economy with foreign currency restrictions. The impairment determination requires significant judgement to be applied, especially the continued operation of the fungible conduit share scheme arrangement utilised by the group's brokers, which enables the realisation of such investments at fair value via the use of a dual-listed fungible conduit share arrangement.

4.10 Impairment indicator assessment

IAS 36, *Impairment of Assets*, states that an entity shall assess at each reporting date whether there is any indication that an asset (or cash-generating unit) may be impaired. If any such indication exists, the entity is required to estimate the recoverable amount of the asset (or cash-generating unit). As a minimum, internal and external sources of information, as detailed in the standard, need to be considered. The assessment requires significant judgement to be applied.

4.11 Significant influence versus joint control

IAS 31, *Interests in Joint Ventures*, stresses that the accounting treatment adopted for such investments should reflect the substance and economic reality of the arrangement, rather than the legal form. Therefore, an arrangement should be assessed not by its legal constitution but, by the agreements between the parties involved as to the mechanism of control.

The classification of an investee as being either an associate or a jointly controlled entity requires an assessment of whether the investment interest represents either significant influence of, or unanimous consent over the strategic financial and operating decisions of the investee. As the results of the assessment are often mixed, the assessment requires significant judgement to be applied.

4.12 Income taxes

The group and company are subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. Determination of income taxes involves interpretation of tax law, assessment of interpretations and guidelines issued by tax authorities, interactions with the tax authorities, and advice received from external tax experts.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The nature of these estimation assumptions is inherently long term and future experience may result in actual amounts differing from these estimates as applied in the reported financial results.

5.1 Useful lives and residual values of property, plant and equipment and intangible assets

The estimates of remaining useful lives as translated into depreciation rates are detailed in the property, plant and equipment (note 3.11) and the intangible assets (note 3.15) accounting policies.

These rates and the residual lives of the assets are reviewed annually taking cognisance of:

- forecasted commercial and economic realities;
- benchmarking within the greater ArcelorMittal Group; and
- guidance received from expert international valuers.

5.2 Valuation of share-based payments

The critical estimates as used in the Binomial Matrix valuation models for the equity-settled share options plan and cash-settled share appreciation rights are detailed in note 36.

5.3 Valuation of financial instruments

The carrying amount of over-the-counter stand-alone derivative financial instruments is based on their fair value at the balance sheet date. The values of these derivative instruments fluctuate on a daily basis and the actual amounts realised may differ materially from the value at which they are reflected at the balance sheet date. Correspondingly, the maturity profile for such derivatives, as presented in note 32.15, may be affected by such fluctuations.

The significant application of estimates was made in the valuation of the bifurcated embedded derivative instruments, and in the determination of the disclosed valuation of unlisted equity accounted investments. These assumptions for both sets of valuations are detailed in note 32.11 and 32.18 respectively.

5.4 Asset retirement obligations and their related assets, and environmental remediation obligation estimates

Estimating the future cash flows associated with obligations recognised in terms of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the related asset components recognised in terms of IAS 16, *Property, Plant and Equipment*, is complex.

Existing laws and guidelines are not always clear as to the required end-state situation. The provisions are also affected by changing technologies and political, environmental, safety, business and legal considerations.

Management assesses long-term operational plans, technological and legislative developments, guidelines issued by the authorities, advice from external environmental experts, and computations provided by quantity surveyors in order to derive an estimated future cash flow profile to serve as basis for the computation of the obligations and related assets.

For the majority of operational sites, with long-term operating horizons, it is not possible to reliably measure the associated costs of asset retirement and environmental remediation.

5.5 Deferred taxation assets

Deferred tax assets are recognised to the extent that it is probable that the taxable income will be available in future against which they can be utilised. Future taxable profits are estimates based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces.

5.6 Commercial arrangements containing financial leases

A number of commercial supply arrangements have been determined by management to contain embedded finance leases. For the purpose of applying the requirements of IAS 17, *Leases*, payments and other considerations required by the arrangement are separated at the inception of the arrangement into those for the lease and those for other elements on the basis of their relative fair values. The minimum lease payments include only payments for the lease (i.e. the right to use the asset) and exclude payments for other elements in the arrangement (e.g. for goods and services supplied).

Separating the payments for the lease from payments for other elements in the arrangement requires management to use estimation techniques. The techniques used include:

(i) estimating the lease payments by reference to a lease agreement for a comparable asset that contains no other elements; or

(ii) where impracticable to separate the payments reliably, management recognised the leased asset and the finance lease obligation measured as the sum of the lease payments over the tenure of the arrangement, reduced by an imputed finance charge based on management's best estimate of the applicable incremental borrowing rate at inception (or reassessment) of the arrangement.

The leased assets are depreciated over the lesser of their useful lives or the tenure of the arrangement. The former is based upon management's best estimate taking cognisance of the available information. As for all property, plant and equipment, useful lives are assessed annually.

5.7 Defined benefit pension plans

The present value of the defined benefit pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The group and company determine the appropriate discount rate at the end of each year in consultation with the fund administrators and independent actuaries. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, consideration is given to the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information relating to the actuarial valuation is detailed in note 34.1.2.

6. SEGMENTAL REPORTING

General

Total segment revenue, which excludes value added tax and inter-segment sales, represents the gross value of goods invoiced. It represents operating revenues directly and reasonably allocable to the segments.

Segment operating results equals segment revenue less segment expenses, where segment expenses represents direct or reasonably allocable operating expenses on a segment basis.

Segment assets and liabilities include directly and reasonably allocable operating assets, equity accounted investments and liabilities. Given the concentration of assets and liabilities within South Africa it is not meaningful to allocate such elements on a geographical basis.

Business segments

For management purposes, the core steel manufacturing and sales, and support activities of the group are currently organised into three operating divisions, and one support division. These divisions are the basis on which the group reports its primary segment information.

Principal activities are:

- Flat products, comprising Vanderbijlpark Works and Saldanha Works which manufacture flat products;
- Long products, comprising Newcastle Works and Vereeniging Works which manufacture rolled and forged carbon, alloy, stainless steel profiles and seamless tubes;
- Coke and Chemicals which process the by-products of the steel making processes and operate certain coke batteries no longer used for steel manufacturing; and
- Corporate and Other, comprising principally corporate sales and marketing, shared services and centres of excellence functions and strategic investments (ArcelorMittal Maputo).

	FLAT PRODUCTS		LONG PRODUCTS	
		Restated		Restated
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
6. SEGMENTAL REPORTING continued				
Revenue				
– External sales	**18 612**	16 951	**8 666**	7 398
– Inter-segment sales	**628**	390	**572**	289
Total segment value	**19 240**	17 341	**9 238**	7 687
Inter-segment sales are charged at prevailing market prices.				
Result				
Segment result (profit/(loss)) before depreciation, amortisation and impairments	**5 265**	4 487	**2 847**	2 281
Depreciation and amortisation	**(438)**	(843)	**(186)**	(170)
(Losses)/gains on changes in foreign exchange rate and financial instruments designated as held for trading at fair value through profit and loss	**(15)**	303	**15**	122
Segment operating results (profit/(loss))	**4 812**	3 947	**2 676**	2 233
Share of after tax profits of equity accounted investments				
Net interest income				
Income from investments				
Profit/(loss) before tax	**4 812**	3 947	**2 676**	2 233
Income tax expense				
Profit/(loss) from ordinary activities	**4 812**	3 947	**2 676**	2 233
Other information				
Capital expenditure	**1 443**	949	**249**	169
Cash inflow/(outflow) from operations	**5 195**	4 581	**2 788**	2 312
Number of employees at year-end	**5 119**	5 085	**2 868**	2 890
Balance sheet				
Assets				
- Segment assets	**18 244**	17 869	**3 903**	3 776
- Investments in associates and joint ventures				
Consolidated total assets	**18 244**	17 869	**3 903**	3 776
Liabilities				
- Segment liabilities	**6 665**	5 570	**2 117**	1 331
Consolidated total liabilities	**6 665**	5 570	**2 117**	1 331
Geographical segments				
Segment revenue				
- Local				
- Export				
• Africa				
• Europe				
• Asia				
• Other				
Total exports				
Total segment revenue				

COKE AND CHEMICALS		CORPORATE, OTHER AND ELIMINATIONS		TOTAL	
2007 Rm	Restated 2006 Rm	**2007 Rm**	Restated 2006 Rm	**2007 Rm**	Restated 2006 Rm
2 022	1 001	**33**		**29 333**	25 350
43	32	**(1 243)**	(711)		
2 065	1 033	**(1 210)**	(711)	**29 333**	25 350
765	220	**(75)**	190	**8 802**	7 178
(38)	(36)	**(437)**	(47)	**(1 099)**	(1 096)
(1)	3	**(130)**	(127)	**(131)**	301
726	187	**(642)**	16	**7 572**	6 383
		270	135	**270**	135
		325	193	**325**	193
		4	7	**4**	7
726	187	**(43)**	351	**8 171**	6 718
		(2 455)	(2 022)	**(2 455)**	(2 022)
726	187	**(2 498)**	(1 671)	**5 716**	4 696
59	325	**101**	3	**1 852**	1 446
588	263	**(132)**	(830)	**8 439**	6 326
265	268	**865**	859	**9 117**	9 102
1 043	892	**3 906**	7 685	**27 096**	30 222
		1 109	953	**1 109**	953
1 043	892	**5 015**	8 638	**28 205**	31 175
219	239	**(1 379)**	775	**7 622**	7 915
219	239	**(1 379)**	775	**7622**	7 915
				23 681	19 646
				2 714	1 973
				385	855
				2 405	2 067
				148	809
				5 652	5 704
				29 333	25 350

	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
7. REVENUE				
Sale of goods	**29 330**	25 363	**25 753**	22 574
Gains/(losses) on derivative instruments in designated cash flow hedge accounting relationships	**3**	(13)	**1**	(7)
	29 333	25 350	**25 754**	22 567
8. PROFIT FROM OPERATIONS				
Profit from operations has been arrived at after charging:				
Amortisation of intangible assets	**11**	16	**9**	14
Depreciation	**1 088**	1 080	**743**	758
– Buildings and infrastructure	**52**	42	**35**	36
– Machinery, plant and equipment	**977**	951	**659**	644
– Site preparation, mining development and exploration	**5**	5	**5**	4
– Asset retirement obligations	**20**	54	**20**	54
– Leased asset under finance leases	**34**	28	**24**	20
Consultancy fees	**18**	30	**15**	26
Employee costs	**2 210**	2 243	**2 210**	2 243
– Salaries and wages	**1 971**	1 917	**1 971**	1 917
– Termination benefits	**3**	142	**3**	142
– Pension and medical costs	**201**	167	**201**	167
– Share-based payment expense	**35**	17	**35**	17
Loss on disposal or scrapping of property, plant and equipment	**31**	48	**31**	46
Operating lease rentals	**146**	151	**143**	151
– Property		75		75
– Equipment and vehicles	**146**	76	**143**	76
Railage and transport	**1 685**	1 642	**1 618**	1 582
Repairs and maintenance	**1 847**	1 699	**1 515**	1 344
Research and development costs	**58**	54	**58**	54
Reconditionable spares usage	**13**	23	**11**	19
Write-down of inventory to net realisable value	**26**	22	**27**	22
Auditors' remuneration	**11**	10	**10**	9
– Audit fees	**10**	9	**9**	8
– Other services	**1**	1	**1**	1
Management fees			**(153)**	(190)
Directors' remuneration			**11**	9
Fair value gains transferred from equity on effective derivative instruments designated as cash flow hedges (note 32), included in[(1)]				
– Raw materials and consumables used	**(5)**	(48)	**(6)**	(47)
– Ineffectiveness arising from effective cash flow hedges	**0**[(2)]	0[(2)]	**0**[(2)]	0[(2)]
Impairment losses on financial assets				
– Allowance for doubtful debts (reversed)/recognised on trade and other receivables (note 23)	**0**[(2)]	(3)	**0**[(2)]	(3)
– Other allowances recognised on trade and other receivables (note 23)	**47**	3	**49**	5
(Gains)/losses on derivative financial instruments designated at fair value through profit and loss, not held for trading				
– Losses/(gains) on changes in the fair value of embedded derivative instruments	**33**	(145)	**33**	(145)

[(1)] Excludes adjustments relating to hedge ineffectiveness that are separately disclosed.
[(2)] Rounding to zero due to the use of numeric reporting scale format of one million.

	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
9. IMPAIRMENT REVERSAL				
Impairment reversal against investment in subsidiary			2 799	

Due to substantial retained losses, an impairment against the company's investment in the then jointly controlled entity, Saldanha Steel (Proprietary) Limited, was raised in the 2001 financial year, amounting to R2 336 million. The impairment increased to R4 051 million in 2002 when Saldanha Steel (Proprietary) Limited became a subsidiary.

Benefiting from a recapitalisation, a more stable operating performance, and an improved global steel market, it was possible to reduce the impairment to R3 810 million in 2003, and R2 799 million by 2004.

In the current year, the surplus between the net asset value of Saldanha Steel (Proprietary) Limited and the impaired net carrying amount of ArcelorMittal South Africa's investment, exceeded the remaining impairment of R2 799 million. Consequently, the total impairment against the investment has been reversed.

Further in the current year, the remaining impairment of R489 million against the property, plant and equipment in the entity-own accounts of Saldanha Steel (Proprietary) Limited has been reversed. The recoverable amount for Saldanha Steel (Proprietary) Limited was assessed at year-end and amounts to R15 415 million.

No reversal gain is reflected in the group's accounts as the reversals recognised in the prior years have eliminated the group's share of the impairment charged to its consolidated retained earnings, of R1 500 million.

	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
10. GAINS AND LOSSES ON CHANGES IN FOREIGN EXCHANGE RATES AND FINANCIAL INSTRUMENTS DESIGNATED AS HELD FOR TRADING AT FAIR VALUE THROUGH PROFIT AND LOSS				
Gains/(losses) on changes in foreign exchange rates				
Gains on changes in foreign exchange rates	38	413	20	326
Losses on changes in foreign exchange rates	(188)	(2)	(180)	
Total	(150)	411	(160)	326
Fair value gains transferred from equity on ineffective derivative instruments de-designated as cash flow hedges	3		2	
Gains/(losses) on changes in the fair value of derivative instruments designated as held for trading at fair value through profit and loss	16	(110)	7	(81)
Total	(131)	301	(151)	245

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
11. NET INTEREST INCOME				
Bank deposit and other interest income excluding interest income from subsidiaries and equity accounted investments (note 12)	**442**	362	**426**	331
Interest income	**442**	362	**426**	331
Interest expense on bank overdrafts and loans	**(20)**	(14)	**(16)**	(2)
Interest expense on finance lease obligations[1]	**(53)**	(54)	**(25)**	(25)
Discounting rate adjustment and unwinding of the discounting effect in the present valued carrying amount of the non-current provisions[2]	**(44)**	(101)	**(48)**	(101)
Finance costs	**(117)**	(169)	**(89)**	(128)
Net interest income	**325**	193	**337**	203

[1] *Interest expense arising from the application of IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease.*

[2] *The credit adjusted discount rate was increased from an average rate of 10,5% to 11,25% (2006: 9,3% to 10,5%) in line with changes in the South African risk free rate and the credit risk premium of the company.*

No borrowing costs qualified for capitalisation during the current or comparative year.

	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
12. INCOME FROM INVESTMENTS				
Dividends received			**281**	175
Interest received	**4**	7	**4**	7
	4	7	**285**	182
13. INCOME TAX EXPENSE				
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	**1 871**	1 420	**1 813**	1 370
Adjustments recognised in the current year in relation to the current tax of prior years	**(36)**	71	**(40)**	71
	1 835	1 491	**1 773**	1 441
Deferred tax expense relating to the origination and reversal of temporary differences	**137**	424	**(191)**	154
Deferred tax income recognised in the current year in relation to the deferred tax of prior years	**1**	(56)	**1**	(72)
	138	368	**(190)**	82
Secondary Tax on Companies	**482**	163	**446**	158
Total tax expense	**2 455**	2 022	**2 029**	1 681

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
13. INCOME TAX EXPENSE continued				
The total charge for the year can be reconciled to the accounting profit as follows:				
Profit before tax	**8 171**	6 718	**9 720**	5 617
Income tax expense calculated at 29%[1]	**2 370**	1 948	**2 819**	1 629
Effect of revenue that is non-taxable/exempt from taxation	**(3)**	(25)	**(113)**	(53)
Effect of expenses that are not deductible in determining taxable profit	**47**	50	**44**	29
Effect of tax concessions[2]	**(39)**	(97)	**(39)**	(97)
Effect of impairment reversal			**(812)**	
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(90)**	(48)		
Effect of revenue imputed from controlled foreign companies	**7**	21	**7**	21
Effect of deferred tax asset raised on environmental obligations	**(277)**[3]		**(277)**[3]	
Tax rebate on foreign dividends	**(7)**	(5)	**(7)**	(5)
Adjustments recognised in the current year in relation to the current tax and deferred tax of prior years.	**(35)**	15	**(39)**	(1)
Secondary Tax on Companies	**482**	163	**446**	158
	2 455	2 022	**2 029**	1 681
Taxation as a percentage of profit before taxation (%)	**30,0**	30,1	**20,9**	29,9
Income tax recognised in equity				
Current and deferred tax expense				
Normal tax on:				
• gains and losses realised but not yet released to the income statement on cash flow hedges	**(12)**	5	**(12)**	5
• losses on share purchases via the Management Trust	**(15)**	—	**(15)**	—
Deferred tax on unrealised losses on cash flows hedges	**(15)**		**(15)**	
Total current and deferred tax recognised in equity	**(42)**	5	**(42)**	5

[1] The tax rate used for the 2007 and 2006 reconciliations above is the corporate tax rate of 29% payable by corporate entities in South Africa on taxable profits.

[2] Strategic Industrial Project (SIP) allowance granted in terms of section 12(G) of the South African Income Tax Act for construction of coke oven batteries at Newcastle Works. This project is for the production of market coke.

[3] Recognised as a consequence of the amendments to relevant tax legislation, inter alia, as promulgated in the Revenue Law Amendments Act of 2007.

	Group 2007	Group Restated 2006
14. EARNINGS PER SHARE		
Basic earnings per share is calculated by dividing earnings by the weighted average number of ordinary shares in issue during the year.		
The weighted average number of shares is calculated taking into account the shares issued as disclosed in the directors' remuneration report and note 24.		
Profit attributable to equity holders of the company (Rm)	**5 716**	4 696
Weighted average number of ordinary shares in issue (thousands)	**445 752**	445 752
Basic earnings per share (cents)	**1 282**	1 054
Diluted earnings per share is calculated by dividing the earnings by the weighted average number of ordinary shares in issue during the year increased by the number of additional ordinary shares that would have been outstanding assuming the conversion of all outstanding share options representing dilutive potential ordinary shares.		
Profit attributable to equity holders of the company (Rm)	**5 716**	4 696
Weighted average number for diluted shares (thousands)	**447 052**	446 449
Diluted earnings per share (cents)	**1 279**	1 052

The calculation for headline earnings per share is based on the basic earnings per share calculation, reconciled as follows:

	2007 Gross Rm	**2007 Net Rm**	2006 Gross Rm	Restated 2006 Net Rm
Profit attributable to equity holders of the company		**5 716**		4 696
Plus IAS 16 loss on disposal or scrapping of property, plant and equipment	**31**	**22**	48	34
Plus IFRS 5 write-down to recoverable amount on the reclassification of assets previously classified as held for sale	**4**	**3**		
Headline earnings (Rm)		**5 741**		4 730

14. EARNINGS PER SHARE continued

	Group 2007	Restated 2006
Headline earnings per share (cents)		
– Basic	**1 288**	1 061
– Diluted	**1 284**	1 059
The weighted average number of shares used in computation of diluted earnings per share was determined as follows (thousands):		
– Shares in issue	**445 752**	445 752
Adjustments for dilutive impact of the Management Share Trust:		
– Shares under option	**1 284**	606
– Shares under loan purchase and deferred purchase	**16**	91
Diluted shares in issue (thousands)	**447 052**	446 449

15. DIVIDEND PER SHARE

On 8 February 2008 the directors declared a final dividend of 196 cents per share for the 2007 financial year that has not been included as a distribution liability payable to all shareholders on the Register of Members on 14 March 2008. The total estimated dividends to be paid is R874 million.

The dividend distribution for 2007 consists of:

- On 19 February 2007, a final dividend of 204 cents per share (R909 million) was declared for the 2006 financial year and paid to shareholders on 26 March 2007.
- On 30 July 2007, an interim dividend of 233 cents per share (R1 039 million) was declared for the 2007 financial year and paid to shareholders on 3 September 2007.

The dividend distribution for 2006 consists of:

- On 13 February 2006, a final dividend of 140 cents per share (R624 million) was declared for the 2005 financial year and paid to shareholders on 20 March 2006.
- On 31 July 2006, an interim dividend of 143 cents per share (R637 million) was declared for the 2006 financial year and paid to shareholders on 4 September 2006.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings Rm	Buildings and infrastructure Rm
GROUP		
For the year ended 31 December 2007		
Gross carrying amount		
At beginning of year	60	1 742
Additions		25
Disposals	(1)	(3)
Other movements		18
Reclassified from assets held for sale (note 21)		
At end of year	59	1 782
Accumulated depreciation and impairment losses		
At beginning of year	2	1 022
Depreciation charges		52
Accumulated depreciation on disposals		(3)
Other movements		
At end of year	2	1 071
Net carrying amount at end of year	57	711
GROUP		
For the year ended 31 December 2006 (Restated)		
Gross carrying amount		
At beginning of year	55	1 746
Additions	6	1
Disposals	(1)	(8)
Other movements		3
Reclassified as held for sale		
At end of year	60	1 742
Accumulated depreciation and impairment losses		
At beginning of year	2	995
Restatement (note 2.5.1)		(8)
Depreciation charges		42
Accumulated depreciation on disposals		(7)
Other movements		
Reclassified as held for sale		
At end of year	2	1 022
Net carrying amount at end of year	58	720

Machinery, plant and equipment Rm	Site preparation, mining development, exploration and rehabilitation Rm	Asset retirement obligation component asset at present value Rm	Leased assets Rm	Extensions under construction Rm	Total Rm
21 045	**98**	**146**	**1 875**	**1 132**	**26 098**
984		**8**	**302**	**906**	**2 225**
(398)	**(5)**				**(407)**
867	**5**			**(898)**	**(8)**
2					**2**
22 500	**98**	**154**	**2 177**	**1 140**	**27 910**
9 125	**59**	**109**	**808**		**11 125**
977	**5**	**20**	**34**		**1 088**
(347)	**(5)**				**(355)**
28			**499**		**527**
9 783	**59**	**129**	**1 341**		**12 385**
12 717	**39**	**25**	**836**	**1 140**	**15 525**
19 659	98		1 767	1 313	24 638
877		146	108	578	1 716
(185)					(194)
729				(759)	(27)
(35)					(35)
21 045	98	146	1 875	1 132	26 098
8 690	54		637		10 378
(369)					(377)
951	5	54	28		1 080
(107)					(114)
(11)		55	143		187
(29)					(29)
9 125	59	109	808		11 125
11 920	39	37	1 067	1 132	14 973

16. PROPERTY, PLANT AND EQUIPMENT continued

	Land and buildings Rm	Buildings and infrastructure Rm
COMPANY		
For the year ended 31 December 2007		
Gross carrying amount		
At beginning of year	54	1 393
Additions		6
Disposals	(1)	(3)
Other movements		18
Reclassified from assets held for sale (note 21)		
At end of year	53	1 414
Accumulated depreciation and impairment losses		
At beginning of year		894
Depreciation charges		35
Accumulated depreciation on disposals		(3)
Other movements		
At end of year		926
Net carrying amount at end of year	53	488
COMPANY		
For the year ended 31 December 2006		
Gross carrying amount		
At beginning of year	49	1 397
Additions	6	1
Disposals	(1)	(8)
Other movements		3
Reclassified as held for sale		
At end of year	54	1 393
Accumulated depreciation and impairment losses		
At beginning of year		864
Depreciation charges		36
Accumulated depreciation on disposals		(6)
Other movements		
Reclassified as held for sale		
At end of year		894
Net carrying amount at end of year	54	499

	Machinery, plant and equipment Rm	Site preparation, mining development, exploration and rehabilitation Rm	Asset retirement obligation component asset at present value Rm	Leased assets Rm	Extensions under construction Rm	Total Rm
	11 947	**98**	**146**	**1 680**	**1 031**	**16 349**
	818		**8**	**302**	**717**	**1 851**
	(396)	**(5)**				**(405)**
	830	**5**			**(859)**	**(6)**
	2					**2**
	13 201	**98**	**154**	**1 982**	**889**	**17 791**
	5 945	**59**	**109**	**729**		**7 736**
	659	**5**	**20**	**24**		**743**
	(347)	**(5)**				**(355)**
	7			**499**		**506**
	6 264	**59**	**129**	**1 252**		**8 630**
	6 937	**39**	**25**	**730**	**889**	**9 161**
	10 638	98		1 576	1 194	14 952
	856		146	104	507	1 620
	(171)					(180)
	659				(670)	(8)
	(35)					(35)
	11 947	98	146	1 680	1 031	16 349
	5 426	55		566		6 911
	644	4	54	20		758
	(106)					(112)
	10		55	143		208
	(29)					(29)
	5 945	59	109	729		7 736
	6 002	39	37	951	1 031	8 613

16. PROPERTY, PLANT AND EQUIPMENT continued

All property, plant and equipment is carried at historical cost other than for the Asset Retirement Obligation assets that are carried at present value.

Land register and asset pledges

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

The group and company have not pledged property, plant and equipment to secure banking facilities granted.

Capitalised finance lease assets

Finance lease assets consist of plant and machinery and the assets of two captive mines. The composition of the property, plant and equipment of the captive mines is contained in the abridged note as follows:

	Land and buildings Rm	Buildings and infra-structure Rm	Machinery, plant and equipment Rm	Site preparation, mining development, exploration and rehabili-tation Rm	Extensions under construction Rm	Total Rm
For the year ended 31 December 2007						
Gross carrying amount						
At beginning of year	22	124	466	800	69	1 481
Additions/transfers		55	142	34	(27)	204
At end of year	22	179	608	834	42	1 685
Accumulated depreciation and impairment						
At beginning of year	10	60	281	253		604
Depreciation	(4)	56	167	239		458
At end of year	6	116	448	492		1 062
Net carrying amount at end of year	16	63	160	342	42	623
For the year ended 31 December 2006						
Gross carrying amount						
At beginning of year	21	121	443	591	205	1 381
Additions/ transfers	1	3	23	209	(136)	100
At end of year	22	124	466	800	69	1 481
Accumulated depreciation and impairment						
At beginning of year	8	49	221	179		457
Depreciation	2	11	60	74		147
At end of year	10	60	281	253		604
Net carrying amount at end of year	12	64	185	547	69	877

17. INTANGIBLE ASSETS

	Patents and Trademarks Rm	Non-integrated software Rm	Total Rm
GROUP			
For the year ended 31 December 2007			
Gross carrying amount			
At beginning of year	41	214	255
Additions		3	3
Other movements		8	8
Disposals		(1)	(1)
At end of year	41	224	265
Accumulated depreciation			
At beginning of year	15	182	197
Amortisation charge	2	9	11
Accumulated amortisation charge on disposals		(1)	(1)
At end of year	17	190	207
Net carrying amount at end of year	24	34	58
GROUP			
For the year ended 31 December 2006			
Gross carrying amount			
At beginning of year	41	214	255
At end of year	41	214	255
Accumulated depreciation			
At beginning of year	13	168	181
Amortisation charge	2	14	16
At end of year	15	182	197
Net carrying amount at end of year	26	32	58
COMPANY			
For the year ended 31 December 2007			
Gross carrying amount			
At beginning of year		214	214
Additions		3	3
Other movements		6	6
Disposals		(1)	(1)
At end of year		222	222
Accumulated depreciation			
At beginning of year		182	182
Amortisation charge		9	9
Accumulated amortisation charge on disposals		(1)	(1)
At end of year		190	190
Net carrying amount at end of year		32	32
COMPANY			
For the year ended 31 December 2006			
Gross carrying amount			
At beginning of year		214	214
At end of year		214	214
Accumulated depreciation			
At beginning of year		168	168
Amortisation charge		14	14
At end of year		182	182
Net carrying amount at end of year		32	32

	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
18. UNLISTED EQUITY ACCOUNTED INVESTMENTS				
The investment represents interests in unlisted incorporated joint controlled entities and an associate				
At beginning of year	**953**	912	**32**	32
Net after tax share of results as per the income statement	**270**	135		
Dividends received	**(104)**	(167)		
Currency translation differences	**(18)**	83		
Unrealised profit on sale	**(8)**	(10)		
Acquisition of interest in associate	**16**		**16**	
At end of year (Annexure 1)	**1 109**	953	**48**	32
Aggregate post-acquisition reserves	**820**	654		
19. INVESTMENTS IN SUBSIDIARIES				
Indebtedness				
– by subsidiaries			**5 553**	6 266
– to subsidiaries			**(94)**	(126)
Total indebtedness			**5 459**	6 140
Net indebtedness after provision			**5 459**	3 341
Shares at cost (Annexure 2)			**256**	256
Total			**5 715**	3 597
Aggregate attributable after tax profits			**1 241**	914

The majority of the carrying value of the company's investment in subsidiaries consists of its investment in Saldanha Steel (Proprietary) Limited being the cost of shares and indebtedness, at the initial and subsequent acquisition dates.

In 2007 the remaining investment impairment of R2 799 million in the entity-own accounts of ArcelorMittal South Africa Limited was reversed in full (note 9).

	Group				Company			
	Non-current		Current		Non-current		Current	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
20. OTHER FINANCIAL ASSETS/ (LIABILITIES)								
Derivatives designated as hedging instruments carried at fair value								
Base metal forward purchase contracts								
• Un-matured			**(53)**	16			**(53)**	16
• Matured not settled			**(14)**				**(14)**	
Financial assets/(liabilities) carried at fair value through profit or loss (FVTPL)								
Embedded derivatives at FVTPL	**124**	134	**94**	117	**124**	134	**94**	117
Held for trading derivatives that are not designated in hedge accounting relationships								
• Base metal forward purchase contracts								
– Un-matured				2				1
• Foreign currency forward purchase contracts								
– Un-matured	**0**(1)		**0**(1)	(7)			**0**(1)	(6)
Available-for-sale (AFS) investments carried at fair value								
Equity instruments(2)	**71**							
Loans carried at amortised cost								
Loans receivable						103		
Total	**195**	134	**27**	128	**124**	237	**27**	128
Included in the financial statements as:								
Other financial assets	**195**	134	**94**	135	**124**	237	**94**	134
Other financial liabilities			**(67)**	(7)			**(67)**	(6)
Total	**195**	134	**27**	128	**124**	237	**27**	128

(1) Rounding to zero due to the use of numeric reporting scale format of one million.

(2) The group holds 10% of the ordinary share capital of Hwange Colliery Company Limited, a coal, coke and by-products producer in Zimbabwe. The fair value of the equity investment has been recognised in the current financial year, being an initial cost of R9 million and subsequent fair value changes of R62 million. The latter has been transfered to an AFS investment reserve (note 25).

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
21. ASSETS CLASSIFIED AS HELD FOR SALE				
Machinery, plant and equipment held for sale	**6**		**6**	

Manufacturing of ferrite powder at Coke and Chemicals ceased on 31 March 2006 due to market conditions. The company approved of the disposal of the plant in 2006 and short-listed likely buyers with the intention of completing the sale in 2007.

While the company remains committed to sell the asset, realising its carrying value by sale and not through use, it became apparent in 2007 that the sale would not be accomplished in the manner initially intended nor within the timeframe envisaged, and permitted by IFRS 5.

The plant was reclassified as property, plant and equipment (note 16). On reclassification an impairment charge of R4 million was recognised to ensure the carrying amount of the asset was measured at the lower of:

- its carrying amount before the plant was classified as held for sale, adjusted for any depreciation that would have been recognised had the plant not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision to reclassify the plant back to property, plant and equipment.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
22. INVENTORIES				
Finished products	**1 146**	1 063	**1 012**	977
Work-in-progress	**1 487**	1 851	**1 467**	1 841
Raw materials	**1 741**	1 458	**1 366**	1 222
Plant spares and stores	**416**	403	**351**	343
	4 790	4 775	**4 196**	4 383

Included in the above are finished products of R111 million (December 2006: R91 million) and work-in-progress of R37 million (December 2006: R7 million) which has been written down to net realisable value.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
23. TRADE AND OTHER RECEIVABLES				
Trade receivables				
– Local sectors				
Manufacturing	**685**	649	**552**	524
Merchants	**692**	667	**692**	667
Structural metal	**343**	329	**343**	329
Food and beverage	**130**	124	**130**	124
Other	**269**	149	**267**	149
– Exports	**179**	202	**105**	153
Total gross trade receivables	**2 298**	2 120	**2 089**	1 946
Less allowances				
– Allowance for doubtful debts				
– Local sectors				
Manufacturing	**(2)**	(3)	**(2)**	(3)
Structural metal	**0**[(1)]	0[(1)]	**0**[(1)]	0[(1)]
Other	**(1)**		**(1)**	
Total allowances for doubtful debts	**(3)**	(3)	**(3)**	(3)
– Other allowances				
– Local sectors				
Manufacturing	**(148)**	(81)	**(148)**	(79)
Merchants	**(40)**	(61)	**(40)**	(61)
Structural metal	**(28)**	(56)	**(28)**	(56)
Food and beverage	**(3)**	(3)	**(3)**	(3)
Other	**(32)**	(2)	**(32)**	(2)
– Exports	**(5)**	(6)	**(5)**	(6)
Total other allowances	**(256)**	(209)	**(256)**	(207)
Net trade receivables				
– Local sectors				
Manufacturing	**535**	565	**402**	442
Merchants	**652**	606	**652**	606
Structural metal	**315**	273	**315**	273
Food and beverage	**127**	121	**127**	121
Other	**236**	147	**234**	147
– Exports	**174**	196	**100**	147
Total net trade receivables	**2 039**	1 908	**1 830**	1 736

[(1)]Rounding to zero due to the use of numeric reporting scale format of one million.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
23. TRADE AND OTHER RECEIVABLES continued				
Other receivables	**179**	211	**122**	117
– Less: allowance for doubtful debts	**(18)**	(27)	**(18)**	(23)
	161	184	**104**	94
VAT recoverable	**92**	120	**73**	120
Net other receivables	**253**	304	**177**	214
Total	**2 292**	2 212	**2 007**	1 950

The average credit period on sales of goods is 30 days for local sales and 9 days after receipts of bankable documentation by customers for export sales. No interest is charged on trade receivables for the first 30 days from date of statement. Thereafter, interest is charged at prime + 3% per annum on the outstanding balance.

Included in the group's and company's trade receivable balance are debtors with a carrying amount of R84 million (December 2006: R110 million), which are past due at the reporting date which have not been provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable.

The sectoral split is:

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Trade receivables past due				
- Local sectors				
Manufacturing	**31**	40	**31**	40
Merchants	**21**	27	**21**	27
Structural metal	**22**	29	**22**	29
Food and beverage	**1**	1	**1**	1
Other	**9**	13	**9**	13
Total	**84**	110	**84**	110

The group and company hold financial guarantees and similar credit enhancements with a face value of R38 million (December 2006: R50 million) over these balances. As detailed in note 32.6, the carrying amount of these financial assets held is Rnil (December 2006: Rnil).

	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
23. TRADE AND OTHER RECEIVABLES continued				
The ageing of the past due amounts is:				
Ageing of past due balances				
Trade receivables				
– Up to 3 months				
– Local sectors				
Manufacturing	19	28	19	28
Merchants	18	26	18	26
Structural metal	21	29	21	29
Food and beverage	1	1	1	1
Other	9	14	9	14
Total	68	98	68	98
– 3 to 6 months				
– Local sectors				
Manufacturing	2	5	2	5
Merchants	1	1	1	1
Structural metal	0[1]	0[1]	0[1]	0[1]
Other	0[1]	0[1]	0[1]	0[1]
Total	3	6	3	6
– Beyond 6 months				
– Local sectors				
Manufacturing	10	4	10	4
Merchants	2	1	2	1
Structural metal	1	1	1	1
Other	0[1]	0[1]	0[1]	0[1]
Total	13	6	13	6
Total	84	110	84	110

[1] *Rounding to zero due to the use of numeric reporting scale format of one million.*

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
23. TRADE AND OTHER RECEIVABLES continued				
Other receivables relate primarily to by-product sales, site rental due, pre-payments and staff education and bursary loans.				
In determining the recoverability of trade and other receivables, the group and company consider any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Management believes that there is no further credit provision required in excess of the allowance for doubtful debts.				
The following allowances exist:				
• *Allowance for doubtful debts*, which is based on the specific risk profile and ageing of a given receivable. Other than for amounts which are past due, though recoverable as there has not been a significant change in credit quality, the amount provided for is 25% for receivables that are regarded as marginal and doubtful, and 100% for amounts >120 days, less the participation percentage of the insurer. The impairment recognised represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation proceeds, where the time value is regarded as significant.				
• *Other allowances*, which relate to settlement discounts, price, quality, dispatch and related claims that are based on the exact amounts as withheld from payment by customers, for which credit notes still have to be issued.				
The movement in the trade and other receivables allowances balance is detailed below.				
Movement in trade receivables allowances				
Allowance for doubtful debt				
Balance at beginning of year	**(3)**	(6)	**(3)**	(6)
Amounts written off during year	**0[1]**		**0[1]**	
Decrease in allowance recognised in profit or loss	**0[1]**	3	**0[1]**	3
Balance at the end of year	**(3)**	(3)	**(3)**	(3)
Other allowances				
Balance at beginning of year	**(209)**	(212)	**(207)**	(212)
(Increase)/decrease in allowance recognised in profit or loss	**(47)**	3	**(49)**	5
Balance at end of year	**(256)**	(209)	**(256)**	(207)
Movement in other receivable allowances				
Balance at beginning of year	**(27)**	(24)	**(23)**	(23)
Amounts written off during year	**5**	0[1]	**5**	0[1]
Decrease/(increase) in allowance recognised in profit or loss	**4**	(3)	**0[1]**	
Balance at the end of year	**(18)**	(27)	**(18)**	(23)

The group and company did not transfer any receivables to related or unrelated entities during the current or comparative years.

Credit risk concentrations are described in note 32.16.

[1]Rounding to zero due to the use of numeric reporting scale format of one million.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
24. STATED CAPITAL				
Authorised				
1 200 000 000 ordinary shares at no par value (December 2006: 1 200 000 000 ordinary shares at no par value)				
2 357 584 "C" redeemable preference shares at R10 each (December 2006: 2 357 584 "C" redeemable preference shares at R10 each)	**24**	24	**24**	24
Issued				
445 752 132 ordinary shares at no par value (December 2006: 445 752 132 ordinary shares at no par value)	**37**	6 389	**37**	6 389
Total	**37**	6 389	**37**	6 389

During 2007, the company undertook to reduce its stated capital in terms of section 90 of the South African Companies Act, 1973.

The capital reduction was undertaken in two tranches that were paid to qualifying shareholders on 3 September and 29 October 2007 for a cumulative amount of R6 352 million.

The capital risk management policy is described in note 32.17.

The group and company have a share-based payment plan in terms of which share options are granted to qualifying employees. The plan is housed in the Management Share Trust, a special purpose entity, funded by ArcelorMittal South Africa Limited.

As an equity-settled plan, the shares necessary to meet the Trust's obligations under the plan are purchased in the open market. Such share purchases are classified as Treasury Shares in terms of IAS 32 and are recognised in the Management Share Trust reserve (note 25).

The unissued ordinary shares are under the control of the directors to allot and issue on such terms and conditions and at such times as they deem fit until the forthcoming annual general meeting.

25. RECONCILIATION OF CHANGES IN EQUITY

	Stated capital Rm	Capital redemption reserve Rm	Management share trust Rm
GROUP			
Balance at 1 January 2006	6 389	23	(76)
As previously stated	6 389	23	(76)
Restatement (note 2.5.1)			
Total recognised income and expense for the year			
Profit for the year			
Currency translation differences			
Effect of cash flow hedge accounting (net of income tax)			
Management share trust: net treasury share purchases			(30)
Share option charge: IFRS 2			
Dividend			
Transfer of equity accounted earnings			
Balance at 31 December 2006 (Restated)	6 389	23	(106)
Total recognised income and expense for the year			
Profit for the year			
Currency translation differences			
Gains on available-for-sale investment			
Effect of cash flow hedge accounting (net of income tax)			
Management share trust: net treasury share purchases (net of income tax)			(43)
Share options charge: IFRS 2			
Dividend			
Capital reduction	(6 352)		
Transfer of equity accounted earnings			
Balance at 31 December 2007	**37**	**23**	**(149)**

Non-distributable reserves						
Share-based payment reserve Rm	Attributable reserves of equity accounted investments Rm	Available-for-sale financial assets Rm	Translation of foreign operations Rm	Cash flow hedge accounting reserve Rm	Retained income Rm	Total equity Rm
10	686		(46)	12	12 720	19 718
10	686		(46)	12	12 453	19 451
					267	267
			102	18	4 696	4 816
					4 696	4 696
			102			102
				18		18
						(30)
17						17
					(1 261)	(1 261)
	(32)				32	
27	654		56	30	16 187	23 260
		62	(63)	(84)	5 716	5 631
					5 716	5 716
			(63)			(63)
		62				62
				(84)		(84)
						(43)
35						35
					(1 948)	(1 948)
						(6 352)
	166				(166)	
62	**820**	**62**	**(7)**	**(54)**	**19 789**	**20 583**

25. RECONCILIATION OF CHANGES IN EQUITY continued

	Stated capital Rm	Non-distributable reserve: Capital redemption reserve Rm	Share-based payment reserve Rm	Management Share Trust Rm	Cash flow hedge accounting reserve Rm	Retained income Rm	Total equity Rm
COMPANY							
Balance at 1 January 2006	6 389	23	10		12	11 562	17 996
Total recognised income and expense for the year					18	3 936	3 954
Net profit for the year						3 936	3 936
Effect of cash flow hedge accounting (net of income tax)					18		18
Share-based payment expense			17				17
Dividend						(1 261)	(1 261)
Balance at 31 December 2006	6 389	23	27		30	14 237	20 706
Total recognised income and expense for the year					(84)	7 691	7 607
Net profit for the year						7 691	7 691
Effect of cash flow hedge accounting (net of income tax)					(84)		(84)
Share-based payment expense			35				35
Management share trust: net treasury share purchases (net of income tax)				(139)[1]			(139)
Dividend						(1 948)	(1 948)
Capital reduction	(6 352)						(6 352)
Balance at 31 December 2007	**37**	**23**	**62**	**(139)**	**(54)**	**19 980**	**19 909**

[1] The company funds the Management Share Trust via an interest-free loan. In prior years (December 2006: R103 million) the loan accounts eliminated on consolidation, with the funding (for the purchase of the treasury shares necessary to fulfil the obligation to deliver equity instruments on the exercise of the share options) being allocated to an equity reserve. As part of ongoing accounting improvements, during 2007 management made the decision that the loan accounts would be cleared on a monthly basis between the company and the Trust, with the funding debit to the equity reserve in the company.

25. RECONCILIATION OF CHANGES IN EQUITY continued

Capital redemption reserve

The capital redemption reserve fund was created in terms of section 98(1) of the South African Companies Act of 1973, following the redemption of odd-lot shares during the year ended 30 June 2000, out of profits that would otherwise be available for distribution to ordinary shareholders.

Management Share Trust reserve

The Management Share Trust reserve represents the net outflow from the purchase of treasury shares in order to meet obligations in terms of the equity-settled share option plan housed in the Management Share Trust. The trust is consolidated as a controlled special purpose entity in terms of SIC-12, Consolidation – Special Purpose Entities.

Share-based payment reserve

The share-based payment reserve represents the accumulated charge for share options in terms of IFRS 2. The share option plan is equity-settled.

Translation of foreign operations reserve

The translation of foreign operations reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Cash flow hedge accounting reserve

The cash flow hedge accounting reserve comprises the portion of the cumulative net change in the fair value of derivatives designated in effective cash flow hedging relationships where the hedged item has not yet affected the income statement.

Available-for-sale financial assets

The equity reserve represents the unrealised fair value gains above the initial R9 million cost of the group's investment in Hwange Colliery Company Limited (note 20).

	Group		Company	
	2007 Rm	2006 Rm	2007 Rm	2006 Rm
26. BORROWINGS AND OTHER PAYABLES				
Borrowings				
Unsecured – at amortised cost				
Loan from Pretoria Portland Cement	61	71		
Other payables				
Cash-settled share based payments[1]	1		1	
	62	71	1	
Included in the financial statements as:				
Non-current borrowings and other payables	52	61	1	
Current borrowings	10	10		
Total	62	71	1	

[1] *Representing share appreciation rights. Refer note 36.1 'Share based payments' for the relevant terms and conditions.*

The loan is unsecured and bears interest at a fixed rate of 16% and is repayable annually with the final payment due in 2013.

There were no loan breaches or defaults during the current or comparative period.

	Group		Company	
	2007 Rm	2006 Rm	2007 Rm	2006 Rm
27. FINANCE LEASE OBLIGATIONS				
Secured – at amortised cost	416	595	253	423
Included in the financial statements as:				
Non-current finance lease obligation	328	502	174	337
Current finance lease obligation	88	93	79	86
Total	416	595	253	423

Secured by leased assets. The borrowings are fixed rate debt and the rates range from 7,86% to 22,25%. The final payments in terms of the lease arrangements, sorted by functional type, are:

– Raw materials: 2010 – 2013

– Gases: 2016

– Electricity and transport utilities: 2018 – 2022

– Steel processing and foundry services: 2012

There were no loan breaches or defaults during the current or comparative period.

The following finance leases are embedded within supply arrangements with suppliers and have been assessed in terms of IFRIC 4, *Determining whether an arrangement contains a lease.*

27. FINANCE LEASE OBLIGATIONS continued

Finance lease obligation by function

	Minimum lease payments					
	Not later than 1 year Rm	Later than 1 year and not later than 5 years Rm	Later than 5 years Rm	Total Rm	Less future finance charges Rm	Present value of minimum lease payments Rm
GROUP						
For the year ended 31 December 2007						
Raw materials	**50**	**75**	**13**	**138**		**138**
Gases	**9**	**16**		**25**	**4**	**21**
Electricity and transport utilities	**28**	**113**	**231**	**372**	**223**	**149**
Steel processing and foundry services	**38**	**97**	**73**	**208**	**100**	**108**
Total	**125**	**301**	**317**	**743**	**327**	**416**
GROUP						
For the year ended 31 December 2006						
Raw materials	66	224		290		290
Gases	42	117	97	256	124	132
Electricity and transport utilities	28	113	259	400	247	153
Steel processing and foundry services	6	16	1	23	3	20
Total	142	470	357	969	374	595
COMPANY						
For the year ended 31 December 2007						
Raw materials	**50**	**75**	**13**	**138**		**138**
Gases	**37**	**96**	**73**	**206**	**100**	**106**
Steel processing and foundry services	**4**	**7**		**11**	**2**	**9**
Total	**91**	**178**	**86**	**355**	**102**	**253**
COMPANY						
For the year ended 31 December 2006						
Raw materials	66	224		290		290
Gases	40	115	97	252	123	129
Steel processing and foundry services	2	2		4		4
Total	108	341	97	546	123	423

28. PROVISIONS

	Asset retirement obligation Rm	Environ-mental remedia-tion Rm	Onerous contracts Rm	Leave pay benefits Rm	Post-retirement medical benefits Rm	Other Rm	Total Rm
GROUP							
For the year ended 31 December 2007							
At beginning of year	**146**	**813**	**312**	**243**	**9**	**73**	**1 596**
Transfer	**3**	**(3)**					
Charge to income statement	**16**	**48**	**(1)**	**77**	**1**	**17**	**158**
Additions/(releases)	**11**	**19**	**(11)**	**77**	**1**	**17**	**114**
Interest adjustment	**5**	**29**	**10**				**44**
Utilised during year	**(12)**	**(25)**	**(58)**	**(52)**	**(1)**	**(10)**	**(158)**
Capitalisation to asset	**5**						**5**
At end of year	**158**	**833**	**253**	**268**	**9**	**80**	**1 601**
Current portion included in current liabilities	**(33)**	**(68)**	**(37)**	**(92)**	**(1)**	**(80)**	**(311)**
Total non-current provisions	**125**	**765**	**216**	**176**	**8**		**1 290**

	Asset retirement obligation Rm	Environ-mental remedia-tion Rm	Onerous contracts Rm	Leave pay benefits Rm	Post-retirement medical benefits Rm	Re-structuring Rm	Other Rm	Total Rm
GROUP								
For the year ended 31 December 2006								
At beginning of year		929	278	250	10	9		1 476
Transfer	171	(171)						
Charge to income statement	(25)	107	100	65			73	320
Additions/(releases)	(25)	92	14	65			73	219
Interest adjustment		15	86					101
Utilised during year		(52)	(66)	(72)	(1)	(9)		(200)
At end of year	146	813	312	243	9		73	1 596
Current portion included in current liabilities	(16)	(28)	(66)	(85)	(1)		(73)	(269)
Total non-current provisions	130	785	246	158	8			1 327

28. PROVISIONS continued

	Asset retirement obligation Rm	Environ-mental remedia-tion Rm	Onerous contracts Rm	Leave pay benefits Rm	Post-retirement medical benefits Rm	Other Rm	Total Rm
COMPANY							
For the year ended 31 December 2007							
At beginning of year	**146**	**805**	**312**	**243**	**8**	**73**	**1 587**
Transfer	**3**	**(3)**					
Charge to income statement	**16**	**49**	**(1)**	**77**	**1**	**2**	**144**
Additions/(releases)	**11**	**16**	**(11)**	**77**	**1**	**2**	**96**
Interest adjustment	**5**	**33**	**10**				**48**
Utilised during year	**(12)**	**(25)**	**(58)**	**(52)**	**(1)**	**(10)**	**(158)**
Capitalisation to asset	**5**						**5**
At end of year	**158**	**826**	**253**	**268**	**8**	**65**	**1 578**
Current portion included in current liabilities	**(33)**	**(68)**	**(37)**	**(92)**	**(1)**	**(65)**	**(296)**
Total non-current provisions	**125**	**758**	**216**	**176**	**7**		**1 282**

	Asset retirement obligation Rm	Environ-mental remedia-tion Rm	Onerous contracts Rm	Leave pay benefits Rm	Post-retirement medical benefits Rm	Re-structuring Rm	Other Rm	Total Rm
COMPANY								
For the year ended 31 December 2006								
At beginning of year		920	278	250	9	9		1 466
Transfer	171	(171)						
Charge to income statement	(25)	107	100	65			73	320
Additions/(releases)	(25)	92	14	65			73	219
Interest adjustment		15	86					101
Utilised during year		(51)	(66)	(72)	(1)	(9)		(199)
At end of year	146	805	312	243	8		73	1 587
Current portion included in current liabilities	(16)	(28)	(66)	(85)	(1)		(73)	(269)
Total non-current provisions	130	777	246	158	7			1 318

28. PROVISIONS continued

Asset retirement obligation (ARO) and environmental remediation provision

Asset retirement obligations represent management's best estimate of the present value of the measurable future outflow of economic benefits that will be required to retire plant and equipment. Correspondingly, the present value of the cost of retirement is capitalised as a component of property, plant and equipment, in the form of an ARO-asset.

Remediation obligations are those that result from other than the normal operation of property, plant and equipment. These obligations represent the cost of remedial action to clean-up and secure a site. The associated costs represent management's best estimate of the present value of the reliably determinable future outflow of economic benefits that will be required to remediate a site.

The term of the obligation assessment varies according to the site. The maximum assessment term is 19 years. The long-term average escalation factor applied to the current cash flow estimates is 5,11% (December 2006: 5,0%). The future cash outflows are discounted at a credit-adjusted risk free rate as indicated in the table below (December 2006: average rate of 9,3%).

Business Unit	Discount rate
Vanderbijlpark Works	11,38%
Vereeniging Works	11,21%
Newcastle Works	11,79%
Saldanha Works	10,98%
Pretoria Works	10,91%

Onerous contracts provision

The provision represents an onerous operating lease contract embedded in a long-term, take-or-pay gas supply contract. The unavoidability of the cost arose upon the 1997 de-commissioning of steel making facilities at Pretoria Works. The provision represents the present value of the future lease payments that the group and company are presently obligated to make under the non-cancellable onerous operating lease. Net cash outflow for the year amounted to R58 million (December 2006: R66 million). The unexpired term of the contract is 12 years. The long term average escalation factor applied to the current cash flow estimates is 5,11% (December 2006: 5,0%). The future cash outflows are discounted at a credit-adjusted risk free rate of 10,91% (December 2006: 9,3%).

Leave pay benefits

In terms of the group and company policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle. The obligation is reviewed annually.

Post-retirement medical benefits

The group and company recognise a liability relating to future medical aid for certain early retirees. The obligation represents a present value amount, which is actuarially valued on an annual basis. Any surplus or deficit arising from the valuation is recognised in the income statement (note 34.2).

Other

Taxation dispute – Business Assistance Agreement

In 2005 the South African Revenue Service (SARS) disallowed claims for the payments made by the company and its subsidiary, Saldanha Steel (Proprietary) Limited in terms of a Business Assistance Agreement (BAA) for the 2003 financial year. In 2006, the payments for the 2004 financial year were also disallowed.

The company and Saldanha Steel (Proprietary) Limited objected to the assessments received. Management, in consultation with senior counsel and its taxation lawyers, maintains its position that the aforementioned payments are revenue in nature and are hence deductible. The full amount at risk is R403 million (excluding interest) based on the tax deduction claimed on the BAA remuneration of R613 million (2003 financial year) and R731 million (2004 financial year).

An Alternative Dispute Resolution (ADR) facilitation was held on 1 December 2006, at which a positive account was given of the company and Saldanha Steel (Proprietary) Limited's position. However, in the interests of a timely resolution, the company made a settlement offer of 20% of the disputed tax payable (with interest waived). Twenty percent of the disputed tax payable amounted to R80 million, of which R15 million related to Saldanha Steel (Proprietary) Limited. The full amount of R80 million was recognised in 2006. The amount relating to Saldanha Steel (Proprietary) Limited was charged against its deferred tax asset. With the utilisation of that company's assessed loss, the amount has been transferred from the deferred tax balance sheet line item to the provision line item with no consequential impact on profit or loss for 2007.

The difference between the amount provided and the amount at risk, being R323 million, is disclosed as a contingent liability (note 35).

General export incentive scheme

Six years ago the Department of Trade and Industry alleged non-compliance with the rules of the General Export Incentive Scheme (GEIS). The maximum claim was R100 million, excluding interest. In 2006, in order to avoid protracted uncertainty, the parties embarked on a process to seek an amicable settlement. A provision of R8 million was recognised in 2006. The matter was amicably settled in 2007 for an amount of R10 million.

29. DEFERRED TAXATION

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

	Cash flow hedges Rm	Property, plant, equipment and intangible assets Rm	Employee cost Rm
GROUP			
For the year ended 31 December 2007			
Temporary differences			
At beginning of year	**(2)**	**3 192**	**(76)**
Charged to income	**8**	**5**	**(5)**
Charged to equity	**(21)**		
At end of year	**(15)**	**3 197**	**(81)**
GROUP			
For the year ended 31 December 2006 (Restated)			
Temporary differences			
At beginning of year		3 107	(61)
Restatement (note 2.5.1)		110	
Charged to income	(2)	(25)	(15)
At end of year	(2)	3 192	(76)
COMPANY			
For the year ended 31 December 2007			
Temporary differences			
At beginning of year	**(2)**	**1 470**	**(76)**
Charged to income	**8**	**72**	**(5)**
Charged to equity	**(21)**		
At end of year	**(15)**	**1 542**	**(81)**
COMPANY			
For the year ended 31 December 2006			
Temporary differences			
At beginning of year		1 412	(78)
Charged to income	(2)	58	2
At end of year	(2)	1 470	(76)

Temporary differences

Available-for-sale assets Rm	Provisions Rm	Doubtful debts Rm	Finance lease obligations Rm	Other Rm	Unused tax losses and credits Rm	Total Rm
1	**(45)**	**(7)**	**(172)**	**(14)**	**(392)**	**2 485**
(1)	**(308)**	**2**	**50**	**(3)**	**390**	**138**
				1		**(20)**
	(353)	**(5)**	**(122)**	**(16)**	**(2)**	**2 603**
	(3)	(67)	(196)	(6)	(767)	2 007
						110
1	(42)	60	24	(8)	375	368
1	(45)	(7)	(172)	(14)	(392)	2 485
1	**(43)**	**(5)**	**(122)**	**(5)**		**1 218**
(1)	**(307)**		**47**	**(4)**		**(190)**
						(21)
	(350)	**(5)**	**(75)**	**(9)**		**1 007**
	(43)	(6)	(145)	(4)		1 136
1		1	23	(1)		82
1	(43)	(5)	(122)	(5)		1 218

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
30. TRADE AND OTHER PAYABLES				
Trade payables				
– Raw materials	**514**	650	**466**	554
– Secondary raw materials	**246**	293	**232**	261
– Energy	**89**	37	**83**	25
– Consumables, repairs and maintenance	**845**	843	**658**	688
– Rail and transport	**235**	226	**192**	192
– Other, including related parties	**138**	252	**133**	233
Total	**2 067**	2 301	**1 764**	1 953
Other payables				
– Capital	**273**	283	**266**	271
– Sundry payables	**124**	257	**29**	141
– Accruals	**320**	234	**265**	216
– Other	**89**	86	**62**	64
Total	**806**	860	**622**	692
Total	**2 873**	3 161	**2 386**	2 645

For the group, the average days outstanding for trade and other payables is 58,4 (December 2006: 68,5). The interest expense incurred for late payment on trade and other payables is Rnil (December 2006: Rnil).

For the company, the average days outstanding for trade and other payables is 56,4 (December 2006: 57,2). The interest expense incurred for late payment on trade and other payables is Rnil (December 2006: Rnil).

	Group 2007 Rm	Group Restated 2006 Rm	Company 2007 Rm	Company 2006 Rm
31. NOTES TO THE CASH FLOW STATEMENT				
31.1 Cash generated from operations				
Profit from operations	**7 703**	6 082	**9 249**	4 987
Adjusted for non-cash movements				
– Depreciation and amortisation	**1 099**	1 096	**752**	772
– Accumulated depreciation on originating asset retirement obligations		55		55
– Unrealised profit on sales to joint ventures	**8**			
– Embedded derivitives unrealised	**33**		**33**	
– Share option costs	**35**	17	**35**	17
– Impairment reversal			**(2 799)**	
– Movements in provisions	**96**	16	**90**	12
– Allowance for net realisable value of inventory	**26**	22	**27**	22
– Reconditionable spares usage	**13**	23	**11**	19
– Loss on disposal or scrapping of property, plant and equipment	**31**	48	**31**	46
Working capital movements				
– (Increase)/Decrease in inventories	**(41)**	(890)	**160**	(835)
– Increase in trade and other receivables	**(118)**	(347)	**(84)**	(222)
– (Decrease)/increase in trade and other payables	**(288)**	404	**(259)**	633
– Utilisation of provisions	**(158)**	(200)	**(158)**	(199)
	8 439	6 326	**7 088**	5 307
31.2 Dividends paid				
Charged to equity	**(1 948)**	(1 261)	**(1 948)**	(1 261)
	(1 948)	(1 261)	**(1 948)**	(1 261)
31.3 Normal taxation				
Normal taxation recoverable at beginning of year	**179**	116	**234**	136
Amounts charged to the income statement	**(2 316)**	(1 597)	**(2 219)**	(1 539)
Amounts recognised in equity	**21**		**21**	
Transfer to provisions	**15**			
Other movements			**3**	
Normal taxation recoverable at end of year	**(108)**	(179)	**(164)**	(234)
	(2 209)	(1 660)	**(2 125)**	(1 637)

	Group 2007 Rm	Group Restated 2006 Rm	Company 2007 Rm	Company 2006 Rm
31. NOTES TO THE CASH FLOW STATEMENT continued				
31.4 Investment to maintain operations				
Replacement of property, plant and equipment	**(1 003)**	(749)	**(810)**	(672)
Intangible assets	**(11)**		**(9)**	
Environmental	**(126)**	(104)	**(121)**	(101)
Reconditionable spares	**(58)**	(57)	**(47)**	(54)
	(1 198)	(910)	**(987)**	(827)
31.5 Investment to expand operations				
Property, plant and equipment for expansion and new technology	**(654)**	(536)	**(512)**	(525)
	(654)	(536)	**(512)**	(525)
Total capital expenditure	**(1 852)**	(1 446)	**(1 499)**	(1 352)
32. FINANCIAL INSTRUMENTS				
32.1 Significant accounting policies				
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.				
32.2 Categories of financial instruments				
Financial assets				
Fair value through profit or loss (FVTPL)				
• Held for trading	**0**(1)	2	**0**(1)	1
• Designated as at FVTPL				
– Bifurcated embedded derivatives	**218**	251	**218**	251
Derivative instruments in designated hedge accounting relationships		16		16
Loans and receivables				
• Cash and cash equivalents	**4 034**	7 750	**3 660**	7 367
• Trade and other receivables	**2 292**	2 212	**2 007**	1 950
• Loans to related parties				
Available-for-sale financial assets	**71**			103
Financial guarantee contracts held	**0**(2)	0(2)	**0**(2)	0(2)
Total	**6 615**	10 231	**5 885**	9 688

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
32. FINANCIAL INSTRUMENTS continued				
32.2 Categories of financial instruments continued				
Financial liabilities				
Designated as at FVTPL				
• Held for trading	**0**[1]	7	**0**[1]	6
Derivative instruments in designated hedge accounting relationships				
• Un-matured	**53**		**53**	
• Matured yet unsettled	**14**		**14**	
Loans carried at amortised cost				
• Borrowings and other payables	**62**	71	**1**	
• Finance lease obligations	**416**	595	**253**	423
• Trade and other payables	**2 873**	3 161	**2 386**	2 645
Financial guarantee contracts issued	**0**[2]	0[2]	**0**[2]	0[2]
Total	**3 418**	3 834	**2 707**	3 074
Net financial assets/(liabilities)	**3 197**	6 397	**3 178**	6 614

[1] Rounding to zero due to the use of numeric reporting scale format of one million.
[2] Financial guarantees with a fair value of zero are described in note 32.6.

The group and company do not have:

- financial assets designated as held-to-maturity; and
- financial liabilities designated at FVTPL (other than for derivative instruments held for trading at FVTPL).

32. FINANCIAL INSTRUMENTS continued

32.3 Financial risk management overview and objectives

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

Financial risk is a subset of the group's Enterprise-Wide Risk Management Policy (EWRM). The latter policy is approved by the board of directors and reviewed annually.

The financial risks[(1)] to which the group and company are exposed consist of:
- bank relationship and financial counterparty risk;
- financial market risk, consisting of:
  - commodity price risks
  - exchange rate fluctuations
  - liquidity risk
  - cash flow volatility
- fair value and cash flow interest rate risk
- capital management and gearing risk
- customer credit risk

[(1)] Margin risk is driven by operational risk factors, which are addressed in the Sustainability Report. Corporate governance risk is addressed in the Finance sub-section of the annual report.

Other than for customer credit risk, the remaining financial risks are addressed in the corporate Treasury Policy. This policy is aligned to the greater ArcelorMittal Group policy except for the following aspects relating to South African exchange control regulations as regulated by the South African Reserve Bank (SARB):
- repatriation of net export proceeds within a 180-day period;
- limitations on the amount (hedge percentage) and forward period for derivatives used to economically hedge the USD price volatility risk of future base metal purchases;
- foreign funding and repayment approvals by the SARB; and
- offshore payments of surplus cash positions.

The Treasury Policy addresses market, liquidity, capital management and gearing risk through the direction of the following activities:
- bank relationships and financial counterparty exposure management;
- financing facilities;
- financial guarantees and letters of credit;
- market risk management, through:
  - commodity risk management;
  - currency risk management;
  - interest rate management; and
- cash management, through liquidity management.

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

Hedge performance is measured against three benchmark levels:
- Performance against budgeted levels.
- Performance against market levels.
- Performance against the un-hedged exposure positions.

Well-defined market trigger levels are used to ensure the maintenance of an appropriately composed hedge position in response to market movements.

Treasury fulfils a shared service function for subsidiary companies in the group. For associate and jointly controlled entities, a treasury overview role is performed through representation on those companies' boards of directors and audit committees.

32. FINANCIAL INSTRUMENTS continued

32.3 Financial risk management overview and objectives continued

The corporate Credit Risk Management Policy (Credit Policy) manages the customer credit risk exposure of the group and company. The objectives of the Credit Policy are to:

- increase sales through investing in the customer base;
- avoid extensions that could lead to the financial distress and default by customers;
- maintain productive customer relationships within the framework of prudent risk management;
- optimising cash collection periods; and
- diversifying credit exposure over a broad client base.

The Credit Policy is enacted by the credit management department (Credit Management) and is based on the South African King II Report on Corporate Governance and international best practice. Credit Management ensures that credit extension and management is conducted within the approved frameworks, and adequately assesses and reports all credit exposures, which includes the maintenance of appropriate collateral, financial guarantees and credit insurance.

32.4 Bank relationship and financial counterparty exposure management

(a) Bank relationship management

The group and company strive to have a balanced pool of banks that can provide the desired funding and services at a competitive price, while limiting and managing the concentration of counterparty risk.

Due to the importance of having access to long-term financing for growth purposes, the group and company select counterparties based on their ability and willingness to support both the group and the company.

Banking business is divided between the banks in a balanced way based on performance and competitiveness. In the case of comparable quality and pricing, the business allocation decision is relationship-driven.

Risk is taken on counterparties in accordance with counterparty limits. Limits per counterparty are determined depending on the counterparty's credit rating.

(b) Financial counterparty exposure management

The board of directors approves counterparty limits.

Actual exposure against these limits is monitored on a continual basis. Positions are placed only with counterparties with a high quality rating. The weighted average risk exposure to any one bank is based on its settlement limit plus a predefined percentage depending on the type of business being transacted. That percentage represents the premium of reinstating the arrangement with another bank.

The group's exposure per category according to Fitch's international bank rating scale, against counterparty limits is:

	Deposit and call accounts		Foreign currency derivatives(1)		Base metal derivatives(1)	
	Limit Rm	Balance Rm	Limit Rm	Balance Rm	Limit(2) Rm	Balance Rm
For the year ended 31 December 2007						
F1 and above	**6 800**	**307**	**12 000**	**105**		**370**
F2	**7 600**	**3 169(3)**	**10 500**	**7**		
F3	**1 000**	**558**	**2 100**	**7**		
Total	**15 400**	**4 034**	**24 600**	**119**		**370**
For the year ended 31 December 2006						
F1 and above	4 500	1 720	10 500	237	9 600	197
F2	3 200	4 039(3)	9 000	26	1 500	31
F3	2 500	1 991	5 100	54	600	
Total	10 200	7 750	24 600	317	11 700	228

(1)Notional amount of contracts, as opposed to fair value.
(2)For 2007 base metal trading is managed in collaboration with the greater ArcelorMittal Group.
(3)Includes call account balances for which no limit exists. The deposit account limits were not exceeded.

32. FINANCIAL INSTRUMENTS continued

32.4 Bank relationship and financial counterparty exposure management continued

(b) Financial counterparty exposure management continued

Fitch international rating	Description
F1 and above	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate.

Deposit account limits were increased for 2007 due to the cash and cash equivalents levels prior to embarking on the capital reduction programme (note 24). Movements in the foreign currency business limits relate to the re-rating of banks.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

32.5 Financing facilities

Prudent liquidity risk management (refer to note 32.15 for the specific risk assessment) includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of credit facilities, and the ability to close-out market positions.

Management monitors rolling forecasts of the group's[(1)] liquidity reserve on the basis of expected cash flow.

The borrowing capacity of the group is:

	2007 Rm	2006 Rm
Borrowing capacity is determined by the directors in terms of the articles of association, namely 100% of the group's equity	**20 583**	23 260
Less total borrowings and finance lease obligations	**(478)**	(666)
Unutilised borrowing capacity	**20 105**	22 594

[(1)]Financing facilities are only presented on a group basis as this is the most meaningful level of aggregation for related decision-making.

To address potential unforeseen funding requirements the group has access to the following facilities:

	Facility Rm	Drawn Rm	Available Rm	Term
31 December 2007				
Stand-by facilities				
– Uncommitted short-term facility	2 484	(61)	2 423	Demand facilities
31 December 2006				
Stand-by facilities				
– Uncommitted short-term facility	2 520	(71)	2 449	Demand facilities

32. FINANCIAL INSTRUMENTS continued

32.6 Financial guarantee contracts

	Group		Company	
	2007	2006	(1)2007	(1)2006
Financial guarantee contracts issued				
- Numbers	2	4	6	8
- Face value (Rm)	32	43	82	102
- Carrying amount				
Financial guarantee contracts held				
- Carrying amount				

(1) As required by IAS 39, the company amounts include instruments guaranteeing subsidiary companies.

Financial guarantee contracts issued
Business is conducted as far as possible on an open account basis, and thus the issuance of guarantees is done on a limited, highly selective basis. Insistence by state institutions for such facilities makes such issuances largely unavoidable. An additional motivation for issuance is when it results in a concomitant reduction in the cost of a purchased supply. Cognisance is taken of the greater ArcelorMittal Group's arrangements prior to undertaking a local issue.

The following are not regarded as financial guarantee contracts and are excluded from the analysis below:
(a) contracts where the group or company has the ability to control the triggering of the guarantee event (letters of comfort); and
(b) commercial letters of credit.

The carrying amount of all financial guarantee contracts issued is Rnil (December 2006: Rnil) as the risk of default is highly remote. No collateral has been provided in respect of the guarantees.

The face value of all contracts are disclosed as contingent liabilities in note 35.

Financial guarantee contracts held
The carrying amount of all financial guarantee contracts held is Rnil (December 2006: Rnil) as (i) the risk of default is remote; and (ii) for those rare instances where default occurs and the guarantee is invoked, the amounts are insignificant.

The total face value of financial guarantee contracts held for the group and company is disclosed in note 32.16.

32.7 Financial market risk

The group's and company's activities expose the reporting entities primarily to the financial risks of changes in commodity prices, foreign currency exchange rates, interest rates and potential liquidity constraints.

Due to the holding of an available-for-sale equity investment, the group is also exposed to equity price risk.

The group and company enter into a variety of derivative financial instruments to manage its exposure to financial risk, as follows:
- Over-the-counter, LME-referenced, cash-settled forward base metal purchase contracts, and options to economically hedge the USD commodity price risk arising from the purchase of base metals being, aluminium, zinc, tin, nickel and copper used in the production of steel.
- Over-the-counter, cash-settled foreign exchange forward contracts and options to economically hedge the exchange rate risk arising on (i) the export of finished steel from South Africa to various export markets; and (ii) ad hoc purchase of raw material and capital equipment that cannot be naturally hedged using off-shore held foreign currency proceeds.
- Embedded derivative features in procurement contracts used to economically hedge the price risk of certain supplies that cannot be hedged using stand-alone over-the-counter derivative instruments.

32. FINANCIAL INSTRUMENTS continued

32.7 Financial market risk continued

- Over-the-counter, cash-settled swap contracts, forward rate agreements (FRAs) and options to economically hedge the interest rate risk arising from surplus cash or funding positions denominated in ZAR and USD.
- Over-the-counter, cash-settled forward freight agreements used to economically hedge the freight rate risk of the outward leasing of freight capacity by the steel trading jointly controlled entity, Macsteel International Holdings BV (MIHBV) (refer to note 32.12).

Financial market risk exposures are measured using the Value at Risk (VaR) methodology, supplemented by sensitivity analyses.

There has been no change to the group's and company's exposure to market risks or the manner in which it manages and measures these risks.

32.8 Value at Risk analysis

Value at Risk (VaR) calculates the *maximum* pre-tax loss expected (or worst-case scenario) on an investment or derivative position held, over a given time period and given a specified degree of confidence.

The VaR methodology is a statistically defined, probability based approach that takes into account, *inter alia*, market volatilities relative to a position held. A VaR statistic has three components: a time period, a confidence level and a loss amount. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

The group utilises a *variance-covariance*, or *delta-normal*, model which assumes that returns are normally distributed. It requires the determination of only two factors – an expected (or average) return and a standard deviation, from which a normal distribution curve can be plotted. The model assumes returns are well behaved according to the symmetrical normal curve and that historical patterns will repeat into the future.

The one-month 97% VaR statistic used by the group reflects the 97% probability that the monthly loss will not exceed the reported VaR.

In the interests of simplicity, no adjustment is made to correct skewness against the assumption of normal distribution as the VaR analysis is used only as an indicative measure of risk. It is combined with other forms of technical and fundamental analyses and performance benchmarks, which are collectively used to determine risk strategies and trigger levels.

In the analysis below, a negative amount represents a loss whilst a positive amount is a gain. The historic time periods used to derive the mean and standard derivation values are:

- Foreign denominated cash and cash equivalents, and foreign exchange derivatives from 1 January 2005 to 31 December 2007 (2006: 1 January 2005 to 31 December 2006).
- Base metal derivatives from 1 November 2005 to 31 December 2007 (2006: 1 November 2005 to 31 December 2006).

Foreign currency exposure inherent in Trade and Other Receivables, Trade and Other Payables, and bifurcated embedded derivatives is not managed using the VaR analysis. Similarly, the analysis is not used to measure such exposure in the base metal procurement portfolio, due to the inherent limitations of VaR analysis.

32. FINANCIAL INSTRUMENTS continued

32.8 Value at Risk analysis continued

The VaR analysis is presented solely from a group perspective as this represents the most meaningful level of exposure analysis.

Variance-Covariance VaR (97%, one-month) by risk type: investment or open position held	Average		Minimum (high)		Maximum (low)		Year-end	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
Foreign denominated cash and cash equivalents on hand								
– USD	**(49)**	(197)	**285**	275	**(382)**	(668)	**0[1]**	0[1]
– EUR		(40)		(25)		(55)		0[1]
Sub-total	**(49)**	(237)	**285**	250	**(382)**	(723)		
Un-matured foreign currency contracts								
– Buy USD	**(1)**	(14)	**5**	8	**(7)**	(36)	**0[2]**	(6)
– Buy EUR	**(14)**	(18)	**3**	1	**(32)**	(37)	**(1)**	(2)
– Sell EUR	**(1)**	(2)	**0[2]**	1	**(3)**	(6)	**0[2]**	0[2]
– Sell USD	**0[2]**		**2**		**(3)**		**0[2]**	
Sub-total	**(16)**	(34)	**10**	10	**(45)**	(79)	**(1)**	(8)
Foreign currency total	**(65)**	(271)	**295**	260	**(427)**	(802)	**(1)**	(8)
Un-matured base metal forward purchase contracts [3]								
– Aluminium	**2**	(21)	**9**	(14)	**(5)**	(27)	**(3)**	2
– Zinc	**35**	4	**177**	76	**(107)**	(68)	**(58)**	12
– Nickel	**(1)**	7	**9**	21	**(10)**	(6)	**(2)**	1
– Tin	**(3)**	4	**1**	15	**(7)**	(7)	**0[2]**	2
Base metal total	**33**	(6)	**196**	98	**(129)**	(108)	**(63)**	17

[1] Re-valued at the closing rate for the reporting period, therefore no variance arises.

[2] Rounding to zero due to the use of numeric reporting scale format of one million.

[3] The aluminium alloys derivatives traded in 2006 were not subject to a VaR analysis and the trades were not significant nor routinely transacted.

Details of the sensitivity analysis for foreign currency risk and interest rate risk are discussed later in this note.

32. FINANCIAL INSTRUMENTS continued

32.9 Commodity price risk management using base metal derivatives

Economic hedging using derivative contracts

The group and company are exposed to base metal price volatility. Base metals are traded in USD and the exchange rate risk is offset against USD export proceeds, as detailed in note 32.10.

Base metals are hedged using over-the-counter cash-settled forward purchase contracts and options. The derivatives are transacted with reputable, credit-worthy, large retail, merchant and investment banks.

The risk management objective is to reduce the variability in the USD cash flows expected to be paid on the forecast purchase of the base metal. The strategy is to use the USD cash flow received or paid from settlement of a London Metal Exchange (LME)-referenced derivative that is economically hedging the forecast transaction, to offset the variability in the USD cash flows on the forecast purchase of the base metal.

The economic hedging limits are:

Period	Minimum hedging level	Maximum hedging level
Up to 12 months		75%

The economic hedged position for the base metals is:

	Group		Company	
	2007	2006	2007	2006
At 31 December				
Aluminium				
– Percent of exposure hedged	**15%**	9%	15%	9%
– Period hedged to:	**Sep 2008**	April 2007	Sep 2008	April 2007
– Average hedged price of forward purchase contract (USD/tonne)	**2 505**	2 578	2 505	2 578
Zinc				
– Percent of exposure hedged	**42%**	10%	42%	10%
– Period hedged to:	**Oct 2008**	April 2007	Oct 2008	April 2007
– Average hedged price of forward purchase contract (USD/tonne)	**2 841**	3 504	2 841	3 504
Nickel				
– Percent of exposure hedged	**13%**	5%	13%	5%
– Period hedged to:	**Sep 2008**	April 2007	Sep 2008	April 2007
– Average hedged price of forward purchase contract (USD/tonne)	**29 900**	25 887	29 900	25 887
Tin				
– Percent of exposure hedged	**6%**	9%	6%	9%
– Period hedged to:	**Mar 2008**	April 2007	Mar 2008	April 2007
- Average hedged price of forward purchase contract (USD/tonne)	**16 732**	9 317	16 732	9 317
Copper				
– Percent of exposure hedged		11%		11%
– Period hedged to:		April 2007		April 2007
– Average hedged price of forward purchase contract (USD/tonne)		7 139		7 139
Aluminium alloy				
– Percent of exposure hedged		10%		10%
– Period hedged to:		Feb 2007		Feb 2007
– Average hedged price of forward purchase contract (USD/tonne)		2 305		2 305

32. FINANCIAL INSTRUMENTS continued

32.9 Commodity price risk management using base metal derivatives continued

Cash flow hedging relationships are designed on a one-to-one and not a portfolio basis due to differences in the pricing terms of the various metals purchased by the specific operating units within the group and company.

Certain of the instruments are not designated as cash flow hedges if:

- the volumes involved are too low to merit designation;
- no suitable underlying risk could be found to prospectively form an effective hedge relationship;
- the cash flow hedge relationship ceased to be effective based on retrospective testing;
- voluntary de-designation of the cash flow hedge relationship occurred; or
- the underlying forecasted transaction was no longer expected to occur.

These instruments as classified as held for trading instruments as FVTPL.

At 31 December 2007 the volume of base metals hedged by un-matured derivative instruments increased by 177% and 212% for the group and company, respectively, relative to the comparative period. This reflects the taking of positions following commodity price decreases in late 2007 relative to the record highs achieved in late 2006 through to early 2007.

32. FINANCIAL INSTRUMENTS continued

32.9 Commodity price risk management using base metal derivatives continued

Un-matured instruments t: tonnes	Average price 2007 USD/t	 2006 USD/t	Tonnes 2007	 2006
GROUP				
(i) Derivative instruments in designated cash flow hedge accounting relationships				
Forward contracts				
Aluminium	**2 505**	2 578	**2 880**	1 247
Zinc	**2 841**	3 504	**15 370**	2 837
Nickel	**29 900**	25 887	**72**	6
Tin	**16 732**	9 317	**84**	112
(ii) Held for trading at FVTPL				
Forward contracts				
Aluminium		2 578		520
Nickel		25 887		16
Tin		9 317		35
Aluminium alloy		2 305		1 840
Copper		7 139		21
Total			**18 406**	6 634
COMPANY				
(i) Derivative instruments in designated cash flow hedge accounting relationships				
Forward contracts				
Aluminium	**2 505**	2 578	**2 250**	838
Zinc	**2 841**	3 504	**15 370**	2 837
Nickel	**29 900**	25 887	**72**	6
Tin	**16 732**	9 317	**84**	112
(ii) Held for trading at FVTPL				
Forward contracts				
Nickel		25 887		16
Tin		9 317		35
Aluminium alloy		2 305		1 840
Copper		7 139		21
Total			**17 776**	5 705

[1] Excludes matured instruments not yet settled, and realised gains and losses on matured instruments not yet released from the hedging reserve. Refer to the 'Base metal Cash Flow Hedge Accounting Reserve' section below for a complete analysis of the cash flow hedging reserve.
[2] Rounding to zero due to the use of numeric reporting scale format of one million.

	Contract value		Fair value (Favourable)		Fair value (Unfavourable)		Profit or loss Gains/(losses)		Other Equity – Hedging reserve Gains/(losses) [1]	
	2007 USDm	2006 USDm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
	7	3		2	**(1)**				**(1)**	2
	44	10		12	**(50)**				**(50)**	12
	2	0[2]		0[2]	**(2)**				**(2)**	0[2]
	1	1		2	**0[2]**				**0[2]**	2
		1		0[2]				0[2]		
		0[2]		2				0[2]		
		1		0[2]				0[2]		
		4				0[2]		0[2]		
		0[2]				0[2]		0[2]		
	54	20		18	**(53)**	0[2]		2	**(53)**	16
	6	2		2	**(1)**				**(1)**	2
	44	10		12	**(50)**				**(50)**	12
	2	0[2]		0[2]	**(2)**				**(2)**	0[2]
	1	1		2	**0[2]**				**0[2]**	2
		0[2]		1				1		
		1		0[2]				0[2]		
		4				0[2]		0[2]		
		0[2]				0[2]		0[2]		
	53	18		17	**(53)**	0[2]		1	**(53)**	16

32. FINANCIAL INSTRUMENTS continued

32.9 Commodity price risk management using base metal derivatives continued

Cumulative ineffectiveness of base metal cash flow hedges measured as a percentage of the relevant cash flow hedging reserve is:

	Group		Company	
	2007	2006	**2007**	2006
At 31 December				
Base metals hedge ineffectiveness percentage	**0,02%**	0,55%	**0,02%**	0,55%

Base metal sensitivity for derivative contracts

The following table details the group's and company's sensitivity to a 10% increase and decrease in the USD forward market price against the hedged positions of the relevant base metals. The 10% stringency is the sensitivity rate used when reporting base metal risk internally to key management personnel and represents management's assessment of the possible change in base metal prices. The sensitivity analysis includes only material outstanding, un-matured base metal derivative instruments (both held for trading at FVTPL and those designated in hedge accounting relationships), and adjusts their mark-to-market price at the reporting date for a 10% change in base metal prices.

A positive/(negative) number indicates an increase/(decrease) *in profit or loss* and *other equity* where the respective base metal price changes against the relevant base metal forward position.

	Group				Company			
	Profit or loss		Other Equity – Cash Flow Hedging reserve		Profit or loss		Other Equity – Cash Flow Hedging reserve	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
Aluminium + 10%		1	**5**	2			**5**	2
Aluminium -10%		(1)	**(5)**	(2)			**(5)**	(2)
Zinc +10%			**24**	10			**24**	10
Zinc -10%			**(24)**	(10)			**(24)**	(10)
Nickel +10%		0[(1)]	**1**	0[(1)]		0[(1)]	**1**	0[(1)]
Nickel -10%		0[(1)]	**(1)**	0[(1)]		0[(1)]	**(1)**	0[(1)]
Tin +10%			**1**	1			**1**	1
Tin -10%			**(1)**	(1)			**(1)**	(1)
Total +10%		1	**31**	13		0[(1)]	**31**	13
Total -10%		(1)	**(31)**	(13)		0[(1)]	**(31)**	(13)

[(1)]*Rounding to zero due to the use of numeric reporting scale format of one million.*

32. FINANCIAL INSTRUMENTS continued

32.9 Commodity price risk management using base metal derivatives continued

The group's and company's sensitivity to base metal prices at the reporting date is less as the un-hedged position is lower than in 2006.

In terms of derivative positions held, the group's and company's position is more sensitive when assessed using the VaR maximum loss exposure and the sensitivity analysis above, due to the increased volumes of base metals hedged.

Base Metal Cash Flow Hedge Accounting Reserve

Detailed analysis of the Cash Flow Hedge Accounting Reserve for base metals is:

	Group Cash flow hedge accounting reserve Rm	Company Cash flow hedge accounting reserve Rm
Balance at 1 January 2006	12	12
Gains/(losses) recognised in reserve		
Effective base metal forward contracts	71	70
(Gains)/losses transferred to profit and loss (i)		
Effective base metal forward contracts	(48)	(47)
Ineffectiveness measurement of effective contracts	0[1]	0[1]
Related income tax	(5)	(5)
Balance at 31 December 2006	30	30
Gains/(losses) recognised in reserve		
Effective base metal forward contracts	**(103)**	**(103)**
(Gains)/losses transferred to profit and loss (ii)		
Effective base metal forward contracts	**(2)**	**(3)**
Effective base metal zero cost collar options	**(3)**	**(3)**
De-designated ineffective instruments	**(3)**	**(2)**
Ineffectiveness measurement of effective instruments	**0[1]**	**0[1]**
Related income tax	**27**	**27**
Balance at 31 December 2007	**(54)**	**(54)**
2006		
(i) Gains/(losses) transferred from equity into profit or loss during the period are included in the following line items in the income statement:		
– Profit from operations (note 8), as		
• Raw materials and consumables used (effective instruments)	48	47
• Ineffectiveness measurement of effective instruments	0[1]	0[1]
Total	48	47
2007		
(ii) Gains/(losses) transferred from equity into profit or loss during the period are included in the following line items in the income statement:		
– Profit from operations (note 8), as		
• Raw materials and consumables used (effective instruments)	5	6
• Ineffectiveness measurement of effective instruments	0[1]	0[1]
– Gains and losses on changes in foreign exchange rates and financial instruments designated as held for trading at fair value through profit and loss (note 10), as		
• De-designated ineffective instruments	3	2
Total	8	8

[1] *Rounding to zero due to the use of numeric reporting scale format of one million.*

32. FINANCIAL INSTRUMENTS continued

32.10 Foreign currency risk management

The carrying amount of the foreign currency denominated monetary assets and monetary liabilities at the reporting date is:

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Monetary assets				
(i) USD				
Fair value through profit or loss (FVTPL)				
• Held for trading	**0**(1)	2	**0**(1)	1
• Designated at FVTPL				
– Bifurcated embedded derivatives		3		3
Derivative instruments in designated hedge accounting relationships		16		16
Loans and receivables				
• Cash and cash equivalents	**358**	474	**313**	443
• Trade and other receivables				
– Related parties	**23**	28	**12**	21
– Unrelated parties	**3**	1	**3**	0(1)
(ii) EUR				
Loans and receivables				
• Cash and cash equivalents		15		
• Trade and other receivables				
– Unrelated parties	**0**(1)	0(1)	**0**(1)	0(1)

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
32. FINANCIAL INSTRUMENTS continued				
32.10 Foreign currency risk management continued				
Monetary liabilities				
(i) USD				
Fair value through profit or loss (FVTPL)				
• Held for trading	**0[1]**	7	**0[1]**	6
Derivative instruments in designated hedge accounting relationships				
• Un-matured	**(53)**		**(53)**	
• Matured yet unsettled	**(14)**		**(14)**	
Carried at amortised cost				
• Trade and other payables				
– Related parties	**0[1]**	0[1]	**0[1]**	0[1]
– Unrelated parties	**10**	3	**10**	3
(ii) EUR				
Carried at amortised cost				
• Trade and other payables				
– Related parties	**0[1]**	1	**0[1]**	1
– Unrelated parties	**6**	3	**5**	2
(iii) JPY				
Carried at amortised cost				
• Trade and other payables				
– Unrelated parties	**2**	15	**2**	15
(iv) CHF				
Carried at amortised cost				
• Trade and other payables				
– Unrelated parties		1		1
(v) GBP				
Carried at amortised cost				
• Trade and other payables				
– Unrelated parties	**0[1]**	0[1]	**0[1]**	0[1]
(vi) SEK				
Carried at amortised cost				
• Trade and other payables				
– Unrelated parties	**0[1]**	0[1]	**0[1]**	0[1]
(vii) AUD				
Carried at amortised cost				
• Trade and other payables				
– Unrelated parties	**0[1]**		**0[1]**	

[1] *Rounding to zero due to the use of numeric reporting scale format of one million.*

32. FINANCIAL INSTRUMENTS continued

32.10 Foreign currency risk management continued

Foreign currency sensitivity

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

The 10% stringency is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only material outstanding foreign currency denominated monetary items as detailed in the table above and adjusts their translation at the reporting date for a 10% change in foreign currency rates.

A positive number indicates an increase in *profit or loss* and *other equity* where the ZAR weakens against the relevant currency.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
USD				
Profit or loss	**255**	335	**217**	308
Other equity	**(7)**	2	**(7)**	2
EUR				
Profit or loss	**(6)**	9	**(5)**	(3)
Total				
Profit or loss	**249**	344	**212**	305
Other equity	**(7)**	2	**(7)**	2

[1] Rounding to zero due to the use of numeric reporting scale format of one million.

Profit and loss exposure is mainly attributable to the exposure on USD and EUR cash balances at year-end. The equity exposure is mainly as a result of the changes in the fair value of derivative instruments designated as cash flow hedges.

The group's and company's sensitivity to foreign currency is notably less compared to 2006 as the capital reduction programme (note 24) allowed for a reduction in the foreign currency cash holding position.

Economic hedging using derivative contracts

The company and group utilises the ZAR as its functional currency. Export steel sales are USD-denominated as are certain USD-denominated input material and capital equipment purchases.

Foreign currency management must take cognisance of the South African Reserve Bank (SARB) exchange control regulations that prohibits local companies from accumulating foreign exchange proceeds beyond 180 days from receipt.

32. FINANCIAL INSTRUMENTS continued

32.10 Foreign currency risk management continued

Within these restrictions, the group and company accumulates the maximum allowed USD-denominated foreign currency proceeds. These proceeds are used to naturally hedge USD-denominated purchases. Such funds also serve as a hedge of long-term ZAR depreciation.

It is the policy to enter into forward foreign exchange contracts and options to mitigate specific foreign currency transactional exposures, namely, significant:

- exposures exceeding the 180-day exchange control regulation period; and
- non-USD exposures, against the ZAR.

Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and options. Derivatives are transacted with reputable, credit-worthy, large retail, merchant or investment banks.

Economic foreign currency hedging is undertaken to manage the transactional exchange rate exposure of:

- the export of finished steel from South Africa to various export markets; and
- ad hoc purchase of raw material and capital equipment that cannot be naturally hedged using off-shore foreign currency proceeds.

Only the former transaction type is designated within cash flow hedging relationships, the latter is classified as held-for-trading as FVTPL. The difference in accounting treatment reflects the greater number of derivatives transacted to address the exchange rate risks on steel exportation. The cash flow hedging relationships are designated on a portfolio basis where the terms of the various contracts are identical for the specific operating units within the group and company.

It is the policy to hedge export sale exposures up to a maximum of 70% of the rolling six-month exposure, where the economic exposure is defined as that beyond the SARB 180-day rule. The hedge coverage limits are:

- 80% of the 1 - 2 month exposure;
- 70% of the 3 - 4 month exposure; and
- 60% of the 4 - 6 month exposure.

Exposure from 6 - 12 months can be fully hedged if approved by the executive committee. Exposures from 12 - 24 months due to severe currency under-valuation; and exposures beyond 24 months due to extreme market conditions, require board approval and the necessary SARB consent.

Foreign currency exposure relating to raw material and capital procurement that cannot be naturally hedged are selectively hedged on a case-by-case basis.

32. FINANCIAL INSTRUMENTS continued

32.10 Foreign currency risk management continued

The contract value of un-matured foreign exchange derivatives at 31 December 2007 decreased by 45% and 47% for the group and company respectively, relative to the comparative period primarily due to the lack of un-matured derivatives economically hedging trade imports in the current period. The derivatives in the comparative period were mainly covering the foreign currency risk of steel slab imports to mitigate a production interruption in 2006 at Vanderbijlpark Works.

The following table details the outstanding un-matured forward foreign currency contracts at the reporting date:

	Average price		Contract value	
Un-matured instruments	**2007**	2006	**2007**	2006
FC: foreign currency	**FC/R**	FC/R	**FCm**	FCm
Group				
Forward contracts				
(i) Held for trading at FVTPL				
Capital procurement				
Buy USD				
0-3 months	**6,90**	7,12	**7**	2
Sell USD				
0-3 months	**6,92**		**3**	
Buy EUR				
0-3 months	**9,95**	9,29	**6**	2
7-11 months	**10,40**	9,84	**3**	9
12-24 months	**11,42**	10,02	**1**	2
Sell EUR				
0-3 months	**10,10**		**1**	
7-11 months	**10,29**	9,63	**0[2]**	2
12-24 months		9,91		0[2]
Trade import				
Buy USD				
0-3 months		7,30		21
Buy EUR				
0-3 months		9,20		0[2]
Total			**21**	38
Company				
Forward contracts				
(i) Held for trading at FVTPL				
Capital procurement				
Buy USD				
0-3 months	**6,90**	7,12	**7**	2
Sell USD				
0-3 months	**6,92**		**3**	
Buy EUR				
0-3 months	**9,95**	9,29	**6**	2
4-6 months				
7-11 months	**10,13**	9,94	**1**	6
12-24 months		10,02		
Sell EUR				2
0-3 months	**10,10**		**1**	
7-11 months	**10,29**	9,63	**0[2]**	1
12-24 months				
Trade Import		9,91		0[2]
Buy USD				
0-3 months		7,30		21
Buy EUR				
0-3 months		9,20		0[2]
Total			**18**	34

[1]Excludes matured instruments not yet settled, and realised gains and losses on matured instruments not yet released from the hedging reserve. Refer to the 'Foreign currency Cash Flow Hedge Accounting Reserve' section below for a complete analysis of the cash flow hedging reserve.
[2]Rounding to zero due to the use of numeric reporting scale format of one million.

	Fair value Favourable		Fair value (Unfavourable)		Profit or loss Gains/(losses)		Other Equity – Hedging reserve Gains/(losses)[1]	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
		1	**0[2]**		**0[2]**	1		
	0[2]				**0[2]**			
	0[2]	1			**0[2]**	1		
			0[2]	(2)	**0[2]**	(2)		
	0[2]			0[2]	**0[2]**	0[2]		
	0[2]				**0[2]**			
	0[2]	0[2]			**0[2]**	0[2]		
		0[2]				0[2]		
				(7)		(7)		
				0[2]		0[2]		
	0[2]	2	**0[2]**	(9)	**0[2]**	(7)		
		1	0[2]		**0[2]**	1		
	0[2]				**0[2]**			
	0[2]	1			**0[2]**	1		
	0[2]			(2)	**0[2]**	(2)		
				0[2]		0[2]		
	0[2]				**0[2]**			
	0[2]	1			**0[2]**	1		
		0[2]				0[2]		
				(7)		(7)		
				0[2]		0[2]		
	0[2]	3	0[2]	(9)	**0[2]**	(6)		

32. FINANCIAL INSTRUMENTS continued

32.10 Foreign currency risk management continued

Foreign currency sensitivity for contracts derivative

The following table details the group's and company's sensitivity to a 10% weakening in the ZAR exchange rate against the relevant foreign currencies. The 10% stringency is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding, un-matured foreign currency denominated monetary items and adjusts their translation at the reporting date for a 10% change in foreign currency rates.

A positive number indicates an increase in *profit or loss* and *other equity* where the ZAR weakens against the relevant currency. Due to the linearity of the relationships a strengthening in the ZAR rate would result in an equal but opposite amount charged to *profit or loss* and *other equity*.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
USD				
Profit or loss				
– Buy	**4**	15	**4**	15
– Sell	**(2)**		**(2)**	
Other equity – hedging reserve				
EUR				
Profit or loss				
– Buy	**10**	12	**8**	10
– Sell	**(1)**	(2)	**(1)**	(2)
Other equity – hedging reserve				
Total				
Profit or loss				
– Buy	**14**	27	**12**	25
– Sell	**(3)**	(2)	**(3)**	(2)
Other equity – hedging reserve				

32. FINANCIAL INSTRUMENTS continued

32.10 Foreign currency risk management continued

Foreign currency Cash Flow Hedge Accounting Reserve

Detailed analysis of the Cash Flow Hedge Accounting Reserve for foreign currency derivatives is as follows:

	Group Cash flow hedge accounting reserve Rm	Company Cash flow hedge accounting reserve Rm
Balance at 1 January 2006		
Gains/(losses) recognised in reserve:		
Effective foreign currency zero cost collar options	(13)	(7)
(Gains)/losses transferred to profit and loss (i)		
Effective foreign currency zero cost collar options	13	7
Ineffectiveness measurement of effective instruments	0 [(1)]	0 [(1)]
Related income tax		
Balance at 31 December 2006		
Gains/(losses) recognised in reserve:		
Effective foreign currency forward exchange contracts	3	1
(Gains)/losses transferred to profit and loss (ii)		
Effective foreign currency forward exchange contracts	(3)	(1)
Ineffectiveness measurement of effective instruments	0 [(1)]	0 [(1)]
Related income tax		
Balance at 31 December 2007		
2006		
(i) Gains/(losses) transferred from equity into profit or loss during the period are included in the following line items in the income statement:		
– Revenue (note 7)		
• Effective instruments	(13)	(7)
• Ineffectiveness measurement of effective instruments	0 [(1)]	0 [(1)]
Total	(13)	(7)
2007		
(ii) Gains/(losses) transferred from equity into profit or loss during the period are included in the following line items in the income statement:		
– Revenue (note 7)		
• Effective instruments	3	1
• Ineffectiveness measurement of effective instruments	0 [(1)]	0 [(1)]
Total	3	1

[(1)] *Rounding to zero due to the use of numeric reporting scale format of one million.*

The group and company enter into contractual arrangements to manage price risks exposures from those commodities and materials that cannot be hedged using stand-alone derivative instruments. The relevant supply contracts for energy, coking coal and refractory materials host embedded derivatives. The embedded derivatives consist of pricing forwards and caps.

32. FINANCIAL INSTRUMENTS continued

32.11 Commodity risk managed by embedded derivatives

Embedded derivative instruments	Number of instruments	Active hedging indices	Expiry date(s)	Fair value Rm	Recognised fair value gains/(loss) Rm
Group and company					
For the year ended 31 December 2007					
Energy – pricing cap	1	SA PPI, Steel Industry Index, US PPI, Heavy Fuel Oil Index	[1]	**218**	**19**
Raw material – pricing forward	1	SA PPI	Ref. Note (ii)		**(29)**
Refractory services – pricing forward	1	Exchange rate[2]	Ref. Note (iii)		**(23)**
Total				**218**	**(33)**
For the year ended 31 December 2006					
Energy – pricing cap	1	SA PPI, Steel Industry Index, US PPI, Heavy Fuel Oil Index	[1]	199	134
Raw material – pricing forward	1	SA PPI	Dec 08	29	(8)
Refractory services – pricing forward	1	Exchange rate[2]	Dec 09	23	19
Total				251	145

[1] *No expiring date defined in contract.*
[2] *USD: ZAR*

(i) Energy – pricing cap
The capped pricing component of the embedded derivative was modelled on an intrinsic value basis. The value of the derivative is the difference between the expected market-based cash flows and expected contract-based cash flows.

As market prices are a factor of industry segment and purchased gas volume, management has used its best estimate to determine market-based prices applicable to customers in the same industry as the company, with similar purchased gas volumes.

(ii) Raw material – pricing forward
The forward contract within the embedded derivative was solved for a fair value of zero at inception. Management's estimated increases in SA PPI at inception were applied to the estimated volumes for the duration of the contract at inception. The change in the fair value of the forward contract was determined by applying management's revised increase estimations at subsequent valuation dates to the volume estimations, and calculating the difference between the initial estimated cash flows and the revised estimates.

32. FINANCIAL INSTRUMENTS continued

32.11 Commodity risk managed by embedded derivatives continued

At the end of 2007, the original contracts terms, based on an escalation rate of 85% of SA PPI, were abandoned. IFRIC 9, *Reassessment of Embedded Derivatives*, requires an entity to revisit its bifurcation assessment if there is a change in the terms of the contract that significantly modified the cash flows that would otherwise be required under the (original) contract.

The pricing terms of the contract have changed significantly and consequently, the associated cash flows. The cash flows are now market-related and therefore the carrying value of the bifurcated indexing feature was unwound to the income statement.

(iii) Refractory services - pricing forward

The forward contract price within the embedded derivative was solved for a fair value of zero at inception. Foreign currency forward rates at inception were estimated from observable interest rate differentials. These, together with management's expectation of increases in the relevant price components (denominated in foreign currency) were applied to management's estimated volumes for the duration of the contract at inception. The change in the fair value of the forward contract was determined by applying the revised estimated foreign currency forward rates (calculated from observable interest rate differentials), as well as management's revised component increase expectations at subsequent valuation dates to the volume estimations, and calculating the difference between the initial estimated cash flows and the revised estimates.

As part of the continuous accounting improvements programme, it was clarified during 2007 that the USD, EUR and ZAR are generally regarded as currencies that are commonly used in contracts to purchase or sell non-financial items in South Africa. Consequently, as the contact is denominated in USD it was deemed appropriate to unwind the carrying value of the bifurcated foreign currency feature to the income statement.

Embedded derivative sensitivity

The group's and company's sensitivity to an increase and decrease in the valuation of embedded derivatives has been modelled by varying those variables that have the greatest impact on the fair value carrying amount of the bifurcated instruments.

The sensitivities used are those applied when reporting valuation risk internally to key management personnel and represents management's assessment of the possible change in the valuation variables. A positive number indicates an increase in profit or loss relative to the value at year-end.

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32. FINANCIAL INSTRUMENTS continued

32.11 Commodity risk managed by embedded derivatives continued

If variables had been 10% higher/(lower) and all other variables were held constant, the profit for the year ended would increase/(decrease) as detailed in the table below.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Energy				
Market price for gas				
+ 10%	**54**	57	**54**	57
- 10%	**(54)**	(57)	**(54)**	(57)
Capped oil price inflation				
+ 10%	**(3)**	(2)	**(3)**	(2)
- 10%	**3**	2	**3**	2
Steel industry index				
+ 10%	**(1)**	0[(1)]	**(1)**	0[(1)]
- 10%	**1**	0[(1)]	**1**	0[(1)]
Gas price inflation				
+ 10%	**9**	2	**9**	2
- 10%	**(9)**	(2)	**(9)**	(2)
Raw materials				
USD/ZAR exchange rate				
+ 10%		(15)		(15)
- 10%		15		15
Contractual base price escalation				
+ 10%		1		1
- 10%		(1)		(1)
Contractual off-take volume				
+ 10%		(14)		(14)
- 10%		14		14
Refractory services				
SA PPI				
+ 10%		(9)		(9)
- 10%		9		9

[(1)] Rounding to zero due to the use of numeric reporting scale format of one million.

32. FINANCIAL INSTRUMENTS continued

32.12 Freight rate risks

The risks associated with freight rates emanate from the steel trading jointly controlled entity, Macsteel International Holdings BV (MIHBV). This risk is mitigated via the use of forward freight agreements, the impact is contained in the income statement line item 'Income after tax from equity-accounted investments'.

32.13 Interest rate risk management

Sources of interest rate risk are:

- interest expenses, as companies in the group enter arrangements to fund the construction of assets either in the form of *bona fida* borrowing arrangements or through supply arrangements containing financial lease structures at fixed interest rates; and
- interest income, due to the group's and company's net cash position and the investment thereof at variable interest rates.

Interest expenses

The group has one unsecured loan from Pretoria Portland Cement that bears interest at a fixed rate of 16% per annum as described in note 26. The remaining borrowings are finance lease obligations secured by the leased assets at fixed rates of interest, as described in note 27.

Although the finance lease obligations are significant, the inherent interest rate risk is not separately hedged as the total cost of supply (which includes the embedded lease charge) is managed as part of the continuous cost saving initiative aimed at reducing the total cost of ownership.

The rates applicable to the above borrowings and finance lease obligations are fixed, and as such do not have an impact on profit or loss.

Interest income

Given the net cash position, the boundaries of risk exposure can be highlighted as follows:

- floating rates resulting in full exposure to higher rates but participation in lower rates; against
- fixed rates resulting in no exposure to lower rates, but no advantage from higher rates.

The interest policy followed relating to the net cash position aims to balance the two extremes of fixed and floating rates and the expectation of future rate movements.

The rates applicable to the net cash position are floating in nature, and hence have an impact on profit or loss.

Interest rate sensitivity

The sensitivity analysis addresses only the floating interest rate exposure emanating from the net cash position. The cash and deposit holdings are based on average balance levels for the reporting periods. The interest rate exposure has been calculated with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

A 10% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rates had increased/(decreased) by 10% and all other variables were held constant, the profit for the year ended would increase/(decrease) as detailed in the table below due to the use of the variable interest rates applicable to the cash and deposit holding balances. The fixed interest rate on the borrowings would not affect the financial performance. Any gain or loss would be unreal and consequently the notional impact is not presented.

32. FINANCIAL INSTRUMENTS continued

32.13 Commodity risk managed by embedded derivatives

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
ZAR cash and deposit holdings				
+ 10%	**28**	21	**28**	20
- 10%	**(28)**	(21)	**(28)**	(20)
USD cash and deposit holdings				
+ 10%	**14**	17	**13**	16
- 10%	**(14)**	(17)	**(13)**	(16)
Total				
+ 10%	**42**	38	**41**	36
- 10%	**(42)**	(38)	**(41)**	(36)

Based on the analysis above, the group's and company's sensitivity to interest rates has marginally increased. In management's opinion this analysis is not fully representative as the capital reduction that occurred in the second half of 2007 has decreased the interest rate exposure on the net cash position held.

32.14 Other price risks

The group is exposed to equity price risks arising from an available-for-sale equity investment. The equity investment is held for strategic rather than trading purposes. The group does not actively trade this investment.

Equity price sensitivity

The sensitivity analysis has been determined based on the exposure to equity price risks at the reporting date. Although HCCL is a listed company, its valuation is dependent on the use of a conduct share arrangement. The critical judgements relating to this arrangement are described in note 4. The application of the arrangement allows the value of the equity investment to be modelled using observable market data as inputs.

If the inputs to the valuation model had been 10% higher/(lower) while all other variables were held constant:

- profit for the year ended 31 December 2007 would have been unaffected as the equity investment is classified as available-for-sale; and
- other equity reserves would vary as detailed in the table below for the group as a result of the changes in the fair value of the available-for-sale shares.

32. FINANCIAL INSTRUMENTS continued

32.14 Other price risks continued

Available-for-sale investment reserve	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Market value of foreign listed equity shares				
+ 10%	**7**			
- 10%	**(7)**			
Market value of foreign listed fungible conduit share				
+ 10%	**(7)**			
- 10%	**7**			
Market value of South African listed fungible conduit share				
+ 10%	**7**			
- 10%	**(7)**			

Although higher, management regard the group's sensitivity to equity prices as not having changed significantly from the prior year.

32.15 Liquidity risk management

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

The objectives of the liquidity management policy are as follows:

- maintenance of adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 32.5 is a listing of additional undrawn facilities to further reduce liquidity risk;
- optimise the account and domestic cash pool structures;
- minimise bank charges (payments and collection fees, spreads etc);
- optimise the availability and use of short-term liquidity positions across the group without compromising the day-to-day cash needs;
- optimise the net interest result; and
- minimise the number of bank accounts, to reduce risk of misuse and costs.

Liquidity and interest risk tables

(i) Contractual maturity for its non-derivative financial liabilities

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

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

The 'discount' column represents the possible future cash flows attributable to the instrument included in the maturity analysis, which are not included in the carrying amount of the financial liability on the face of the balance sheet.

32. FINANCIAL INSTRUMENTS continued

32.15 Liquidity risk management continued

	Weighted average annual effective interest rate [1]	0 - 6 months Rm	7- 12 months Rm	1 - 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
GROUP							
For the year ended 31 December 2007							
Non-interest bearing							
• Trade and other payables		2 873					2 873
Finance lease liability	7,23%	62	63	301	317	(327)	416
Borrowings and other payables	8,65%		20	68	12	(38)[2]	62
Total		2 935	83	369	329	(365)	3 352
For the year ended 31 December 2006							
Non-interest bearing							
• Trade and other payables		3 161					3 161
Finance lease liability	5,39%	71	71	470	357	(374)	595
Fixed interest rate borrowings	8,09%	21		70	25	(45)	71
Total		3 253	71	540	382	(419)	3 827

[1] Calculated over the remaining tenure of the non-derivative financial liability.
[2] Includes for share appreciation rights the difference between total fair value and the cash-settled liability recognised at the reporting date.

32, FINANCIAL INSTRUMENTS continued

32.15 Liquidity risk management continued

	Weighted average annual effective interest rate [1]	0 - 6 months Rm	7- 12 months Rm	1 - 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
COMPANY							
For the year ended 31 December 2007							
Non-interest bearing							
• Trade and other payables		2 386					2 386
Finance lease liability	6,36%	45	46	178	86	(102)	253
Borrowings and other payables				5		(4)[2]	1
Total		2 431	46	183	86	(106)	2 640
For the year ended 31 December 2006							
Non-interest bearing							
• Trade and other payables		2 645					2 645
Finance lease liability	3,98%	54	54	341	97	(123)	423
Total		2 699	54	341	97	(123)	3 068

[1] *Calculated over the remaining tenure of the non-derivative financial liability.*

[2] *Share appreciation rights, being the difference between total fair value and the cash-settled liability recognised at the reporting date.*

(ii) Expected maturity for its non-derivative financial assets

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

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

The 'discount' column represents the possible future cash flows attributable to the instrument included in the maturity analysis, which are not included in the carrying amount of the financial asset on the face of the balance sheet.

32. FINANCIAL INSTRUMENTS continued

32.15 Liquidity risk management continued

	Weighted average annual effective interest rate [1]	0 - 6 months Rm	7- 12 months Rm	1 - 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
GROUP							
For the year ended 31 December 2007							
Non-interest bearing							
• Available-for-sale financial assets					71		71
Fixed interest rate receivables							
• Trade and other receivables[2]		2 293				(1)	2 292
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	7,07%	4 177	143			(285)	4 035
Total		6 470	143		71	(286)	6 398
For the year ended 31 December 2006							
Fixed interest rate receivables							
• Trade and other receivables[2]		2 213				(1)	2 212
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	8,03%	8 012	188			(450)	7 750
Total		10 225	188			(451)	9 962

[1] *Calculated over the remaining tenure of the non-derivative financial asset.*
[2] *Fixed rate interest applicable on overdue accounts.*
[3] *Fixed and variable rates applicable to call and short-term deposit holdings. Maturity profile reflects the synthesised availability of the cash and cash equivalents on hand at the end of the reporting period, and the expected annual interest income to be earned thereon.*

32. FINANCIAL INSTRUMENTS continued

32.15 Liquidity risk management continued

	Weighted average annual effective interest rate [1]	0 - 6 months Rm	7 - 12 months Rm	1 - 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
Company							
For the year ended 31 December 2007							
Fixed interest rate receivables							
• Trade and other receivables[2]		2 008				(1)	2 007
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	7,17%	3 791	131			(262)	3 660
Total		5 799	131			(263)	5 667
For the year ended 31 December 2006							
Non-interest bearing							
• Loans to related parties			103				103
Fixed interest rate receivables							
• Trade and other receivables[2]		1 951				(1)	1 950
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	8,21%	7 615	177			(425)	7 367
Total		9 566	280			(426)	9 420

[1] *Calculated over the remaining tenure of the non-derivative financial asset.*

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

[3] *Fixed and variable rates applicable to call and short-term deposit holdings. Maturity profile reflects the synthesised availability of the cash and cash equivalents on hand at the end of the reporting period, and the expected annual interest income to be earned thereon.*

32. FINANCIAL INSTRUMENTS continued

32.15 Liquidity risk management continued

(iii) Derivative financial instruments

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

The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net cash-settled basis. No derivative financial instruments are settled on a gross basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rate and foreign currency forward curves existing at the reporting date.

The 'discount' column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset and liabilities on the reporting date.

Financial assets/(liabilities)	0 - 6 months Rm	7- 12 months Rm	1 - 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
GROUP						
For the year ended 31 December 2007						
Net cash settled derivatives (un-matured)						
Base metal forwards	**(35)**	**(18)**			**0[1]**	**(53)**
Foreign currency forwards	**0[1]**	**0[1]**	**0[1]**		**0[1]**	**0[1]**
Embedded derivatives	**49**	**51**	**161**		**(43)**	**218**
Total	**14**	**33**	**161**		**(43)**	**165**
For the year ended 31 December 2006						
Net cash settled derivatives						
Base metal forwards	18				0[1]	18
Foreign currency forwards	(5)	(2)			0[1]	(7)
Embedded derivatives	60	63	160		(25)	258
Total	73	61	160		(25)	269

[1] Rounding to zero due to the use of numeric reporting scale format of one million.

32. FINANCIAL INSTRUMENTS continued

32.15 Liquidity risk management continued

(iii) Derivative financial instruments continued

Financial assets/(liabilities)	0 - 6 months Rm	7 - 12 months Rm	1 - 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
COMPANY						
For the year ended 31 December 2007						
Net cash settled derivatives (un-matured)						
Base metal forwards	**(35)**	**(18)**			**0**[1]	**(53)**
Foreign currency forwards	**0**[1]	**0**[1]	**0**[1]		**0**[1]	**0**[1]
Embedded derivatives	**49**	**51**	**161**		**(43)**	**218**
Total	**14**	**33**	**161**		**(43)**	**165**
For the year ended 31 December 2006						
Net cash settled derivatives						
Base metal forwards	17				0[1]	17
Foreign currency forwards	(5)	(1)			0[1]	(6)
Embedded derivatives	60	63	160		(25)	258
Total	72	62	160		(25)	269

[1] Rounding to zero due to the use of numeric reporting scale format of one million.

32. FINANCIAL INSTRUMENTS continued

32.16 Customer credit risk management

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

The group has adopted a policy of only dealing with creditworthy customers and obtaining sufficient collateral, where appropriate, and comprehensive credit insurance, as a means of mitigating the risk of financial loss from defaults.

Customers are independently rated. Independent rating agency, Credit Inform (Proprietary) Limited, is used for domestic customers. Otherwise, if there is no independent rating, Credit Management assesses the credit quality of the specific customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of directors. Credit limits are regularly monitored.

Credit insurance is placed with the Coface Group with a cumulative annual loss limit of R900 million with no excess. For 2006, using a previous insurer, the insured position was USD100 million after a USD20 million self-insured excess. Credit insurance claims amounted to Rnil million (2006: Rnil million).

The group is exposed to three main customers, that account for approximately a third of its trade and other receivables balance. These top three customers operate in the domestic market. The table below details the cumulative credit limit and balance (both inclusive of value added tax) of the top three customers at the balance sheet date for the group and company:

Customer	Rating	**2007 Credit limit Rm**	**2007 Balance Rm**	2006 Credit limit Rm	2006 Balance Rm
Top three customers by sales value	A	**1 766**	**672**	1 382	588
% of trade receivables					
– Group			**33%**		31%
– Company			**37%**		34%

Credit risk exposure on an industry and geographical basis for the group and company is:

	2007 %	2006 %
By industry		
Manufacturing	**37**	48
Merchants	**23**	34
Structural metal	**30**	9
Food and beverage	**9**	6
Other	**1**	3
	100	100
By geographical area		
South Africa	**77**	76
Asia	**10**	9
Europe	**1**	4
Other	**12**	11
	100	100

Except as detailed in the contingent liabilities, note 35, the carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses, represents the group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

For the group and company respectively, the total face value of financial guarantees and similar collateral held is R1 394 million (December 2006: R1 115 million). Of this amount R58 million (December 2006: R58 million) represents bank guarantees.

32. FINANCIAL INSTRUMENTS continued

32.17 Capital risk management

The group's and company's objectives when managing capital are:

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

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

The group's and company's overall strategy remained unchanged for 2007.

Consistent with others in the industry, the group and company monitor capital on a debt-to-total shareholders' equity basis.

Net debt is total interest bearing borrowings including finance lease obligations less cash and cash equivalents. Total shareholders equity is as reported on the face of the balance sheet.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Cash and cash equivalents	**4 034**	7 750	**3 660**	7 367
Less: total interest bearing borrowings and finance lease obligations	**(478)**	(666)	**(253)**	(423)
Net cash and cash equivalents	**3 556**	7 084	**3 407**	6 944
Total shareholders' equity	**20 583**	23 260	**19 909**	20 706
Gearing ratio	**0%**	0%	**0%**	0%

As part of the 2007 review of the group's and company's capital structure, the board of directors approved the return of R6 352 million of paid-up capital to registered shareholders in two tranches being R4 552 million on 3 September 2007 and R1 800 million on 29 October 2007.

Further opportunities to optimise the capital structure will continue to be sought into 2008.

32.18 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (excluding derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and other recognised valuation techniques using prices from observables current market transactions; and
- the fair value of derivative instruments, is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analyses using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The group's financial statements include unlisted equity-accounted investments in an associate and jointly controlled entities (note 18 and Annexure 1). The fair value estimates for a single investment are determined using a combination of valuation methods, namely: (i) discounted cash flow analysis, (ii) earnings multiples; and/or (iii) a termination liquidation basis. Certain assumptions are not supportable by observable market prices or rates.

32. FINANCIAL INSTRUMENTS continued

32.18 Fair value of financial instruments continued

In determining the fair value of the significant investments, the following salient inputs are used:

- Collect a Can (Proprietary) Limited
  - Weighted average realisation ratio for application in the termination liquidation valuation: 85% (2006: 74%)
- Consolidated Wire Industries Limited
  - Weighted average realisation ratio for application in the termination liquidation valuation: 70% (2006: 66%)
- Ensimbini Terminal (Proprietary) Limited
  - Perpetual growth rate of 5% per annum for the first three years and 2% thereafter (December 2006: as for 2007); and
  - Risk adjusted discount rate 20% (December 2006: 20%) for application in the discounted cash flow valuation.
- Macsteel International Holding BV
  - Free cash flows over a 10-year period, with a 0,5% growth rate in perpetuity discounted at a US risk adjusted discount rate of 10,17% (December 2006: 10,28%) for application in the liquidation valuation.

Except as detailed in the following table, the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

	Carrying value 2007 Rm	**Fair value 2007 Rm**	Carrying value 2006 Rm	Fair value 2006 Rm
GROUP				
Non-current liabilities				
Non-current borrowings	**51**	**47**	61	63
Non-current finance lease obligations	**329**	**390**	502	546
Current liabilities				
Current borrowings	**10**	**17**	10	19
Current finance lease obligations	**88**	**63**	93	97
COMPANY				
Non-current liabilities				
Non-current finance lease obligations	**174**	**195**	337	318
Current liabilities				
Current finance lease obligations	**79**	**53**	86	86

The higher fair value relative to carrying amount of interest bearing borrowings and finance lease obligations reflect the lower reporting date credit-adjusted interest rates relative to the contracted and imputed rates. The fair value represents the capital amount which could be borrowed if the arrangements were refunded at the reporting date.

33. RELATED PARTY TRANSACTIONS

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

Companies within the greater ArcelorMittal Group

The company purchased products to the value of R222 million (December 2006: R555 million) from other companies in the group.
The outstanding balances at year-end are as follows:

- Included in trade and other receivables (note 23) R8 million (December 2006: R15 million)
- Included in trade and other payables (note 30) R24 million (December 2006: R314 million)

Jointly controlled entities and associates

Details of investments in jointly controlled entities and the associate are disclosed in Annexure 1 whilst income, after eliminating unrealised profits, is disclosed in note 18. Interest income from jointly controlled entities of R4 million (December 2006: R7 million) is included in income from investments (note 12).
The group purchased goods and services to the value of R57 million (December 2006: R75 million) from, and sold goods to the value of R5 877 million (December 2006: R5 971 million) to jointly controlled entities and associate.
The outstanding balances at year-end are:

- Included in trade and other receivables (note 23) R190 million (December 2006: R187 million)
- Included in trade and other payables (note 30) Rnil (December 2006: R5 million)
- Included in the carrying value of jointly controlled entities (note 18) are long-term loans of R10 million (December 2006: R10 million).

Subsidiaries

Details of income from investments and indebtedness in subsidiaries are disclosed in notes 12 and 19 respectively, and Annexure 2.

Directors

Executive directors are defined as key senior management. Details relating to directors' remuneration and shareholdings (including options) in the company are disclosed in the directors' remuneration report.

Senior employees

Details relating to option and share transactions are disclosed in note 36.

Shareholders

The principal shareholders of the company are detailed in the "Analysis of shareholders" schedule on page 194.

Management fee

ArcelorMittal South Africa received a management fee of R153 million (December 2006: R190 million) from Saldanha Steel (Proprietary) Limited for ArcelorMittal South Africa employees that work at Saldanha Works (note 8).

34. POST-EMPLOYMENT BENEFITS

34.1 Pensions

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

- Mittal Steel South Africa Selector Pension Fund (Reg No. 12/8/35421) and Mittal Steel South Africa Selector Provident Fund (Reg No. 12/8/35423), both operating as defined contribution funds.
- Iscor Employees' Provident Fund (Reg No. 12/8/27484), operating as a defined contribution fund.
- Mittal Steel South Africa Pension Fund (Reg No. 12/8/363), operating as a defined benefit fund. This fund is closed to new entrants.
- Iscor Retirement Fund (Reg No. 12/8/5751), operating as a defined benefit fund. This fund is closed to new entrants.

The assets of these plans are held separately from those of the group and company in funds under the control of trustees.

All funds are governed by the South African Pension Funds Act of 1956.

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.1 Defined contribution plans

Membership of each fund at 31 December 2007 and employer contributions to each fund for the 2007 calendar year recognised in the income statement was:

	Working members		Employer contributions	
	2007	2006	**2007 Rm**	2006 Rm
Mittal Steel South Africa Selector Pension and Provident Funds	**4 518**	4 679	**79**	75
Iscor Employees' Provident Fund	**4 029**	3 940	**32**	29
			111	104

Contribution rates for active members is 7% and 10% of pensionable earnings by the member and ArcelorMittal South Africa Limited respectively.

The only obligation of the group and company with respect to the defined contribution plans is to make the specified contributions.

No other post-retirement benefits are provided to these employees.

34.1.2 Defined benefit plans

Mittal Steel South Africa Pension Fund

The group and company operate the Mittal Steel South Africa Pension Fund which is a wholly funded defined benefit plan for qualifying employees. The fund is administered by Coris Capital (Proprietary) Limited.

At 31 December 2007, the fund had 53 (December 2006: 65) active members and 9 083 (December 2006: 9 425) pensioner members. The fund is closed to the admittance of new members.

Contribution rates for active members is 7% and 10% of the member's pensionable earnings by the member and ArcelorMittal South Africa respectively.

The normal retirement age for members is 63 years. A member's pension entitlement is calculated as a percentage scale of final average salary for each year of pensionable service. The percentage scale ranges from 2% to 2,5%, and the average final salary is the pensionable salary over the 24 months which preceeds the member's retirement.

No other post-retirement benefits are provided to these employees, other than for that detailed in note 34.2.

The last interim actuarial valuation was performed as at 31 December 2006. The actuaries were of the opinion that the fund was adequately funded.

For disclosure purposes in order to comply with IAS 19, *Employee Benefits* valuations have been performed by independent actuaries, using the projected unit credit method. Roll forward of projections of prior completed actuarial valuations were used, taking account of actual subsequent experience.

The Financial Services Board had issued a certificate to the fund stating that the Registrar had recorded a nil scheme submission, based on the information provided by the fund. This nil scheme submission was provided in terms of section 15B of the Pension Funds Act.

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.2 Defined benefit plans continued

The principal assumptions used for the purposes of the actuarial valuations were:

	2007	2006
Discount rate	**8,2%**	7,6%
Expected return on plan assets	**9,2%**	8,6%
Expected rate of salary increase	**6,4% +merit increases**	5,8% +merit increases
General inflation rate	**5,4%**	4,8%

Amounts recognised in profit or loss in respect of this defined benefit plan are:

	2007 Rm	2006 Rm
Current service cost	**2**	2
Interest cost on obligations	**485**	436
Expected return on plan assets	**(683)**	(545)
Net actuarial (gains)/losses recognised in the year [1]		
Adjustments for restrictions on the defined benefit asset[1]	**197**	108
Sub-total	**1**	1
Less member contributions paid during the period	**0[2]**	0[2]
Total included in 'Employee costs – pension and medical costs'	**1**	1
The amount included in the balance sheet arising from the group and company's obligation in respect of this defined benefit plan is:		
Present value of the obligation at 31 December	**6 870**	6 739
Fair value of plan assets at 31 December	**(8 274)**	(8 299)
Surplus	**(1 404)**	(1 560)
Cumulative unrecognised actuarial gains	**(136)**	489
Unrecognised defined benefit asset on initial adoption of IAS 19[1]	**963**	963
Sub-total	**(305)**	(108)
Restrictions on defined benefit plan asset recognised [1]	**305**	108
Net (asset)/liability arising from defined benefit plan		

[1]Fund rules prohibit the realisation of the defined benefit surplus in the form of refunds from the plan or reductions in future contributions to the plan. On partial and full liquidation of the fund any available surplus is apportioned to the sole benefit of the members.

[2]Rounding to zero due to the use of numeric reporting scale format of one million.

	2007 Rm	2006 Rm
34. POST-EMPLOYMENT BENEFITS continued		
34.1 Pensions continued		
34.1.2 Defined benefit plans continued		
Movements in the present value of the defined benefit obligation in the current period were:		
Present value of obligation at 1 January	6 739	6 355
Interest cost	485	436
Current service cost	2	2
Benefits paid	(684)	(644)
Actuarial loss on obligation	328	590
Present value of obligation at 31 December	6 870	6 739
Movements in the present value of the plan assets in the current period were:		
Fair value of plan assets at 1 January	8 299	7 318
Expected return	683	545
Contributions	1	1
Benefits paid	(684)	(644)
Actuarial (loss)/gain on plan assets	(25)	1 079
Fair value of plan assets at 31 December	8 274	8 299

The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, are:

	Expected return		Fair value of plan assets	
	2007 %	2006 %	2007 R'000	2006 R'000
Cash	6,6	6,0	494	502
Equities	10,4	9,8	2 771	2 793
Fixed interest-bearing stock	8,2	7,6	3 826	3 594
Foreign investments	10,4	9,8	1 178	1 210
Investment in property companies		9,8		142
Other assets	10,4	9,8	5	58
	9,2	8,6	8 274	8 299

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The directors' assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The actual return on plan assets was R658 million (December 2006: R1 623 million).

	2007	2006	2005	2004
34. POST-EMPLOYMENT BENEFITS continued				
34.1 Pensions continued				
34.1.2 Defined benefit plans continued				
Present value of defined benefit obligation	**6 870**	6 739	6 355	6 003
Fair value of plan assets	**(8 274)**	(8 299)	(7 318)	(6 610)
Surplus	**(1 404)**	(1 560)	(963)	(607)
Experience adjustments on plan liabilities – loss	**(328)**	(590)		
Experience adjustments on plan assets – (loss)/gain	**(25)**	1 079		

In accordance with the transitional provisions for the amendments to IAS 19, *Employee Benefits* in December 2004, the experience adjustments above are determined prospectively from 1 January 2006 being the date of adoption of the standard. The disclosures preceding the transition date are provided for trend analysis purposes only.

The group and company expect to make a contribution of R1 million (2006: R1 million) to the defined benefit plan during the next financial year.

Iscor Retirement Fund

The group and company operate the Iscor Retirement Fund which is a wholly funded defined benefit plan for qualifying employees. The fund is administered by Bambanani Benefit Administrators (Proprietary) Limited.

At 31 December 2007, the fund had 1 682 (December 2006: 1 913) pensioner members and 41 065 (December 2006: 40 076) contingent pensioner members. Contingent pensioners are former employees who left the service before normal retirement age and are entitled to receive a pension if claimed. The fund is closed to the admittance of new members.

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

The Financial Services Board had issued a certificate to the fund stating that all the requirements of section 15B(9) of the Pension Funds Act, with regard to the apportionment of existing surplus as at 31 December 2002, have been fulfilled.

The last full statutory actuarial valuation was performed as at 31 December 2006. The actuaries were of the opinion that the fund was adequately funded.

For disclosure purposes in order to comply with IAS 19, *Employee Benefits* valuations have been performed by independent actuaries, using the projected unit credit method. Roll forward of projections of prior completed actuarial valuations were used, taking account of actual subsequent experience.

The principal assumptions used for the purposes of the actuarial valuations were:

	2007	2006
Discount rate	**8,2%**	7,6%
Expected return on plan assets	**8,9%**	8,3%
General inflation rate	**5,4%**	4,8%

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.2 Defined benefit plans continued

Amounts recognised in profit or loss in respect of this defined benefit plan are:

	2007 Rm	2006 Rm
Current service cost		
Interest cost on obligations	29	25
Expected return on plan assets	(41)	(34)
Net actuarial (gains)/losses recognised in the year [1]		
Adjustments for restrictions on the defined benefit plan asset[1]	12	9
Sub-total		
Less member contributions paid during the period		
Total included in 'Employee costs – pension and medical costs'		
The amount included in the balance sheet arising from the group and company's obligation in respect of this defined benefit plan is:		
Present value of the obligation at 31 December	410	406
Fair value of plan assets at 31 December	(513)	(519)
Surplus	(103)	(113)
Cumulative unrecognised actuarial (losses)/gains	(8)	14
Unrecognised defined benefit plan asset on initial adoption of IAS 19[1]	90	90
Sub-total	(21)	(9)
Restrictions on defined benefit plan asset recognised[1]	21	9
Net (asset)/liability arising from defined benefit plan		

[1]Fund rules prohibit the revaluation of the defined benefit surplus in the form of refunds from the plan or deductions in future contributions to the plan. On partial and full liquidation of the fund, any available surplus is apportioned to the sole benefit of the members.

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.2 Defined benefit plans continued

Movements in the present value of the defined benefit obligation in the current period were:

	2007 Rm	2006 Rm
Present value of obligation at 1 January	406	361
Interest cost	29	25
Current service cost		
Benefits paid	(57)	(34)
Actuarial loss on obligation	32	54
Present value of obligation at 31 December	410	406
Movements in the present value of the plan assets in the current period were:		
Fair value of plan assets at 1 January	519	451
Expected return	41	34
Contributions		
Benefits paid	(57)	(34)
Actuarial gain on plan assets	10	68
Fair value of plan assets at 31 December	513	519

The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, are:

	Expected return		Fair value of plan assets	
	2007 %	2006 %	2007 Rm	2006 Rm
Cash	8,8	6,0	69	24
Investments in participating employer		8,6		3
Equities	9,4	8,6	179	202
Fixed interest bearing stock	8,2	7,6	196	84
Foreign investments	9,4	8,6	65	58
Other assets	9,4	8,6	4	148
	8,9	8,3	513	519

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The directors' assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next 12 months.

The actual return on plan assets was R55 million (December 2006: R102 million).

The plan assets include ordinary shares of ArcelorMittal South Africa Limited with a fair value of Rnil (December 2006: fair value of R3 million).

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.3 Defined benefit plans continued

	2007 Rm	2006 Rm	2005 Rm
Present value of defined benefit obligation	**410**	406	361
Fair value of plan assets	**(513)**	(519)	451
Surplus	**(103)**	(113)	90
Experience adjustments on plan liabilities – loss	**(32)**	(54)	
Experience adjustments on plan assets – gain	**10**	68	

In accordance with the transitional provisions for the amendments to IAS 19, *Employee Benefits* in December 2004, the experience adjustments above are determined prospectively from 1 January 2006 being the date of adoption of the standard. The disclosures preceding the transition date are provided for trend analysis purposes only.

The group and company expect to make no contribution (2007: Rnil) to the defined benefit plan during the next financial year.

34.2 Medical benefits

34.2.1 The group and company contribute to medical aid schemes for the benefit of those retired employees and their dependants, where those qualifying retirees accepted early retirement in 1994. At 31 December 2007 there were 67 qualifying retirees (December 2006: 84).

On the basis of current practice, which is reviewed annually, the actuarially determined present value of post-retirement medical aid obligations has been provided in note 28. This obligation is unfunded. The group and company have no further post-retirement medical aid obligations for current or retired employees.

Details of the movement during the period in the net liability is detailed in note 28.

34.2.2 The group and company also contributes to medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R76 million (2006: R76 million).

35. CONTINGENT LIABILITIES

	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
Contingent liabilities at balance sheet date, not otherwise recognised in these financial statements, arising from:				
– Face value of financial guarantee contracts issued in the normal course of business from which it is anticipated that no material liabilities will arise	**32**	43	82	102
– Amounts in legal trust accounts	**12**	12	12	12
– Litigation and claims	**1 015**	415	951	351

Litigation and claims consist of:

Taxation dispute – Business Assistance Agreement
The amount provided as a present obligation is detailed in note 28. The amount disclosed as a contingent liability of R323 million (December 2006: R323 million) is the difference between the total amount claimed and that provided. The contingent liability for the company is R259 million (December 2006: R259 million).

Alleged contravention of Competition Act
Harmony Gold Mining Company and DRD Gold Limited have lodged a complaint with the competition authorities alleging that the company contravened the Competition Act in that it abused its dominant position in so far as its pricing policies are concerned. The Competition Tribunal determined on 27 March 2007 that the company did contravene section 8(a) of the Competition Act by charging excessive pricing for its steel products to customers. The amount disclosed as a contingent liability for the group and company is R692 million.

The Tribunal handed down its decision regarding the remedies on 6 September 2007. In summary the decision was that:

- the imposition of resale conditions on steel merchants and those domestic customers that receive a rebate off the domestic price, thus reducing the supply of material of flat steel products to the domestic market, was an abuse of dominance in terms of section 8(a);
- ArcelorMittal South Africa may not (i) impose, or (ii) reach agreement with customers on conditions for the use or resale of flat steel products;
- ArcelorMittal South Africa is ordered to waive in writing any conditions in any agreement regarding conditions on the use or resale of flat steel products;
- ArcelorMittal South Africa is ordered to make known in the public domain the full details of its price lists for flat steel products;
- ArcelorMittal South Africa is ordered to pay an administrative penalty of R692 million within 20 days of the Tribunal's decision; and
- ArcelorMittal South Africa is ordered to pay the costs of the complainants.

ArcelorMittal South Africa filed a notice of appeal to the Competition Appeal Court against the remedies' decision. The Commissioner at the Competition Commission responded on 11 September 2007 that the Commission would not institute proceedings for the recovery of the administrative penalty pending the outcome of the appeal.

The Competition Appeal Court on 8 November 2007 granted an order suspending the orders made by the Tribunal.

A hearing date at the Competition Appeal Court is expected in late 2008.

35. CONTINGENT LIABILITIES continued

Applying the applicable accounting policies (note 3.28, page 94) and the measurement and recognition criteria of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, no provision has been raised.

Barnes Fencing filed a complaint that the company's pricing practices involving low carbon wire rod products amounted to price discrimination. It is alleged that the company charged the complainants substantially more for the product and that other respondents also benefited from more favourable payment terms.

Barnes Fencing applied for orders for the company to terminate these practices and applied for the imposition of an administrative penalty of 10% to be levied on the 2006 local revenue of low carbon wire rod products.

The company successfully opposed the first referral made by Barnes Fencing and as a result, the Competition Tribunal agreed to amend the founding documents accordingly. The company subsequently filed its answering affidavit on 26 April 2007.

Barnes Fencing since applied for intervention in the process by including additional complaints against the company concerning alleged contravention of section 5 and section 8 in terms of the Competition Act.

The Competition Commission's final replying affidavit is still outstanding and more clarity will be obtained once it has been received.

No provision has been raised and no contingent liability quantified.

General Export Incentive Scheme

The contingent liability of R92 million disclosed in 2006 was extinguished as part of the settlement arrangement described in note 28.

Contingent asset retirement obligation

As described in note 4 and 5, IAS 16, *Property, plant and equipment*, and IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, requires that the present value of the future cost of retiring an operating site and its constituent property, plant and equipment, should be included in the carrying amount of the site's fixed assets. These costs are depreciated over the useful life of the specific assets constituted on an operating site.

Other than for certain clearly determinable instances, future costs to retire operational and their underlying assets cannot be reliably estimated. The strategic plans underpinning the future operation of sites are generally evergreen in nature.

36. SHARE-BASED PAYMENTS

36.1 Cash-settled share appreciation rights

During the year the group and company offered share appreciation rights to a limited number of key employees for retention purposes.

The objective of the plan is to place the employees in the same position as if they had been granted share options. However, the share appreciation rights involve a cash payment to the employees equal to the gain that would have been made by exercising the notional options and immediately selling the shares in the market.

The rights vest and benefit accrues to the employees having completed a specified service period from the grant date. The payment of the accrued benefit occurs 30 days after the vesting date.

Each individual right is priced off the average daily closing price of an ArcelorMittal South Africa Limited share over a 60-day trading period.

The rights are valued using a Binomial Matrix option model.

36. SHARE-BASED PAYMENTS continued

Details of the two grants and their valuation at 31 December 2007 are:

Grant 1

Number of rights	77 651
Exercise price per right	R67,61
Exercise date	31 August 2009
Fair value per right	R73,31
Total fair value of rights	R5 million
Total fair value charge to earnings in current year	R1 million
Carrying amount of cash-settled obligation	R1 million (note 26)
Valuation model input estimations:	
– Share price on valuation date (60-day trading period average)	R140,92
– Volatility (% p.a.) (60-day trading period average)	2,18%
– Risk-free rate (% p.a.)	11,14%
– Dividend yield per annum (60-day trading period average)	4,5%
– Attrition rate	7,11%

Grant 2

Number of rights	16 193
Exercise price per right	R108,08
Exercise date	31 March 2010
Fair value per right	R42,45
Total fair value of rights	R0,6 million
Total fair value charge to earnings in current year	R0,1 million
Carrying amount of cash-settled obligation	R0,1 million (note 26)
Valuation model input estimations:	
– Share price on valuation date (60-day trading period average)	R140,92
– Volatility (% p.a.) (60-day trading period average)	3,50%
– Risk-free rate (% p.a.)	10,88%
– Dividend yield per annum (60-day trading period average)	4,8%
– Attrition rate	7,11%

36. SHARE-BASED PAYMENTS continued

36.2 Equity-settled share option plan

The group and company operate the Management Share Trust, consisting of an option, a purchase, a deferred purchase, and a paid-up share plan for the benefit of the group's and company's senior management, including executive directors.

The transaction administration with participants is outsourced to service provider, Compensation Technologies (Proprietary) Limited.

Plan types

"Legacy Option Plan" (25 October 1989 to 30 April 2002)
Options were offered at the market price on the option grant date and were released in five equal annual tranches commencing on the second anniversary of the offer date and expiring after nine years. This plan was closed as from 30 April 2002 and will run out once all rights have been exercised or the exercise period expires.

"Legacy Deferred Purchase Plan"
Shares were offered at the market price on the grant date and, if taken up in terms of the plan, were released unless decided otherwise by the directors, in five equal annual tranches commencing on the second anniversary of the offer date and expiring after nine years. This plan was closed as from 7 May 2002 and will continue up to the expiry date, on which date the participants should pay for the shares.

"Legacy Loan Purchase Plan"
To facilitate Iscor Limited's unbundling, participants were offered a once-off choice to transfer all offers accepted up to November 2001 to the Loan Plan. The original vesting rules, depending on the date of the original offer, continued to apply as did the expiry date on which the loan should be settled.

"30:30:40 Option Plan" (effective 7 May 2002 to 11 December 2005)
Share options were offered at market prices, on the grant date and were released in three annual tranches of 30%, 30% and 40% respectively, commencing on the first anniversary of the offer date and expiring after six years. This plan was closed as from 11 December 2005 and will run out once all rights have been exercised or the exercise period expires.

"33,3: 33,3: 33,4 ArcelorMittal Group -Type Option Scheme" (effective from 12 December 2005 to present)

Share options are offered at market prices on the grant date and are released in three annual tranches of 33,3%, 33,3% and 33,4% respectively, commencing on the first anniversary of the offer date and expiring after ten years. This is an open plan.

The option plans are equity-settled as each share option converts into one ordinary share of ArcelorMittal South Africa Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with the employees' role-grading within the group and company as approved by the Remuneration Committee of ArcelorMittal South Africa and as incorporated within the trust deed of the Management Share Trust. Upon resignation the share options lapse immediately. Upon death, the options lapse within six months.

Capital reduction

As detailed in note 24, on 1 August 2007, ArcelorMittal South Africa announced a R6 352 million (R14,25 per share) capital reduction that was effected in two tranches:
(a) R4 552 million for payment on 3 September 2007 (R10,21 per share); and
(b) R1 800 million for payment on 29 October 2007 (R4,04 per share).

The capital reduction lead to a loss in value for option holders. The trust deed of the Management Share Trust makes provision to adjust the option parameters in order to preserve value at pre-capital reduction levels.

The alteration made to each outstanding option affected by the capital reduction was in proportion to the change in the share price, by decreasing the strike price and increasing the option quantity. In so doing, the option value pre- and post the capital reduction adjustment was equalised. The value preservation adjustment had no impact on current or future IFRS 2 charges.

36. SHARE-BASED PAYMENTS continued

36.2 Equity-settled share option plan continued

	Million
Existing share distribution and shares available for future distribution	
Number of shares available for utilisation in terms of the ArcelorMittal South Africa Management Share Trust as at 1 January 2007	41,4
Add: Share releases, forfeitures and resignations	1,0
Less: Share offers	(1,2)
Number of shares available for future utilisation, as at 31 December 2007	41,2

	Options		Loan purchase and paid up/ deferred purchase plan	
	2007 Million	2006 Million	**2007 Million**	2006 Million
Outstanding at beginning of year	**3,1**	2,0	**0,1**	0,2
Issued	**1,2**	2,2		
Exercised	**(0,7)**	(0,7)	**(0,1)**	(0,1)
Lapsed/cancelled	**(0,2)**	(0,4)	**0[(1)]**	
Outstanding at end of year	**3,4**	3,1	**0[(1)]**	0,1
The average remaining contractual life in days at the end of the year is:				
Average days until fully vested	**563**	463		64
Average days until expiry	**1 928**	1 875	**558**	729
The average prices applicable per transaction type are:				
Issued (R/unit)	**121,12**	75,12		
Exercised strike price (R/unit)	**57,33**	23,64	**9,51**	11,30
Lapsed/cancelled (R/unit)	**58,13**	42,60	**8,05**	
Outstanding (R/unit)	**57,72**	48,57	**7,77**	8,17
Details of outstanding options during the year are:				
1. ArcelorMittal Group-type option plan				
Latest expiry date	**2017**	2016		
Exercise price range (R)	**53,38 - 138,25**	60,00 - 94,29		
Total proceeds if outstanding options were immediately exercised (Rm)	**129**	211		
2. 30:30:40 option plan				
Latest expiry date	**2 011**	2 011		
Exercise price range (R)	**14,32 - 57,99**	16,10 - 65,19		
Total proceeds if outstanding options were immediately exercised (Rm)	**58**	87		
3. Legacy option plan				
Latest expiry date	**2 011**	2016		
Exercise price range (R)	**9,71 – 13,79**	10,92 - 15,50		
Total proceeds if outstanding options were immediately exercised (Rm)	**2**	3		
Details of outstanding loan purchase and paid up/deferred purchase plans are:				
Latest expiry date			2 010	2 010
Exercise price range (R)			2,78 - 9,71	3,13 - 10,92
Total proceeds of shares issued (Rm)			2	9
Closing price	**R136,50**	**R98,25**	**R136,50**	**R98,25**

36. SHARE-BASED PAYMENTS continued

36.2 Equity-settled share option plan continued

	Options		Loan purchase and paid up/ deferred purchase plan	
	Exercise price range R	Outstanding	Exercise price range R	Outstanding
Terms of the options and shares outstanding at year-end are:				
For year ended 31 December 2007				
Expiry date				
2007			**9,71**	**1 230**
2008	**16,15**	**176 359**	**2,78 - 3,99**	**14 040**
2009	**14,32 - 18,42**	**15 659**		
2010	**25,62 - 57,99**	**75 100**	**4,32 - 9,71**	**2 020**
2011	**9,71 - 57,02**	**330 688**		
2015	**53,38**	**710 792**		
2016	**54,19 - 83,88**	**1 233 198**		
2017	**97,72 - 138,25**	**855 112**		
Total		**3 396 908**		**17 290**
For year ended 31 December 2006				
Expiry date				
2007	10,92 – 14,80	18 520	10,92	22 670
2008	18,15	238 800	10,92	11 680
2009	16,10 – 20,70	20 410	10,92	900
2010	28,80 – 65,19	214 820	10,92	16 850
2011	10,92 – 64,10	422 286		
2015	60,00	855 760		
2016	60,91 – 94,29	1 287 760		
Total		3 058 356		52 100

	Group 2007 Rm	Group Restated 2006 Rm	Company 2007 Rm	Company 2006 Rm
37. COMMITMENTS				
Capital commitments				
Capital expenditure contracted for property, plant and equipment	**1 232**	960	**1 075**	861
Capital expenditure authorised but not contracted for property, plant and equipment	**1 397**	769	**1 296**	700
The group's share of capital commitments of its equity-accounted investments is:[1]				
– Capital expenditure contracted		4		
Operating lease commitments				
Equipment and vehicles				
The future minimum payments under non-cancellable stand-alone and embedded operating leases are:				
– Less than one year	**46**	5	**44**	3
– More than one year and less than five years	**116**	39	**107**	27
Total	**162**	44	**151**	30

[1] *Macsteel International Holdings BV re-assessed its treatment of outward lease arrangements, separating the* bona fide *leasing transactions (under IAS 17,* Leases*) from the economic hedging of the price risk associated with such transactions under IAS 39,* Financial Instruments: Recognition and measurement. *As a consequential impact of the revision, the 'capital expenditure contracted' of R372 million, and 'capital expenditure authorised but not contract' of R457 million presented in 2006, has been amended to reflect the amounts above following the revision.*

38. RENTAL AGREEMENT

A depot and off-loading facility owned by the group and company (included under note 16) is leased to a third party in terms of a 14-year rental agreement ending 30 June 2013. In terms of the rental agreement, the lessee does not have the option to purchase the facility at any stage during or after the completion of the contract.

The total rentals received for the year ended 31 December 2007 amounted to R25 million (2006: R26 million). The future gross operating rentals to be received in accordance with the agreement are set out below:

	Group 2007 Rm	Group Restated 2006 Rm	Company 2007 Rm	Company 2006 Rm
Gross operating rentals				
Not later than one year	**23**	25		
Later than one year but not later than five years	**77**	84		
Later than five years	**8**	25		
Total	**108**	134		

The facility is not regarded as an investment property as the leasing arrangement is incidental to the greater steel manufacturing cash generating unit's operations to which it belongs.

Annexure 1: Unlisted equity accounted investments

	Number of shares held	Percentage holding 2007 %	Percentage holding 2006 %	Group carrying amount 2007 Rm	Group carrying amount 2006 Rm	Company carrying amount 2007 Rm	Company carrying amount 2006 Rm	Year end other than 31 December
JOINTLY CONTROLLED ENTITIES								
Unlisted shares								
• Collect-a-Can (Proprietary) Limited	2 400 000	**60**	60	**15**	12	**2**	2	
• Consolidated Wire Industries (Proprietary) Limited	1 999 999	**50**	50	**60**	56	**14**	14	
• Ensimbini Terminals (Proprietary) Limited	1 000	**50**	50	**16**	12	**10**	10	30 June
• Macsteel International Holdings BV	35 001	**50**	50	**1 003**	867			
• Microsteel (Proprietary) Limited	2 000	**50**	50					30 June
• Pietersburg Iron Company (Proprietary) Limited	4 000	**50**	50	**3**	6	**6**	6	
Associate								
Unlisted shares								
• Toyota Tsusho South Africa Processing (Proprietary) Limited	20	**20**		**12**		**16**		31 March
Total investment				**1 109**	953	**48**	32	
Directors' valuation of unlisted shares in jointly controlled entities and an associate				**1 184**	1 037	**48**	32	

Where the above entities' financial year-ends are not co-terminous with that of the group and company, financial information has been obtained from management accounts.

Annexure 1: Unlisted equity accounted investments continued

The income statement, balance sheet and cash flow items in respect of jointly controlled entities are:

	2007 Rm	2006 Rm
BALANCE SHEETS		
Non-current assets	620	828
Current assets	5 538	4 167
Total assets	6 158	4 995
Shareholders' equity	2 208	1 917
Non-current liabilities		
Borrowings	221	63
Other	7	591
Current liabilities		
Borrowings	871	704
Other	2 851	1 720
Total equity and liabilities	6 158	4 995
INCOME STATEMENTS		
Revenue	26 769	22 510
Operating expenses	(26 341)	(22 129)
Net operating profit	428	381
Net financing costs	(28)	(72)
Gains and losses on changes in foreign exchange and financial instruments	32	18
Other income	(13)	
Income from investments	3	24
Income from equity accounted investments	217	32
Profit before taxation	639	383
Taxation		
– Normal	(93)	(125)
Net profit attributable to ordinary shareholders	546	258
CASH FLOW STATEMENTS		
Net cash flows from operating activities	62	270
Net cash flows from investing activities	(124)	(869)
Net cash flows from financing activities	332	447
Foreign currency translations	(13)	43
Net increase/(decrease) in cash and cash equivalents	257	(109)

Annexure 1: Unlisted equity accounted investments continued

The income statement, balance sheet and cash flow items in respect of the associate are:

	2007 Rm
BALANCE SHEETS	
Non-current assets	120
Current assets	153
Total assets	273
Shareholders' equity	58
Non-current liabilities	
Borrowings	92
Other	123
Current liabilities	
Borrowings	
Other	
Total equity and liabilities	273
INCOME STATEMENTS	
Revenue	135
Operating expenses	(135)
Net operating profit	
Net financing costs	(15)
Gains and losses on changes in foreign exchange and financial instruments	
Other income	
Income from investments	
Income from equity accounted investments	
Profit before taxation	(15)
Taxation	
– Normal	
Net profit attributable to ordinary shareholders	(15)
CASH FLOW STATEMENTS	
Net cash flows from operating activities	19
Net cash flows from investing activities	(126)
Net cash flows from financing activities	106
Foreign currency translations	
Net increase/(decrease) in cash and cash equivalents	(1)

Annexure 2: Investments in subsidiaries [1]

	Country of incorpo-ration [2]	Issued capital unlisted ordinary shares	Interest of company			
			Shares		Indebtedness	
			2007 R	2006 R	2007 R	2006 R
PROPERTY						
Yskor Landgoed (Proprietary) Limited	RSA	4 000	**4 000**	4 000	**(94)**	(94)
MANUFACTURING						
Iscor Building System (Proprietary) Limited	RSA	100	**100**	100		
Saldanha Steel (Proprietary) Limited	RSA	2 000	**1 009**	1 009	[3]**5 054**	[3]3 461
SERVICE						
Ferrosure (South Africa) Insurance Co Limited	RSA	1 000	**3 000 000**	3 000 000		
Ferrosure (Isle of Man) Insurance Co Limited[4]	IOM	70	**12 011 246**	12 011 246		
MSSA Investments BV	NEH	134 669	**241 105 200**	241 105 200	**5**	6
Pybus Fifty-Seven (Proprietary) Limited	RSA	1	**1 000**	1 000	**378**	(32)
Vicva Investments and Trading Nine (Proprietary) Limited	RSA	1	**1 000**	1 000		
Dombotema Mining Investments (Proprietary) Limited	RSÀ	1	**100**	100		
Mabwetema Mining Investments (Proprietary) Limited	RSA	1	**100**	100		
Mittal Steel African Investments [5]	Mauritius	100	**716**		**116**	
ArcelorMittal South Africa Pipes and Tubes (Proprietary) Limited [6]	RSA	1	**1**			
Total investments in subsidiaries (note 19)			**256 124 472**	256 123 755	**5 459**	3 341

[1]At 100% holding except where otherwise indicated.

[2]RSA - Republic of South Africa, IOM - Isle of Man and NEH - The Netherlands.

[3]This amount includes the Shareholders' loan of R8 billion (December 2006: R8 billion) and intercompany advances of R3 billion (December 2006: R3 billion), after the reversal of an impairment provision of R2,8 billion (refer note 9).

[4]Issued capital is non-voting redeemable preference shares.

[5]The company was registered on 25 January 2007.

[6]The company was registered on 1 December 2006 and is dormant.

Analysis of shareholders

as at 31 December 2007

Range of shareholders	Number of shareholders	%	Holdings	%
1 – 100 shares	5 978	20,52	301 258	0,07
101 – 1 000 shares	20 751	71,22	4 494 604	1,01
1 001 – 50 000 shares	2 075	7,12	15 284 818	3,43
50 001 – 100 000 shares	134	0,46	9 743 199	2,19
100 001 – 10 000 000 shares	194	0,67	111 701 461	25,06
10 000 001 and more shares	3	0,01	304 226 792	68,25
	29 135	**100**	**445 752 132**	**100**

Type of shareholders	% shareholding
Corporate holdings	61
Pension funds	13
Unit trusts	12
Insurance companies	5
Other management funds	4
Other funds	4
Unclassified and below threshold	1
	100

Geographical holdings by owner	% shareholding
Netherlands	52,6
South Africa	34,0
USA	7,3
Other countries	2,0
England and Wales	2,8
Below threshold	1,3
	100

Shareholdings of more than 5%	Holdings	%
Mittal Steel Holdings AG	231 876 454	52,02
Industrial Development Corporation of South Africa	39 167 364	8,79
Public Investment Corporation	33 182 974	7,44
Public and non-public shareholders		
Mittal Steel Holdings AG	231 876 454	52,02
Industrial Development Corporation of South Africa	39 167 364	8,79
Public Investment Corporation	33 182 974	7,44
Iscor Management Share Trust	16 040	0,00
	304 242 832	
Non-public shareholders	304 242 832	68,25
Public shareholders	141 509 300	31,75
	445 752 132	

Information relating to the directors

of ArcelorMittal South Africa Limited who retire by rotation

LGJJ Bonte	**(53)**
Academic qualifications:	MSc (Elec Eng), PhD (Applied Sciences), MBA
Occupation:	President
Experience:	Appointed with effect from 1 March 2008 as President responsible for the operations and a member of the board
Other current directorships:	None
EK Diack	**(50)**
Academic qualifications:	BAcc, CA(SA), AMP (Harvard)
Occupation:	Independent non-executive director
Experience:	Appointed non-executive director 16 March 2007. Chairman of the Risk Committee, previously chief executive director of Anglo American Ferrous Metals and Industries
Other current directorships:	Director of Ayavuna Appliance Holdings (Pty) Limited Deplian Investments Limited Ayavuna Appliance Investment (Pty) Limited
LP Mondi	**(45)**
Academic qualifications:	BCom (Hons)(Economics), BCom, (Advanced Corporate Finance and Value Creation); MA (Economics)
Occupation:	Non-executive director, Chief Economist and Executive Vice President of Professional Services at IDC.
Experience:	Appointed non-executive director on 11 May 2007
Other current directorships:	None
DCG Murray	**(63)**
Academic qualifications:	BCom, CA(SA), MBL
Occupation:	Independent non-executive director
Experience:	Appointed non-executive director on 11 May 2007. Chairman of the Safety, Health and Environment Committee. Previously chief executive director of Haggie Group of Companies. Since retirement from Haggie in 2004, has acted for Steel and Engineering Industries Federation of South Africa (SEIFSA – an employers' association) in the following capacities: – Representative on BUSA's retirement reform technical task team. – Trustee of all SEIFSA long term funds – pension, provident, permanent disability and sick-pay funds. – Director of Metal Industries Benefit Funds Administrators (MIBFA). – Member of MIBFA and Merseta audit committees. – Member of SEIFSA Exco.
Other current directorships:	Director of SA Ballet Theatre and chairman of SABT's finance committee.
MJN Njeke	**(49)**
Academic qualifications:	BCom, BCompt (Hons), CA(SA), HDip Tax Law
Occupation:	Independent non-executive Director
Experience:	Appointed non-executive director on 1 January 2002. Chairman of the Audit Committee. Deputy chairman of Kagiso Media.
Other current directorships:	NM Rothschild (SA) (Pty) Limited Compass Group (SA) (Pty) Limited Resilient Property Income Fund Limited Metropolitan Holdings Limited MTN Group Limited
NMC Nyembezi-Heita	**(48)**
Academic qualifications:	BSc (Hons)(Elec Eng), MSc (Elec Eng), MBA
Occupation:	Chief Executive Officer
Experience:	Appointed as chief executive officer and a member of the board with effect from 1 March 2008.
Other current directorships:	Denel ACSIS – Non-executive director Bond Exchange of SA – Non-executive chairman Arivia.kom (Pty) Limited – Non-executive chairman

Shareholders' diary

Year end	31 December
Financial results for December 2007	February 2008
Annual General Meeting	7 May 2008
Interim results for 2008	August 2008

Notice to shareholders

Twentieth Annual General Meeting

Notice is hereby given that the twentieth Annual General Meeting of members of ArcelorMittal South Africa Limited (formerly Mittal Steel South Africa Limited) will be held in the Ezweni 2, 1st Floor, Hyatt Regency, 191 Oxford Road, Johannesburg, on Wednesday, 7 May 2008 at 11:00, to conduct the following business:

Ordinary business

1. To receive and consider the annual financial statements for the company and the group for the year ended 31 December 2007, including the directors' report and the report of the auditors thereon.
2. To elect directors in the place of those who in terms of articles 15.2 and 16.1 of the company's articles of association retire by rotation and, being eligible, offer themselves for re-election:
   - LP Mondi
   - EK Diack
   - DCG Murray
   - MJN Njeke
   - NMC Nyembezi-Heita
   - LGJJ Bonte

   Refer to page 195 of this report for their abbreviated curriculum vitae.
3. To approve the non-executive directors' fees for the year ended 31 December 2007 (refer to page 67).
4. To approve the following annual fees as the maximum non-executive directors' fees payable for the period 1 May 2008 until the next Annual General Meeting.

	Annual retainer	Attendance fee per meeting
Chairman	R700 000	–
Director	R132 000	R10 000
Audit Committee chairman		R22 000
Audit Committee member		R10 000
Committee chairman		R20 000
Committee members		R10 000
Share Trust chairman		R20 000
Share Trust member		R10 000

5. To appoint Messrs Deloitte &Touche as the Company's external auditors and Mr Ryan Michael Duffy as the audit partner.

Special Business

6. Special Resolution: "Resolved that in terms of the authority granted in the articles of association of the company and/or any subsidiary of the company, the company and/or its subsidiaries be and are hereby authorised, by way of a general approval, to acquire the company's own ordinary shares ("shares"), upon such terms and conditions and in such amounts as the directors of the company (and, in the case of an acquisition by a subsidiary(ies), the directors of the subsidiary(ies)), may from time to time decide but subject to the provisions of the act and the JSE Listings Requirements and any other stock exchange upon which the shares of the company may be quoted or listed, subject to the following conditions:

   (a) That this authority shall be valid until the next Annual General Meeting of the company, or for 15 months from the date of passing of this resolution, whichever period is shorter;

   (b) That any repurchases of shares in terms of this authority be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter-party, such repurchases being effected by only one appointed agent of the company at any point in time, and effected only if after the repurchase the company still complies with the minimum spread requirements stipulated in the JSE Listings Requirements;

(c) That the acquisitions in any one financial year shall be limited to 10% (ten percent) of the issued share capital of the company at the date of this Annual General Meeting, provided that any subsidiary(ies) may acquire shares to a maximum of 10% (ten percent) of the issued share capital of the company at the date of this Annual General Meeting, provided that any subsidiary(ies) may acquire shares to a maximum of 10% (ten percent) of the aggregate of the shares in the company;

(d) That any acquisition of shares in terms of this authority, may not be made at a price greater than 10% (ten percent) above the weighted average market value of the shares over the 5 (five) business days immediately preceding the date on which the acquisition is effected;

(e) The repurchase of shares may not be effected during a prohibited period, as defined in the JSE Listings Requirements unless a repurchase programme is in place, where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; and

(f) That an announcement containing full details of such acquisitions of shares will be published as soon as the company and/or its subsidiary(ies) has/have acquired shares constituting, on a cumulative basis, 3% (three percent) of the number of shares in issue at the date of the general meeting at which this special resolution is considered and, if approved, passed, and for each 3% (three percent) in aggregate of the initial number acquired thereafter.

Reason for and effect of the special resolution:
The reason for, and the effect of, this special resolution is to grant the directors a general authority in terms of the act and, subject to the JSE Listings Requirements and any other stock exchange upon which the shares of the company may be quoted or listed, for the acquisition by the company or one of its subsidiaries of the company's own shares on the terms set out above.

The directors of the company have no specific intention to acquire any of the company's shares, a position which will as and when required by the directors be re-examined having regard to prevailing circumstances and, after considering the effects of a maximum repurchase, the directors are of the opinion that:

(a) The company will be able to pay its debts as they become due in the ordinary course of business for a period of 12 (twelve) months after the date of notice of the Annual General Meeting;

(b) The consolidated assets of the company and its subsidiaries ("the group"), fairly stated in accordance with Generally Accepted Accounting Practice, will be in excess of its consolidated liabilities for a period of 12 (twelve) months after the date of notice of the Annual General Meeting;

(c) The company's and the group's issued share capital and reserves will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of notice of the Annual General Meeting; and

(d) The company's and the group's working capital will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of notice of the Annual General Meeting.

The company will ensure that its sponsor will provide the necessary letter on the adequacy of the working capital in terms of the JSE Listings Requirements, prior to the commencement of any purchase of the company's shares on the open market.

The directors, whose names are given on pages 10 and 11 of the Annual Report, collectively and individually accept full responsibility for the accuracy of the information given in that report and certify that to the best of their knowledge and belief there are no facts that have been omitted that would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the Annual Report contains all information required by law and the listing requirements of the JSE.

The company is not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened that may have or have had in the recent past, ie at least the previous 12 months, a material effect on the financial position of the group.

Shareholders' attention is drawn to the following information that is required to be disclosed and which is contained in the pages of the Annual Report referred to:

- Independent non-executive and executive directors: pages 10 and 11
- Major shareholders: page194
- Directors' interests in securities: pages 68 to 69
- Share capital of the company: page 123
- Material changes: pages 76 to 78

Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. The person so appointed need not be a member of the company. Proxy forms should be forwarded to reach the company's transfer secretaries by no later than 11:00 on Monday 5 May 2008. The completion of a proxy form will not preclude a member from attending the meeting.

Please refer to the notes to the Proxy Form on page 199 for additional guidance on completion of the proxy form and attendance at the meeting.

Beneficial shareholders whose shares are not registered in their own name but in the name of another, for example, a nominee, must not complete a form of proxy or attend the General Meeting unless a form of proxy is issued to them by the registered shareholder. This will include shareholders whose shares have been dematerialised in the name of a nominee or of a CSDP or a broker or SDS Nominees (Pty) Limited. Beneficial shareholders who are not registered shareholders should contract the registered shareholder or the ArcelorMittal South Africa ShareCare Line (0800 006 960 or +27 11 370 7850 if you are calling from outside South Africa) for assistance in issuing instructions on voting their share or obtaining a form of proxy to attend the general meeting.

Shareholders holding dematerialised shares in the company through a CSDP or broker, other than with an "own name" registration, must timeously advise their CSDP or broker of their intention to attend and vote at the Annual General Meeting in order for their CSDP or broker to provide them with the necessary authorisation to do so, or should they not wish to attend the Annual General Meeting in person but wish to be represented thereat, they must timeously provide their CSDP or broker with their voting instruction in order for the CSDP or broker to vote in accordance with their instruction at the annual general meeting.

The form of proxy must be lodged at or posted or faxed to the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, at 70 Marshall Street, Johannesburg (PO Box 61051, Marshalltown, 2107) or faxed to +27 11 688 7721 to be received no later than 48 hours before the time fixed for the meeting.

By order of the board

C Singh

Company Secretary

10 March 2008

Form of proxy

ArcelorMittal South Africa Limited
(formerly Mittal Steel South Africa Limited)
(Incorporated in the Republic of South Africa)
(Registration number 1989/002164/06)
JSE Code: ACL • ISIN: ZAE 000103453
("ArcelorMittal South Africa Limited" or "the Company")

Form of proxy for use at the Twentieth Annual General Meeting of the company, to be held on Wednesday, 7 May 2008 at 11:00 in Ezweni 2, 1st floor, Hyatt Regency, 191 Oxford Road, Rosebank, Johannesburg.

Only registered shareholders who are registered in the register of members of the company under their own name may complete a form of proxy or attend the Annual General Meeting. This includes registered shareholders who have not dematerialised their shares, ie who still hold their ArcelorMittal South Africa share certificate/s, or shareholders who have dematerialised their shares in their own name

Deliver to
Computershare Investor
Services 2004 (Pty) Ltd
70 Marshall Street
Johannesburg

or Mail to
Computershare Investor
Services 2004 (Pty) Ltd
PO Box 61051
Marshalltown, 2107

or Fax to
+27 (0) 11 688 7721

I/We

(name in block letters)

of (address):

being the holder/s of ____________ shares in the company do hereby appoint **(see note 1)**
(number of shares)

1 ________________________________ or, failing him/her,

2 ________________________________ or, failing him/her,

the chairman of the Annual General Meeting, as my/our proxy to act for me/us at the twentieth Annual General Meeting of the company which will be held Ezweni 2, 1st floor, Hyatt Regency, 191 Oxford Road, Rosebank, Johannesburg on 7 May 2008 at 11:00 and at any adjournment thereof, and to vote for me/us on my/our behalf or to abstain from voting as indicated below:

	For	Against	Abstain
Ordinary business			
1 Adoption of 2007 financial statements			
2 a) Re-election of LP Mondi			
b) Re-election of EK Diack			
c) Re-election DCG Murray			
d) Re-election of MJN Njeke			
e) Re-election of NMC Nyembezi-Heita			
f) Re-election of LGJJ Bonte			
3 Approval of non-executive directors' fees			
4 Approval of non-executive directors' future fees			
5 Reappointment of audit firm and audit partner			
Special business			
6 Authority to repurchase shares.			

Signed at ____________ this ________ day of ____________ 2008

(Signature) ____________ *Assisted by me (where applicable)*

Please see notes on reverse

Notes

1 Only registered shareholders who are registered in the register of members of the company under their own name may complete a form of proxy or attend the Annual General Meeting. This includes registered shareholders who have not dematerialised their shares, ie who still hold their ArcelorMittal South Africa (formerly Mittal Steel South Africa Limited and before that Ispat Iscor Limited and before that Iscor Limited) share certificate/s, or shareholders who have dematerialised their shares in their own name.

2 Beneficial shareholders whose shares are not registered in their own name but in the name of another, for example, a nominee, must not complete a form of proxy or attend the Annual General Meeting unless a form of proxy is issued to them by the registered shareholder. This includes shareholders whose shares have been dematerialised in the name or of a nominee of a CSDP or, a broker or Computershare Nominees (Pty) Ltd. Beneficial shareholders who are not registered shareholders should contact the registered shareholder or the ArcelorMittal South Africa ShareCare Line (0800 006 960 or +27 11 370 7850 if you are calling from outside South Africa) for assistance in issuing instructions on voting your shares or obtaining a form of proxy to attend the Annual General Meeting.

3 Shareholders holding dematerialised shares in the company through a CSDP or broker, other than with an "own name" registration, must timeously advise their CSDP or broker of their intention to attend and vote at the Annual General Meeting in order for their CSDP or broker to provide them with the necessary authorisation to do so, or should they not wish to attend the Annual General Meeting in person but wish to be represented thereat, they must timeously provide their CSDP or broker with their voting instruction in order for the CSDP or broker to vote in accordance with their instruction at the Annual General Meeting.

4 An ArcelorMittal South Africa (formerly Mittal Steel South Africa Limited) shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided, with or without deleting "the chairman of the general meeting". The person whose name stands first on the form of proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.

5 An ArcelorMittal South Africa (formerly Mittal Steel South Africa Limited) shareholder's instructions to the proxy must be indicated by the insertion in the appropriate box provided of the relevant number of ordinary shares in respect of which he/she wishes to exercise his/her votes. Failure to comply with the above will be deemed to authorise the chairman of the general meeting, if he is the authorised proxy, to vote in favour of the ordinary resolutions at the general meeting, or any other proxy to vote or to abstain from voting at the meeting as the proxy deems fit, in respect of all the ArcelorMittal South Africa shareholder's votes exercisable thereat.

6 This form of proxy must be lodged at or posted or faxed to the transfer secretaries, Computershare Investor Services (Pty) Ltd, at 70 Marshall Street, Johannesburg (PO Box 61051, Marshalltown, 2107) or faxed to +27 +11 688 7721 to be received no later than 48 hours before the time fixed for the meeting (excluding Saturdays, Sundays or public holidays).

7 The completion and lodging of this form or proxy will not preclude the ordinary shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

8 The chairman of the meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes.

9 Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the Annual General Meeting.

10 Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

11 A company or any other body corporate wishing to vote on a show of hands should ensure that the resolution required by section 188 of the South African Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), to authorise a representative to vote, is passed by its directors or other governing body. Resolutions authorising representatives in terms of section 188 of the Act must be received by the company's transfer secretaries no later than 48 hours prior to the time fixed for the meeting.

Directorate and administration

DIRECTORS

Chairman
Dr KDK Mokhele#†■

Executive directors
MNC Nyembezi-Heita (Chief Executive Officer)
HJ Verster (Executive Director, Finance)
LGJJ Bonte (President)

Non-executive directors
S Maheshwari◆
DK Chugh◆#■
M Mukherjee◆
ND Orleyn#■
MJN Njeke*•
MAL Wurth‡
LP Mondi•■
EK Diack*•
DCG Murray*†

COMPANY SECRETARY
C Singh

AUDITORS
Deloitte & Touche

REGISTERED OFFICE
Vanderbijlpark Steel
Room N3-5, Main Building
Delfos Boulevard
Vanderbjlpark

POSTAL ADDRESS
PO Box 2
Vanderbijlpark, 1900
Tel: 016 889-9111

COMPANY REGISTRATION
ArcelorMittal South Africa Limited
Reg No 1989/002164/06

INTERNET ADDRESS
http://www.arcelormittal.com/southafrica/

TRANSFER SECRETARIES
Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg
PO Box 61051
Marshalltown, 2107
Tel: 011 370 5000
Fax: 011 688 7721

UNITED STATES ADR DEPOSITARY
The Bank of New York
ADR Department
101 Barclay Street, 22nd Floor, New York, NY 10286
United States of America

Tel: 091 212 815 5133
Fax: 091 212 815 3050

Internet: www.bankofny.com

* *Member of Audit Committee*
• *Member of Risk Committee*
\# *Member of Human Resources & Remuneration Committee*
† *Member of Safety, Health and Environment Committee (SHE)*
■ *Member of Transformation Committee*
◆ *Citizen of India*
‡ *Citizen of Luxembourg*

http://www.arcelormittal.com/southafrica/

ArcelorMittal South Africa
Room N3-5
Main Building
Delfos Boulevard
Vanderbijlpark 1911
South Africa