ArcelorMittal

The lifeblood of a developing nation

ArcelorMittal South Africa Limited
Annual Report 2008

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The lifeblood of a developing nation

ArcelorMittal's stated goal is to provide the leadership that will transform the future of the steel industry and societies around us.

It is our conviction that business growth, sustainable communities and the creation of value for our shareholders go hand-in-hand.

ArcelorMittal

Vision

To be the preferred supplier of steel solutions for the development of Sub-Saharan Africa.

Mission statement

We aim to achieve our vision by:

- Producing safe, sustainable steel
- Pursuing operational excellence in all business processes
- Producing innovative steel solutions for our customers
- Caring for our environment and the communities in which we operate
- Striving to become an employer of choice
- Living the brand values of sustainability, quality and leadership

Financial summary	**Year ended 31 December 2008**	Year ended 31 December 2007
Physical ('000 tonnes)		
Liquid steel production	**5 774**	6 375
Domestic sales	**4 375**	4 422
Export sales	**714**	1 397
Financial (Rm)		
Revenue	**39 914**	29 301
EBITDA	**13 602**	8 802
Profit from operations	**12 159**	7 703
– Flat carbon steel products	**7 007**	4 827
– Long carbon steel products	**3 672**	2 652
– Coke and Chemicals	**1 743**	727
– Corporate and other	**(263)**	(503)
Headline earnings	**9 484**	5 741
Net cash flow before finance activities and capital reduction	**3 698**	2 871
Total assets	**37 435**	28 205
Share information (cents)		
Headline earnings per share	**2 128**	1 288
Dividends per share (paid in 2008/2009)	**707**	429
Financial ratios (%)		
Return on shareholders' equity (headline)	**39**	26
Net cash to equity	**30**	19

Financial features

Revenue increased by 36% to R39.9 billion

Operating profit increased by 58% to R12.2 billion

Headline earnings increased by 65% to R9.5 billion

Total dividend 707 cents per share

Our global presence

- ArcelorMittal is the world's number one steel company, with **over 316 000 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 2008 show **revenues of USD124.9 billion and crude steel production of 103.3 million tonnes**, representing approximately 10% of world steel output.

Business objectives for ArcelorMittal South Africa	**Return on equity**	**Competitiveness**	**Cash generation**	**Shareholder value release**
Objectives	At least cost of capital (currently 16%)	To be one of the lowest cost producers	Positive cash flow before major new investments throughout commodity cycle	Share price to reflect at least underlying net equity value
Achievements	39% for the year	One of the lowest cost producers with an EBITDA margin of 34%	Cash flow positive	Average share price of R165.98 was higher than the average net equity value of R62.80
Future initiatives	To exceed EVA by improving earnings through: • Cost reductions • Value added products and • Higher throughput	To retain our position as one of the lowest cost producers at all plants 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

Strategic goals

The following strategic goals have been developed and approved by the board:

- **Creating industry leading value for our shareholders**
  – Positive economic value add (EVA) over the steel price cycle.
- **Improving operating capabilities**
  – Value-creating throughput increases.
  – Substantial reduction in hot rolled coil/billet costs in real terms.
- **Building on our existing performance culture**
  – Creating an environment that generates true employee pride and attracts, develops and retains top-performing people.
- **Be a responsible corporate citizen**

Code of conduct

These are the behavioural characteristics that will support our values:

- **Integrity**
  All our actions will be guided by good principles and intentions, ensuring that our needs are aligned with our actions. (We walk the talk).
- **Respect**
  We will recognise and value the diversity of all people and respect their dignity in our actions.
- **Fairness**
  We will treat people in a reasonable, equitable and objective manner and will always strive to be fair and to treat each and every case on merit.
- **Accountability**
  We will be held accountable for all our actions both within the business environment and the community in which we operate.
- **Trust**
  We trust in our people's ability to act in the best interest of the company and will encourage trust amongst colleagues and across organisational levels.

ArcelorMittal brand values

Our goal is to provide the leadership that will transform tomorrow's steel industry.

We have a clear vision of the future, underpinned by a consistent set of values.

Sustainability

We are guiding the evolution of steel to secure the best future for the industry and for generations to come. Our commitment to the world around us extends beyond the bottom line, to include the people in whom we invest, the communities we support and the world in which we operate. This long-term approach is central to our business philosophy.

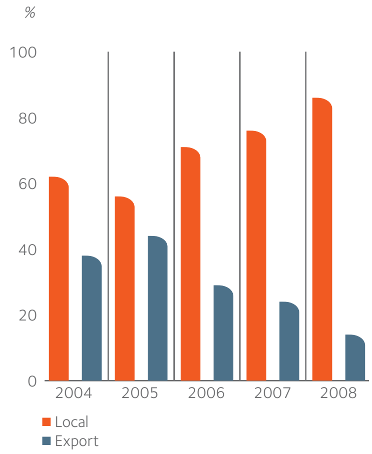
Quality

We look beyond today to envision the steel of tomorrow. Because quality outcomes depend on quality people, we seek to attract and nurture the best people to deliver superior solutions to our customers.

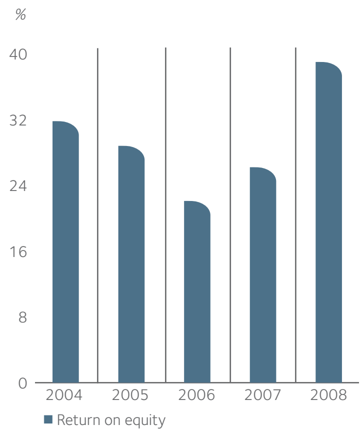
Leadership

We are visionary thinkers, creating opportunities every day. This entrepreneurial spirit brought us to the forefront of the steel industry. Now, we are moving beyond what the world expects of steel.

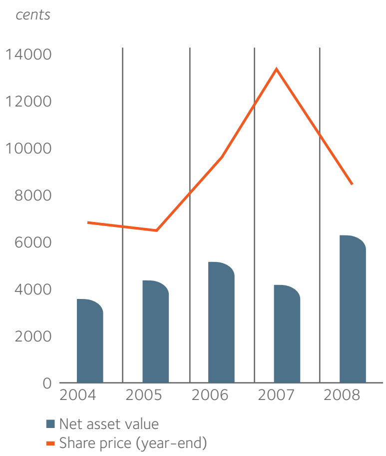
Sales breakdown in tonnes



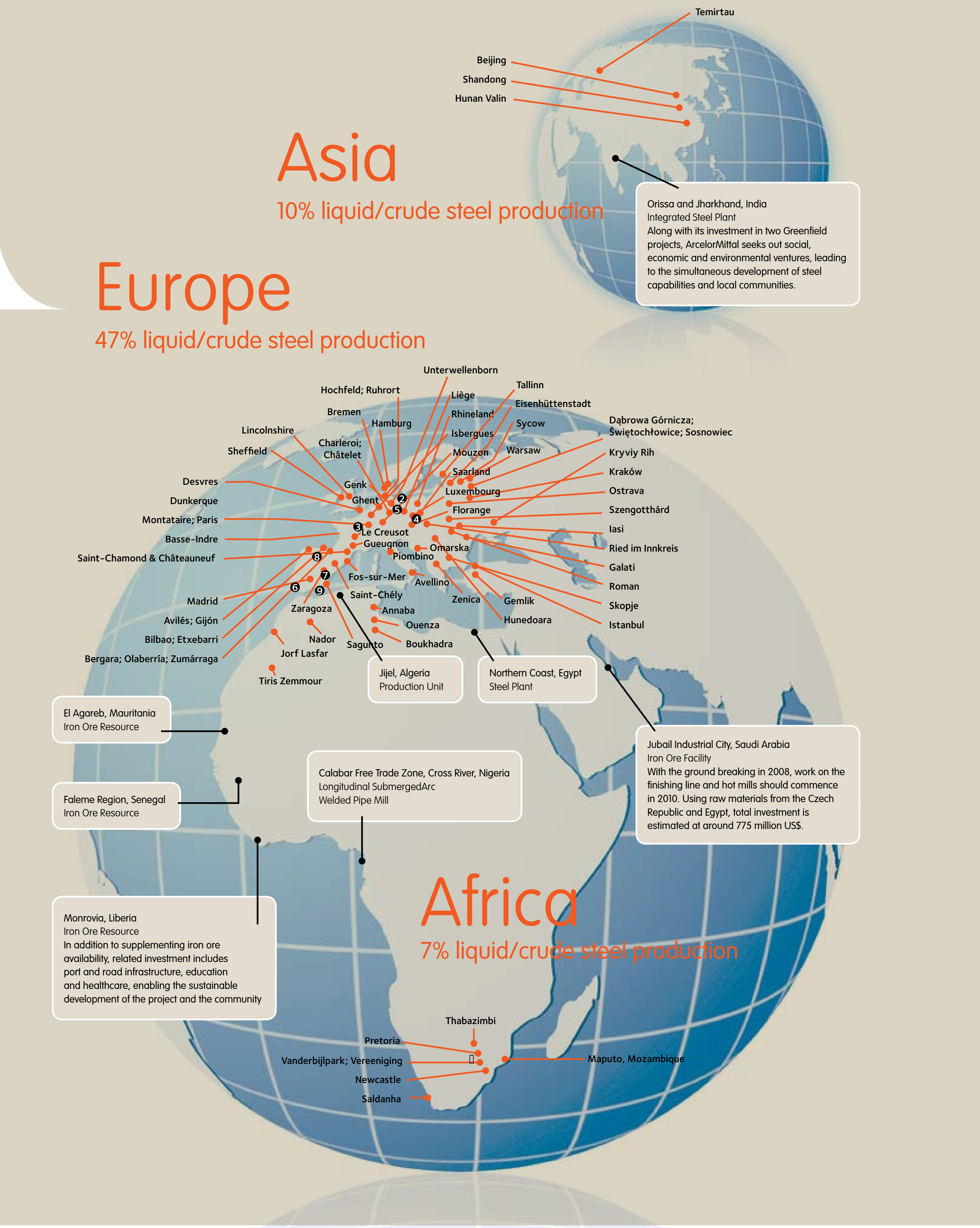
Return on equity



Net asset value versus share price



ArcelorMittal world

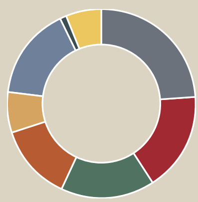


Americas

36% liquid/crude steel production

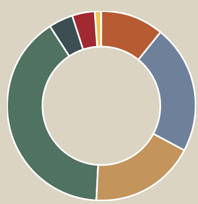
Number of employees according to geographic location

1 EU15	74 548	24%
2 Rest of EU	54 383	17%
3 Other European countries	49 831	16%
4 North America	41 073	13%
5 South America	22 217	7%
6 Asia	49 619	16%
7 Middle East	78	1%
8 Africa	19 717	6%
Total	311 466	100%



Number of employees according to segments

1 Flat Carbon Americas	35 491	11%
2 Flat Carbon Europe	68 000	22%
3 Long Carbon Americas & Europe	56 462	18%
4 Asia, Africa and CIS (AACIS)	123 526	40%
5 Stainless Steel	11 570	4%
6 Steel Solutions and Services	13 086	4%
7 Others	3 331	1%
Total	311 466	100%



Key

Stock Exchange

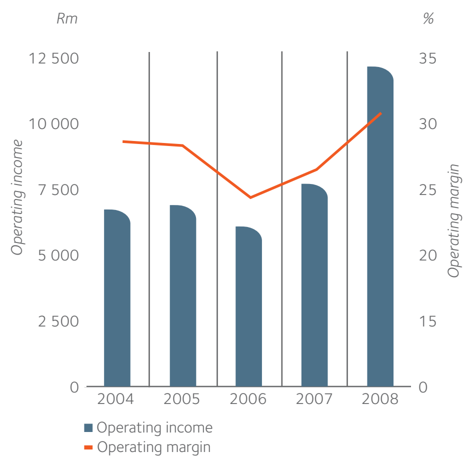
- The New York Stock Exchange
- Euronext Amsterdam
- Euronext Paris
- Luxembourg Stock Exchange
- Euronext Brussels
- Spanish Stock Exchange (Madrid)
- Spanish Stock Exchange (Barcelona)
- Spanish Stock Exchange (Bilbao)
- Spanish Stock Exchange (Valencia)
- JSE Limited

Review at a glance

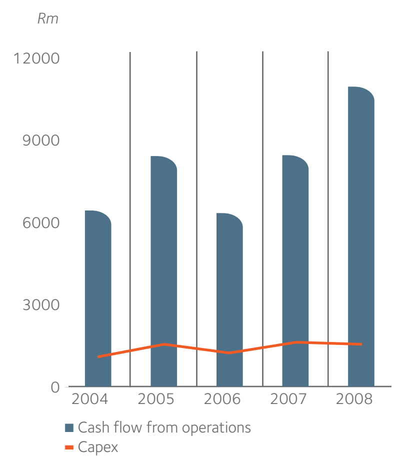
Year ended 31 December

	2008 Rm	2007 Rm	2006 Rm	2005 Rm	2004 Rm
GROUP INCOME STATEMENT					
Revenue	**39 914**	29 301	25 350	23 984	23 053
Profit from operations					
Flat Carbon Steel Products	**7 007**	4 827	3 644	4 518	5 310
Long Carbon Steel Products	**3 672**	2 652	2 111	2 109	1 783
Coke and Chemicals	**1 743**	727	184	301	462
Business assistance agreement remuneration					(731)
Corporate and other	**(263)**	(503)	143	(34)	(97)
Total	**12 159**	7 703	6 082	6 894	6 727
Gains/(losses) on changes in foreign exchange rates and financial instruments	**637**	(131)	301	246	(52)
Net interest income/(finance costs)	**80**	325	193	(29)	(139)
Income from investments	**3**	4	7	5	5
Income from equity accounted investments (net of tax)	**331**	270	135	277	258
Income tax expense	**(3 865)**	(2 455)	(2 022)	(2 327)	(2 245)
Impairment reversal	**36**				
Minority interest					(6)
Adjustments to attributable income for headline earnings	**103**	25	34	25	36
Headline earnings	**9 484**	5 741	4 730	5 091	4 584
Headline earnings per share (cents)	**2 128**	1 288	1 061	1 139	1 020
Dividends per share (cents)	**707**	429	347	380	400
STATEMENT OF CASH FLOW					
Cash flows from operations	**5 511**	4 623	3 463	2 616	5 228
Proceeds on sale of assets	**2**	8	9	6	14
Capital expenditure	**(1 832)**	(1 852)	(1 446)	(1 608)	(1 254)
Investments		(16)			(5)
Other	**17**	108	174	43	11
Net cash flow before finance activities and capital reduction	**3 698**	2 871	2 200	1 057	3 994

Operating income and operating margin

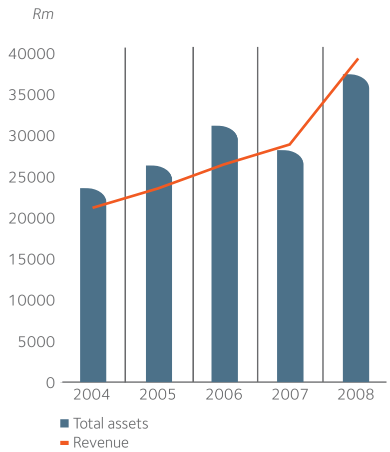


Cash flow from operations and Capex

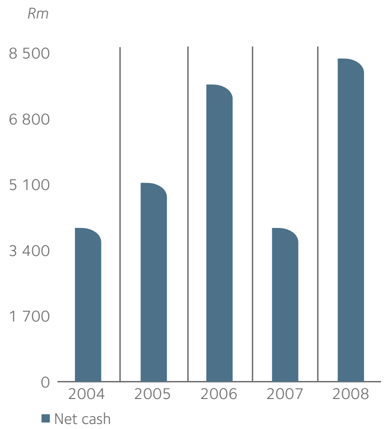


	Year ended 31 December				
	2008 Rm	2007 Rm	2006 Rm	2005 Rm	2004 Rm
GROUP STATEMENT OF FINANCIAL POSITION					
ASSETS					
Non-current assets					
Property, plant and equipment	**15 917**	15 525	14 973	14 260	12 701
Intangible assets	**71**	58	58	74	114
Goodwill					11
Unlisted equity accounted investments	**1 968**	1 109	953	912	596
Other financial assets	**203**	195	134	61	
Current assets					
Cash and cash equivalents	**8 429**	4 034	7 750	5 219	4 064
Other	**10 847**	7 284	7 307	5 811	6 098
Total assets	**37 435**	28 205	31 175	26 337	23 584
EQUITY AND LIABILITIES					
Capital and reserves					
Total shareholders' equity	**27 995**	20 583	23 260	19 451	15 895
Minority interest					7
Non-current liabilities					
Borrowings and other payables	**46**	52	61	71	81
Non-current provisions	**1 888**	1 290	1 327	1 288	1 201
Finance lease obligations	**314**	328	502	596	
Deferred income tax liability	**2 526**	2 603	2 485	2 007	1 708
Current liabilities					
Borrowings and other payables	**33**	10	10	10	10
Finance lease obligations	**40**	88	93	89	
Other	**4 593**	3 251	3 437	2 825	4 682
Total equity and liabilities	**37 435**	28 205	31 175	26 337	23 584

Revenue and total assets



Net cash



Review at a glance continued

	2008 Rm	2007 Rm	2006 Rm	2005 Rm	2004 Rm
		Year ended 31 December			
RATIOS					
Profitability and asset management					
Return on net assets (%) – annualised	**43.2**	30.3	24.3	33.9	38.8
Return on ordinary shareholders' equity (%) – annualised					
– Attributable earnings (%)	**38.6**	26.1	22.0	28.7	33.8
– Headline earnings (%)	**39.0**	26.2	22.1	28.8	31.8
Return on invested capital (%) – annualised	**56.1**	40.0	33.6	43.4	47.2
Operating margin (%)	**30.5**	26.3	24.0	28.7	29.2
Net asset turn (times) –annualised	**1.2**	1.2	0.9	1.0	1.1
Solvency and liquidity					
Financing cost cover (times)				237.7	48.4
Current ratio (times)	**4.1**	3.4	4.3	3.8	2.1
Net cash to equity ratio (%)	**29.8**	19.3	33.0	22.9	25.0
Cash realisation rate (%)	**49.7**	68.3	58.7	40.5	87.6
Number of years to repay net debt (years)					
Productivity					
Average number of employees ('000)	**9.3**	9.1	9.8	10.9	12.0
– Steel	**8.4**	8.2	9.1	10.1	11.4
– Group HQ	**0.9**	0.9	0.7	0.8	0.6
Revenue per average employee (R'000) – annualised	**4 293**	3 217	2 594	2 195	1 925
Cash value added (Rm)	**13 672**	11 163	8 695	10 627	9 440
Prices (actual invoiced) USD/t C&F					
Hot-rolled coil export price	**966**	659	531	560	541
Low carbon wire rod export price	**909**	592	508	490	445

	Four-year annual compound growth rate %	2008	2007	2006	2005	2004
			Year ended 31 December			
SHARE PERFORMANCE						
Number of shares in issue (million)		**446**	446	446	446	446
Weighted average in issue (million)		**446**	446	446	446	446
Earnings per ordinary share						
– Basic earnings basis (cents)	17.8	**2 104.5**	1 282.3	1 053.5	1 136.5	1 094.3
– Headline earnings basis (cents)	20.2	**2 127.6**	1 287.9	1 061.1	1 139.0	1 020.3
Dividend per ordinary share (cents)	15.3	**707.0**	429.0	347.0	380.0	400.0
Dividend cover (times)		**3.0**	3.0	3.1	3.0	2.6
Net equity per ordinary share (cents)	15.2	**6 280**	4 618	5 218	4 360	3 567

		Four-year annual compound growth rate %	2008	2007	2006	2005	2004
				Year ended 31 December			
STEEL							
Liquid steel production ('000 tonnes)							
Flat Carbon Steel Products		(4.2)	**4 084**	4 231	4 863	5 067	4 855
Long Carbon Steel Products		(6.1)	**1 690**	2 144	2 192	2 194	2 178
Total		(4.8)	**5 774**	6 375	7 055	7 261	7 033
Sales							
Local ('000 tonnes)							
Flat Carbon Steel Products		1.0	**2 835**	2 887	2 968	2 402	2 728
Long Carbon Steel Products		7.6	**1 540**	1 535	1 432	1 083	1 151
Total		3.1	**4 375**	4 422	4 400	3 485	3 879
SA customers (%)	Ave	70.2	**86**	76	71	56	62
Export ('000 tonnes)							
Flat Carbon Steel Products		(22.5)	**577**	1 033	1 300	1 881	1 601
Long Carbon Steel Products		(34.5)	**137**	364	494	864	743
Total		(25.7)	**714**	1 397	1 794	2 745	2 344
Export (%)	Ave	29.8	**14**	24	29	44	38

	Four-year annual compound growth rate %	2008	2007	2006	2005	2004	2003	2002
			Year ended 31 December					
INTERNATIONAL CRUDE STEEL PRODUCTION (million tonnes)								
Worldwide	6.5	**1 330**	1 322	1 240	1 129	1 035	945	886
Asia	12.3	**771**	734	666	584	485	436	391
Europe	4.4	**229**	210	235	218	193	208	204
Northern America	(1.5)	**125**	132	131	127	133	123	124
Former USSR	1.6	**114**	124	120	113	107	106	100
Other	(6.1)	**91**	122	88	87	117	72	67


1.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Board of directors

Khotso Mokhele (53)
Independent non-executive director and chairman ◗ *BSc (Agric), MSc (Food Science), PhD (Microbiology)*
Independent non-executive director since February 1998 and Chairman of the 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, African Oxygen and Tiger Brands. Non-executive director of Zimplats Holdings and trustee of the Hans Merensky Foundation. Vice-president for scientific planning and review of the International Council for Science.

Johnson Njeke (50)
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), Compass Group (SA), Kagiso Trust Investments, Foster Wheeler (SA), Metropolitan Holdings and MTN Group.

Thandi Orleyn (53)
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 the South African Reserve Bank, Impala Platinum Holdings, Toyota SA, Reunert, FreeWorld Coatings and Ceramic Industries.

Eric Diack (51)
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, Deplian Investments and Ayavuna Appliance Investment and non-executive director of Adcock Ingram Holdings. Previously Chief Executive Director of Anglo American Ferrous Metals & Industries division.

Chris Murray (64)
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 a number of capacities.

1. Khotso Mokhele, Nku Nyembezi-Heita 2. Johnson Njeke, Eric Diack, Chris Murray
3. Thandi Orleyn, Lumkile Mondi, Sudhir Maheshwari 4. Davinder Chugh, Luc Bonte, Arnaud Poupart-Lafarge
5. Kobus Verster, Christophe Cornier

Lumkile Mondi (46)
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.

Arnaud Poupart-Lafarge (43)
Non-executive director ▸ *Graduate Engineer, MSc (Economics)*
Appointed alternate non-executive director on 24 July 2008 and non-executive director on 30 November 2008. Executive Vice-president of ArcelorMittal Group and member of the ArcelorMittal Group Management Board responsible for Africa and Commonwealth of Independent States (CIS).

Christophe Cornier (56)
Non-executive director ▸ *MSc from Ecole Polytechnique and Ecole des Mines*
Appointed non-executive director on 14 May 2008. Senior Executive Vice-president and member of the ArcelorMittal Group Management Board responsible for Asia, Africa and India, steel greenfield projects, equipment manufacturing and investments and allocations. He is also ArcelorMittal's Chief Technology Officer. Previously executive vice-president of FCS Commercial Auto and Chief Executive Officer of Sollac Mediterranee.

Sudhir Maheshwari (45)
Non-executive director ▸ *BCom (Hons), CA CS*
Appointed non-executive director in December 2002. Senior Executive Vice-president of ArcelorMittal Group and member of the ArcelorMittal Group Management Board responsible for business development and mergers and acquisitions.

Davinder Chugh (52)
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 and member of the Group Management Board. Previously Chief Executive Officer of ArcelorMittal South Africa from September 2004 to September 2006 and Executive Director, Commercial, since May 2002.

Executive directors

Nku Nyembezi-Heita (49)
Chief Executive Officer ▸ *BSc (Hons)(Elec Eng), MSc (Elec Eng), MBA*
Appointed as Chief Executive Officer and a member of the Board on 1 March 2008. Non-executive chairman of the following companies: Arivia.kom and the Bond Exchange of SA. Non-executive director of acsis, Kalagadi Manganese and Macsteel International Holdings BV. Previously Chief Officer, mergers and acquisitions, at Vodacom Group and Chief Executive Officer, Alliance Capital.

Luc Bonte (54)
President ▸ *MSc (Elec Eng), PhD (Applied Sciences), MBA*
Appointed on 1 March 2008 as President responsible for the operations and a member of the Board. Previously Chief Executive Officer of ArcelorMittal Belgium and ArcelorMittal Gent.

Kobus Verster (42)
Executive Director, Finance ▸ *BCom (Hons), MBL, Executive Management Program (Darden Business School)*
Appointed Executive Director, Finance on 17 February 2006. Previously General Manager, corporate treasury, at Mittal Steel NV in Rotterdam. Non-executive director of Macsteel International Holdings BV, Ferrosure (Isle of Man) Insurance Company and other ArcelorMittal Group companies. Director of the National Business Initiative.

Resignations of directors

Michel Wurth (53)
Member of ArcelorMittal Group Management Board. Resigned as non-executive director on 30 November 2008.

Malay Mukherjee (61)
Member of ArcelorMittal Group Management Board. Resigned as non-executive director on 13 May 2008.

Rick Reato (52)
Former Chief Executive Officer ArcelorMittal South Africa. Resigned as Chief Executive Officer and executive director on 29 February 2008.

Khotso Mokhele (Chairman)
Nku Nyembezi-Heita (Chief Executive Officer)

Chairman and Chief Executive's report

Dear Shareholders,

Despite the events of the last quarter of the year, 2008 was a financial year that ArcelorMittal South Africa can be rightly proud of. Benefiting from a strong demand for steel and high prices globally, we reported a 65% rise in headline earnings to R9.5 billion, a record for the company.

Clearly, the global and domestic context has changed dramatically since September last year. Rarely has there ever been this level of uncertainty about markets, demand, pricing and the future economic landscape. ArcelorMittal has demonstrated agility, an ability to take fast decisions and boldness, which I believe will be the key differentiators between the winners and losers in managing these volatile times.

While we must accept that 2009 will be a challenging year, ArcelorMittal South Africa is a strong company with a healthy balance sheet and negligible debt. This, together with the steps we have already implemented, ensures that we are well positioned to tackle this new environment.

Overview

During the first three quarters of 2008, global steel markets enjoyed an unparalleled period of buoyancy. Led by China, robust demand for steel products resulted in a steep rise in prices in all markets in which steel is traded. With a suddenness and sharpness that took the industry by surprise, things took a turn for the worse in the last quarter of the year. Worldwide, steel consumption slumped by over 20% in the fourth quarter of 2008. This was followed in short order by a substantial drop in prices and further compounded by the onset of a freeze in credit markets.

The benefits of the recent consolidation in the steel industry were evident in the swiftness of the response to the economic downturn. ArcelorMittal announced production cuts of up to 35% globally in November 2008 to support the de-stocking process, followed by other major steel companies. This measure of discipline and the extent of production cuts are relatively new phenomena for the steel industry and have been made possible by the size and scale of the larger producers within the sector, such as the ArcelorMittal Group.

There really is no country, industry or company that is not affected in some way by the global economic crisis – the only difference is the degree. Nevertheless, there continues to be widespread optimism that the South African economy will not be as hard hit by the global economic crisis as other parts of the world. This is founded principally on the fact that exports account for a smaller proportion of South African GDP compared to say, the countries of Southeast Asia. However, the worsening current account deficit increases the country's vulnerability as does depressed consumer spending.

However the overall economic situation eventually plays out, there is no escaping the fact that some sectors of our economy are experiencing devastating declines. The mining and metals sector is one such industry. Domestic steel demand suffered a significant contraction in the fourth quarter, which is not expected to reverse for at least the greater part of 2009. The consumer market had begun a gradual decline much earlier and continued to do so throughout 2008. This is not surprising considering the high interest rates prevalent through much of the period.

Chairman and Chief Executive's report continued

On the positive side, there is the government's infrastructure development programme. Although no new spending plans were unveiled, the President and subsequently the Minister of Finance reiterated government's continued commitment to the previously announced programme with a total value of R790 billion over the next five years. This has picked up speed with a range of projects currently on the go, such as the estimated R210 billion being spent on Eskom's two new power stations – Medupi and Kusile. Infrastructure spending will act as a backstop to steel demand in South Africa at a time when consumer spending is expected to improve only towards the latter part of 2009.

Consumer and business confidence levels have been the biggest casualties of this crisis. A marked improvement in sentiment will be a prerequisite for a return to normalcy in financial markets and the wider economy. In this environment, our major focus is to conserve cash, contain costs and retain our customers through consistent quality and service. The company has taken a proactive approach by taking responsible and necessary initiatives to cushion us from the worst possible effects of the downturn.

While the crisis is forcing us to adopt management strategies that focus on short-term goals, we are also mindful that we need to protect the core values of the company, namely:

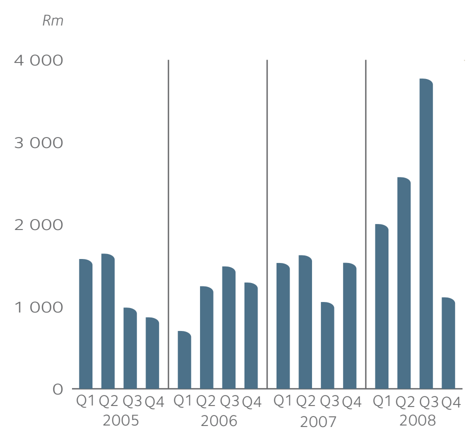
- Value creation for shareholders.
- Reliable and quality steel supplies to our customers.
- Building a culture of performance through employee development.
- Being a responsible corporate citizen.

Group performance

ArcelorMittal South Africa set many financial records during 2008. Turnover reached R40 billion, headline earnings rose by 65% to a record R9.5 billion and attributable profits were up by the same percentage to R21.28 a share. The EBITDA margin was a healthy 34%. These results were achieved despite the sharp decline in earnings in the fourth quarter.

The substantial increase in annual earnings was driven principally by higher global steel prices. Year-on-year, flat and long steel products rose by an average of 61% and 63% respectively. Other contributing factors were gains on foreign exchange and financial transactions and a significant improvement in the financial performance of our Coke and Chemicals business. However, prices of all steel products fell sharply in the fourth quarter.

Headline earnings per quarter



Liquid steel production was down 9% for the year and an unprecedented 54% in the fourth quarter compared with the previous quarter. The latter is a stark illustration of the meltdown that befell the steel industry.

Total sales volumes were 37% lower during the fourth quarter and 13% down for the 2008 financial year. Nevertheless, revenue for the year was up 36% to almost R40 billion, reflecting the strong performance in the first three quarters.

Export volumes declined by 49% as we prioritised meeting strong domestic demand amid a shortage of steel during the first half of the year. Exports to regions outside the African continent fell to 6% of total steel product sales from 12% in 2007, emphasising our strategy to focus sales on sub-Saharan Africa.

Production costs per tonne rose dramatically last year. Hot rolled coil costs were up by 59% year-on-year and billets by 65%. This reflected surging raw material prices with average coking coal prices up by 102% year-on-year, non-coking coal by 86%, scrap by 125% and iron ore pellets by 84%. Though spot prices of these commodities started to inch lower by the fourth quarter, many of our contract prices for raw materials will only start easing by mid-2009.

Dividend

The board retained its dividend policy of distributing one third of headline earnings. Thus, a final dividend of 365c per share was declared, resulting in a 2008 full year dividend of 707cents per share.

Managing the downturn

As the early signs of market turmoil became evident, we announced a range of strategies to curtail costs and preserve cash. Production was cut by an unprecedented 54% in the fourth quarter of 2008 although steel demand had not actually fallen by that magnitude. Inventory build-up was such that large production cuts were necessary to enable de-stocking to take place. We have maintained production cuts for the first quarter of 2009 – albeit at a more modest level – to enable this de-stocking to continue. Inventory levels do appear to be reducing; as they continue to decline further, we will start to see a technical recovery in product demand.

ArcelorMittal South Africa has moved swiftly to align production with changing demand patterns. This level of flexibility is particularly important in light of exceptionally poor market visibility, making forward planning very challenging.

A tight focus on costs will continue to be the main theme in 2009 and therefore the cost saving measures introduced in October 2008 will continue to be implemented and expanded upon. Among these are urgent steps taken to reduce labour costs by drastically cutting overtime work and reducing our temporary and hired labour force. Fixed costs and general expenses have also been significantly cut. A material benefit will flow from lower raw material prices midway through 2009.

Given the level of uncertainty, we also deemed it prudent to revise our growth plan and consequently, our capital expenditure programme.

There are certain areas of our operation, though, that will not be compromised by the spending cutbacks. The safety and health of our employees and contractors remain management's top priority and we will continue to invest in projects that make it safer to work at our facilities.

In addition, while financial constraints may cause some rescheduling and postponements, none of our environmental projects has been terminated. We are committed to meeting all our legal obligations and environmental responsibilities.

Finally, ArcelorMittal's business relies heavily on the skills and expertise of its employees. For this reason, we have prioritised the retention of critical skills and protection of permanent jobs. Clearly, our actions will be dictated by the degree to which the downturn is either prolonged or indeed worsens. Similarly, we have not reduced our skills development programmes and continue to train more artisans, technicians and engineers than we require for our own purposes in line with a commitment we made to government in 2007.

Pricing and competition

In January 2006, ArcelorMittal South Africa changed its pricing model from import parity pricing to a system based on a basket of domestic prices from a range of international markets. The basket pricing model takes global steel prices into account and reflects the expertise embodied in ArcelorMittal South Africa's value-added products. On top of that, we altered certain terms of trade, such as the volume discount structure, to better accommodate small and medium-sized steel manufacturers.

This model has produced a sound and realistic basis for supporting the development of the steel manufacturing industry in South Africa and underpins the current government-led infrastructure expansion programme.

We have shared our pricing information with the Department of Trade and Industry on an ongoing basis to enable the government to monitor the evolution of steel pricing over time. We will continue to engage with the department of trade and industry (dti) on this issue.

Broad-based black economic empowerment

In December 2008, the ArcelorMittal Group terminated negotiations to introduce BEE shareholders into ArcelorMittal South Africa. Amid the widening financial crisis and the reluctance by banks to provide credit, concluding this transaction became impossible. Negotiations will be resumed once normal credit conditions return to global financial markets.

Efforts to transform the company and improve its broad-based empowerment status on all the other six elements of the B-BBEE scorecard continue as set out in detail in the Sustainability Report.

Steel market review

The impact of the meltdown in the world's financial system and the global economy on the steel sector has been severe. Demand for steel dropped quickly and sharply, reversing four years of steady growth. World Steel Association figures show that steel demand in the fourth quarter slumped by 20.3% compared with the third quarter. The contraction in demand was widespread across all regions, though it was more pronounced in the advanced economies of Europe, North America and Japan and somewhat less so in emerging markets. Among industrial

Chairman and Chief Executive's report continued

sectors, the fall in steel demand was particularly severe in the automotive, shipbuilding and construction industries.

Global steel consumption fell 0.6% for the year as a whole in contrast with a 7.5% increase in 2007 and 4.6% in the first three quarters of 2008. Exceptionally strong global demand during the first eight months of the year led to a sharp hike in benchmark hot rolled coil prices to record highs of over USD1 200 per tonne on average in July. By year-end though, prices had dropped more than 50% from their mid-year highs.

The industry responded to the slump in demand with significant production cuts. Global steel output in September declined by 3.6% year-on-year, with production cutbacks gradually accelerating to 24% by December. In mid-October, the ArcelorMittal Group announced production cutbacks of over 30% across its worldwide operations, which were also implemented in South Africa. By end December, the decline in global output had reached 33%.

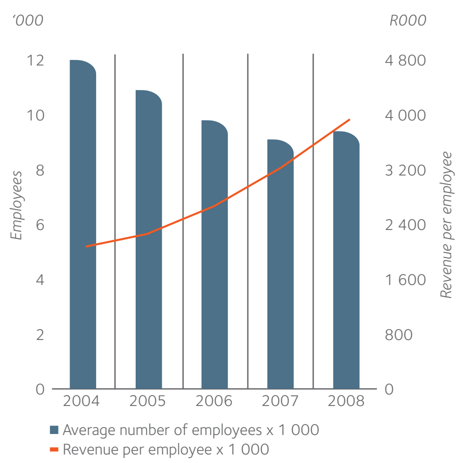
Steel demand in South Africa remained robust in the first eight months of 2008 notwithstanding the adverse impact of power outages in the first quarter. Along with the rest of the world, domestic demand dropped significantly in the fourth quarter.

Figures by the South African Iron and Steel Institute show that steel consumption in South Africa declined moderately from 5.9 million tonnes in 2007 to an estimated 5.6 million tonnes last year. But fourth quarter shipments plummeted by 40% to their lowest level since 2003. The drop was particularly evident in the consumer market segment, which we estimate accounts for about one-third of the total South African steel market.

Consumer spending in South Africa had already been on the wane since 2007 amid rising consumer prices and the subsequent tightening of monetary policy. Vehicle sales have been the worst affected, but reduced spending on domestic appliances and residential building activity has also been evident.

Demand held up well in the infrastructure sector, as the public sector's R790 billion investment programme picked up considerable momentum. The build-up to the 2010 FIFA World Cup South Africa has spawned a multitude of fixed investment projects, including new stadiums, improvements to the country's transport network and an acceleration of Eskom's drive to boost its generating capacity. This is the most ambitious public sector spending programme in South Africa for 30 years and will provide much-needed stimulus support to industrial activity in South Africa for some time.

Headcount/Revenue per employee



The steep decline in economic activity experienced in the fourth quarter resulted in a 37% slump in the volume of ArcelorMittal South Africa's sales. For the year as a whole, dispatches at 5.1 million tonnes were 13% lower than in 2007. A critical factor in the sales outlook for 2009 is the level of inventories in the South African market. Inventories rose sharply during the fourth quarter and stock levels at the end of December were estimated at well over 1 million tonnes, equivalent to 12 weeks of shipments. At the end of 2007, stocks were less than 500 000 tonnes or seven weeks of shipments. De-stocking is taking place, albeit at a slow pace. Further reduction in inventories will be essential before a technical recovery in demand is established.

Imports of primary steel products into South Africa fell slightly from 567 400 tonnes in 2007 to 566 800 tonnes in 2008. The level of imports as a percentage of total volumes has held steady at an average of 10% over the past three years, as importers largely supply steel grades not produced domestically.

Capital expenditure

A total R1.8 billion was spent on capital projects last year, similar to the amount spent in 2007. The most significant among these were:

- The relines of the Corex and Midrex plants at Saldhanha Works;
- The mini-reline of Blast Furnace N5 at Newcastle Works;
- The construction of two new direct reduction kilns at Vanderbijlpark Works, which is nearing completion.

Resources and funds were also dedicated to a number of ongoing projects that, once completed, will improve our safety and environmental performance.

Due to the severity of the economic slowdown and the global nature of the crisis, ArcelorMittal South Africa took the decision to place all growth projects on hold. We do believe in the merits of our long-term growth plan; however, there is little sense in proceeding under conditions of such extreme uncertainty. We are continually evaluating our strategy but we still believe that in the long term, sub-Saharan Africa will demonstrate an increased demand for steel as the global economy improves.

Furnace relines

Relining a furnace is normally done only once every 12 to 15 years. It entails a replacement of carbon blocks and refractory material in the furnace, while the outages are also used to repair or replace equipment such as the furnace shell, gearbox and charging equipment as well as the material handling system. New technologies are introduced to improve the performance of the furnaces and reduce future stoppages.

Last year ArcelorMittal South Africa completed the relines of the Midrex and Corex plants at Saldanha Works and the mini-reline of Blast Furnace N5 at Newcastle Works at a total cost of about R310 million. Whereas it took only 45 days to complete the mini-reline at N5 the more complex work involved at the Corex and Midrex plants required a 78-day shutdown.

The furnaces suffered from reduced output before the relines due to several stave water leaks at the Corex and hot spots at N5. These failures were repaired during the relines, which means that the furnaces are now capable of operating at their design capacity levels, and even higher at the Corex, due to design changes to the dust recycling system.

The successful relines coupled with the rebuild of Blast Furnace D at Vanderbijlpark Works enabled the company to reach our maximum liquid steel capacity by mid-2008.

Operations

Our focus going into 2008 was to build upon the improved production platform resulting from the rebuild of Blast Furnace D at Vanderbijlpark Works in 2007. This was followed by the relines of the Corex and Midrex plants at Saldanha Works and the mini-reline of Blast Furnace N5 at Newcastle Works in 2008. These production improvements addressed many of the supply problems that have beset our operations over the past few years.

Despite some production cutbacks due to the power outages and supply restrictions introduced by Eskom, we reached our maximum liquid steel capacity levels by mid-2008. By the latter part of the third quarter, the economic crisis had started to spread to the steel industry and we were forced to implement production cutbacks.

The electric arc furnaces in Vanderbijlpark as well as the DRI kilns were stopped in October. Blast Furnace D was stopped in late November 2008. At Vereeniging Works, the melt-shop was stopped from the middle of November 2008 till early January, whilst the DRI kiln at Dunswart in Benoni was mothballed until further notice. Blast Furnace N5 in Newcastle was shut for most of December. Though operations at Saldanha Works were not completely halted, the tempo of production was reduced drastically and frequent short stops were taken on the Corex and Midrex plants to match production levels with demand. The small rolling mill in Maputo was also temporarily closed until market conditions improve.

Some of these facilities have been fired up again since demand picked up in the first two months of 2009. But flexibility remains the watchword. Operational management is spending a lot of time to ensure that our operations can quickly respond to changes in demand. Similarly, we are looking at various raw material and furnace permutations to optimise the cost of our production processes.

Health and safety

Ensuring the highest standards of health and safety is our first priority, overriding any other business goal. Despite operating in a high potential hazard industry, we are convinced that achieving a fatality and injury free workplace is achievable. It is this conviction that led to the launch of the group-wide “Journey to Zero” programme late in 2008, with a stated goal of achieving zero fatalities and injuries among our employees and contractors.

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Chairman and Chief Executive's report continued

Tragically, a fatal incident at Saldanha Works on 22 September 2008 led to the loss of life of an employee and a contractor, who died from exposure to carbon monoxide gas. A project team established the causes of the accident and set up mechanisms so that all operations can learn from this regrettable incident. Furthermore, we have revisited all aspects of employee and contractor adherence to the company's fatality prevention standards covering protocols for working at heights, isolation procedures, working in confined spaces and railway-related procedures.

Our overall safety performance in terms of lost time injuries was relatively good. However, the positive trend established over the previous four years turned slightly negative, which was disappointing. The lost time injury frequency rate per one million man-hours worked increased to 2.4 last year from 2.1 in 2007. Management has taken steps to address this in our determination to restore the gradual decline of lost-time injuries towards our zero target.

Health and safety performance has now been fully integrated into the performance appraisal systems of all managers and other supervisory staff, underscoring the responsibility we place on the safety and health of our employees and contractors. Shop floor safety audits are a regular feature of our safety practices and involve audits conducted by all levels of management, from first line to senior corporate managers.

Environment

Demand for steel is inextricably linked to economic growth. There is no substitute for steel in key areas of infrastructure and construction. Steel production however has significant environmental impacts. The challenge is not to find ways of reducing steel usage, but to develop technologies and methods that will mitigate the impact steelmaking has on the environment. To respond to this challenge, ArcelorMittal Group has defined policies and principles to guide our environmental practices worldwide.

Over the past year, we have made good progress on some of our most important environmental projects, particularly those relating to issues of legal compliance. These include the installation of dust extraction systems at Vereeniging Works' steelmaking plant, which is on track for completion in 2010. Due for completion later this year, the coke gas and water cleaning project at Vanderbijlpark Works will lead to a 40% reduction in sulphur dioxide emissions. Additionally, steady progress was made in achieving a zero effluent discharge status at Newcastle Works.

Substantial progress has been made to comply with directives issued by the Green Scorpions relating to waste disposal practices at Vereeniging Works in 2007. The Vaal waste disposal site has been closed and the bulk of magnetite stockpiled at that site has been removed. We are in the final stages of finalising the rehabilitation plan in conjunction with the Gauteng Department of Agriculture, Environment and Conservation.

We recognise that as a large steel company, we have a considerable environmental footprint. We are aiming beyond regulatory compliance, working towards operational excellence through significant investment and continual management improvements. Current economic conditions will inevitably lead to a revision of project timetables, but the end result will not change, namely: comprehensive compliance with environmental laws. The very nature of our business brings many challenges and constraints, but having an end product that is 100% recyclable puts us in an ideal position to meet these challenges.

CSI

We have identified the development of strong and sustainable communities wherever we operate as an important pillar of the company's overall corporate responsibility framework. This is an ambitious goal but one that we believe is achievable in time. By being more sensitive to local needs and priorities, we seek to ensure that we focus on tangible activities that deliver social and economic value in ArcelorMittal's footprint areas.

The ArcelorMittal South Africa Foundation has identified health, education, social inclusion and infrastructure development as the prerequisites to building sustainable communities. Our corporate social investment budget is thus focused on these areas.

In 2008, ArcelorMittal South Africa supported 20 social projects with a total monetary value of R21 million. Working with the Gauteng Department of Education, ArcelorMittal embarked on a major initiative in 2006 to improve local mathematics and science education. Approximately 1 900 learners and teachers attended classes from highly trained mathematics and science teachers at the ArcelorMittal Science Centre in Sebokeng last year. The 2008 class was the first group of Grade 12 learners to write the matric examinations. The schools that participate in this initiative achieved an above average pass rate in the examinations, giving us the first tangible indication of the effectiveness of this intervention. The model has now been replicated in the Western Cape, with the opening of the Saldanha Science Centre in December 2008.

In February 2009, we formally announced a R250 million partnership with the national Department of Education to build 10 schools in all nine provinces of South Africa over the next seven years using modern steel construction technologies. The sod turning ceremony for the first of these schools, Metsi a Bophelo Primary in Mamelodi, Tshwane, was held earlier this year and should be completed by the end of 2009.

The foundation also encourages the involvement of ArcelorMittal employees through the promotion of volunteering opportunities. The group took part in volunteering activities on International Volunteer Day last December.

More details of our corporate social responsibility programme can be found in the 2008 Sustainability Report.

Corporate governance

ArcelorMittal South Africa's business practice is underpinned by strict adherence to corporate governance standards as reflected in the company's Code of Business Conduct. The code aims to engender a culture of adherence and provides guidelines on the principles and practices to which we are committed. The board of directors takes ultimate responsibility for the company's adherence to sound corporate governance standards and sees to it that all business judgements are made with reasonable care, skill and diligence.

During the year, the composition of the board was changed with the introduction of new executive management to the company. Chief Executive Officer Nonkululeko Nyembezi-Heita and President Luc Bonte joined the board in March 2008, while Christophe Cornier and Arnaud Poupart-Lafarge were appointed non-executive directors in May and July respectively. We bade farewell to Rick Reato, Malay Mukharjee and Michel Wurth who stepped down during the reporting period.

The board undertook a vigorous external evaluation during the year which assessed the effectiveness of the board and each of its committees. The report revealed that the board composition contained the correct mix of skills and experience required by the company and moreover, the board and the committees were found to be functioning effectively. The board will continue to conduct the evaluation exercise on an annual basis.

The board welcomes the comprehensive changes being introduced to the South African governance framework by the new Companies Act and the King III code and is in the process of reviewing the company's internal systems, policies and procedures to ensure full compliance with the Act and code when they come into force in 2010.

The board remains firmly committed to ensuring compliance with all relevant laws, regulations and to the highest standards of ethical conduct by constantly striving to improve the company's governance model. Accountability and responsibility to all stakeholders rank among the most cherished principles held by the ArcelorMittal board as are transparency, quality of disclosure and clear communication with shareholders.

Appreciation

I would like to extend my deepest appreciation to all ArcelorMittal South Africa employees for their invaluable contribution to the success of the organisation over the past year and to the considerable sacrifices they have had to make over the last few months. In this regard, I especially wish to acknowledge members of the senior management team for their support, guidance and unstinting sharing of their knowledge and experience. We are grateful to our board members for their strong support and ongoing advice and guidance.

Conclusion

Despite severe business challenges, ArcelorMittal South Africa emerged from 2008 as a stronger company, both operationally and financially. We have a strong balance sheet and negligible debt. Investment in our operations has ensured that we can swiftly adjust our production levels to varying demand patterns. We remain home to some of the best technical skills in the country and have developed a training pipeline that will ensure we have an ample supply of skills on which we can draw for our future expansion.

We are committed to the highest standards of corporate responsibility in good and bad times. As a global group, our stated goal is to provide the leadership that will transform the future of the steel industry and societies around us. To succeed, we must demonstrate two attributes, namely: sustained financial performance through the economic cycle of steel and a willingness to address the environmental, social and wider economic challenges of our time in an open and transparent manner. It is our conviction that business growth, sustainable communities and the creation of value for our shareholders go hand-in-hand.

Operational review and locations

Vanderbijlpark Works

is the largest inland steel mill in sub-Saharan Africa, with two Blast Furnaces, three electric arc furnaces and three basic oxygen furnaces. It has a capacity of 4.4 million tonnes of liquid steel per annum, which is converted into a range of steel sheeting and plates. This output constitutes around 82% of the company's flat steel production. Vanderbijlpark Works employs 4 723 people.

Saldanha Works

has a capacity of 1.2 million tonnes of liquid steel per annum, most of which is destined for the export market. It also produces high quality ultra thin hot rolled coil. It is the only steel mill in the world to have successfully combined the Corex and Midrex process into a continuous chain. This replaces the need for coke ovens and Blast Furnaces, and contributes to making Saldanha Works a world leader in emission control and environmental management. It employs 557 people.

Vereeniging Works

which employs around 954 people, is South Africa's major supplier of speciality steel products, seamless tube and forge products. At full capacity it delivers around 0.4 million tonnes of final product per annum, of which around 18% was exported last year.

Newcastle Works

is rated among the world's lowest billet cash-cost producers, after an intensive re-engineering programme. With one Blast Furnace, three basic oxygen furnaces and four rolling mills, this operation has a capacity of 1.8 million tonnes of liquid steel annually. Products include low, medium and high carbon steels, alloy steels, bar, structural sections and rails. Over 1 950 people work at Newcastle.

The Coke and Chemicals

operation comprises three coke batteries in Newcastle, Vanderbijlpark and Pretoria. They produce commercial coke for the ferro-alloy industry, supplying more than half of South Africa's requirements. In addition, Coke and Chemicals produces metallurgical by-products, including coal tar pitch.

Division

Flat steel products

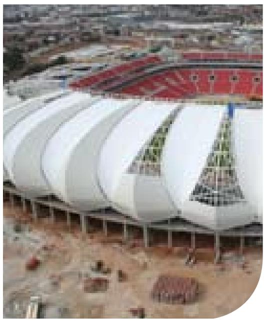
ArcelorMittal South Africa produces flat steel products at its Vanderbijlpark and Saldanha operations. Vanderbijlpark is the largest supplier of flat steel products in sub-Saharan Africa.

Long steel products

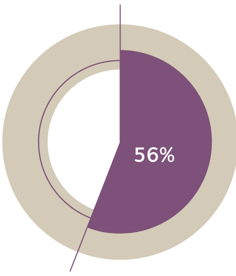
The long steel products division produces a range of long steel products at the integrated steel works at Newcastle and the electric arc furnace-based facility at Vereeniging Works. These products include bar, billets, blooms, hot-finished and cold-draw seamless tubes, window and fencing profiles, rod and light, medium and heavy sections.

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 pitch.

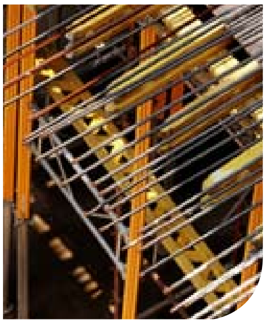


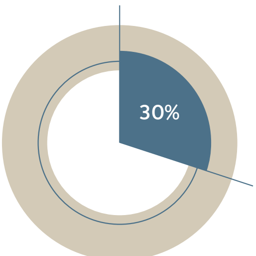
Contribution to operating income



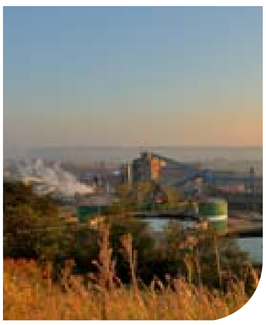
Operating results

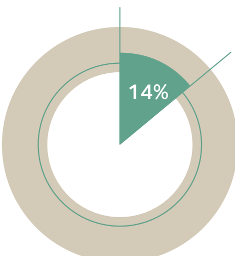
	2008	2007
Revenue (Rm)	**25 513**	19 240
Net operating income (Rm)	**7 007**	4 827
Employees	**5 280**	5 119





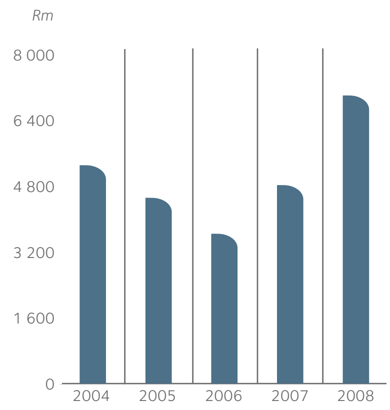
	2008	2007
Revenue (Rm)	**12 950**	9 238
Net operating income (Rm)	**3 672**	2 652
Employees	**3 008**	2 868





	2008	2007
Revenue (Rm)	**3 563**	2 065
Net operating income (Rm)	**1 743**	727
Employees	**273**	265

Operating profile – Flat steel products



Flat steel products

ArcelorMittal South Africa produces flat steel 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 Works meets more than three-quarters of South Africa's flat steel requirements.

Saldanha, which produces thin and ultra thin gauge hot rolled coil for domestic and 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 Vanderbijlpark Works, its 1.2 million tonnes of liquid steel per annum amount to a combined capacity of 5.6 million tonnes.

Operational results for the year ended 31 December	2008	2007
Revenue (Rm)	25 513	19 240
Net operating income (Rm)	7 007	4 827
Liquid steel production ('000t)	4 084	4 231
Sales volumes ('000t)	3 412	3 928
– Domestic	2 835	2 886
– Export	577	1 042
Domestic sales (%)	83	73
Capital expenditure (Rm)	1 035	1 443
Hot-rolled coil (HRC) export price – USD/t (c&f)	966	659
Number of employees	5 280	5 119
Total HRC cash cost Rand per tonne	4 032	2 538
Total HRC cash cost US Dollar per tonne	491	360

2010
FIFA Soccer World Cup

Supporting Africa's showcase sporting event

The 2010 FIFA World Cup has become the focus of the infrastructure investment drive currently taking place in South Africa. Ten stadiums in nine cities have been selected to host the event which kicks off in June 2010. Five new stadiums are being built, including Port Elizabeth's Nelson Mandela stadium, pictured here, while five existing stadiums are being refurbished and upgraded.

Both long and flat steel products are being utilised in the construction programme. The company's products are being used, amongst other venues, in Johannesburg's spectacular Soccer City stadium as well as the new Orlando stadium in Soweto, home to the Orlando Pirates football club and one of the training facilities for 2010.

Vanderbijlpark Works

Markets

Domestic

Total dispatches of flat steel products in 2008 were 2% lower than 2007. Fourth quarter sales slumped by 45% (compared with the third quarter) and more than offset a year-on-year increase of 9% for the first three quarters of the year. Sales were also affected by a slowdown in production in the first half of the year as a result of electricity outages. In expectation of further price rises many ArcelorMittal South Africa customers also built up stock in the second and third quarters. However high inventory levels remained in the fourth quarter as the lagged effect of interest rate increases and high inflation on consumers' disposable incomes, as well as a decline in business emanating from the global financial crisis, depressed sales. Only the construction sector managed to maintain a relatively high rate of steel consumption.

As a result of steel shortages, especially in the first half of 2008, we serviced our demand from the domestic market first – 83% of total flat steel product sales in 2008 were sold locally, compared to 74% the previous year.

International

Exports of flat products in 2008 declined by 43% in comparison to the previous year and the share of exports to total sales dropped from 26% in 2007 to 17% in 2008. Exports outside the African region accounted for only 7% of total flat steel product sales, compared to 11% in the previous year, emphasising our strategy to focus on markets in Africa. In 2008 our net realised export prices for flat products were on average 61% higher than 2007, while prices decreased by 8% during quarter four compared to quarter three.

Operational results

The operating profit for flat steel products increased by 45% during the year from R4 827 million in 2007 to R7 007 million in 2008. This is particularly pleasing given the decline in production and sales volumes.

Liquid steel production declined by 147 000 tonnes during 2008 as a result of the production cutbacks in the fourth quarter while the Corex and Midrex relines at Saldanha Works also limited output during the first half of the year.

The cash cost per tonne of hot rolled coil produced increased by 59% year-on-year amid surging prices of major input materials, led by coal, scrap and alloys.

Vanderbijlpark Works

The year started with a continuation of the cold hearth conditions experienced on Blast Furnace D from December 2007. The furnace was fully recovered on 7 January 2008 and a new monthly liquid iron production record was achieved in April 2008.

Liquid steel production in Vanderbijlpark was also affected by the electricity supply shortages experienced in late January 2008. The electric arc furnaces were stopped for a week in January and operations were continued on only two furnaces for the bulk of the year. Operation on all three furnaces was possible only for relatively short periods of time when electricity demand in other operations of the company was low.

Notwithstanding the power shortages many of the production problems that beset the plant previously have been addressed. Illustrating the improved quality performance, internal rejections at Vanderbijlpark Works reached a new low in 2008.

Operational review continued

Markets (%) of total sales	2008	2007
Geographical sales distribution		
South Africa	83	74
Africa	10	15
Asia	7	10
Europe	0	1
Local market segmentation		
Building and construction	37	36
Pipe and tube (welded)	24	25
Packaging	14	13
Automotive	13	14
Mining, energy, water, chemicals and gas	5	5
Furniture and appliances	3	3
Machinery and equipment	2	2
Agriculture	1	1
Transportation	1	1

The electric arc furnaces and DR kilns were stopped in October due to the drastic drop in demand for steel. Personnel were redeployed to other areas to reduce the dependency on hired labour. Blast Furnace D was stopped in November 2008 and was restarted only during February 2009.

Saldanha Works

Production at Saldanha was adversely affected by the electricity shortages, particularly in January, as well as the failure of vacuum pumps in the VPSA section of the Midrex plant throughout the year. New pumps were ordered but will be available only in 2009.

However, Saldanha Works also set a number of production firsts, including a record low fuel rate in the Corex plant, three months of continuous operation without a breakout on the thin slab caster, the highest casting tempo on the thin slab caster to date as well as several new thin gauge production records. Good progress was also made with the production of ultra thin – below 1.09 mm – gauge HRC.

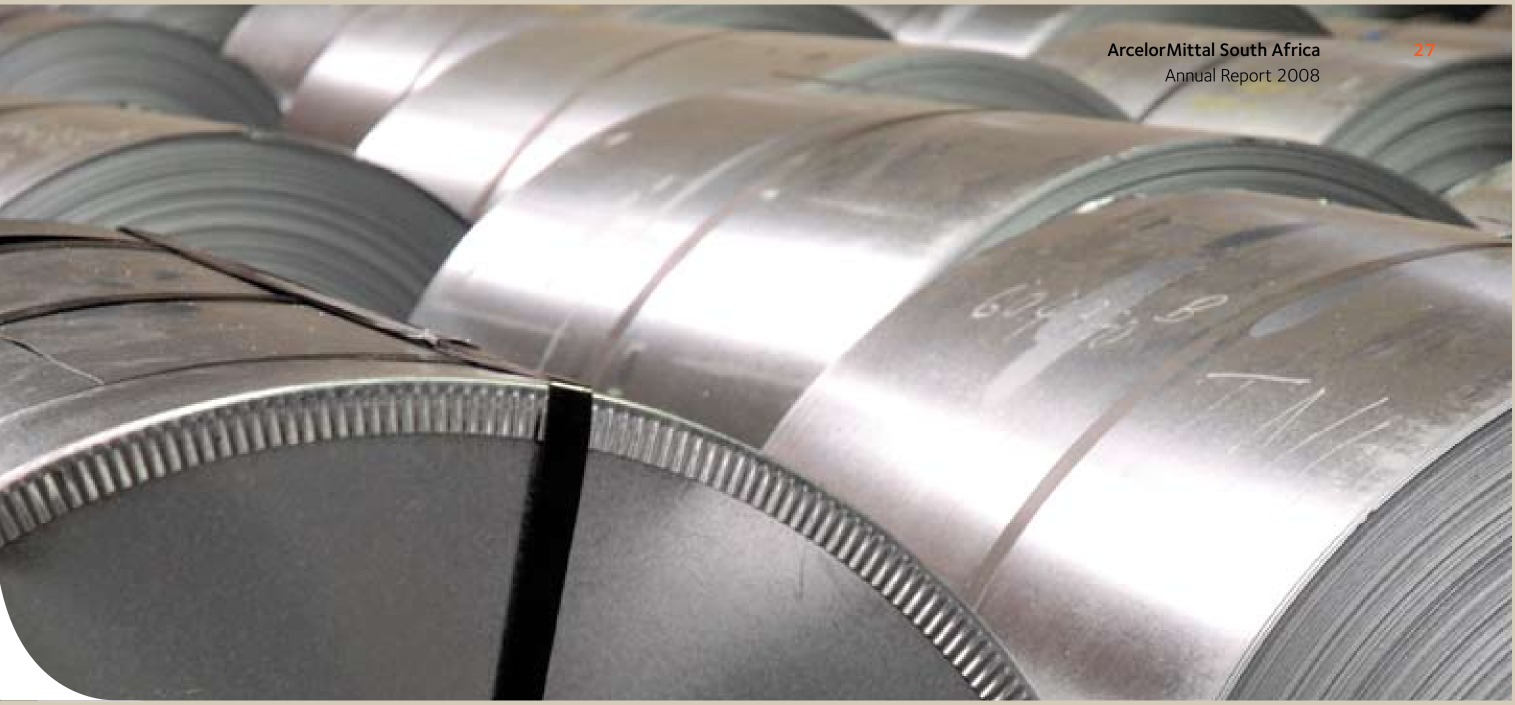
Safety, health and environment

The safety performance at the flat steel division, as measured by the lost time injury frequency rate (LTIFR), was a mixed one. Vanderbijlpark improved its LTIFR from 2.53 in 2007 to 2.44 in 2008 and Saldanha Works from 2.3 to 2.1. During the year Vanderbijlpark Works achieved three million lost time injury free hours and Saldanha Works two million. The Corex and Midrex relines started in February and were completed in April with no lost time injuries. Tragically, a fatal incident at Saldanha Works on 22 September 2008 led to the loss of life of an employee and a contractor, who died from exposure to carbon monoxide gas.

A special task force was established by ArcelorMittal South Africa in May 2008 to address the many environmental issues experienced in Vanderbijlpark and to prepare for a November 2008 inspection audit by the Green Scorpions. This made a significant contribution towards achieving greater environmental awareness throughout the Works. Simultaneously the company started interactions with local Vanderbijlpark communities as well as NGOs about our environmental legacy.

Investment in environmental projects continued at Vanderbijlpark Works. The ceramic welding programme at the coke oven batteries was completed in September 2008 and has already contributed to an improved emission performance. The commissioning of the Coke Gas and Water Cleaning project will lead to a reduction of 40% in SO_2 emissions at Vanderbijlpark.

The Green Scorpions audit took place from 3 – 7 November 2008 and a final report is still awaited.



Capital expenditure

Two new DRI kilns at Vanderbijlpark Works, with a combined capacity of 350 000 tonnes a year, are set to be commissioned in the first half of 2009 at an estimated cost of R600 million. In response to the global economic slump a number of major expansion projects have been put on hold pending revision of ArcelorMittal South Africa's growth strategy. The original expansion programme for flat steel products included a new galvanising line, a new colour-coating line as well as a co-generation power plant at Vanderbijlpark Works. However, the company remains committed to growing its business in the medium to long term and will continue to monitor all indicators to evaluate the timing of its capital expenditure plan. Environmental projects, and those that will improve the safety of our operations, will continue to be funded as far as possible.

Spending on two major projects continued during the year. The Coke Gas and Water Cleaning plant at Vanderbijlpark Works has experienced commissioning delays, but will be operational during the first quarter of 2009, while the Corex and Midrex relines at Saldanha Works were successfully completed in April 2008.

The year ahead

Domestic flat steel demand is expected to remain under pressure for most of 2009. A decline in inflation, further possible interest rate cuts and government's commitment to continue with its infrastructure programme, should boost consumer and investment spending towards the latter part of 2009.

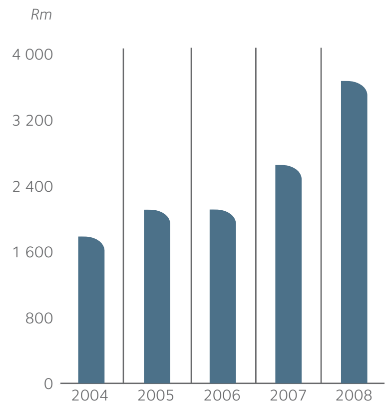
Internationally, steel production and consumption in 2009 are expected to be well below 2008 levels. Furthermore, economic activity outside China is expected to be sluggish, especially in North America and Western Europe. A return to stability is only expected in the second half of 2009 when production cuts should bring the market closer to equilibrium.

The commissioning of the two new DRI kilns at Vanderbijlpark Works will make the operation less dependent on scrap as feedstock for the Electricity Arc Furnaces and will have a positive impact on the plant's cost structure. The kilns will also boost liquid steel manufacturing capacity by 220 000 tonnes a year.

While international commodity prices have declined sharply since September 2008, the impact on the cost of production will be delayed until the middle of 2009 when new raw material contract prices will come into effect. In order to cushion the company from the worst effects of the global financial crisis a wide range of measures were introduced, focusing on a reduction in fixed costs and cash management.

Capital expenditure for the year ended 31 December (Rm)	2008	2007
Value-adding	287	490
Replacements	672	907
Environmental	76	46
Total	1 035	1 443

Operating profit – Long steel products

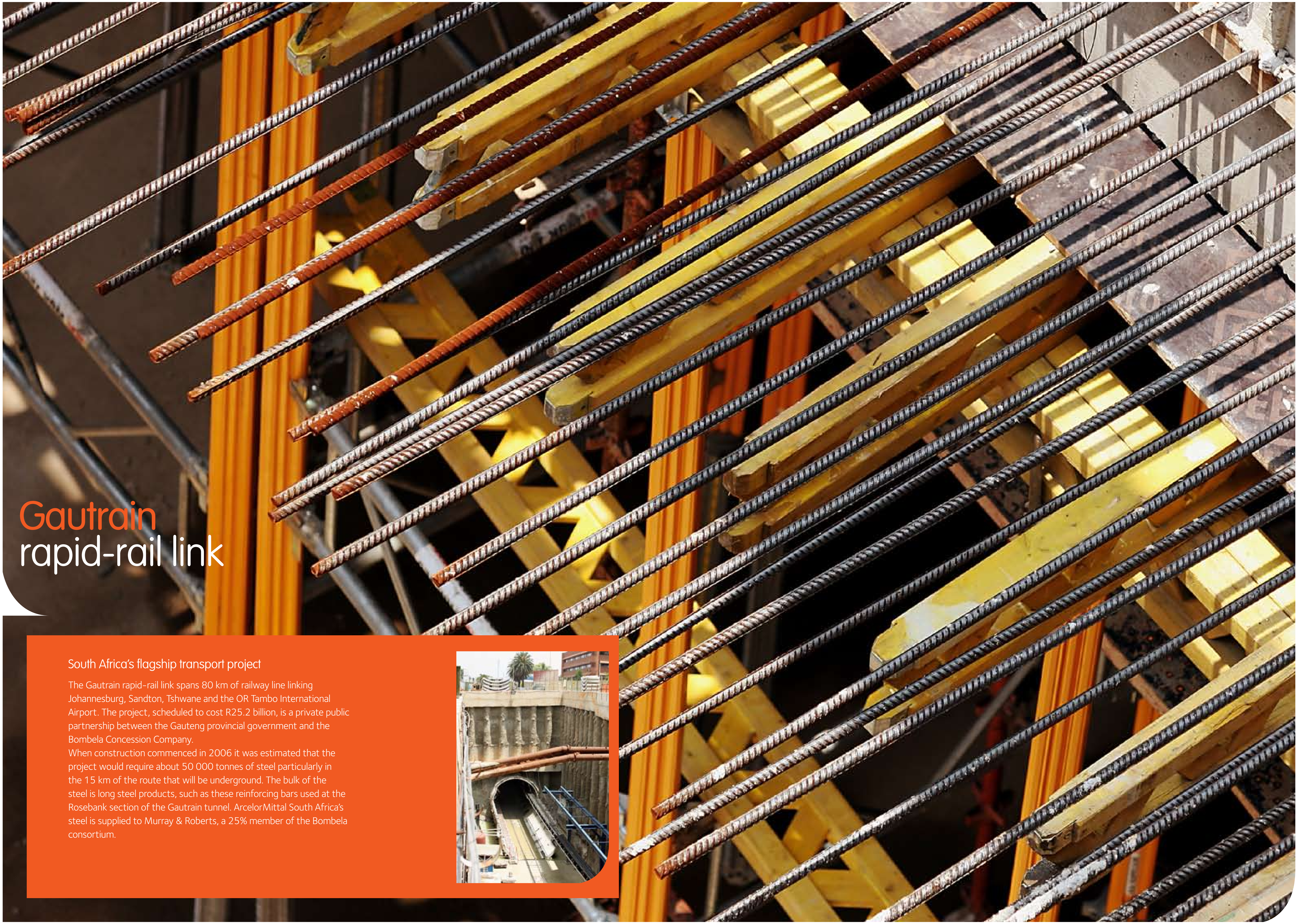


Long steel products

The long steel products division produces a range of products at the integrated steel works at Newcastle and the electric arc furnace at Vereeniging Works. These products include bar, billets, blooms, hot-finished and cold-drawn seamless tubes, window and fencing profiles, light, medium and heavy sections and rod. The biggest market is the building and construction industry which accounted for almost 50% of sales in 2008. Other significant markets are the mining, automotive, agricultural, engineering, manufacturing and petrochemical industries.

The division's combined annual production capacity is 2.2 million tonnes of liquid steel, with Newcastle Works accounting for the bulk of this at 1.8 million tonnes. It supplies around 50% of the local market's demand for long steel products and is also a strong competitor in various export markets, thanks to its ability to provide high-quality products at competitive prices.

Operational results for the year ended 31 December	2008	2007
Revenue (Rm)	12 950	9 238
Net operating income (Rm)	3 672	2 652
Liquid steel production ('000t)	1 690	2 144
Sales volumes ('000t)	1 677	1 899
– Domestic	1 540	1 535
– Exports	137	364
Domestic sales (%)	92	81
Capital expenditure (Rm)	541	346
Average low carbon wire rod export price – USD/t (c&f)	909	592
Number of employees	3 008	2 868
Total billet cash cost Rand per tonne	3 822	2 310
Total billet cash cost US Dollar per tonne	466	327



Gautrain rapid-rail link

South Africa's flagship transport project

The Gautrain rapid-rail link spans 80 km of railway line linking Johannesburg, Sandton, Tshwane and the OR Tambo International Airport. The project, scheduled to cost R25.2 billion, is a private public partnership between the Gauteng provincial government and the Bombela Concession Company.

When construction commenced in 2006 it was estimated that the project would require about 50 000 tonnes of steel particularly in the 15 km of the route that will be underground. The bulk of the steel is long steel products, such as these reinforcing bars used at the Rosebank section of the Gautrain tunnel. ArcelorMittal South Africa's steel is supplied to Murray & Roberts, a 25% member of the Bombela consortium.

Newcastle Works

Markets

Domestic

Sales of long steel products in 2008 improved by 7% in the first three quarters as spending on infrastructure projects continued. At the same time merchants accelerated speculative purchases to take advantage of surging global steel prices. But long product sales slumped in the fourth quarter which led to zero growth in sales for the year as a whole. ArcelorMittal South Africa is committed to meeting domestic sales first and 92% of total long product sales in 2008 were sold domestically compared with 81% in 2007.

While the South African government remains committed to its infrastructure programme, private sector spending has slumped making it unlikely that last year's expected 11.5% overall rise in gross fixed capital formation will be repeated in 2009.

International

Export sales of long steel products in 2008 were 62% lower than the previous year as a result of the steel shortages during the first half of the year following the mini-reline of Blast Furnace N5 at Newcastle Works and the slump in demand in the fourth quarter. Shipments outside the African region accounted for only 5% of total long steel product sales, compared with 9% in 2007. This reflected the consistent strong demand from the South African construction sector and the company's commitment to give priority to the domestic market. The average net realised export prices for long steel products, rose 28.5% in 2008 and reached a record level in the third quarter.

Operational results

The net operating income of the long steel products division increased by 38% to R3 672 million in 2008 from R2 652 million in 2007, reflecting the rise in steel prices.

Liquid steel production declined by 454 000 tonnes during the year as a result of the production cutbacks in the fourth quarter to match lower demand levels. The mini-reline of Blast Furnace N5 at Newcastle Works also disrupted output in the second quarter.

The cash cost per tonne of billet produced increased by 65% year-on-year following the substantial hike in raw material prices. Scrap prices

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Operational review continued

Markets (% of total sales)	2008	2007
Geographical sales distribution		
South Africa	92	81
Africa	3	10
Asia	3	6
Europe	1	2
Americas	1	1
Local market segmentation		
Building and construction	48	46
Machinery and equipment	20	21
Mining, energy, water, chemicals and gas	17	18
Automotive	8	8
Agriculture	5	5
Furniture and appliances	2	2

in particular rose steeply contributing to the sharp escalation in the production cost of billets at Vereeniging Works which is a scrap-based plant.

Newcastle Works

The mini-reline of the N5 Blast Furnace in Newcastle started in May 2008 and was completed in 45 days, ahead of schedule. The ramp-up of the furnace was also faster than planned. Several monthly throughput records were also achieved on the Billet and Bar Mills.

The sales slump from mid-September 2008 onwards forced a cut back in production at Newcastle Works from October onwards and on 4 December 2008 the Blast Furnace was shut down. It was blown in again at the end of December.

Vereeniging Works

Vereeniging Works had an excellent operational and financial year and achieved record throughput levels on almost all its facilities, before the slump in demand reduced output levels in the fourth quarter.

Maputo Works

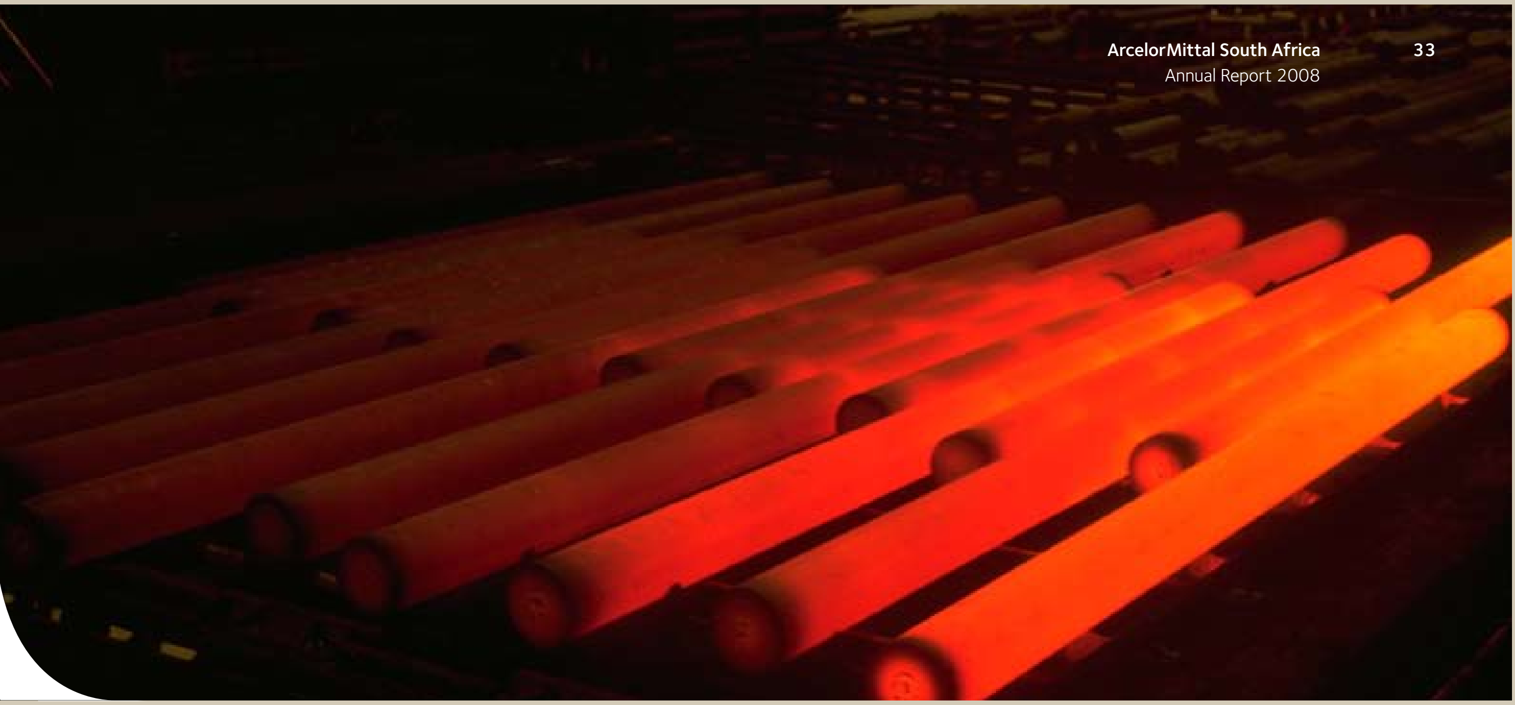
The small rolling mill ArcelorMittal South Africa bought in Maputo, Mozambique, in 2006, started production in May 2008, but the slump in demand forced us to stop production towards the end of 2008.

Safety, health and environment

The lost time injury frequency rate (LTIFR) for Newcastle Works at 1.73 is the best among our operations, but a slight deterioration from the 1.25 recorded in 2007. At Vereeniging Works the rate improved from 2.5 to 2.25 during the year. Newcastle Works achieved two million disabling injury free hours during the year and Vereeniging Works achieved one million hours.

Environmental investments in the long products division this year are headed by the effluent treatment projects at Newcastle Works for 2009. This project will comprise a new evaporator crystalliser and an upgrade of the Reverse Osmosis (RO) plant.

At Vereeniging Works significant improvements were reported in the control of fluoride levels in the effluent discharged from the Works, while dust emission levels at the Dunswart DRI plant in Benoni, were drastically reduced before the operation was mothballed in October 2008.



Capital expenditure
The economic downturn has also impacted on the growth strategy and investment programme at long steel products. At Newcastle Works the planned Blast Furnace N6 – ArcelorMittal South Africa's largest expansion project – as well as the new billet caster and bar/section mill were put on hold until a return to sustainable growth levels in the steel industry. Even then all projects will be re-evaluated as to their feasibility under prevailing market conditions.

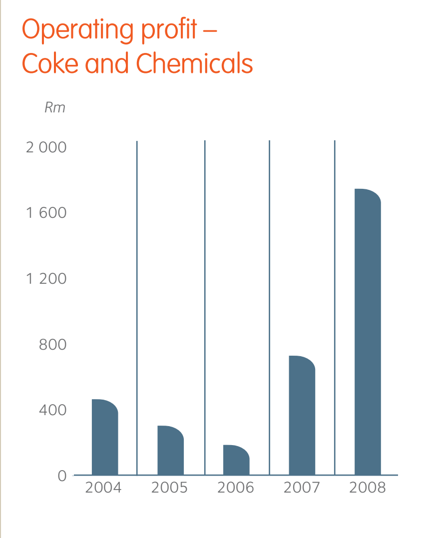
The dust extraction system for the Electric Arc Furnace at Vereeniging Works is progressing well and on track for completion in early 2010.

The year ahead
The market outlook for long steel products is similar to that of the flat products division, with demand and prices expected to remain depressed for most of the year. However, the operation will be less affected by the sharp fall in demand for consumer products, such as vehicles and other durable goods.

With demand levels low, both Newcastle and Vereeniging Works will not be running at full capacity. But we are on standby to increase production volumes when demand improved.

Although commodity prices showed a significant drop since the fourth quarter of 2008, the bulk of the benefit will only start to flow through from the second quarter of 2009 when the new contract prices will come into effect. Similar to flat products, measures to curb the impact of the global financial crisis were also introduced at the long products division to reduce costs and optimise working capital.

Capital expenditure for the year ended 31 December (Rm)	2008	2007
Value-adding	**48**	111
Replacements	**352**	159
Environmental	**141**	76
Total	**541**	346



Coke and Chemicals

The core business of ArcelorMittal South Africa's Coke and Chemicals' operation is the production of commercial coke for the ferro-alloy industry from coke batteries located in Pretoria, Newcastle and Vanderbijlpark. We also process and beneficiate metallurgical and steel by-products, including coal tar.

Operational results for the year ended 31 December	2008	2007
Revenue (Rm)	**3 563**	2 065
Net operating income (Rm)	**1 743**	727
Capital expenditure (Rm)	**23**	59
Sales volumes ('000t)	**2 167**	2 250
– Coke	**814**	992
– Tar	**140**	143
– Other	**1 213**	1 115
Number of employees	**273**	265

Pretoria Works

Operational results

A sharp rise in international coke prices is the main reason for the record financial performance of the division in 2008. Revenue increased from R2 065 million in 2007 to R3 593 million in 2008, while net operating profit surged from R727 million in 2007 to R1 743 million in 2008.

Market conditions

The division boosted its level of market coke production amid a lower internal demand for coke during the mini-reline of Blast Furnace N5 in Newcastle, the throat armour repair of Blast Furnace C in Vanderbijlpark and the relines of the Corex and Midrex plants at Saldanha Works. This enabled Coke and Chemicals to sell a large part of its output at higher market levels.

But since October 2008 the market for commercial coke has been hard hit by the downscaling and closure of a number of ferro-alloy smelters. Cutbacks in coke production have been implemented from November onwards. Production has stopped in Newcastle and Vanderbijlpark and is now only continuing, at significantly reduced levels, at the Pretoria coke battery.

Capital expenditure

In 2008 ArcelorMittal Coke and Chemicals spent R23 million on maintenance, safety and environmental projects. Investments in 2009 are likely to be below last year's level.

Safety, health and environment

The safety performance at Coke and Chemicals, as measured by the lost time injury frequency rate (LTIFR), deteriorated from 1.6 to 5.4 between 2007 and 2008 following a spate of injuries experienced in the first quarter of 2008. Various interventions were launched to improve its safety performance. The division is ISO 14001 and OHSAS 18001 certified.

The year ahead

The division's financial performance this year is forecast to be substantially below that of 2008, due to the sharp fall in demand from the domestic ferro-alloy industry and a lower international coke price.

Finance report

This report should be read in conjunction with the financial statements presented on page 56 to 197 of this annual report.

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 from 1 January 2008.

The principal accounting policies and methods of calculation are consistent with those applied in 2007 except for the early adoption of new and revised standards and interpretations as set out in our accounting policies. The new standards did not have a significant impact on our financial results.

Headline earnings

Headline earnings for 2008 increased by 65% to R9 484 million from R5 741 million in the previous year. This substantial increase was driven by higher global steel prices, a significantly improved income contribution from our Coke and Chemicals business, as well as higher gains on foreign exchange transactions and financial instruments. Lower sales volumes and escalating costs partially offset these gains.

Revenue increased by 36% to R39 914 million due to higher global steel prices, while average net export prices were 45% higher year-on-year in US dollar terms and 70% in Rand terms. Sales volumes were down 13% compared to 2007 as domestic and export volumes declined by 1% and 49% respectively.

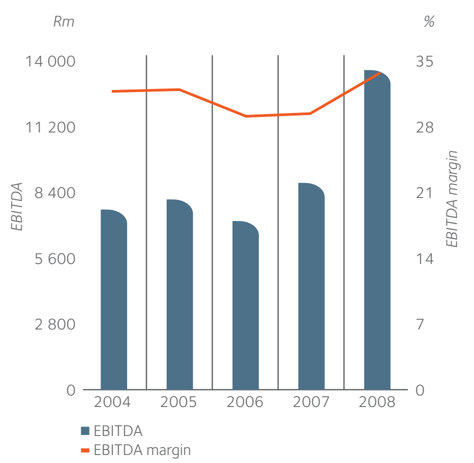
Included in profit from operations is an impairment charge of R121 million. This represents the write down of the plant and equipment at the Maputo Works of R93 million and R28 million at the Dunswart Direct Reduction facility in Benoni after production was temporarily stopped at both plants. A decision on whether to reopen the facilities will depend on future market conditions.

Gains on foreign exchange and financial instruments of R637 million represents a profit on the revaluation of our US Dollar cash balance and receivables after the Rand weakened by 38% during the year from R6.81 to R9.39/USD.

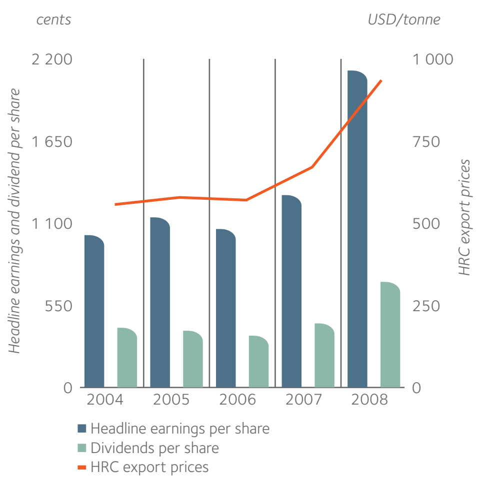
Interest income decreased by 28% after the capital reduction of R6 352 million in the latter part of 2007 led to a lower average cash balance last year.

Finance costs increased from R117 million to R238 million due mainly to the increase in the provision for environmental rehabilitation. The average discount rate used at the end of December 2008 was 10.75% compared to an average rate of 11.25% at the end of 2007. The decrease of 50 basis points led to a R8 million finance charge for 2008. In 2007 a 195 basis point rise in the discount rate resulted in finance cost credits of R79 million.

EBITDA and EBITDA margin



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



The following table provides a comparable view of our earnings for 2008:

	Year ended 31 December 2008 Rm	% change	2007 Rm
Revenue	**39 914**	36	29 301
Profit from operations	**12 159**	58	7 703
Gains/(losses) on changes in foreign exchange rates and financial instruments	**637**	586	(131)
Interest income	**318**	(28)	442
Finance costs	**(238)**	103	(117)
Income from investments	**3**	(25)	4
Income from equity accounted investments (net of tax)	**331**	23	270
Impairment reversal	**36**		
Income tax expense	**(3 865)**	57	(2 455)
Profit attributable to owners of the company	**9 381**	64	5 716
Earnings per share (cents)	**2 105**	64	1 282
Profit for the year	**9 381**	64	5 716
Adjusted for:			
Loss on disposal or scrapping of assets	**39**	26	31
Book value of assets held-for-sale written off			4
Impairment charge	**121**		
Impairment reversal	**(36)**		
Tax effect	**(21)**	110	(10)
Headline earnings	**9 484**	65	5 741
Headline earnings per share (cents)	**2 128**		1 288

Equity earnings of R331 million increased by 23% from R270 million in 2007, amid improved profits from Macsteel International Holding, our marketing and shipping joint venture.

Income tax expense increased by 57%, mirroring the 58% improvement in our operating profit. The effective tax rate in 2008 was slightly lower at 29.2% compared with the 30% rate for 2007 as government reduced the corporate tax rate from 29% to 28% during the year.

The following quarterly headline earnings table illustrates our recent earnings trends and the impact of price and exchange rate movements on headline earnings:

	HRC sales price CFR USD/t	Headline earnings USDm	Headline earnings Rm	Exchange rate R/USD
2007				
March	605	211	1 530	7.24
June	687	229	1 624	7.10
September	676	148	1 055	7.11
December	669	226	1 532	6.77
Average	659	203	1 435	7.06

	HRC sales price CFR USD/t	Headline earnings USDm	Headline earnings Rm	Exchange rate R/USD
2008				
March	**729**	**265**	**2 003**	**7.55**
June	**936**	**330**	**2 573**	**7.79**
September	**1 317**	**485**	**3 772**	**7.78**
December	**881**	**114**	**1 136**	**9.93**
Average	**966**	**287**	**2 371**	**8.26**

Profit from operations

Profit from operations increased by 58% to R12 159 million, with profit from flat carbon steel products rising by 45% and long carbon steel products by 38%. The Coke and Chemicals division boosted its operating profit by 140%, while the group's overall operating margin improved from 26% in 2007 to 30% to 2008.

Both flat and long carbon steel businesses benefited from higher international steel prices. Average flat carbon steel product prices rose by 61% and average long carbon steel product prices by 63% year-on-year. Operating results were partially offset by 13% lower sales volumes and an increase in raw material costs.

Finance report continued

The earnings details per operating segment are provided below:

	Year ended 31 December			
	2008		2007	
	Rm	**Margin %**	Rm	Margin %
Flat carbon steel products	**7 007**	**27**	4 827	25
Long carbon steel products	**3 672**	**28**	2 652	29
Coke and Chemicals	**1 743**	**49**	727	35
Corporate and other	**(263)**		(503)	
Profit from operations	**12 159**	**30**	7 703	26

The strong performance of the Coke and Chemicals business was mainly due to increases of 125% in the international price of market coke in 2008.

Cost performance

Cash costs per tonne of hot rolled coil and billets rose sharply by 59% and 65% respectively compared to 2007. This was mainly due to the surge in input material costs: coking coal prices increased by 102% and PCI coal by 181%, while scrap prices were on average 125% higher. The costs of iron ore pellets and iron ore rose by 84% and 32% respectively.

Employee costs increased by 18% as more hired labour and more overtime was used during the relines at Saldanha Works and the mini-reline at Newcastle Works. Other operating expenses were up by 16% following higher prices charged for services such as sub-contractors and civil works.

Since the onset of the crisis in the steel industry we acted immediately to curtail costs further. A number of strategies were implemented including:

- A large portion of hired labour and temporary staff contracts were not renewed or cancelled.
- Employees were redeployed.
- Overtime payments were sharply reduced.
- Labour cost cuts of 10% targeted.
- The reduction of sales and general administration costs by up to 50%.

Cash flow

We reported a strong net cash flow of R3 577 million in 2008. (In 2007 cash flow was a negative R3 564 million following the R6 352 million capital reduction.) The cash flow breakdown shows that R14 330 million in profits from operations was partially offset by a R3 391 million increase in working capital, capital expenditure of R1 832 million, income tax payments of R3 087 million and R2 398 million in dividends payments.

Higher input material costs and a rise in inventory levels lifted our inventories by R4 067 million. A decline in trade receivables and a higher level of trade payables offset the increase in working capital, due to higher inventories, by R860 million at year-end.

Cash flows are detailed below:

	Year ended 31 December	
	2008 Rm	2007 Rm
Cash profit from operations	**14 330**	9 044
Working capital	**(3 391)**	(605)
Cash generated from operations	**10 939**	8 439
Interest income	**318**	442
Finance costs	**(59)**	(73)
Investment income and dividend from equity-accounted investments	**17**	108
Realised foreign exchange movement	**(202)**	(28)
Income tax paid	**(3 087)**	(2 209)
Dividend paid	**(2 398)**	(1 948)
Capital reduction		(6 352)
Capital expenditure	**(1 832)**	(1 852)
Proceeds from disposal of property, plant and equipment	**2**	8
Investment in associate		(16)
Repayment of borrowings and finance lease obligations	**(121)**	(83)
Increase/(decrease) in cash	**3 577**	(3 564)

Dividend

The board decided to maintain a dividend payment of one-third of headline earnings for 2008, taking into account the company's current cash position as well as future capital expenditure and working capital requirements and the bleak outlook for the domestic and global steel market.

A final dividend of 365 cents per share payable to shareholders registered at close of business on 13 March 2009 was declared by the board. This, together with the interim dividend of 342 cents per share, paid on 1 September 2008, lifted the total dividend for the year to 707 cents per share. The final dividend, together with the 10% Secondary Tax on Companies will be recorded in the 2009 financial results.

Share performance

The company's average share price for 2008 was R165.98 with a high of R265.00 in June and a low of R58.65 during November. In 2007 the average was R125.25 with a high of R153.00 in December and a low of R91.53 in January.

Liquidity in our shares remains high with 163% of the available shares being traded during the 12 months. Daily average share trading in our stock last year was valued at R217 million compared to R122 million in 2007.

Our average dividend yield of 4.6% over the past five years compares with the market average of 2.7%, while our average price/earnings ratio of 8.8 times remains well below the market average of 14.8 times.

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 rate, as well as the pricing of commodities in US Dollars. During 2008 the Rand weakened by 38% against the US Dollar.

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

	2008		2007	
	Average	Closing	Average	Closing
March	7.55	8.10	7.24	7.28
June	7.79	7.83	7.10	7.07
September	7.78	8.27	7.11	6.88
December	9.93	9.39	6.77	6.81
Year	8.26	9.39	7.06	6.81

In Rand terms, changes in the exchange rate have a significant influence on our earnings as approximately 19% of our products were exported each year over the last two years. Furthermore our domestic steel prices are also influenced by movements in the exchange rate. Our domestic pricing model is derived from a basket of domestic prices in both developing and developed countries.

We manage our exchange rate exposure by matching foreign currency revenues with expenditures and entering into economic exchange rate hedges.

Our risks to unforeseen changes in base metal prices have been managed by an active hedging policy that is coordinated with our parent company. Since mid-2008 we have not taken any further hedged positions following the collapse in commodity prices. Amid fears of a deeper and wider global recession, expectations of further base metal price declines mitigate against further hedges. We will monitor market movements in 2009 to determine if and when hedging activities should resume.

Financial risk management

The worsening of the financial crisis in the fourth quarter of the year under review forced us into reviewing the management of a number of key financial risks: credit risk, bank relationships, counterparty exposure and liquidity risk.

Our credit default risk is mitigated through sufficient collateral, an extensive credit insurance policy and continual assessment of customer risk profiles within specified credit limits.

Our risk of banking exposure has been addressed by diversifying our business between a number of banks based on performance and competitiveness.

The management of counterparty risk depends on the counterparty's credit rating which determines the exposure we can take. Exposure against board-approved counterparty limits is monitored on a continual basis.

Finally, we forecast the expected liquidity reserve on the basis of likely cash flows. By the end of 2008 we had a strong balance sheet and virtually no debt. Our cash position of R8 429 million at the end of 2008 is more than double the R4 034 million we held at the end of 2007. It will be utilised for dividends and tax payments as well as investment in crucial capital projects that cannot be postponed.

Corporate governance is an integral part of ArcelorMittal South Africa's business practice and is fully endorsed by its board of directors. Principles contained in the King Code of Corporate Practices and Conduct (King II) have been adopted in the company's corporate governance structures and have been materially complied with in the year under review. ArcelorMittal South Africa is fully committed to entrenching and upholding the King II corporate governance standards.

Corporate governance

Board of directors

The ArcelorMittal South Africa board has been constituted in accordance with the King Code of Corporate Practices and Conduct (King II) as a unified board structure. It consists of 13 directors of which 10 are non-executive and three executive, being the CEO, President and CFO. Of the 10 non-executive directors, five are independent including the Chairman.

CHAIRMAN
Dr KDK Mokhele
Independent Non-Executive Director

INDEPENDENT NON-EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS	EXECUTIVE
EK Diack DCG Murray MJN Njeke Ms ND Orleyn	DK Chugh CPD Cornier S Maheshwari LP Mondi AMHO Poupart-Lafarge	CEO: NMC Nyembezi-Heita President: LGJJ Bonte CFO: HJ Verster

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

- Ms NMC Nyembezi-Heita was appointed as Chief Executive Officer and a member of the board with effect from 1 March 2008;
- Mr LGJJ Bonte was appointed as President and a member of the board with effect from 1 March 2008;
- Mr CPD Cornier was appointed non-executive director from 14 May 2008;
- Mr AMHO Poupart-Lafarge was appointed alternate non-executive director on 24 July 2008 and non-executive director on 30 November 2008;
- Two non-executive directors resigned: Mr MAL Wurth and Mr M Mukherjee resigned on 30 November 2008 and 13 May 2008 respectively;
- Mr EM Reato resigned as Chief Executive Officer on 29 February 2008.

The board meets five times a year, or more frequently if circumstances require, to consider issues of strategic direction, approve major capital expenditure projects, review operating performance and consider other matters that have a material effect on the company. The board's main responsibilities are set out in the board charter and in addition the board determines the overall policies and processes to ensure the integrity of the company's risk management and internal controls, the appointment of executive directors as well as stakeholder communication. Through the board's delegation of authority framework, the board has delegated the authority to the chief executive and other executive directors to manage the day-to-day operations of the company whilst overall accountability is maintained by the board.

The attendance register shows the attendance of board members to date:

	18/1/2008	31/1/2008	8/2/2008	7/5/2008	24/7/2008	30/10/2008	12/12/2008
KDK Mokhele	✓	✓	✓	✓	✓	✓	✓
LGJJ Bonte				✓	Apology	Telecon	✓
DK Chugh	Telecon	Telecon	Telecon	Apology	Telecon	Telecon	Telecon
CPD Cornier					✓	Apology	✓
EK Diack	✓	✓	✓	✓	Apology	✓	✓
S Maheshwari	Apology	Apology	Apology	Apology	Apology	Apology	Apology
LP Mondi	Telecon	✓	Apology	✓	✓	✓	✓
M Mukherjee	Telecon	Telecon	Apology	Apology			
DCG Murray	Apology	✓	✓	✓	✓	✓	✓
MJN Njeke	✓	✓	✓	✓	✓	✓	✓
NMC Nyembezi-Heita				✓	✓	✓	✓
ND Orleyn	✓	✓	Apology	Apology	Apology	✓	✓
AMHO Poupart-Lafarge					Telecon	Telecon	✓
EM Reato	✓	✓	✓				
HJ Verster*	✓	✓	✓	✓	✓	✓	✓
MAL Wurth	Telecon	Apology	Apology	Apology	Apology	Apology	

**In compliance with JSE requirements, the register confirms that the CFO, HJ Verster, attended every board meeting.*

In compliance with the King Code and the JSE Listings Requirements, the board has established certain board committees to assist the board and its directors in discharging their duties and responsibilities. The Audit and Human Resources and Nominations Committees are prescribed by statute/regulation, whereas the Risk Committee and Safety, Health and Environment Committee have been established in line with best practice. The Transformation Committee was constituted in the board's discretion to address company-specific issues.

Corporate governance continued

All board committees have formally determined terms of reference, written scope of authority and agreed upon reporting procedures. At every board meeting, the chairmen of the respective committees formally report back to the board on the work done by the committee during the quarter and recommendations to the board. The committees are chaired by independent non-executive directors and the work undertaken by each committee is reported in the company's annual report to shareholders.

The board held its annual strategic session on 27 August 2008.

Audit Committee

The Audit Committee is fully compliant with the Corporate Laws Amendment Act, 2006. It consists of three independent non-executive directors: MJN Njeke (Chairman), EK Diack and DCG Murray.

The committee meets four times a year and conducts its work according to an annual work plan which is regularly monitored and updated by the Company Secretary to ensure that the committee meets its legal and regulatory obligations. The committee reviews the following matters:

- the quarterly and half-yearly financial reports;
- the annual financial statements and accounting policies for the company and all subsidiaries;
- the effectiveness of the internal audit function;
- management information and other systems of internal control;
- the auditor's findings and recommendation;
- satisfies itself on the independence of the external auditor and meets with the external auditors at least once a year without management being present;
- considers and makes recommendations to the board on all aspects relating to the appointment, retention, resignation/dismissals of external auditors and ensures that the process complies with all relevant legislation;
- nomination of the external audit firm and the audit partner;
- reviews any statements on ethical standards for the company and how they are promoted and enforced;
- satisfies itself that the CFO is appropriately qualified and experienced; and
- reviews significant cases of unethical activity by employees or by the company itself.

The committee also considers the use of the external auditors for non-audit services, where appropriate, and approves all fees to be paid to the external auditors.

The attendance register of the Audit Committee meetings is set out below:

	07/02/2008	10/03/2008	07/05/2008	24/07/2008	30/10/2008
MJN Njeke	✓	✓	✓	✓	✓
EK Diack	✓	Apology	✓	Apology	✓
DCG Murray	✓	✓	✓	✓	✓

Human Resources and Nominations Committee

The Human Resources and Nominations Committee comprises three independent non-executive directors: ND Orleyn (Chairman), KDK Mokhele and DCG Murray; one non-executive director: DK Chugh; and one expert co-opted member: B Fontana, vice-president HR for the ArcelorMittal Group. Mr Murray was appointed to the committee on 7 May 2008.

The committee, in consultation with management, ensures that the company's employees are fairly rewarded for their contribution to the company's performance. The company's remuneration philosophy also falls under the delegation of this committee to ensure that salaries and related benefits are competitive. Specifically, the committee on behalf of the board approves the employment contracts and remuneration packages of top management and recommends directors' fees to the board for approval. The committee also approves any short-term incentive schemes and bonuses, including the offer of options in terms of the Iscor Management Share Option Scheme.

The committee also oversees the director appointment process, which is open and transparent. New directors are recommended by the committee to the board.

Fee structures for remunerating board members are recommended to the board 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.

The committee is also tasked with advising the board regarding the size, composition and effectiveness of the board and board appointed committees, as well as advising the board regarding the appointment of proposed candidates to serve on the board.

The Human Resources Committee meetings' attendance register is set out below:

	18/01/2008	31/01/2008	19/03/2008	19/06/2008	07/11/2008
ND Orleyn	✓	✓	✓	✓	✓
DK Chugh	Telecon	Telecon	Telecon	Telecon	Telecon
B Fontana	Telecon	Telecon	Telecon	Telecon	Telecon
KDK Mokhele	✓	✓	✓	Apology	✓
DCG Murray				✓	✓

Risk Committee

The Risk Committee was established in 2006 following a recommendation from the Audit Committee that further capacity was required to ensure a systematic assessment of the processes and outcomes of the company's key risks.

The Risk Committee comprises two independent non-executive directors, EK Diack (Chairman) and MJN Njeke; one non-executive director, LP Mondi; and three executive directors, NMC Nyembezi-Heita; HJ Verster and LGJJ Bonte.

The Risk Committee receives and reviews reports on the risk management process in the company and assesses the company's exposure to the following risks:

- operational, non-operational and strategic risks (top 10 risks);
- human resource and technology risks;
- business continuity and disaster recovery risks;
- credit and market risks; and
- compliance risks.

This committee meets twice annually, or more frequently if circumstances require, and receives quarterly risk assessment reports from management. Unscheduled "red flag" reports are received from the committee to highlight unusual and significant risks when the need arises.

The Risk Committee meetings' attendance register is set out below:

	20/02/2008	06/05/2008	15/07/2008	29/10/2008
EK Diack	✓	✓	Apology	✓
LGJJ Bonte		✓	✓	Telecon
LP Mondi	Apology	✓	✓	✓
MJN Njeke	Apology	Apology	✓	✓
NMC Nyembezi-Heita		✓	✓	✓
EM Reato	✓			
HJ Verster	✓	✓	✓	✓

Corporate governance continued

Safety, Health and Environmental Committee
The Safety, Health and Environmental (SHE) Committee has been mandated to assist the board in ensuring sound management of safety, health and environmental matters. The committee comprises two independent non-executive directors, DCG Murray (Chairman) and KDK Mohkele; two executive directors, NMC Nyembezi-Heita and LGJJ Bonte; and one trade union representative, UASA's P Bezuidenhout. The trade union representation rotates on an annual basis amongst the three recognised unions at ArcelorMittal South Africa.

The committee meets twice a year, or when required, and rotates its visits between all plant sites. 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;
- consider and approve corporate safety, health and environmental strategies and policies;
- legal compliance and the fulfilment of the company's commitments and obligations in safety, health and the environment;
- 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 continual improvement; and
- deal with any other matters formally delegated by the board to the committee from time to time.

The Safety, Health and Environmental Committee meetings' attendance register is set out below:

	01/04/2008	04/06/2008	01/10/2008
DCG Murray	✓	✓	✓
LGJJ Bonte	✓	✓	Apology
KDK Mokhele	✓	✓	✓
NMC Nyembezi-Heita	✓	Apology	✓
P Bezuidenhout – UASA trade union	✓	✓	✓

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 within the company.

The Transformation Committee consists of two independent non-executive directors, KDK Mokhele (Chairman), ND Orleyn; two non-executive directors, DK Chugh and LP Mondi; two executive directors, NMC Nyembezi-Heita and HJ Verster; and one expert co-opted member, the general manager, HR, at ArcelorMittal South Africa. The general manager, HR, was subsequently replaced by Ms Marion Green-Thompson, manager, transformation, at ArcelorMittal South Africa.

The committee is tasked with overseeing management actions and efforts to comply with B-BBEE legislation, ensuring that the key elements of the balanced scorecard (ownership, management control, skills development, employment equity, preferential procurement, enterprise development and socio-economic development) are addressed, approving strategies and plans to achieve B-BBEE compliance status and to consider and recommend major B-BBEE projects.

This committee is scheduled to meet at least twice a year. It is important to note that many transformation issues are discussed by the full board.

The Transformation Committee meetings' attendance register is set out below:

	01/02/2008	19/03/2008
KDK Mokhele	✓	✓
DK Chugh	Telecon	Telecon
M Lotter (Acting general manager HR)	✓	✓
LP Mondi	✓	✓
NMC Nyembezi-Heita		✓
ND Orleyn	✓	✓
EM Reato	✓	
HJ Verster	✓	✓

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 also consists of the CFO, the President 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 USD5 million and for monitoring the effective functioning of the capital expenditure management process, including the post-implementation review system.

Policies and procedures

Board effectiveness and evaluation

In March 2008, the board embarked on an appraisal exercise conducted by external consultants to evaluate the effectiveness of the board and board committees. The process comprised oral interviews with members of the board and chairmen of the board committees as well as the completion of individual questionnaires by each member of the board. The Chairman and the Human Resources and Nominations Committee reviewed the outcome of the exercise and communicated the findings.

On the whole, the board was found to operate effectively and the Chairman made recommendations to the board to address certain areas which required improvement.

Professional advice and Company Secretary

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 and is the central source of information to the board.

Corporate governance continued

The Company Secretary and Chairman of the board ensure that the affairs of the board are managed effectively. The Company Secretary also ensures that the company and its subsidiaries are fully compliant with statutory, regulatory and best practice requirements. Within the company the Company Secretary oversees matters of business ethics and good corporate governance. Appointment and removal of the Company Secretary are dealt with by the board.

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, procedures have been put in place to ensure that no director of the company trades in the company's shares without the requisite approval.

Remuneration policy

ArcelorMittal South Africa follows a differentiated remuneration approach, based on best practices in the industry. Annual benchmarking within the group and similar companies beyond the world of steel, as well as individual performances, are factored into final remuneration reviews. Accountability for the design and implementation of the reward strategy and practices is vested within the Human Resources and Nominations Committee, a sub-committee of the board. The remuneration approach is based on guaranteed and variable pay and is also linked to the employee's individual competency and performance. This system is negotiated and agreed with recognised trade unions and is contained within the company's Collective Agreement.

A stock option plan is available for senior managers and forms part of ArcelorMittal's reward and retention strategy ensuring that the organisation retains the services of key resources. The need to expand and exchange functional expertise within the ArcelorMittal group, is recognised. International mobility is a key driver to ensure attraction and retention of key skills within the group.

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.

Legal compliance

A legal compliance programme designed to increase awareness of, and improve adherence to, applicable legislation and regulation is in place. This programme involves the delegation of responsibility for compliance to designated managers equipped to deal with the area of legal compliance. A compliance framework document has been prepared by legal counsel and presented to the Executive Committee. It is expected to be rolled out in the first half of this year and is aimed at further entrenching a sound compliance culture. A regular review of legislation and their impact is also conducted. Legal compliance falls under the auspices of the company's legal counsel who reports regularly to the Chief Executive Officer and the Executive Committee.

Sustainable development

Sustainable development is a cornerstone of how we do business as captured in our vision of producing safe, sustainable steel. This retains our focus on our key goal of improving the company's financial viability whilst ensuring social equity and protecting the environment in which we operate. Being a solid corporate citizen is critical to our approach to business.

Our policies and initiatives aimed at achieving our sustainable development objectives are covered extensively in the Sustainability Report accompanying this report. These include:

- social responsibility, including education and community development;
- 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.

Our sustainability report is in accordance with the Global Reporting Initiative guidelines. We also support the strategies adopted by the World Steel Association (formerly the International Iron and Steel Institute) of which we are an active member.

Internal assurance

The internal assurance department is integral to ensuring effective corporate governance processes. Its main areas of focus include all aspects concerning internal controls, risk management, control self-assessment, compliance, and reliability of the financial records and the safeguarding of assets. The internal assurance team assists the board in ensuring a sound system of risk management, internal control and governance.

The internal assurance department is fully mandated by and accountable to the Audit Committee, which approves the internal audit work plan for the year and monitors the department's performance. An internal audit charter defines the purposes, authority and responsibility of the internal audit function.

Corporate governance continued

Risk management

ArcelorMittal South Africa's enterprise risk management policy (ERM), comprising the standard operating procedures, policy statement and charter, was revised to align the policy with world best practices, King III proposals and the draft ISO 31000 standard. The revised policy is also in line with the code of practice as laid out by the Risk Management Federation of South Africa and the ArcelorMittal group risk management policy.

ERM is an integrated approach to risk management, whose key objectives are to:
- Effectively identify, assess, monitor and report all the risks and opportunities which the organisation is exposed to;
- Implement intervention protocols to adequately mitigate these exposures; and
- Ensure that the risk management process is adequately controlled and assessed on a continual basis.

The risk management process at the company is overseen by the board's Risk Committee. A chief risk officer prepares a consolidated risk management report that is presented to the Executive Committee, the Risk Management Committee, the Audit Committee and finally to the board of directors.

The company has documented business continuity plans in place which will allow it to continue its critical business processes in the event of a disastrous incident impacting on its activities.

A list of ArcelorMittal South Africa's key systemic and business risks is on page 7 of the Sustainability Report.

Insurance

The company's insurance department undertakes regular loss prevention audits of all the company's plants and operations using recognised international procedures and standards. The company participates in local and international insurance programmes that provide, at competitive costs, insurance cover for losses above agreed deductibles.

Code of business conduct

ArcelorMittal South Africa is committed to the highest standards of ethical and professional conduct which apply to all directors, employees and contractors. The company's core values of honesty, integrity and dignity are firmly entrenched in the company's code of business conduct. The code covers a range of behaviours, including:
- compliance with laws and regulations;
- prevention of conflicts of interest;
- fair dealing;
- respect for the environment;
- protection of confidential information; and
- respect for the workplace environment.

The company has an anonymous fraud hotline which encourages employees, customers, suppliers and other interested parties to report incidents of unethical and corrupt behaviour. All reported incidents are investigated by auditors Ernst & Young and outcomes of the investigations are communicated to employees.

The anti-fraud risk profile training was rolled out during 2008, identifying areas where the risk of fraud is highest, raising awareness of the hotline among managers and highlighting the consequences of being found out after committing fraud.

Supplementary information

Definitions

Cash and cash equivalents

Cash and cash equivalents include 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.

Supplementary information continued

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 December				
	2008	2007	2006	2005	2004
Number of ordinary shares traded (m)	**348**	251	248	294	298
Number of transactions ('000)	**308**	136	90	87	50
Value of ordinary shares traded (Rm)	**54 435**	31 887	18 069	15 953	11 518
Volume of shares traded (%)	**78**	56	56	66	67
Year-end market price/ headline earnings ratio (times) – annualised	**4.2**	10.6	9.3	5.4	6.4
Headline earnings yield at year-end (%) – annualised	**24.1**	9.4	10.8	18.6	15.6
Dividend yield at year-end (%) – annualised	**8.0**	3.1	3.5	6.2	6.1
Market price per ordinary share (cents)					
– year-end	**8 845**	13 650	9 825	6 125	6 550
– highest	**26 500**	15 300	9 900	6 930	6 850
– lowest	**5 865**	9 153	5 640	4 160	2 650
– weighted average price per share trade	**15 642**	12 704	7 286	5 426	3 865
Year-end market price/net equity per ordinary share (times)	**1.41**	2.96	1.88	1.40	1.84
Market capitalisation at year-end (Rm)	**39 427**	60 845	43 795	27 302	29 197
ArcelorMittal South Africa share price index (base:2003=0)	**307**	474	341	213	227
JSE Actuaries index – Industrial (base 2003=0)	**246**	299	259	188	143

Supplementary information continued

Selected group financial data translated into US Dollars and Euros
for the year ended 31 December 2008

	2008 USD million	2007 USD million	2008 Euro million	2007 Euro million
Income statement				
Revenue	**4 832**	4 150	**3 307**	3 033
Operating expenses	**(3 360)**	(3 059)	**(2 300)**	(2 236)
Profit from operations	**1 472**	1 091	**1 007**	797
Gains/(losses) on changes in foreign exchange rates and financial instruments designated as held-for-trading at fair value through profit or loss	**77**	(19)	**53**	(14)
Interest received	**38**	63	**26**	46
Finance costs	**(29)**	(17)	**(20)**	(12)
Income from investments		1		
Impairment reversal	**4**		**3**	
Income after tax from equity-accounted investments	**40**	38	**27**	28
Profit before tax	**1 602**	1 157	**1 096**	845
Income tax expense	**(468)**	(348)	**(320)**	(254)
Profit for the year	**1 134**	809	**776**	591
Attributable earnings per share (cents)	**255**	182	**174**	133
Headline earnings	**1 148**	813	**786**	594
Headline earnings per share (cents)	**258**	182	**176**	133

Selected group financial data translated into US Dollars and Euros continued

for the year ended 31 December 2008

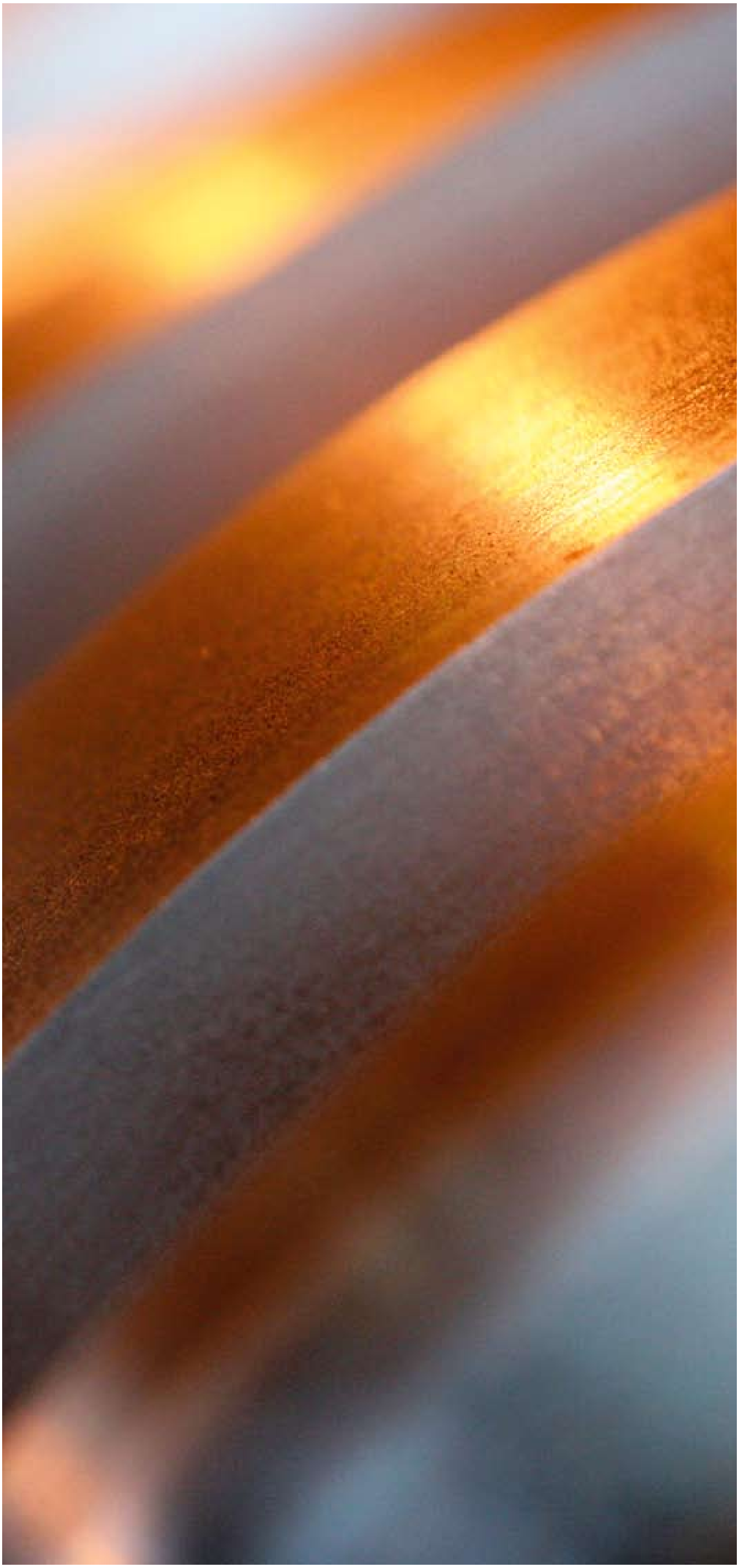
	2008 USD million	2007 USD million	2008 Euro million	2007 Euro million
Statement of financial position				
Assets				
Non-current assets	**1 934**	2 480	**1 390**	1 684
Property, plant and equipment	**1 694**	2 279	**1 218**	1 548
Intangible assets	**8**	9	**5**	6
Unlisted equity-accounted investments	**210**	163	**151**	111
Other financial assets	**22**	29	**16**	19
Current assets	**2 053**	1 662	**1 474**	1 129
Inventories	**920**	703	**661**	478
Trade and other receivables	**216**	337	**155**	229
Taxation		16		11
Other financial assets	**19**	14	**13**	9
Cash and cash equivalents	**898**	592	**645**	402
Total assets	**3 987**	4 142	**2 864**	2 813
Equity and liabilities				
Shareholders' equity	**2 982**	3 023	**2 142**	2 052
Stated capital	**4**	5	**3**	4
Non-distributable reserves	**160**	111	**115**	75
Retained income	**2 818**	2 907	**2 024**	1 973
Non-current liabilities	**508**	627	**365**	427
Borrowings and other payables	**5**	8	**4**	5
Finance lease obligations	**33**	48	**24**	33
Non-current provisions	**201**	189	**144**	129
Deferred income tax liability	**269**	382	**193**	260
Current liabilities	**497**	492	**357**	334
Trade and other payables	**360**	422	**258**	286
Borrowings and other payables	**4**	1	**3**	1
Other financial liability	**17**	10	**12**	7
Finance lease obligations	**4**	13	**3**	9
Taxation	**83**		**60**	
Current provisions	**29**	46	**21**	31
Total equity and liabilities	**3 987**	4 142	**2 864**	2 813

Supplementary information continued

Selected group financial data translated into US Dollars and Euros continued

for the year ended 31 December 2008

	2008 USD million	2007 USD million	2008 Euro million	2007 Euro million
Condensed statement of cash flow				
Cash inflows from operating activities	667	655	457	479
Cash outflows from investing activities	(219)	(248)	(150)	(181)
Net cash flow before finance activities and capital reduction	448	407	307	298
Cash outflows from financing activities	(15)	(911)	(10)	(666)
Increase in cash and cash equivalents	433	(504)	297	(368)
Effect of foreign exchange rate changes	(129)	273	(54)	76
Cash and cash equivalents at beginning of year	592	823	402	694
Cash and cash equivalents at end of year	898	592	645	402
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	9.39	6.81		
R = USD average for the year	8.26	7.06		
R = Euro at year-end			13.07	10.03
R = Euro average for the year			12.07	9.66



Annual financial statements

Contents

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

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 fairly present 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 Listings 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 independent non-executive directors, meet periodically with the external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The group's internal auditors independently evaluate the internal controls. The external auditors are responsible for reporting on the financial statements. The external and internal auditors have unrestricted access to all records, property and personnel as well as to the audit committee. The directors are not aware of any material breakdown in the functioning of these controls and systems during the period under review.

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

The directors have reviewed the group and company's financial budgets for the year to 31 December 2009. 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 57.

The directors of the company accept responsibility for the annual financial statements which were approved by the board of directors on 13 March 2009 and are signed on its behalf by:

N Nyembezi-Heita
Chief Executive Officer
13 March 2009

HJ Verster
Executive Director Finance
13 March 2009

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 2008, 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
13 March 2009

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 and the statement of financial position and the consolidated statement of financial position as at 31 December 2008 and the income statement and the consolidated income statement, the statement of comprehensive income and the consolidated statement of comprehensive income, the statement of cash flows and the consolidated statement of cash flows, the statement of changes in equity and consolidated statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 58 to 197.

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 auditor's 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 auditor considers 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 group and of the company as at 31 December 2008, 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
13 March 2009

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

Directors' report

for the year ended 31 December 2008

The directors have pleasure in presenting their report for the year ended 31 December 2008.

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

Earnings

	2008	2007
Basic earnings (Rm)	**9 381**	5 716
Headline earnings (Rm)	**9 484**	5 741
Basic earnings per share (cents)	**2 105**	1 282
Headline earnings per share (cents)	**2 128**	1 288
Net asset value (Rm)	**27 995**	20 583
Net asset value per share (cents)	**6 280**	4 618

Detailed reports on the activities and performance of the group and the various divisions of the group are contained in the report on pages 20 to 35.

Accounting policies, restatements and reclassifications

The group has adopted all of the new revised and amended 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 or after 1 January 2008.

Certain standards and interpretations have been early adopted and are described in note 2 to the financial statements.

Dividends

A final dividend of 196 cents per share for the financial year ended 31 December 2007 was declared on 8 February 2008 and paid to shareholders on 17 March 2008.

The board declared an interim dividend of 342 cents per share on 24 July 2008 which was paid to shareholders on 1 September 2008.

The total dividend for the year amounted to 538 cents per share (2007: 437 cents per share).

The board has declared a final dividend of 365 cents per share for the financial year ended 31 December 2008, payable to shareholders registered at close-of-business on 13 March 2009. Dividends will be paid on or about 16 March 2009. The Secondary Tax on Companies (STC) on the final dividend declared amounts to R163 million.

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 and business interruption losses from damage to the group assets. The insurance premium for the year amounted to R150 million, of which R101 million was for cover on assets valued at R91 992 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 amounted to R1 832 million (December 2007: R1 852 million). The estimated R1 420 million of capital expenditure envisaged to be spent during the 2009 financial year will be funded from internal sources.

ArcelorMittal South Africa Distribution (Proprietary) Limited acquired property, plant and equipment from Trident Steel (Proprietary) Limited for an amount of R63 million. The transaction was unconditionally approved by the Competition Commission on 12 December 2008.

Shareholders resolutions

At the twentieth annual general meeting of shareholders, held on 7 May 2008, a special resolution was passed authorising the directors to repurchase company shares in terms of the authority granted in the articles of association of the company.

The subsidiaries of ArcelorMittal South Africa Limited have passed no other ordinary or special resolutions of material interest or of a 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 198. Mittal Steel Holdings AG, as controlling shareholder, has a shareholding of 52.02%.

Investments in joint ventures, associates and subsidiaries

The financial information in respect of interests in jointly controlled entities, associates and subsidiaries of the company is disclosed in notes 20 and 21 and Annexure 1 and 2 to the financial statements.

Borrowing powers

The borrowing powers of the company are limited to total equity as detailed in note 32.6.

Directors' report continued
for the year ended 31 December 2008

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 200.

The following changes took place to the board during the year:

Resignations

• EM Reato	Resigned with effect 29 February 2008 as Chief Executive Officer
• M Mukherjee	Resigned with effect 13 May 2008 as non-executive director
• MAL Wurth	Resigned with effect 30 November 2008 as non-executive director

Appointments

• N Nyembezi-Heita	Appointed 1 March 2008 as Chief Executive Officer
• Dr LGJJ Bonte	Appointed 1 March 2008 as President
• CPD Cornier	Appointed 14 May 2008 as non-executive director
• AMHO Poupart-Lafarge	Appointed 24 July 2008 as alternate non-executive director and on 30 November 2008 as non-executive director

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:
- CPD Cornier
- S Maheshwari
- Dr KDK Mokhele
- AMHO Poupart-Lafarge

The following executive director will retire by rotation and being eligible for re-election, has offered himself for re-election:
- HJ Verster

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 12 May 2009 shareholders will be requested to appoint Deloitte & Touche as auditors of ArcelorMittal South Africa Limited for the 2009 financial year and it will be noted that Mr RM Duffy will be the individual registered auditor that will undertake the audit.

Secretary
The Company Secretary is Ms C Singh. Her business and postal addresses appear on page 200.

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 and company financial statements that would significantly affect the operations or the results of the group and company.

Directors' remuneration report

for the year ended 31 December 2008

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 is a sub-committee of the ArcelorMittal South Africa Limited board and assists the board 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, among 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 five members; four of whom are non-executive directors. Three are independent; Ms ND Orleyn, the Chairperson, Dr KDK Mokhele and Mr DCG Murray 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 appointed in 2005 in order to strengthen the committee's knowledge base on global human resource management practices.

The Chief Executive Officer and General Manager, Human Resources of ArcelorMittal South Africa attend meetings ex officio, but do not form part of committee management and decision-making.

Remuneration of directors

- The remuneration strategy and practice for executive directors does not differ to that of other senior managers of the company. It consists of two components: a fixed component of guaranteed pay and a variable component comprising an annual performance bonus which is aligned with 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 independent non-executive directors receive directors' fees based on the scope and extent of their responsibilities. These emoluments are reviewed annually to maintain alignment with market benchmarks. The fees are approved by shareholders at the 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 report continued

for the year ended 31 December 2008

Directors' remuneration for ArcelorMittal South Africa and its subsidiaries

	Notes	Fees R	Basic salary R	Bonuses/ performance-related payments R	Allow-ances (note 7) R	Other benefits (note 8) R	Retirement contributions R	Loss of office (note 9) R	Total R
For the year ended 31 December 2008									
Executive directors									
LGJJ Bonte	1		2 468 890	231 542	1 324 057				4 024 489
N Nyembezi-Heita	2		2 529 951	2 000 000	140 941	18 300	259 709		4 948 901
EM Reato	3		391 407		28 116	14 040	34 641	2 086 526	2 554 730
LL van Niekerk	4							1 312 500	1 312 500
HJ Verster			2 055 094	838 330	33 167	32 094	171 022		3 129 707
Sub-total			7 445 342	3 069 872	1 526 281	64 434	465 372	3 399 026	15 970 327
Non-executive directors									
EK Diack		292 000							292 000
KDK Mokhele		710 000							710 000
LP Mondi	5	262 000							262 000
DCG Murray		322 000			4 328				326 328
MJN Njeke	6	322 000							322 000
ND Orleyn		282 000							282 000
Sub-total		2 190 000			4 328				2 194 328
Total		2 190 000	7 445 342	3 069 872	1 530 609	64 434	465 372	3 399 026	18 164 655
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	10		1 191 298	599 670	99 000	6 222	107 461	220 036	2 223 687
LL van Niekerk	4							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									
EK Diack	11	232 710							232 710
KDK Mokhele	12	798 536			1 474				800 010
LP Mondi	5	184 495							184 495
DCG Murray	13	154 495			1 463				155 958
MJN Njeke	6	384 246							384 246
ND Orleyn	14	276 446			1 397				277 843
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

Notes

1. *Appointed as President on 1 March 2008.*
2. *Appointed as Chief Executive Officer on 1 March 2008.*
3. *Resigned on 29 February 2008.*
4. *Resigned on 12 December 2004. Payment made on 31 March 2007 and 30 March 2008 for restraint of trade.*
5. *Appointed as non-executive director on 11 May 2007. Fees paid to Industrial Development Corporation in Mr Mondi's capacity as Chief Economist and Divisional Executive of Professional Services of that company.*
6. *Fees paid to Kagiso Media in Mr Njeke's capacity as deputy chairman of that company.*
7. *Includes travel, entertainment, telephone, computer and relocation allowances, as well as reimbursive travel expenditure for non-executive directors.*
8. *Includes deferred compensation and medical aid.*
9. *Includes remaining restraint of trade payments and the payment of remaining leave benefit.*
10. *Resigned on 30 September 2007.*
11. *Appointed as non-executive director on 16 March 2007.*
12. *Appointed as non-executive chairman on 1 January 2007.*
13. *Appointed as non-executive director on 11 May 2007.*
14. *Appointed as non-executive director on 1 February 2007.*

Directors' share options

Options issued to and shares purchased by the directors, which form part of the 41.1 million (December 2007: 41.2 million) shares allocated to the Management share trust, totalled 202 551 as at 31 December 2008 (December 2007: 419 695), as follows:

	Balance as at 1 January 2008				Issues					Sold/forfeited			Balance as at 31 December 2008
Name	Subscription price R	Number	Date of issue	Period granted (years)	Subscription 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 2008													
DK Chugh	**50.26**	**42 876**	**2005/09/28**	**6**						**20 000**	**3 184 594**	**1**	**22 876**
	53.38	**48 522**	**2005/12/12**	**10**									**48 522**
		91 398								**20 000**	**3 184 594**		**71 398**
N Nyembezi-Heita					**186.50**	**31 660**	**2008/03/25**	**10**	**2**				**31 660**
EM Reato	**53.38**	**40 326**	**2005/12/12**	**10**						**40 326**		**3**	
	54.19	**10 842**	**2006/03/01**	**10**						**10 842**		**3**	
	83.88	**62 608**	**2006/11/08**	**10**						**62 608**		**3**	
	76.51	**28 313**	**2006/11/20**	**10**						**28 313**		**3**	
	133.50	**46 360**	**2007/11/20**	**10**						**46 360**		**3**	
		188 449								**188 449**			
HJ Verster	**16.15**	**32 486**	**2002/05/07**	**6**						**32 486**	**5 150 655**	**4**	
	14.32	**7 869**	**2003/03/18**	**6**						**7 869**	**1 252 330**	**5**	
	83.88	**59 523**	**2006/11/08**	**10**									**59 523**
	82.02	**5 950**	**2006/12/12**	**10**									**5 950**
	133.50	**34 020**	**2007/11/20**	**10**									**34 020**
		139 848								**40 355**	**6 402 985**		**99 493**
Total		**419 695**				**31 660**				**248 804**	**9 587 579**		**202 551**

	Balance as at 1 January 2007				Issues					Sold/forfeited			Balance as at 31 December 2007
Name	Subscription price R	Number	Date of issue	Period granted (years)	Subscription 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	6				42 876
	60.00	42 980	2005/12/12	10	53.38	5 542	2007/08/01	10	6				48 522
		81 026				10 372							91 398
JJA Mashaba	37.25	78 050	2004/07/23	6	33.14	7 823	2007/08/01	6	6	15 000	1 259 850	9	
										63 050	5 905 263	10	
										7 823		11	
		78 050				7 823				85 873	7 165 113		
HJ Verster	18.15	26 760	2002/05/07	6	16.15	5 726	2007/08/01	6	6				32 486
	16.10	7 000	2003/03/18	6	14.32	869	2007/08/01	6	6				7 869
	94.29	52 470	2006/11/08	10	83.88	7 053	2007/08/01	10	6				59 523
	92.20	5 250	2006/12/12	10	82.02	700	2007/08/01	10	6				5 950
					133.50	34 020	2007/11/20	10	7				34 020
		91 480				48 368							139 848
EM Reato	60.00	35 720	2005/12/12	10	53.38	4 606	2007/08/01	10	6				40 326
	60.91	9 600	2006/03/01	10	54.19	1 242	2007/08/01	10	6				10 842
	94.29	55 190	2006/11/08	10	83.88	7 418	2007/08/01	10	6				62 608
	86.00	24 990	2006/11/20	10	76.51	3 323	2007/08/01	10	6				28 313
					133.50	46 360	2007/11/20	10	8				46 360
		125 500				62 949							188 449
Total		376 056				129 512				85 873	7 165 113		419 695

The directors have no beneficial nor non-beneficial interest in the ordinary share capital of the company.

Notes

1. *Sold on 14 March 2008. 19 426 shares at R209.49 and 574 shares at R209.48.*
2. *Offer accepted in March 2008.*
3. *Resigned as Chief Executive Director on 29 February 2008.*
4. *Sold on 19 March 2008 at R174.70.*
5. *Sold on 19 March 2008. 2 163 shares at R174.70 and 5 706 shares at R173.00.*
6. *Additional share options as a result of the capital reduction announced on 1 August 2007.*
7. *Offer accepted in November 2007.*
8. *Offer accepted in November 2007.*
9. *Sold on 26 March 2007 at R121.24.*
10. *Sold on 20 September 2007 at R126.80.*
11. *Resigned on 30 September 2007.*

Group and company income statements

for the year ended 31 December 2008

		Group		Company	
	Notes	2008 Rm	2007 Rm	2008 Rm	2007 Rm
Revenue	7	**39 914**	29 301	**35 990**	25 722
Raw materials and consumables used		**(18 556)**	(12 141)	**(17 699)**	(11 186)
Employee costs		**(2 598)**	(2 210)	**(2 591)**	(2 210)
Energy		**(1 474)**	(1 364)	**(1 075)**	(1 032)
Movement in inventories of finished goods and work-in-progress		**1 844**	(21)	**1 942**	(82)
Impairment charge	8	**(121)**		**(28)**	
Depreciation		**(1 310)**	(1 088)	**(849)**	(743)
Amortisation of intangible assets		**(12)**	(11)	**(9)**	(9)
Other operating expenses		**(5 528)**	(4 763)	**(4 584)**	(4 010)
Profit from operations	9	**12 159**	7 703	**11 097**	6 450
Gains/(losses) on changes in foreign exchange rates and financial instruments designated as held for trading at fair value through profit or loss	10	**637**	(131)	**633**	(151)
Interest received	11	**318**	442	**296**	426
Finance costs	12	**(238)**	(117)	**(201)**	(89)
Income from investments	13	**3**	4	**341**	285
Impairment reversal/(charge)	14	**36**		**(45)**	2 799
Income after tax from equity accounted investments	20	**331**	270		
Profit before taxation		**13 246**	8 171	**12 121**	9 720
Income tax expense	15	**(3 865)**	(2 455)	**(3 562)**	(2 029)
Profit for the year		**9 381**	5 716	**8 559**	7 691
Attributable to:					
Owners of the company		**9 381**	5 716		
Attributable earnings per share (cents)					
– basic	16	**2 105**	1 282		
– diluted	16	**2 097**	1 279		

Group and company statements of comprehensive income

for the year ended 31 December 2008

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
Profit for the year	**9 381**	5 716	**8 559**	7 691
Other comprehensive income				
Exchange differences on translation of foreign operations	**591**	(63)		
Losses and gains on available-for-sale investment taken to equity	**(71)**	62		
Movement in gains and losses deferred to equity on cash flow hedges	**(91)**	(111)	**(78)**	(111)
Income tax on amounts taken directly to equity	**25**	27	**21**	27
Total comprehensive income for the year	**9 835**	5 631	**8 502**	7 607
Attributable to:				
Owners of the company	**9 835**	5 631		

Group and company statements of financial position

as at 31 December 2008

		Group		Company	
	Notes	2008 Rm	2007 Rm	2008 Rm	2007 Rm
ASSETS					
Non-current assets					
Property, plant and equipment	18	**15 917**	15 525	**9 781**	9 161
Intangible assets	19	**71**	58	**48**	32
Unlisted equity accounted investments	20	**1 968**	1 109	**84**	48
Investments in subsidiaries	21			**4 825**	5 715
Other financial assets	22	**203**	195	**203**	124
Total non-current assets		**18 159**	16 887	**14 941**	15 080
Current assets					
Inventories	23	**8 642**	4 790	**8 076**	4 196
Trade and other receivables	24	**2 031**	2 292	**1 765**	2 007
Taxation			108		164
Other financial assets	22	**174**	94	**172**	94
Cash and cash equivalents		**8 429**	4 034	**8 121**	3 660
Total current assets		**19 276**	11 318	**18 134**	10 121
Total assets		**37 435**	28 205	**33 075**	25 201
EQUITY AND LIABILITIES					
Capital and reserves					
Stated capital	25	**37**	37	**37**	37
Non-distributable reserves		**1 503**	757	**(200)**	(108)
Retained income		**26 455**	19 789	**26 141**	19 980
Total shareholders' equity		**27 995**	20 583	**25 978**	19 909
Non-current liabilities					
Borrowings and other payables	26	**46**	52	**5**	1
Finance lease obligations	27	**314**	328	**168**	174
Non-current provisions	28	**1 888**	1 290	**1 879**	1 282
Deferred income tax liability	29	**2 526**	2 603	**993**	1 007
Total non-current liabilities		**4 774**	4 273	**3 045**	2 464
Current liabilities					
Trade and other payables	30	**3 384**	2 873	**2 893**	2 386
Borrowings and other payables	26	**33**	10	**23**	
Other financial liabilities	22	**157**	67	**143**	67
Finance lease obligations	27	**40**	88	**31**	79
Taxation		**780**		**690**	
Current provisions	28	**272**	311	**272**	296
Total current liabilities		**4 666**	3 349	**4 052**	2 828
Total equity and liabilities		**37 435**	28 205	**33 075**	25 201

Group and company statements of cash flows

for the year ended 31 December 2008

	Notes	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
Cash generated from operations	31	**10 939**	8 439	**9 257**	7 088
Interest income		**318**	442	**296**	426
Finance cost		**(59)**	(73)	**(22)**	(41)
Dividends paid	31	**(2 398)**	(1 948)	**(2 398)**	(1 948)
Income tax paid	31	**(3 087)**	(2 209)	**(2 740)**	(2 125)
Realised foreign exchange movements		**(202)**	(28)	**(211)**	(33)
Cash flows from operating activities		**5 511**	4 623	**4 182**	3 367
Investment to maintain operations	31	**(1 413)**	(1 198)	**(1 204)**	(987)
Investment to expand operations	31	**(419)**	(654)	**(334)**	(512)
Proceeds from disposal of property, plant and equipment		**2**	8	**2**	8
Investment in associate			(16)		(16)
Dividend from equity accounted investments		**14**	104		
Income from investments – dividends				**338**	281
Income from investments – interest		**3**	4	**3**	4
Cash flows from investing activities		**(1 813)**	(1 752)	**(1 195)**	(1 222)
Interest-bearing borrowings repaid		**(11)**	(10)	**(1)**	
Finance lease obligation repaid		**(25)**	(15)	**(16)**	(6)
Decrease in loans to subsidiaries				**809**	681
Increase in contributions to the Management share trust and other		**(85)**	(58)	**(94)**	(51)
Capital reduction			(6 352)		(6 352)
Cash flows from financing activities		**(121)**	(6 435)	**698**	(5 728)
Increase/(decrease) in cash and cash equivalents		**3 577**	(3 564)	**3 685**	(3 583)
Effect of foreign exchange rate changes on cash and cash equivalents		**818**	(152)	**776**	(124)
Cash and cash equivalents at beginning of year		**4 034**	7 750	**3 660**	7 367
Cash and cash equivalents at end of year		**8 429**	4 034	**8 121**	3 660

Group and company statements of changes in equity

for the year ended 31 December 2008

	Stated capital Rm	Capital redemption reserve Rm	Management share trust Rm	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
		Non-distributable reserves								
Group										
Balance at 1 January 2007	6 389	23	(106)	27	654		56	30	16 187	23 260
Total comprehensive income for year						62	(63)	(84)	5 716	5 631
Management share trust: net treasury share purchases (net of income tax)			(43)							(43)
Share-based payment expense				35						35
Dividend									(1 948)	(1 948)
Capital reduction	(6 352)									(6 352)
Transfer of equity accounted earnings					166				(166)	
Balance at 31 December 2007	**37**	**23**	**(149)**	**62**	**820**	**62**	**(7)**	**(54)**	**19 789**	**20 583**
Total comprehensive income for year						**(71)**	**591**	**(66)**	**9 381**	**9 835**
Management share trust: net treasury share purchases (net of income tax)			**(58)**							**(58)**
Share-based payment expense				**33**						**33**
Dividend									**(2 398)**	**(2 398)**
Transfer of equity accounted earnings					**317**				**(317)**	
Balance at 31 December 2008	**37**	**23**	**(207)**	**95**	**1 137**	**(9)**	**584**	**(120)**	**26 455**	**27 995**

	2008	2007
Dividend per share (cents)		
– interim	**342**	233
– final (declared after statement of financial position date)	**365**	196
Total	**707**	429

	Stated capital Rm	Non-distributable reserves: Capital redemption reserve Rm	Management share trust Rm	Share-based payment reserve Rm	Cash flow hedge accounting reserve Rm	Retained income Rm	Total equity Rm
Company							
Balance at 1 January 2007	6 389	23		27	30	14 237	20 706
Total comprehensive income for year					(84)	7 691	7 607
Management share trust: net treasury share purchases (net of income tax)			(139)				(139)
Share-based payment expense				35			35
Dividend						(1 948)	(1 948)
Capital reduction	(6 352)						(6 352)
Balance at 31 December 2007	**37**	**23**	**(139)**	**62**	**(54)**	**19 980**	**19 909**
Total comprehensive income for year					**(57)**	**8 559**	**8 502**
Management share trust: net treasury share purchases (net of income tax)			**(68)**				**(68)**
Share-based payment expense				**33**			**33**
Dividend						**(2 398)**	**(2 398)**
Balance at 31 December 2008	**37**	**23**	**(207)**	**95**	**(111)**	**26 141**	**25 978**

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

1. **Stated capital**
   In the comparative period, the company undertook to reduce its stated capital in terms of section 90 of the South African Companies Act, 1973. The cumulative amount returned to shareholders amounted to R6 352 million.

2. **Capital redemption reserve**
   The capital redemption reserve fund was created in terms of section 98(1) of the South African Companies Act, 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.

3. **Management share trust reserve**
   The Management share trust reserve represents the net outflow from the purchase of treasury shares in order to meet obligations in terms of the 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.*

4. **Share-based payment reserve**
   The share-based payment reserve represents the accumulated charge for share options in terms of IFRS2. The share option plan is equity-settled.

5. **Available-for-sale financial asset**
   The equity reserve represents the unrealised fair value gains and losses above and below the initial R9 million cost of the group's investment in Hwange Colliery Company Limited.

6. **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.

7. **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 statement of financial performance.

Notes to the group and company annual financial statements

for the year ended 31 December 2008

1. GENERAL INFORMATION

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

The company is a limited liability company incorporated and domiciled in South Africa. The address of the registered office is detailed on page 200.

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 incorporated in Switzerland, which is part of the ArcelorMittal group.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards, interpretations and amendments effective in 2008

No new standards or amendments thereto as issued by the International Accounting Standards Board have an effective date applicable to the current reporting period.

Three interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions*, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation was early adopted in a previous reporting period and did not have any impact on the group's and company's financial statements.
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). This interpretation was early adopted in a previous reporting period and did not have any impact on the group's and company's financial statements as it is not relevant to the operations of both reporting entities.
- IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction,* provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation was early adopted in the previous reporting period and did not have any impact on the group's and company's financial statements.

2.2 Early adoption of standards and interpretations

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

- IAS1 (Revised), *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009);
- IAS 16 (Amendment), *Property, Plant and Equipment* and consequential amendment to IAS 7, *Statement of Cash Flows* (effective for annual periods beginning on or after 1 January 2009);
- IAS 19 (Amendment), *Employee Benefits* (effective for annual periods beginning on or after 1 January 2009);
- IAS 20 (Amendment), *Accounting for Government Grants and Disclosure of Government Assistance* (effective for annual periods beginning on or after 1 January 2009);
- IAS 23 (Amendment), *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009);
- IAS 27 (Revised), *Consolidated and Separate Financial Statements*, and IFRS 3 (Revised), *Business Combinations* (effective for annual periods beginning on or after 1 July 2009);
- IAS 27 (Amendment), *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2009);

2. ADOPTION OF NEW AND REVISED STANDARDS continued

2.2 Early adoption of standards and interpretations continued

- IAS 28 (Amendment), *Investments in Associates* (and consequential amendments to IAS 32, *Financial Instruments*: *Presentation*, and IFRS 7, *Financial Instruments: Disclosures*) (effective for annual periods beginning on or after 1 January 2009);
- IAS 29 (Amendment), *Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after 1 January 2009);
- IAS 31 (Amendment), *Interests in Joint Ventures* and consequential amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7, *Financial Instruments*: *Disclosures* and IFRS 7 (effective for annual periods beginning on or after 1 January 2009);
- IAS 32 (Amendment), *Financial Instruments: Presentation*, and IAS 1 (Amendment), *Presentation of Financial Statements - Puttable Financial Instruments* and *Obligations Arising on Liquidation* (effective for annual periods beginning on or after 1 January 2009);
- IAS 36 (Amendment), *Impairment of Assets* (effective for annual periods beginning on or after 1 January 2009);
- IAS 38 (Amendment), *Intangible Assets* (effective for annual periods beginning on or after 1 January 2009);
- IAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instrument Disclosures* (effective for annual periods beginning on or after 1 July 2009);
- IAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 January 2009);
- IAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 July 2009);
- IAS 40 (Amendment), *Investment Property* and consequential amendments to IAS 16, *Property, Plant and Equipment* (effective for annual periods beginning on or after 1 January 2009);
- IFRS 1 (Amendment), *First Time Adoption of IFRS*, and IAS 27, *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2009);
- IFRS 2 (Amendment), *Share-based Payment* (effective for annual periods beginning on or after 1 January 2009);
- IFRS 5 (Amendment), *Non-current Assets Held-for-Sale* and *Discontinued Operations* and consequential amendment to IFRS 1, *First-time Adoption of IFRS* (effective for annual periods beginning on or after 1 July 2009);
- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 15, *Agreements for Construction of Real Estates* (effective for annual periods beginning on or after 1 January 2009); and
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008).

2.2.1 IFRS 8, *Operating Segments*

The adoption of IFRS 8, *Operating Segments* in advance of its effective date (effective for annual periods beginning on or after 1 January 2009), with effect from 1 January 2008 brought about that segment information is presented only at a group level where it is most meaningful.

The group's reportable segments under IFRS 8 are as follows:

- Flat Carbon Steel Products consisting of the Vanderbijlpark and Saldanha Works;
- Long Carbon Steel Products consisting of the Newcastle, Vereeniging and Maputo Works;
- Coke and Chemicals undertaking the processing and marketing of by-products and the production and marketing of commercial-grade coking coal; and
- Corporate and Other housing sales and marketing functions, procurement and logistics activities, shared services, centres of excellence, the decommissioned Pretoria Works site, available-for-sale investments, and the results of the consolidated subsidiaries and special purpose entities.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

2. ADOPTION OF NEW AND REVISED STANDARDS continued

2.2 Early adoption of standards and interpretations continued

2.2.1 IFRS 8, *Operating Segments* continued

Flat- and Long Carbon Steel Products and Coke and Chemicals represent the group's operating segments in which production capacity is concentrated.

Information regarding these segments is reported in note 6. With the inclusion of Maputo Works in the Long Steel Carbon Products segment, disclosures for the year ended 31 December 2007 have been affected as follows:

- Operating profit/(loss) before depreciation, amortisation and impairments segment profit/(loss) from operations; profit/(loss) before tax decreased by R9 million for the Long Steel Carbon Products segment, with a corresponding increase in the Corporate and Other segment;
- Segment assets increased by R103 million for the Long Steel Carbon Products segment, with a corresponding decrease in the Corporate and Other segment;
- Capital expenditure increased by R97 million for the Long Steel Carbon Products segment, with a corresponding decrease in the Corporate and Other segment;
- Segment liabilities by R6 million for the Long Steel Carbon Products segment, with a corresponding decrease in the Corporate and Other segment; and
- Cash inflow/(outflow) from operations decreased by R5 million for the Long Steel Carbon Products segment, with a corresponding increase in the Corporate and Other segment.

As a result of the separation of the Corporate and Other segment and the eliminations and adjustments, disclosures for the year ended 31 December 2007 have been amended accordingly.

The accounting policies of the reportable segments are the same as the group's accounting policies described in note 3.9.

Segment profit from operations represents the profit or (loss) earned or made by each segment without the allocation of after-tax profits of equity accounted investments, net interest income, income from investments and income tax expenses.

All assets and liabilities are allocated to the operating segments, other than for the following items that are exclusively housed in the Corporate and Other segment, reflecting the manner in which resource allocation is measured:

Assets not allocated to operating segments:

- Results of consolidated subsidiaries and special purpose entities, other than for Saldanha Works which is a subsidiary housed within the Flat Carbon Steel Products segment;
- Investments in equity accounted entities;
- Available-for-sale investments;
- Cash and cash equivalents; and
- Income tax, capital gains tax and value added tax related assets, as applicable.

Liabilities not allocated to operating segments are limited to income tax, capital gains tax and value added tax related liabilities, as applicable.

2.2.2 IAS 1 (Revised), *Presentation of Financial Statements*

The group and company have adopted IAS 1 (Revised), *Presentation of Financial Statements in advance of its effective date* (effective for annual periods beginning on or after 1 January 2009), with effect from 1 January 2008. Similarly, the amendment made to IAS 1 as part of the IASB's annual improvements project published in May 2008 (effective from 1 January 2009), was also early adopted.

2. ADOPTION OF NEW AND REVISED STANDARDS continued

2.2 Early adoption of standards and interpretations continued

2.2.2 IAS 1 (Revised), *Presentation of Financial Statements* continued

The revised standard prohibits the presentation of items of income and expenses (that is, non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. Consequently, the group and company have selected to show all non-owner changes in equity in an income statement and statement of comprehensive income.

Furthermore, in terms of the revisions, title changes have been adopted for the following statements:

- Balance sheet to statement of financial position; and
- Cash flow statement to statement of cash flows.

The adoptions have had no impact on the group's and company's results.

2.2.3 IAS 19 (Amendment), *Employee Benefits*

The group and company have adopted IAS 19 (Amendment), *Employee Benefits* in advance of its effective date (effective for annual periods beginning on or after 1 January 2009) with effect from 1 January 2008.

The amendments are part of the IASB's annual improvements project published in May 2008 and entails:

- Distinction between short-term and long-term employee benefits has been clarified as being based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The settlement expectation does not influence the classification.
- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
- IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The implication of these amendments on the group's and company's accounting policies and results are:

- For the retirement benefit plans operated by the group and company, (i) no events have occurred that meet the definition of curtailment, or (ii) no amendment made resulting in negative past service cost having been recognised under the period under review or its comparative period.
- Administration costs are included in full in measuring the defined benefit obligation.
- The two defined benefit plans operate by the group and company are wholly funded. The payment of the funded benefits depends not only on the plans' financial position and investment performance, but also on the group's and company's ability to make good any funding shortfall in the two plans. Therefore, the group and company effectively underwrite the plans investment and actuarial risk. Historically no contingent liability has been disclosed as the plans' are adequately funded. Despite the continued adequacy of the funding for the period under review, given the nature of the item, the commitment of the group and company to fund any shortfall thus has been disclosed as a contingent liability, along with an estimate of the likelihood of the liability being recognised. Enhanced disclosure has been made in note 34.

2.2.4 Revisions and amendments with no impact on the group's and company's accounting policies and financial results

The adoption of IAS 16 (Amendment), IAS 20 (Amendment), IAS 23 (Amendment), IAS 27 (Revised), IAS 27 (Amendment), IAS 28 (Amendment), IAS 29 (Amendment), IAS 31 (Amendment), IAS 32 (Amendment), IAS 36 (Amendment), IAS 38 (Amendment), IAS 39 (Amendments), IAS 40 (Amendment), IFRS 1 (Amendments), IFRS 5 (Amendment), IFRIC 15 and IFRIC 16 have had no impact on the group's and company's accounting policies or financial results.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

2. ADOPTION OF NEW AND REVISED STANDARDS continued

2.3 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 2008, was considered:

- CC 08/07, *Headline Earnings* (issued February 2008). Since the circular was first issued in November 2007, a minor editorial clarification was needed to ensure consistent treatment of headline earnings with respect to the exclusion of both gains and losses on the disposal of a subsidiary. The clarification had no impact on the group's financial statements.
- Accounting Practices Board (APB), the official financial reporting standards-setter in South Africa, when approving the IASB's *Reclassification of Financial Assets* - Amendments to IAS 39 - *Financial Instruments: Recognition and Measurement* and IFRS 7 - *Financial Instruments: Disclosures* in October 2008, expressed the view that it is highly unlikely that there were such "rare circumstances" in South Africa as envisaged by the IASB's amendment. The amendment allows a financial asset to be voluntarily reclassified from held-for-trading (measured at fair value through profit or loss) to another financial asset category in "rare circumstances". The APB did however note that there may well be "rare circumstances" affecting South African companies that have operations or financial assets in other countries that have such "rare circumstances". The group and company made no voluntary reclassifications as contemplated by the IASB or APB.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the group's and company's financial statements are set out below. These policies have been consistently applied to the comparative years presented.

3.1 Statement of compliance

The group and company financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and interpretations issued respectively 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 annual reporting periods beginning on or after 1 January 2008, and those standards early adopted as described in note 2.2.

3.2 Basis of preparation

The group's and company's financial statements have been prepared under the historical cost convention, as modified by the revaluation of:

- Derivative financial instruments that are designated as effective hedging instruments in cash flow hedge relationships;
- Derivative financial instruments that are designated as held-for-trading at fair value through profit or 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 group's and company'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, jointly controlled entities and associates at cost, and not at fair value in terms of IAS 39, *Financial Instruments, Recognition and Measurement*.

Dividends received from subsidiaries, jointly controlled entities and associates are recognised in profit or loss when the company has the right to receive the dividend. Dividend income is recognised if evidence is available that:

- The carrying amount of the investment in the company's separate financial statements exceeds the carrying amount in the group's financial statements of the investee's net assets; or

3. SIGNIFICANT ACCOUNTING POLICIES continued

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

- The dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period in which the dividend is declared, an impairment assessment is performed on the carrying amount of the investment.

The accounting for subsidiaries, jointly controlled entities and associates by the group is detailed in the accounting policies contained in notes 3.4 to 3.8.

3.4 Basis of consolidation – subsidiaries

The group 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 method of accounting is used to account for business combinations by the group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred for the purchase of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, as in the case of a bargain purchase, the difference is recognised directly in the income statement.

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

The group treats transactions with non-controlling interests in the same way as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

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, which 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 control 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 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 statement of financial position 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.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Investments in associates continued

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 or 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 investee 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.

An investment in a jointly controlled entity or an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases.

For the purpose of impairment testing of the group's cash generating units, goodwill is allocated to each of the 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 *pro rata* to the other assets of the unit 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.

Net fair value of the identifiable assets, liabilities and contingent liabilities over the 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 being recognised immediately in profit or loss.

3.9 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of ArcelorMittal South Africa.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

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 group's 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 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 reporting date presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each reporting date are translated at average exchange rates; for the reporting period; 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 income statement of comprehensive income 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	
	2008	2007
ZAR to one USD	**9.389**	6.8133

	Average annual rate for the year ended 31 December	
	2008	2007
ZAR to one USD	**8.262**	7.0555

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.11 Property, plant and equipment

The net carrying amount, being the capitalised initial and subsequent costs (ie gross carrying amount) less subsequent accumulated depreciation and impairment losses against property, plant and equipment is measured and recognised on a 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 company 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 include 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 cost elements:

- A fair, pro-rated portion of directly allocable fixed overhead cost 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 property, plant and equipment under construction, payments in advance of certified stage-of-completion certificates, are classified as prepayments and are not capitalised to the carrying amount of the asset.

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 assets' residual value represents the best estimate of the current recoverable amount of the asset at the end of their useful lives. Residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. For most of the group's and company's property, plant and equipment, other than land, the residual values are nil.

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:

• 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.11 Property, plant and equipment continued

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.

The ordinary activities of the group and company do not comprise the leasing (renting out) and subsequently selling of such assets. Any rental of property, plant and equipment is incidental in nature. Consequently, incidental rental income is offset against other operation expense and is included in the line item "other operating expenses" in the income statement. On the sale of such assets, the assets would be classified as held for sale. The proceeds on the disposal of the assets are disclosed as "cash flows from investing activities" in the statement of cash flows.

3.12 Start-up activities

Start-up activities are defined broadly as non-recurring 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, using the effective interest rate method. The corresponding rental obligations, net of finance charges, are shown as finance lease obligations. The interest element of the finance cost is charged to the 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 statement of financial position date, are classified as non-current finance lease obligations, while those to be settled within 12 months of the statement of financial position date are classified as current finance lease obligations.

3.14 Non-current assets and 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 non-current asset or disposal group is available for immediate sale in its present condition.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.14 Non-current assets and disposal groups held for sale continued

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 their fair value less costs to sell.

When the requirements for classification as held for sale are no longer met, the non-current asset or disposal group is reclassified out of the held for sale category. Such non-current assets or disposal groups are carried at the lower of (i) their 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) their recoverable amount at the date of the subsequent decision not to sell.

All of a subsidiary's jointly controlled entity's or an associate's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.

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 includes 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, are capitalised at their 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.15 Intangible assets continued

(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 of 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 company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the direct 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.

For intangible assets under development, payments in advance of certified stage-of-completion certificates, are classified as prepayments and are not capitalised to the carrying amount of the asset.

3.16 Impairment of tangible and intangible assets excluding goodwill

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

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. 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

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

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial assets continued

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 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 within a hedge relationship, 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 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 32.3.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial assets continued

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 33.3.

Gains and losses arising from changes in fair value are recognised directly in equity in the AFS investments 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 AFS investments 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 statement of financial position 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 comprehensive income and statement of changes in equity.

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.*

Reclassifications
As noted above, movements into and out of the FVTPL category occur where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

Voluntarily reclassification may be made of a financial asset in the following instances if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

- *Financial assets* (other than those that would have met the definition of loans and receivables): A financial asset may be reclassified from held-for-trading to another financial asset category only in extremely rare circumstances.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial assets continued

Reclassifications continued

- *Loans and receivables*: Assets that were classified as held-for-trading or as AFS that would have met the definition of loans and receivables on initial recognition can be reclassified to the loans and receivables category if the group and company have both the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- *Restrictions on reclassification:* Derivatives and financial assets that were designated at FVTPL upon initial recognition cannot be reclassified. Financial instruments may not be reclassified to either held-for-trading or be designated to be carried at FVTPL after initial recognition or reclassification.
- *Measurement:* All reclassified financial assets are measured at their fair value on the date of reclassification. The fair value of those financial assets becomes the starting fair value or amortised cost for the instrument's new financial instrument category on the date of reclassification. Gains or losses that were already recognised in profit or loss in respect of held-for-trading financial assets are not be reversed.
- *Subsequent increases in recoverability of cash receipts:* Where a financial asset is reclassified as a loan and receivable as envisaged above and the group and company subsequently increases their estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position 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 the 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 any 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.

For AFS equity investments, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

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. These instruments include:

- Puttable instruments that are subordinate to all other classes of instruments and that entitle the holder to a *pro rata* share of the company's net assets in the event of the issuing company's liquidation.
- Instruments, or components of instruments, that are subordinate to all other classes of instruments and that impose on the company an obligation to deliver to another party a *pro rata* share of the net assets of the company only on liquidation.

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 entity-own accounts of 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 company and group 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.

3. SIGNIFICANT ACCOUNTING POLICIES continued

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

Financial liabilities continued

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 company's and group'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 32.3.

(ii) *Other financial liabilities*

Other financial liabilities, including borrowings and finance lease obligations 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 22 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 statement of financial position date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The group and company designate certain derivatives as either hedges of the fair value of recognised assets 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.19 Derivative financial instruments continued

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 forecast base metal purchase transactions; and
- The foreign exchange risk of highly probable forecast 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 relationship between the hedging instrument and hedged item is documented, 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, it is documented 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.

When options are designated as hedging instruments, the option in its entirety would be designated as a hedge instrument of a one-sided risk arising from a forecast transaction, resulting in hedge ineffectiveness.

Hedge relationships are designated by the central treasury function between externally transacted hedging instruments and the internal business unit or subsidiary exposed to the hedged risk. The hedges so designated qualify for hedge accounting in the entity-own accounts of the company and subsidiary companies (as applicable), and the group accounts.

Notes 22 and 32 contain 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 comprehensive income and the statement of changes in equity.

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 underlying hedge item is modelled using the hypothetical derivative method on a one-to-one (one hedging instrument to one hedged item) basis.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.19 Derivative financial instruments continued

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: $R^2 > 0.8$
  - Slope: 0.8 - 1.25
  - Statistical significance: F-test >0.95
- 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 hedging relationship is revoked, 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.

Inflation is hedged in the instance where changes in inflation are a contractually-specified portion of cash flows of a recognised financial instrument.

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 hedging relationship is revoked, 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 are 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 composing 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 are 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.20 Inventories continued

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 rewards 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.

For finished steel inventory, net realisable value (NRV) is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. NRV calculations are rolled back from finished good inventories to further encompass work-in-progress and raw material inventories. Spare parts and consumable store items are assessed for obsolescence.

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 company and group 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 company and group 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.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Stated capital continued

When a third party financial institution is used to buy back shares of the company in the market, whether that party is acting as principal or agent, has an impact on the accounting treatment of such a purchase:

- If acting as agent, only when shares are acquired by the third party will the acquiring group company recognise (i) a financial liability to pay the third party, and (ii) a debit to equity for the shares to be delivered, being treasury shares.
- If acting as principal, the acquiring group company will recognise on contracting with the third party (i) the gross obligation being the present value of the maximum amount the group company could be required to pay the third party, and (ii) a debit to equity. Changes in the present value (due to the unwinding of the discount rate or changes in the share price (unless capped)) will be recognised in profit or loss. As purchases are made resulting in payments to the third party, the liability will be reduced. At the end of the programme any remaining liability will be derecognised, with a credit to equity, assuming the full obligation initially recognised is not utilised.

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

3.24 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 statement of financial position 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 group 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 statement of financial position 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.27 Employee benefits

Short-term employee benefits

Services rendered by employees during an accounting period, are recognised as the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability, after deducting any amount already paid; and as an expense, unless included in the cost of inventory or property, plant and equipment. Therefore 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.

Short-term compensated absences

The expected cost of short-term employee benefits in the form of compensated absences are recognised (i) in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and (ii) in the case of non-accumulating compensated absences, when the absences occur. The leave pay benefits of the group and company are accumulative in nature and entail automatic encashment of the benefits once the entitlements reach an accumulation limit, as more fully described in note 28.

Short term and long term distinction

Short-term employee benefits are employee benefits which are due to be settled within 12 months after the end of the period in which the employees render the related service. The remaining employee benefits are classified as long term.

Retirement benefits

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 statement of financial position 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;
- A plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation;
- Administration costs are included in full in measuring the defined benefit obligation; and
- The group's and company's obligation to make good funding shortfalls in the plans is disclosed in note 34.

Only obligations recognised in the statement of financial position represents 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.

Unconditional rights to a refund are recognised as an asset and measured as the amount of the surplus at the statement of financial position date. This amount is the fair value of the plan assets less the present value of the defined benefit obligation, less any associated costs, such as taxes.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.27 Employee benefits continued

Retirement benefits continued

In the absence of a minimum funding requirement, the economic benefits available as a reduction in future contributions are the present value of the future service cost (excluding costs borne by employees) over (i) the shorter of the expected life of the plan; and (ii) the expected life of the entity determined using assumptions consistent with those used to determine the defined benefit obligation (including the discount rate); and based on conditions that exist at the statement of financial position date.

Medical benefits

No contributions are made to the medical aid of retired employees, except for a closed group of early retirees in respect of whom contributions are made. The present value of the post-retirement medical aid obligation (as detailed in note 28) for such early retirements is actuarially determined annually on the projected unit credit method and any deficit or surplus is immediately recognised in profit or loss.

Termination benefits

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

The group and company recognise termination benefits when 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 benefits

Refer to the share-based payments, note 3.32.

3.28 Provisions, contingent liabilities and contingent assets

Provisions

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

- A present legal or constructive obligation exists as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; 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 of operating lease termination penalties.

Restructuring provisions comprise 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. Changes in the discount rate are recognised as finance charges, except for asset retirement obligations which are capitalised to property, plant and equipment.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.28 Provisions, contingent liabilities and contingent assets continued

Contingent liabilities

(i) *Legal claims*

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

- Determine if a present obligation exists (recognition); and
- Measure the obligation.

Management applies its judgement to the fact patterns 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 using a cumulative probability methodology.

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

Remote claims, being <20% using a cumulative probability methodology 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 methodology described 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 group accounts, after eliminating sales within the group.

All amounts invoiced to a customer in a sale transaction related to distribution and handling costs are classified as revenue, with the costs related thereto shown as distribution and handling costs within 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 and company's activities as described below.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.29 Revenue recognition continued

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 continue 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 the 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 statement of financial position date, the group and company revise their estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.32 Share-based payments continued

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 statement of financial position date.

Share-based payment arrangements involving equity instruments of the parent granted to employees of the subsidiary

Such arrangements are manifest through (i) share-based payment right issues by a parent or subsidiary to an employee of that entity, followed by the transfer of the employee to another group company; and (ii) employee share-purchase plans involving equity instruments of the parent company offered to employees of a subsidiary company.

Equity-settled share-based payments involving equity instruments of the parent granted to employees of the subsidiary are accounted for in the group financial statements of the parent. The subsidiary measure the services received from its employees in accordance with the accounting policy applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as a contribution from the parent.

Where a parent may grant share-based payment rights to the employees of its subsidiaries, conditional upon the completion of continuing service with the group for a specified period, and such employees transfer employment to another subsidiary during the specified vesting period without the employee's rights to equity instruments of the parent under the original share-based payment arrangement being affected, then each subsidiary measures the services received from the employee by reference to the fair value of the equity instruments at the date those rights were originally granted by the parent and the proportion of the vesting period served by the employee with each subsidiary. If the rights do not vest because of an employee's failure to meet the service condition, no amount is recognised on a cumulative basis for the services received from that employee in the financial statements of any subsidiary.

Vesting conditions

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

Cancellations

All cancellations, whether by the group, company, or by other parties, such as employee participants, receive the same accounting treatment. A cancellation of equity instruments is accounted for as an acceleration of the vesting period. Any amount unrecognised that would otherwise have been charged is recognised immediately. Any payments made with the cancellation are accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognised as an expense in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.33 Government or parastatal grants continued

The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* and the proceeds received. The benefit is recognised in the income statement.

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 statement of financial position date.

Deferred income tax

Refer to note 3.26.

Secondary Tax on Companies (STC) – South Africa

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.

Withholding tax on dividends

Dividends received subject to withholding tax are shown inclusive of any withholding tax, as to show only the nett amount of the income received which is subject to withholding tax fails to reflect the full amount taxable in the hands of the receiving entity. The withholding tax amount is included in the tax change for the reporting period.

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 board of directors.

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 to changes in presentation in the current period.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

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 Impairment indicator assessment for the carrying amount of property, plant and equipment

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.

Following the risk shock to world financial markets in September 2008 and the wash-over into the real economy, actual and forecast local and international steel consumption reduced. As an impairment indicator, the recoverable amount of the carrying amount of the property, plant and equipment and intangible assets of the cash-generating units were assessed. The major cash-generating units are the five major business units identified in note 3.16.

Due to the high levels of uncertainty regarding the depth and length of the downturn, estimation of future cash flows and growth rates is particularly judgemental. Of the major cash-generating units, the Saldanha Works, with its high net carrying amount of property, plant and equipment, and its export market focus, is especially sensitive to changes in assumptions. The inputs used in the assessment and the associated sensitivities are detailed in note 5.1.

In addition to the assessment of the major cash-generating units, the assessment of secondary cash-generating units and other major plant facilities resulted in an impairment charge of R93 million and R28 million being recognised against the carrying amount of property, plant and equipment of the Maputo Works and the Dunswart Direct Reduction facility respectively. The impairment is described in note 8.

4.2 Carrying amount of the investment in Hwange Colliery Company Limited (HCCL)

The group's available-for-sale equity investment in HCCL pertains to an entity which operates and is listed in Zimbabwe, a hyperinflationary economy with foreign currency restrictions. On 14 November 2008 all trading activities on the Zimbabwe Stock Exchange (ZSE) ceased. On that date the carrying amount of the investment was R76 million with fair value gains deferred to the available-for-sale investment reserve of R67 million.

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, was furthermore suspended.

Following the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, the loss of trading on an active market is not of itself an impairment indicator. However, with the cessation of trading, the equity investment in HCCL is effectively akin to that of an unlisted share. The group deemed it appropriate to apply a marketability discount that would reduce the fair value gains deferred to equity to Rnil.

Furthermore, in response to the suspension of the fungible conduit share arrangement, the group revised its liquidity risk assessment in determining the fair value of the investment. As a consequence, the fair value at the reporting date is assessed as being Rnil with the reduction in fair value below cost being deferred to equity. Once the fungible conduit share arrangement is reinstated or demonstrable evidence exists that the Reserve Bank of Zimbabwe will permit the orderly repatriation of proceeds from any possible future sale of the investment, the liquidity risk discounted will be revised. The accounting implications are more fully described in note 22.

A sensitivity analysis applicable to the 2007 carrying amount of the investment and indicative guidance applicable to the 14 November 2008 value is detailed in note 32.15.

4. CRITICAL JUDGEMENTS continued

4.3 Carrying amount of the group's and company's investment in jointly controlled entity, Microsteel (Proprietary) Limited (Microsteel)

Following the cessation of steel-making activities at Microsteel in 2000, the carrying amount of the group's and company's investment had been fully impaired to Rnil.

Based on revised estimates of the fair value less cost-to-sell of Microsteel's property, plant and equipment, Microsteel has been able to fully reverse an impairment allowance against the carrying amount of its property, plant and equipment. As a consequence, the carrying amount of the group's and company's investment has increased to R36 million at 31 December 2008 (December 2007: Rnil) as described more fully in note 20 and in note 14.

The group and company have recognised for the reporting period ended 31 December 2008, based on best estimates, a funding commitment obligation to Microsteel of R3 million, which is disclosed in the "other operating expenses" line item income statement and as a "sundry" payable in note 30.

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 relationships are tantamount to *de facto* control. Based on fact patterns, materiality and qualitative relevance considerations, and management's best 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.*

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

Expenses incurred for services rendered and CSI-related contributions payable to both entities amounted to:

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
Service rendered	**56**	49	**55**	49
CSI-related contributions	**15**	7	**15**	7
Total	**71**	56	**70**	56
Loans and other receivables	**2**	3	**2**	3
Payables	**21**	22	**21**	22

These amounts are included in the "other operating expenses" line item in the income statement.

Further details of CSI-related contributions to the Vesco Group and Vesco Community Enterprises are contained in the ArcelorMittal South Africa Limited Sustainability Report, 2008.

No new control relationships have required recognition for the reporting period ended 31 December 2008.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

4. CRITICAL JUDGEMENTS continued

4.5 Classification of acquisitions as either business combinations or asset purchases, and the determination of the point of initial recognition of the transaction

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 applies 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 identification of 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.

For the year ended 31 December 2008, ArcelorMittal South Africa Distribution (Proprietary) Limited purchased the property, plant and equipment of Trident Steel (Proprietary) Limited's Saldanha facility for R63 million. In addition the purchase makes provision for the re-employment of the facility's employees. The purchase was classified as an asset purchase as opposed to a business combination.

Following the meeting of the condition precedent, in the form of the unconditional approval of the acquisition by the Competition Tribunal on 12 December 2008, the parties are demonstrably and irrevocably committed to the purchase. Consequently, at 31 December 2008, the property, plant and equipment were recognised along with a liability for the purchase price. The purchase price is expected to be paid in the first quarter of 2009 once the formalities of registering the property in the name of the company are completed.

4.6 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 determination as to whether a contract is a derivative or hosts an embedded derivative requires significant judgement.

In assessing if an embedded derivative requires separate identification and measurement from the host contract, management assesses the available fact patterns 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 cash flow correlation between the host contract and hybrid instrument containing the embedded feature could be regarded as closely related. Where the correlation relationship was judged to be weak, the embedded derivative instrument is separately recognised and measured (ie bifurcated).

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

For the period under review, other than for over-the-counter stand-alone derivatives, no new contracts were identified that met the derivation of a derivative, nor were any new embedded derivatives identified requiring bifurcation.

The estimation sensitivities affecting the valuation of the bifurcated embedded derivative are referred to in note 5.3 and note 32.12.

4. CRITICAL JUDGEMENTS continued

4.7 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*.

In particular judgement is required in distinguishing between asset retirement obligations (AROs) and environmental remediation obligations (EROs). Sensitivities in this regard are described in note 5.4.

4.8 Contingent liabilities and uncertain taxation positions

Management applies its judgement to the fact patterns 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*, when specifically dealing with uncertain income tax positions.

Following the 2008 settlement of the taxation dispute relating to the Business Assistance Agreement, no other tax uncertainties exist which qualify for disclosure as contingent liabilities.

4.9 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 the foreign operation operates, which it uses primarily to 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 applies 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.

Subsidiaries and jointly controlled entities with a functional currency other than the ZAR are noted in Annexure 1 and Annexure 2.

4.10 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 applies 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.

No new significant embedded lease arrangement was identified during the year ended 31 December 2008.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

4. CRITICAL JUDGEMENTS continued

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 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 AND ASSOCIATED SENSITIVITIES

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

5.1 Recoverable amount determination for cash-generating units

As described in note 4.1, management reassessed the recoverability of the carrying amount of the group's and company's property, plant and equipment which is carried at R15 917 million and R9 781 million respectively at 31 December 2008.

Value-in-use recoverable amounts were computed using a discounted cash flow analysis varying in length from five to 20 years. Terminal value growth rates varied between 2% and 5%, with averaged discount rates varied between an average of 14.9% and 17.4%, and 11.9% and 16.8% for the five-year and 20-year modelling limits, respectively.

The value-in-use amounts were further subjected to sensitivity analyses applied to the following inputs: free cash flow generation, discount rates, exchange rates and terminal value growth rates.

From the sensitivity analysis, Saldanha Works was particularly vulnerable, when using the five-year discounted cash flow model, to free cash flow reductions and stronger USD/ZAR exchange rates. In reaction to this result, break-even analysis testing was performed using the 20-year model, simulating numerous scenarios including ceasing operations for a year, and other extreme outcomes such as simulating the events of the 1998 economic crisis (the Asian Contagion), protracted recessionary conditions and a future repeat of a commodity "boom and bust" cycle which culminated in the events of 2008.

Following an assessment of the results of the sensitivity analyses, management is confident that the carrying amount of the assets of all the major cash-generating units will be recovered in full.

5.2 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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND ASSOCIATED SENSITIVITIES continued

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

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

- Forecast commercial and economic realities;
- Benchmarking within the greater ArcelorMittal Group; and
- Guidance received from expert international valuers.

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 statement of financial position 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 reporting date. Correspondingly, the maturity profile for such derivatives, as presented in note 32.16, 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 32.3.

Relevant sensitivities for the financial assets and financial liabilities are described in the following notes:

- Stand-alone base metal derivatives: note 32.10.
- Embedded derivative: note 32.12.
- AFS financial asset: note 32.15.
- Foreign currency exposures: note 32.11.
- Interest rate exposures: note 32.14.

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 a 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. This is separately disclosed as a contingent liability.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND ASSOCIATED SENSITIVITIES continued

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

The sensitivity of the carrying amount of the obligations at 31 December 2008 in response to changes in key inputs is:

	Asset retirement obligations Rm	Environmental remediation obligations Rm
Carrying amount at 31 December 2008 (note 28)	240	1 338
% change in all cash flows		
+10%	+24	+134
-10%	-24	-134
% change in cash flows in first five years		
+10%	+21	+101
-10%	-21	-101
Basis point change in discount rate		
+100 basis points	-8	-56
-100 basis points	+9	+59
Basis point change in discount rate in first five years		
+100 basis points	-5	-29
-100 basis points	+6	+30

5.5 Commercial arrangements containing financial leases

A number of commercial supply arrangements have been determined by management to contain embedded finance leases as described in note 27. 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 (ie the right to use the asset) and exclude payments for other elements in the arrangement (eg 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:

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

(b) 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.

The fair value of the finance lease obligation if it were to be refinanced at current rates, keeping the cash instalments constant is described in note 32.3.

5.6 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, *inter alia*, the discount rate, the return on plan assets and the inflation rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND ASSOCIATED SENSITIVITIES continued

5.6 Defined benefit pension plans continued

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.

Plans' rules prohibit the distribution 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 plans, any available surplus is apportioned to the sole benefit of the members. The group and company is thus unable to recognise a defined benefit surplus, however, it is committed to fund a deficit.

The sensitivity of the defined benefit plans, defined benefit obligations, plan assets and experience adjustments in response to changes in the principal assumptions is as follows at 31 December 2008:

Iscor Retirement Fund	Present value of defined benefit obligation Rm	(Fair value of plan assets) Rm	(Surplus)/ deficit Rm	Experience adjustments on plan liabilities – gains/(losses) Rm	Experience adjustments on plan assets – gains/(losses) Rm
Valuation at 31 December 2008	405	(476)	(71)	6[1]	(50)[1]
Discount rate decreased by 100 basis points	412	(476)	(64)	(1)	(50)
Discount rate increased by 100 basis points	399	(476)	(77)	12	(50)
Previous years' expected return on plan assets decreased by 1%	405	(521)	(116)	6	(95)
Previous years' return on plan assets expected increased by 1%	405	(531)	(126)	6	(105)
Salary inflation decreased by 1%	404	(476)	(72)	7	(50)
Salary inflation increased by 1%	406	(476)	(70)	5	(50)

[1] *Non-cumulative, only for the reporting period ended 31 December 2008.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND ASSOCIATED SENSITIVITIES continued

5.6 Defined benefit pension plans continued

Mittal Steel South Africa Pension Fund	Present value of defined benefit obligation Rm	(Fair value of plan assets) Rm	(Surplus)/ deficit Rm	Experience adjustments on plan liabilities – gains/(losses) Rm	Experience adjustments on plan assets – losses/(gains) Rm
Valuation at 31 December 2008	6 562	(7 276)	(714)	121[1]	(1 004)[1]
Discount rate decreased by 100 basis points	6 566	(7 276)	(710)	117	(1 004)
Discount rate increased by 100 basis points	6 559	(7 276)	(717)	124	(1 004)
Previous years' expected return on plan assets decreased by 1%	6 562	(8 201)	(1 639)	121	(1 929)
Previous years' expected return on plan assets increased by 1%	6 562	(8 360)	(1 798)	121	(2 088)
Salary inflation decreased by 1%	6 559	(7 276)	(717)	124	(1 004)
Salary inflation increased by 1%	6 566	(7 276)	(710)	117	(1 004)

[1] *Non-cumulative, only for the reporting period ended 31 December 2008.*

As none of the sensitivities results in a funding deficit, and due to the asset recognition restriction, the sensitivities have no impact on the financial results of the group and company.

5.7 Valuation of share-based payments

The critical estimates as used in the Binomial Matrix valuation models for equity-settled share option plans are detailed in note 36.2.

For the outstanding, unvested equity-settled share options at 31 December 2008, the estimated charge to be expensed in the future up to the date of the vesting of the options is R35 million.

For the unvested cash-settled share participation rights described in note 36.1, R28 million has been recognised as liability (note 26) with R38 million still to vest over the remaining period to maturity, based on the valuation at 31 December 2008.

6. SEGMENTAL REPORT

Segment information is presented only at a group level where it is most meaningful. Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segment and to assess its performance.

The group's reportable segments are:

- Flat Carbon Steel Products consisting of the Vanderbijlpark and Saldanha Works;
- Long Carbon Steel Products consisting of the Newcastle, Vereeniging and Maputo Works;
- Coke and Chemicals undertaking the processing and marketing of by-products and the production and marketing of commercial-grade coking coal; and
- Corporate and Other, consists of sales and marketing functions, procurement and logistics activities, shared services, centres of excellence, the decommissioned Pretoria Works site, available-for-sale investments, and the results of the consolidated subsidiaries and special purpose entities.

Flat, Long Carbon Steel Products and Coke and Chemicals represent the group's operating segments in which production capacity is concentrated.

The accounting policies of the reportable segments are the same as the group's accounting policies described in note 3.9.

Segment profit from operations represents the profit earned by each segment without the allocation of after-tax profits of equity-accounted investments, net interest income, income from investments and income tax expenses.

All assets and liabilities are allocated to the operating segments, other than the following items that are exclusively housed in the Corporate and Other segment, reflecting the manner in which resource allocation is measured:

Assets not allocated to operating segments:

- results of consolidated subsidiaries and special purpose entities, other than for Saldanha Works which is a subsidiary housed within the Flat Carbon Steel Products segment;
- investments in equity-accounted entities;
- available-for-sale investments;
- cash and cash equivalents; and
- income tax, capital gains tax and value-added tax-related assets, as applicable.

Liabilities not allocated to operating segments are income tax, capital gains tax and value-added tax-related liabilities, as applicable.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Flat Carbon Steel Products		Long Carbon Steel Products	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
6. SEGMENTAL REPORT continued				
Revenue				
– external customers	**24 447**	18 613	**11 936**	8 666
– inter-segment customers	**1 066**	627	**1 014**	572
Total revenue	**25 513**	19 240	**12 950**	9 238
Distributed as:				
– Local	**20 635**	14 582	**10 861**	7 111
– Export				
Africa	**2 428**	1 947	**240**	722
Europe	**76**	207	**245**	175
Asia	**1 303**	1 848	**384**	540
Other	**5**	29	**206**	118
Results				
Operating profit/(loss) before depreciation, amortisation and impairments	**8 112**	5 265	**3 993**	2 838
Depreciation and amortisation	**(1 105)**	(438)	**(200)**	(186)
Impairment charge			**(121)**	
Segment profit/(loss) from operations	**7 007**	4 827	**3 672**	2 652
(Loss)/gains on changes in foreign exchange rate and financial instruments designated as held-for-trading at fair value through profit or loss	**(112)**	(15)	**(57)**	15
Interest received				
Finance costs				
Income from investments				
Impairment (charge)/reversal				
Income after tax from equity-accounted investments				
Profit/(loss) before tax	**6 895**	4 812	**3 615**	2 667
Income tax expense				
Profit after tax				
Segment assets	**20 198**	18 244	**5 097**	4 007
Investments in equity-accounted entities				
Capital expenditure	**1 035**	1 443	**541**	346
Segment liabilities	**(7 935)**	(6 665)	**(3 162)**	(2 123)
Cash inflow/(outflow) from operations	**5 616**	5 195	**3 021**	2 783
Number of employees at year-end	**5 280**	5 119	**3 008**	2 868

Coke and Chemicals		Corporate and Other		Adjustments and eliminations		Total reconciling to the consolidated amounts	
2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm
3 496	2 022			35		39 914	29 301
67	43			(2 147)	(1 242)		
3 563	2 065			(2 112)	(1 242)	39 914	29 301
3 427	1 996			8		34 931	23 689
69	26			15		2 752	2 695
				2		323	382
				9		1 696	2 388
				1		212	147
1 781	765	(278)	(55)	(6)	(11)	13 602	8 802
(38)	(38)	(23)	(17)	44	(420)	(1 322)	(1 099)
						(121)	
1 743	727	(301)	(72)	38	(431)	12 159	7 703
	(1)	806	(130)			637	(131)
		318	442			318	442
		(238)	(117)			(238)	(117)
		3	4			3	4
		(45)		81		36	
		331	270			331	270
1 743	726	874	397	119	(431)	13 246	8 171
						(3 865)	(2 455)
						9 381	5 716
1 130	1 043	10 244	5 052	(1 202)	(1 250)	35 467	27 096
		1 972	1 117	(4)	(8)	1 968	1 109
23	59	233	4			1 832	1 852
(796)	(219)	2 194	1 107	259	278	(9 440)	(7 622)
1 751	588	561	(134)	(10)	7	10 939	8 439
273	265	915	865			9 476	9 117

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

6. SEGMENTAL REPORT continued

6.1 Revenue from major products and services

The group's revenue from its major products was:

	2008 Rm	2007 Rm
Flat Carbon Steel Products		
– Plate	**1 859**	1 194
– Hot rolled coil	**12 740**	9 528
– Cold rolled coil	**2 296**	1 658
– Galvanised sheet	**4 477**	3 398
– Coated sheet	**1 095**	821
– Tin plate	**1 777**	1 684
– Other	**203**	330
Long Carbon Steel Products		
– Billets and blooms	**241**	152
– Bars and rebars	**2 502**	1 822
– Wirerod	**3 088**	2 444
– Sections	**3 990**	2 629
– Rails	**61**	97
– Seamless tubular products	**1 045**	781
– Forged	**994**	720
– Other	**15**	21
Coke and Chemicals		
– Coke	**2 930**	1 589
– Tar	**444**	357
– Other	**122**	76
– Consolidation	**35**	
Total consolidated revenue	**39 914**	29 301

6.2 Geographical information

The group operates principally in South Africa. Export sales are primarily sold into sub-Saharan Africa and Asia. The segmental allocation of the geographical revenue is described in note 6 above.

The group's operations are based in South Africa other than for a 35 000 tonnes per annum bar mill in Mozambique.

6.3 Information about major customers

Segmentation of the group's top three customers, as measured on total revenue, is:

	2008 Rm	2007 Rm
Flat Carbon Steel Products	**8 479**	5 843
Long Carbon Steel Products	**4 912**	2 956
Total revenue attributable to top three customers	**13 391**	8 799
Expressed as a % of total consolidated revenue	**34%**	30%
Of these top three customers, one customer contributes more than 10% to total revenue	**6 603**	4 097
Expressed as a % of total consolidated revenue	**17%**	14%

Further details relating to credit risk concentrations are described in note 32.17.

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
7. REVENUE				
Sale of goods	39 914	29 298[1]	35 990	25 721
Gains on derivative instruments in designated cash flow hedge accounting relationships		3		1
Total	39 914	29 301	35 990	25 722
[1] *Amount has been reduced by R32 million to exclude unearned profit adjustments made in 2007 relating to sales to jointly controlled entities on inventory still on hand at 31 December 2007.*				
8. IMPAIRMENT CHARGE				
Impairment charge against property, plant and equipment	(121)		(28)	
Total	(121)		(28)	
Impairment charges of R93 million and R28 million have been recognised against the carrying amount of the Maputo Works and the Dunswart Direct Reduction facility respectively.				
The Maputo Works is housed within the subsidiary, ArcelorMittal Maputo SA.				
9. PROFIT FROM OPERATIONS				
Profit from operations has been arrived at after charging:				
Amortisation of intangible assets	12	11	9	9
Depreciation	1 310	1 088	849	743
– Buildings and infrastructure	40	52	34	35
– Machinery, plant and equipment	1 155	977	708	659
– Site preparation, mining development and exploration	4	5	4	5
– Asset retirement obligation assets	41	20	41	20
– Leased assets under finance leases	70	34	62	24
Consultancy fees	24	18	22	15
Employee costs	2 598	2 210	2 591	2 210
– Salaries and wages	2 356	1 971	2 349	1 971
– Termination benefits	2	3	2	3
– Pension and medical costs	207	201	207	201
– Share-based payment expense	33	35	33	35
Loss on disposal or scrapping of property, plant and equipment	39	31	38	31
Operating lease rentals	137	146	134	143
– Property	4		3	
– Equipment and vehicles	133	146	131	143
Railage and transport	1 159	706	1 076	706

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
9. PROFIT FROM OPERATIONS continued				
Repairs and maintenance	**2 084**	1 847	**1 606**	1 515
Research and development costs	**63**	58	**63**	58
Reconditionable spares usage	**12**	13	**9**	11
Write-down of inventory to net realisable value:	**215**	26	**182**	27
– Finished goods	**133**	26	**109**	27
– Work-in-progress	**35**		**35**	
– Raw materials	**47**		**38**	
Auditors' remuneration	**12**	11	**10**	10
– Audit fees	**11**	10	**9**	9
– Other services and expenses	**1**	1	**1**	1
Management fees	**135**		**(41)**	(153)
Directors' remuneration			**18**	11
Fair value losses/(gains) transferred from equity on effective derivative instruments designated as cash flow hedges (note 32), included in[1]				
– Raw materials and consumables used	**138**	(5)	**138**	(6)
– Ineffectiveness arising from effective cash flow hedges	**0[2]**	0[2]	**0[2]**	0[2]
Fair value losses transferred from equity on ineffective derivative investments designated as cash flow hedges, included in				
– Raw materials and consumables used	**3[3]**		**2[3]**	
Impairment losses on financial assets				
– Allowance for doubtful debts recognised on trade and other receivables (note 24)	**12**	0[2]	**12**	0[2]
– Other allowances (reversed)/ recognised on trade and other receivables (note 24)	**(22)**	47	**(37)**	49
(Gains)/losses on derivative financial instruments designated at fair value through profit and loss, not held-for-trading				
– (Gains)/losses on changes in the fair value of embedded derivative instruments	**(148)**	33	**(148)**	33

[1] *Excludes adjustments relating to hedge ineffectiveness that is disclosed separately.*
[2] *Rounding to zero due to the use of numeric reporting scale format of one million.*
[3] *As detailed in note 32.10 (note (i) and note (ii) of reserve movement for 2007 and 2008 respectively).*

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 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	901	38	882	20
Losses on changes in foreign exchange rates	(256)	(188)	(244)	(180)
Total, arising on:	645	(150)	638	(160)
– Trade and other receivables	52	(43)	18	(34)
– Trade and other payables	(148)		(128)	(1)
– Cash and cash equivalents	741	(107)	748	(125)
of which:				
– Realised in cash	(46)	(148)	(59)	(160)
– Unrealised	691	(2)	697	
Fair value (losses)/gains transferred from equity on ineffective derivative instruments de-designated as cash flow hedges[1]	(10)	3	(10)	2
Gains on changes in the fair value of derivative instruments designated as held-for-trading at fair value through profit or loss	2	16	5	7
Total	637	(131)	633	(151)
[1] *As detailed in note 32.10 (note (i) and note (ii) of reserve movement for 2007 and 2008 respectively.)*				
11. INTEREST RECEIVED				
Bank deposit and other interest income excluding interest income from subsidiaries and equity-accounted investments (note 13)	318	442	296	426
Total	318	442	296	426
12. FINANCE COSTS				
Interest expense on bank overdrafts and loans	(13)	(20)	(3)	(16)
Interest expense on finance lease obligations[1]	(46)	(53)	(19)	(25)
Discounting rate adjustment of the non-current provisions[2]	(8)	79	(8)	79
Unwinding of the discounting effect in the present valued carrying amount of the non-current provisions	(171)	(123)	(171)	(127)
Total	(238)	(117)	(201)	(89)

[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 decreased from an average rate of 11.25% to 10.75% (2007: 10.5% to 11.25%) in line with changes in the South African zero swap rates.*

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
13. INCOME FROM INVESTMENTS				
Dividends received			338	281
Interest received	3	4	3	4
Total	3	4	341	285
14. IMPAIRMENT REVERSAL/(CHARGE)				
Impairment reversal against investment in jointly controlled entity	36		36	
Impairment (charge)/reversal against investment in subsidiary			(81)	2 799
Total	36		(45)	2 799

Impairment reversal against investment in jointly controlled entity

Following an impairment reversal against property, plant and equipment by the jointly controlled entity, Microsteel (Proprietary) Limited, a corresponding reversal of R36 million against the impairment against the investment has been made by the company.

Impairment (charge)/reversal against investment in subsidiary

In context of the impairment against property, plant and equipment of Maputo Works as described in note 8, an impairment charge of R81 million was recognised against a fixed loan to ArcelorMittal Maputo SA, being the funding advanced for the initial equipment purchase. The amount is reversed for consolidation purposes.

For the year ended 31 December 2007, 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.

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 was reversed in 2007.

For the group, the increase in the equity accounted carrying amount of Microsteel (Proprietary) Limited is reflected in note 20.

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
15. INCOME TAX EXPENSE				
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	3 661	1 871	3 311	1 813
Adjustments recognised in the current year in relation to the current tax of prior years	5	(36)	(3)	(40)
	3 666	1 835	3 308	1 773
Deferred tax expense relating to the origination and reversal of temporary differences	24	137	26	(191)
Deferred tax income recognised in the current year in relation to the deferred tax of prior years	7	1	11	1
Effect of changes in corporate tax rate	(89)		(35)	
	(58)	138	2	(190)
Secondary Tax on Companies	244	482	239	446
Withholding tax on foreign income	13		13	
Total tax expense	3 865	2 455	3 562	2 029

	Group		Company	
	2008 Rm	2007 Rm	**2008 Rm**	2007 Rm
15. INCOME TAX EXPENSE continued				
The total charge for the year can be reconciled to the accounting profit as follows:				
Profit before tax	**13 246**	8 171	**12 121**	9 720
Income tax expense calculated at 28% and 29%[1]	**3 709**	2 370	**3 394**	2 819
Effect of revenue that is non-taxable/exempt from taxation	**(2)**	(3)	**(97)**	(113)
Effect of expenses that are not deductible in determining taxable profit	**6**	47	**8**	44
Effect of assessed loss de-recognised and loss not capitalised	**6**			
Effect of change in corporate tax rate[1]	**(89)**		**(35)**	
Effect of tax concessions[2]		(39)		(39)
Effect of impairment charge/(reversal)	**24**		**13**	(812)
Effect of equity profit disclosed net of tax and effect of different tax rates of subsidiaries operating in other jurisdictions	**(77)**	(90)		
Effect of revenue imputed from controlled foreign companies	**21**	7	**21**	7
Effect of deferred tax asset raised on environmental obligations		(277)[3]		(277)[3]
Tax rebate on foreign dividends	**(2)**	(7)	**(2)**	(7)
Adjustments recognised in the current year in relation to the current tax and deferred tax of prior years.	**12**	(35)	**8**	(39)
Secondary Tax on Companies	**244**	482	**239**	446
Withholding tax on foreign income	**13**		**13**	
	3 865	2 455	**3 562**	2 029
Taxation as a percentage of profit before taxation	**29.2%**	30.0%	**29.4%**	20.9%

[1] *The tax rate used for the 2008 and 2007 reconciliations above is the corporate tax rate of 28% and 29% respectively payable by corporate entities in South Africa on taxable profits. A 1% corporate tax rate reduction from 29% to 28%, effective for years of assessment ending during the 12-month period ending on 31 March 2009, was enacted during the year.*

[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.*

[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 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
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	**(6)**	(12)	**(5)**	(12)
– losses on share purchases via the management share trust	**(26)**	(15)	**(26)**	(15)
Deferred tax on unrealised losses on cash flow hedges	**(19)**	(15)	**(16)**	(15)
Total current and deferred tax recognised in equity	**(51)**	(42)	**(47)**	(42)

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Group 2008 Rm	Group 2007 Rm
16. EARNINGS PER SHARE		
Basic earnings per share are calculated by dividing profit attributable to the owners of the company 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' report and note 25.		
Profit attributable to owners of the company (Rm)	**9 381**	5 716
Weighted average number of ordinary shares in issue (thousands)	**445 752**	445 752
Basic earnings per share (cents)	**2 105**	1 282
Diluted earnings per share is calculated by dividing the profit attributable to the owners of the company 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 owners of the company (Rm)	**9 381**	5 716
Weighted average number for diluted shares (thousands)	**447 433**	447 052
Diluted earnings per share (cents)	**2 097**	1 279

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

	2008 Gross Rm	2008 Net of tax Rm	2007 Gross Rm	2007 Net of tax Rm
Profit attributable to owners of the company		**9 381**		5 716
Plus IAS 16 loss on disposal or scrapping of property, plant and equipment	**39**	**28**	31	22
Plus IFRS 5 write-down to recoverable amount on the reclassification of assets previously classified as held for sale			4	3
Plus impairment of assets	**121**	**111**		
Less impairment of equity-accounted investments reversal	**(36)**	**(36)**		
Headline earnings (Rm)		**9 484**		5 741

	Group	
	2008 Rm	2007 Rm
16. EARNINGS PER SHARE continued		
Headline earnings per share (cents)		
– Basic	**2 128**	1 288
– Diluted	**2 120**	1 284
The weighted average number of shares used in the computation of diluted earnings per share were determined as follows (thousands):		
- Shares in issue	**445 752**	445 752
Adjustments for dilutive impact of the Management share trust:		
– Shares under option	**1 681**	1 284
– Shares under loan purchase and deferred purchase		16
Diluted shares in issue (thousands)	**447 433**	447 052

17. DIVIDEND PER SHARE

The dividend distribution for 2008 consists of:

- On 8 February 2008 a final dividend of 196 cents per share (R874 million) for the 2007 financial year was paid to shareholders on 17 March 2008.
- On 24 July 2008 an interim dividend of 342 cents per share (R1 524 million) for the 2008 financial year was paid to shareholders on 1 September 2008.

The dividend distribution for 2007 consists of:

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

18. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings Rm	Buildings and infrastructure Rm	Machinery, plant and equipment Rm
GROUP			
For the year ended 31 December 2008			
Gross carrying amount			
At beginning of year	**59**	**1 782**	**22 500**
Additions		**10**	**863**
Disposals		**(2)**	**(368)**
Other movements		**36**	**611**
At end of year	**59**	**1 826**	**23 606**
Accumulated depreciation and impairment losses			
At beginning of year	**2**	**1 071**	**9 783**
Depreciation charges		**40**	**1 155**
Impairment charge			**121**
Accumulated depreciation on disposals		**(1)**	**(316)**
Other movements			
At end of year	**2**	**1 110**	**10 743**
Net carrying amount at end of year	**57**	**716**	**12 863**
GROUP			
For the year ended 31 December 2007			
Gross carrying amount			
At beginning of year	60	1 742	21 045
Additions		25	984
Disposals	(1)	(3)	(398)
Other movements		18	867
Reclassified from assets held for sale			2
At end of year	59	1 782	22 500
Accumulated depreciation and impairment losses			
At beginning of year	2	1 022	9 125
Depreciation charges		52	977
Accumulated depreciation on disposals		(3)	(347)
Other movements			28
At end of year	2	1 071	9 783
Net carrying amount at end of year	57	711	12 717

[1] *Including the assets of the two captive mines for an amount of R575 million (December 2007: R623 million).*

Site preparation Rm	Asset retirement obligation component asset at present value Rm	Leased assets[1] Rm	Extensions under construction Rm	Total Rm
98	**154**	**2 177**	**1 140**	**27 910**
		136	**797**	**1 806**
(1)				**(371)**
6	**77**	**27**	**(617)**	**140**
103	**231**	**2 340**	**1 320**	**29 485**
59	**129**	**1 341**		**12 385**
4	**41**	**70**		**1 310**
				121
(1)				**(318)**
		70		**70**
62	**170**	**1 481**		**13 568**
41	**61**	**859**	**1 320**	**15 917**

98	146	1 875	1 132	26 098
	8	302	906	2 225
(5)				(407)
5			(898)	(8)
				2
98	154	2 177	1 140	27 910
59	109	808		11 125
5	20	34		1 088
(5)				(355)
		499		527
59	129	1 341		12 385
39	25	836	1 140	15 525

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

18. PROPERTY, PLANT AND EQUIPMENT continued

	Land and buildings Rm	Buildings and infrastructure Rm	Machinery, plant and equipment Rm
COMPANY			
For the year ended 31 December 2008			
Gross carrying amount			
At beginning of year	**53**	**1 414**	**13 201**
Additions		**10**	**662**
Disposals		**(2)**	**(224)**
Other movements		**28**	**358**
At end of year	**53**	**1 450**	**13 997**
Accumulated depreciation and impairment losses			
At beginning of year		**926**	**6 264**
Depreciation charges		**34**	**708**
Accumulated depreciation on disposals		**(1)**	**(176)**
Impairment			**28**
Other movements			
At end of year		**959**	**6 824**
Net carrying amount at end of year	**53**	**491**	**7 173**
COMPANY			
For the year ended 31 December 2007			
Gross carrying amount			
At beginning of year	54	1 393	11 947
Additions		6	818
Disposals	(1)	(3)	(396)
Other movements		18	830
Reclassified from assets held for sale			2
At end of year	53	1 414	13 201
Accumulated depreciation and impairment losses			
At beginning of year		894	5 945
Depreciation charges		35	659
Accumulated depreciation on disposals		(3)	(347)
Other movements			7
At end of year		926	6 264
Net carrying amount at end of year	53	488	6 937

[1] *Including the assets of the two captive mines for an amount of R575 million (December 2007: R623 million).*

	Site preparation Rm	Asset retirement obligation component asset at present value Rm	Leased assets[1] Rm	Extensions under construction Rm	Total Rm
	98	**154**	**1 982**	**889**	**17 791**
			136	**705**	**1 513**
	(1)				**(227)**
	6	**77**	**27**	**(393)**	**103**
	103	**231**	**2 145**	**1 201**	**19 180**
	59	**129**	**1 252**		**8 630**
	4	**41**	**62**		**849**
	(1)				**(178)**
					28
			70		**70**
	62	**170**	**1 384**		**9 399**
	41	**61**	**761**	**1 201**	**9 781**
	98	146	1 680	1 031	16 349
		8	302	717	1 851
	(5)				(405)
	5			(859)	(6)
					2
	98	154	1 982	889	17 791
	59	109	729		7 736
	5	20	24		743
	(5)				(355)
			499		506
	59	129	1 252		8 630
	39	25	730	889	9 161

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

18. 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.

Impairment

The impairment assessment is described in note 4.1 and 5.1.

19. INTANGIBLE ASSETS

	Patents and trademarks Rm	Non-integrated software Rm	Total Rm
GROUP			
For the year ended 31 December 2008			
Gross carrying amount			
At beginning of year	**41**	**224**	**265**
Additions		**25**	**25**
Disposals		**(3)**	**(3)**
At end of year	**41**	**246**	**287**
Amortisation			
At beginning of year	**17**	**190**	**207**
Amortisation charge	**2**	**10**	**12**
Accumulated amortisation charge on disposals		**(3)**	**(3)**
At end of year	**19**	**197**	**216**
Net carrying amount at end of year	**22**	**49**	**71**
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
Amortisation			
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

19. INTANGIBLE ASSETS continued

	Patents and trademarks Rm	Non-integrated software Rm	Total Rm
COMPANY			
For the year ended 31 December 2008			
Gross carrying amount			
At beginning of year		**222**	**222**
Additions		**25**	**25**
Disposals		**(3)**	**(3)**
At end of year		**244**	**244**
Amortisation			
At beginning of year		**190**	**190**
Amortisation charge		**9**	**9**
Accumulated amortisation charge on disposals		**(3)**	**(3)**
At end of year		**196**	**196**
Net carrying amount at end of year		**48**	**48**
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
Amortisation			
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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
20. UNLISTED EQUITY-ACCOUNTED INVESTMENTS				
The investment represents interest in unlisted incorporated joint-controlled entities and an associate				
At beginning of year	**1 109**	953	**48**	32
Net after-tax share of results as per the income statement	**331**	270		
Dividends received	**(14)**	(104)		
Currency translation differences	**502**	(18)		
Unrealised profit on sales	**4**	(8)		
Acquisition of interest in associate		16		16
Impairment reversal	**36**		**36**	
At end of year (Annexure 1)	**1 968**	1 109	**84**	48
Aggregate post-acquisition reserves	**1 137**	820		
Unlisted equity-accounted investments at 31 December 2008 includes no goodwill (December 2007: nil).				
The group has no unrecognised losses for any individual equity-accounted investment.				
21. INVESTMENTS IN SUBSIDIARIES				
Indebtedness				
– by subsidiaries			**4 663**	5 553
– to subsidiaries			**(94)**	(94)
Net indebtedness			**4 569**	5 459
Indebtedness			**4 569**	5 459
Shares at cost (Annexure 2)			**256**	256
Total			**4 825**	5 715
Aggregate attributable after-tax profits			**731**	1 241

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 14).

	Group				Company			
	Non-current		Current		Non-current		Current	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm
22. OTHER FINANCIAL ASSETS/(LIABILITIES)								
Derivatives designated as hedging instruments carried at fair value								
Base metal forward purchase contracts								
• Unmatured			**(129)**	(53)			**(117)**	(53)
• Matured not settled			**(28)**	(14)			**(26)**	(14)
Financial assets/(liabilities) carried at fair value through profit or loss (FVTPL)								
Embedded derivatives at FVTPL	**203**	124	**163**	94	**203**	124	**163**	94
Held-for-trading derivatives that are not designated in hedge accounting relationships								
• Base metal forward purchase contracts unmatured			**9**				**9**	
• Foreign currency forward purchase contracts unmatured		0[1]	**2**	0[1]			**0[1]**	0[1]
Available-for-sale (AFS) investments carried at fair value								
Equity instruments[2]		71						
Total	**203**	195	**17**	27	**203**	124	**29**	27
Included in the financial statements as:								
Other financial assets	**203**	195	**174**	94	**203**	124	**172**	94
Other financial liabilities			**(157)**	(67)			**(143)**	(67)
Total	**203**	195	**17**	27	**203**	124	**29**	27

[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. On 14 November 2008 all trading activities on the Zimbabwe Stock Exchange ceased. On that date the carrying amount of the investment was R76 million with fair value gains deferred to the available-for-sale equity reserve of R68 million. 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, was furthermore suspended. The group deemed it appropriate to apply a marketability discount that would reduce the fair value gains deferred to equity, to Rnil. In response to the suspension of the fungible conduit share arrangement, the group revised its liquidity risk assessment in determining the fair value of the investment. As a consequence, the fair value at the reporting date is assessed as being nil, with the reduction in fair value below cost being deferred to equity as described in note 32.3.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
23. INVENTORIES				
Finished products	**1 207**	1 146	**1 140**	1 012
Work-in-progress	**3 140**	1 487	**3 003**	1 467
Raw materials	**3 710**	1 741	**3 431**	1 366
Plant spares and consumable stores	**585**	416	**502**	351
Total	**8 642**	4 790	**8 076**	4 196

Included in the above are: finished products of R258 million (December 2007: R111 million), work-in-progress of R128 million (December 2007: R37 million) and raw materials of R348 million (December 2007: R0 million) carried at net realisable value.

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
24. TRADE AND OTHER RECEIVABLES				
Trade receivables				
– Local sectors				
Manufacturing	**491**	685	**407**	552
Merchants	**681**	692	**681**	692
Structural metal	**323**	343	**323**	343
Food and beverage	**150**	130	**150**	130
Other	**124**	269	**124**	267
– Exports	**244**	179	**145**	105
Total gross trade receivables	**2 013**	2 298	**1 830**	2 089
Less allowances				
Allowance for doubtful debts				
– Local sectors				
Manufacturing	**(5)**	(2)	**(5)**	(2)
Structural metal	**(1)**		**(1)**	
Other	**(1)**	(1)	**(1)**	(1)
– Exports	**(2)**		**(2)**	
Total allowances for doubtful debts	**(9)**	(3)	**(9)**	(3)
Other allowances				
– Local sectors				
Manufacturing	**(134)**	(148)	**(134)**	(148)
Merchants	**(46)**	(40)	**(46)**	(40)
Structural metal	**(33)**	(28)	**(33)**	(28)
Food and beverage	**(5)**	(3)	**(5)**	(3)
Other	**(1)**	(32)	**(1)**	(32)
– Exports	**(15)**	(5)		(5)
Total other allowances	**(234)**	(256)	**(219)**	(256)

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
24. TRADE AND OTHER RECEIVABLES continued				
Net trade receivables				
– Local sectors				
Manufacturing	352	535	268	402
Merchants	635	652	635	652
Structural metal	289	315	289	315
Food and beverage	145	127	145	127
Other	122	236	122	234
– Exports	227	174	143	100
Total net trade receivables	1 770	2 039	1 602	1 830
Other receivables	257	179	179	122
– *Less:* allowance for doubtful debts	(21)	(18)	(21)	(18)
	236	161	158	104
VAT recoverable	25	92	5	73
Net other receivables	261	253	163	177
Total	2 031	2 292	1 765	2 007

The sectoral split of the average credit period on sales of goods is:

	2008	2007	2008	2007
Average credit period in days for trade receivables				
– Local sectors[1]				
Manufacturing	36	34	37	35
Merchants	33	32	33	32
Structural metal	34	37	34	37
Food and beverage	30	30	30	30
Other	30	30	30	30
– Exports[2]	9	9	9	9

[1] *Local sectors credit period measured from date of statement.*
[2] *Exports credit period measured from bill-of-lading date.*

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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

24. TRADE AND OTHER RECEIVABLES continued

Included in the group's and company's trade receivable balance are debtors with a carrying amount of R220 million (December 2007: R84 million), which are past due at the reporting date which have not been provided against as there has not been a significant change in credit quality and the amounts are still considered recoverable.

The sectoral split is:

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
Trade receivables past due				
– Local sectors				
Manufacturing	113	31	113	31
Merchants	43	21	43	21
Structural metal	16	22	16	22
Food and beverage		1		1
Other	42	9	42	9
– Exports	6		6	
Total	220	84	220	84

The group and company hold financial guarantees and similar credit enhancements with a face value of R203 million (December 2007: R74 million) over the remainder of these balances. As detailed in note 32.7, the carrying amount of these financial assets held is Rnil (December 2007: Rnil).

The ageing of the past due amounts is:

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
Trade receivables				
– Up to 3 months				
– Local sectors				
Manufacturing	112	19	112	19
Merchants	43	18	43	18
Structural metal	13	21	13	21
Food and beverage		1		1
Other	41	9	41	9
– Exports	3		3	
Total	212	68	212	68
– 3 to 6 months				
– Local sectors				
Manufacturing	1	2	1	2
Merchants		1		1
Total	1	3	1	3

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
24. TRADE AND OTHER RECEIVABLES continued				
– Beyond 6 months				
– Local sectors				
Manufacturing	**1**	10	**1**	10
Merchants		2		2
Structural metal	**2**	1	**2**	1
Other	**1**		**1**	
– Export	**3**		**3**	
Total	**7**	13	**7**	13
Total	**220**	84	**220**	84

Other receivables relate primarily to by-product sales, site rental due, prepayments 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, ageing of a given receivable and historical experience. 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% of 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 time value is regarded as significant.
- Other allowances, which relate to settlement discounts, price, quality, dispatch and related claims are based on the exact amounts as withheld from payment by customers, for which credit notes still have to be issued.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

24. TRADE AND OTHER RECEIVABLES continued

The movement in the trade and other receivables allowance balance is:

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
Movement in trade receivable allowances				
Allowance for doubtful debt				
Balance at beginning of year	**(3)**	(3)	**(3)**	(3)
Amounts written off during year	**1**		**1**	
(Increase)/decrease in allowance recognised in profit or loss	**(7)**		**(7)**	
Balance at end of year	**(9)**	(3)	**(9)**	(3)
Other allowances				
Balance at beginning of year	**(256)**	(209)	**(256)**	(207)
Decrease/(increase) in allowance recognised in profit or loss	**22**	(47)	**37**	(49)
Balance at end of year	**(234)**	(256)	**(219)**	(256)
Movement in other receivable allowances				
Balance at beginning of year	**(18)**	(27)	**(18)**	(23)
Amounts written off during year	**2**	5	**2**	5
Increase/(decrease) in allowance recognised in profit or loss	**(5)**	4	**(5)**	
Balance at end of year	**(21)**	(18)	**(21)**	(18)

The group and company did not transfer any receivables to related or unrelated entities during the current or comparative years. No factoring or securitisation arrangements were transacted.

The currency denomination of trade and other receivables for the group and company is described fully in note 32.11.

Credit risk concentrations are described in note 32.17.

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
25. STATED CAPITAL				
Authorised				
1 200 000 000 ordinary shares at no par value (December 2007: 1 200 000 000 ordinary shares at no par value)				
2 357 584 "C" redeemable preference shares at R10 each (December 2007: 2 357 584)				
Issued				
445 752 132 ordinary shares at no par value (December 2007: 445 752 132 ordinary shares at no par value)	**37**	37	**37**	37
Total	**37**	37	**37**	37

A special resolution was passed at the annual general meeting (AGM) of the company on 7 May 2008 authorising the directors to undertake a general purchase of up to 10% of the company's own shares in issue. The authority applies for a period of no more than 15 months after the AGM. The acquisition price may not be more than 10% above the weighted average market value of the shares over the five business days immediately preceding the date on which the acquisition is effected.

Any shares purchased would be housed in Vicva Investments and Trading Nine (Proprietary) Limited, a wholly owned subsidiary of the company.

For the year ended 31 December 2008 no shares had been purchased in terms of the special resolution.

The capital risk management policy is described in note 32.18.

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 in the statement of changes in equity.

The unissued ordinary shares are not under the control of the directors.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
26. BORROWINGS AND OTHER PAYABLES				
Borrowings				
Unsecured – at amortised cost				
Loan from Pretoria Portland Cement	**51**	61		
Other payables				
Cash-settled share-based payments[1]	**28**	1	**28**	1
	79	62	**28**	1
Included in the financial statements as:				
Non-current borrowings and other payables	**46**	52	**5**	1
Current borrowings and other payables	**33**	10	**23**	
Total	**79**	62	**28**	1

[1] *Representing share participation rights. Refer note 36.1 for the relevant terms and conditions.*

The ZAR-denominated loan is unsecured and bears interest at a fixed rate of 16.00% and is repayable annually with the final payment due in 2013.

There were no loan breaches or defaults during the current or comparative period.

The fair value of the borrowings and thus exposure to refinancing risk is detailed in note 32.3.

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
27. FINANCE LEASE OBLIGATIONS				
Secured – at amortised cost for the following arrangements:	**354**	416	**199**	253
Raw materials	**98**	138	**98**	138
Gases	**95**	21	**95**	106
Electricity and transport utilities	**147**	149		
Steel processing and foundry services	**14**	108	**6**	9
Included in the financial statements as:				
Non-current finance lease obligations	**314**	328	**168**	174
Current finance lease obligations	**40**	88	**31**	79
Total	**354**	416	**199**	253

The finance leases are embedded within supply arrangements with suppliers and have been assessed in terms of IFRIC 4, *Determining whether an arrangement contains a lease.*

The lease liabilities are effectively secured as the rights to the leased assets as embedded in the supply agreements would generally revert to the lessor supplier in the event of default.

Functional category	Term expiry date	Fixed effective interest rate
Raw materials	2013 – 2014	0%
Gases	2016	13.37% – 23.75%
Electricity and transport utilities	2018 – 2022	15.35% – 17.32%
Steel processing and foundry services	2012	7.17% – 8.90%

There were no loan breaches or defaults during the current or comparative period.

The fair value of the borrowings and thus exposure to refinancing risk should supply contracts be re-tendered is detailed in note 32.3.

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 2008						
Raw materials	**19**	**74**	**5**	**98**		**98**
Gases	**29**	**97**	**50**	**176**	**81**	**95**
Electricity and transport utilities	**28**	**113**	**203**	**344**	**197**	**147**
Steel processing and foundry services	**7**	**9**		**16**	**2**	**14**
Total	**83**	**293**	**258**	**634**	**280**	**354**
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
COMPANY						
For the year ended 31 December 2008						
Raw materials	**19**	**74**	**5**	**98**		**98**
Gases	**28**	**97**	**51**	**176**	**81**	**95**
Steel processing and foundry services	**2**	**5**		**7**	**1**	**6**
Total	**49**	**176**	**56**	**281**	**82**	**199**
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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

28. PROVISIONS

	Asset retirement obligation Rm	Environ-mental remediation Rm	Onerous contracts Rm	Leave pay benefits Rm	Post-retirement medical-aid benefits Rm	Other Rm	Total Rm
GROUP							
For the year ended 31 December 2008							
At beginning of year	**158**	**833**	**253**	**268**	**9**	**80**	**1 601**
Charge to income statement	**22**	**561**	**68**	**93**	**2**		**746**
Additions/(releases)		**425**	**47**	**93**	**2**		**567**
Discount rate change		**16**	**(8)**				**8**
Unwinding of the discount effect	**22**	**120**	**29**				**171**
Utilised during year	**(17)**	**(56)**	**(43)**	**(67)**	**(1)**	**(80)**	**(264)**
Capitalisation to asset	**77**						**77**
At end of year	**240**	**1 338**	**278**	**294**	**10**		**2 160**
Included in the financial statements as:							
Non-current provisions	**217**	**1 201**	**234**	**227**	**9**		**1 888**
Current provisions	**23**	**137**	**44**	**67**	**1**		**272**
Total	**240**	**1 338**	**278**	**294**	**10**		**2 160**
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
Discount rate change		(58)	(21)				(79)
Unwinding of the discount effect	5	87	31				123
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
Included in the financial statements as:							
Non-current provisions	125	765	216	176	8		1 290
Current provisions	33	68	37	92	1	80	311
Total	158	833	253	268	9	80	1 601

28. PROVISIONS continued

	Asset retirement obligation Rm	Environ-mental remediation Rm	Onerous contracts Rm	Leave pay benefits Rm	Post-retirement medical-aid benefits Rm	Other Rm	Total Rm
COMPANY							
For the year ended 31 December 2008							
At beginning of year	**158**	**826**	**253**	**268**	**8**	**65**	**1 578**
Charge to income statement	**22**	**560**	**68**	**93**	**2**		**745**
Additions/(releases)		**424**	**47**	**93**	**2**		**566**
Discount rate change		**16**	**(8)**				**8**
Unwinding of the discount effect	**22**	**120**	**29**				**171**
Utilised during year	**(17)**	**(56)**	**(43)**	**(67)**	**(1)**	**(65)**	**(249)**
Capitalisation to asset	**77**						**77**
At end of year	**240**	**1 330**	**278**	**294**	**9**		**2 151**
Included in the financial statements as:							
Non-current provisions	**217**	**1 193**	**234**	**227**	**8**		**1 879**
Current provisions	**23**	**137**	**44**	**67**	**1**		**272**
Total	**240**	**1 330**	**278**	**294**	**9**		**2 151**
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
Discount rate change							
Unwinding of the discount effect	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
Included in the financial statements as:							
Non-current provisions	125	758	216	176	7		1 282
Current provisions	33	68	37	92	1	65	296
Total	158	826	253	268	8	65	1 578

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

28. PROVISIONS continued

Maturity profile

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

	Less than 1 year	More than 1 year less than 5 years	5 years +
Asset retirement obligation	23	182	35
Environmental remediation	137	889	312
Onerous contracts	44	146	88
Leave pay benefits	67	227	
Post-retirement medical-aid benefits	1	5	4
Total	272	1 449	439

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

	Less than 1 year	More than 1 year less than 5 years	5 years +
Asset retirement obligation	23	182	35
Environmental remediation	137	887	306
Onerous contracts	44	146	88
Leave pay benefits	67	227	
Post-retirement medical-aid benefits	1	4	4
Total	272	1 446	433

Asset retirement obligation (ARO) and environmental remediation obligation provisions

Environmental obligations consist of asset retirement obligations and environmental remediation obligations.

Environmental remediation obligations represent the present value of the cost of remedial action to clean-up and secure a site. These actions are primarily attributable to historical, that is, legacy waste disposal activities. With subsequent changes in national environmental legislation, the unit has a legal obligation to remediate these facilities.

Asset retirement obligations (ARO), which arise from legal requirements, represent management's best estimate of the present value of costs that will be required to retire plant and equipment. The majority of the obligation relates to ancillary plant and equipment that will be retired as part of the clean-up and closure of those facilities to be remediated via the environmental remediation obligation. The net carrying amount of the ARO asset component included within note 18, amounts to R61 million (December 2007: R25 million) for both the group and company.

The term of the obligation assessment varies according to the site. The maximum term is 20 years.

28. PROVISIONS continued

The future cash outflows are discounted at a weighted average credit-adjusted discount rate as indicated in the table below:

Business unit	2008 %	2007 %
Vanderbijlpark Works	**10.67**	11.38
Vereeniging Works	**10.75**	11.21
Newcastle Works	**10.75**	11.79
Saldanha Works	**10.75**	10.98
Pretoria Works	**10.75**	10.91
Coke and Chemicals	**10.52**	

The average escalation factor applied to the current cash flow estimates is 6.8% (December 2007: average rate of 5.11%).

The increase relative to the comparative period is partly reflected in the scope amendments to take cognisance of, among other features, new investigation outcomes and revised priorities, and is due to increases in civil, mechanical and transport cost escalation factors.

Onerous contract 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 R43 million (December 2007: R58 million). The unexpired term of the contract is 11 years. The long-term average escalation factor applied to the current cash flow estimates is 6.64% (December 2007: 5.11%). The future cash outflows are discounted at an average credit-adjusted discount rate of 10.7% (December 2007: 10.91%).

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.

The distinction applied by the group and company to distinguish between current and non-current leave pay benefit entitlements has historically been based not on the timing of the settlement expectation but rather on when the benefits are due to be settled, that is, taken as leave or settled in cash. All statutory leave benefits (21 days in a 12-month leave cycle) and any mandatory leave encashment to be made within 12 months of the reporting date are classified as a current leave pay benefit obligation. The remaining entitlements are classified as a non-current leave pay benefit obligation.

From 1 September 2008, the leave pay benefit policy of the group and company was modified so that all leave pay benefits accumulated in excess of 50 days will be mandatorily encashed and settled on a semesterly basis in June and December each year. The amount is disclosed as a current obligation.

As part of the transition process, all accumulated leave above 50 days on 1 September 2008 was ring-fenced. To the extent that such leave pay benefits remain outstanding at 30 April 2010, the amount will be automatically encashed. The carrying amount of such benefits at 31 December 2008 amounts to R227 million, which is disclosed as a non-current obligation.

The provision is not discounted.

Post-retirement medical-aid 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.

Other: Taxation dispute – Business Assistance Agreement

The Alternative Dispute Resolution (ADR) process with the South African Revenue Services was finalised during March 2008, with settlement being reached on the dispute pertaining to the tax deductibility of payments made in terms of the Business Assistance Agreement. The settlement amount was R100 million. For the financial year ended December 2007, a provisional obligation of R80 million was recognised in terms of the settlement offer made during the ADR hearing. A further R20 million was recognised as an expense in the first half of 2008.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

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 2008			
Temporary differences			
At beginning of year	**(15)**	**3 197**	**(81)**
Rate change charged to income		**(109)**	**3**
Charged to income		**141**	**(7)**
Charged to equity	**(19)**		
At end of year	**(34)**	**3 229**	**(85)**
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)
COMPANY			
For the year ended 31 December 2008			
Temporary differences			
At beginning of year	**(15)**	**1 542**	**(81)**
Rate change charged to income		**(53)**	**3**
Charged to income		**149**	**(7)**
Charged to equity	**(16)**		
At end of year	**(31)**	**1 638**	**(85)**
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)

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
	(353)	**(5)**	**(122)**	**(16)**	**(2)**	**2 603**
	12		**4**	**1**		**(89)**
	(134)	**(2)**	**19**	**12**	**2**	**31**
						(19)
	(475	**(7)**	**(99)**	**(3)**		**2 526**
1	(45)	(7)	(172)	(14)	(392)	2 485
(1)	(308)	2	50	(3)	390	138
				1		(20)
	(353)	(5)	(122)	(16)	(2)	2 603
	(350)	**(5)**	**(75)**	**(9)**		**1 007**
	12		**3**			**(35)**
	(131)	**(2)**	**17**	**11**		**37**
						(16)
	(469)	**(7)**	**(55)**	**2**		**993**
1	(43)	(5)	(122)	(5)		1 218
(1)	(307)		47	(4)		(190)
						(21)
	(350)	(5)	(75)	(9)		1 007

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
30. TRADE AND OTHER PAYABLES				
Trade payables				
– Raw materials	1 456	760	1 399	698
– Energy	74	89	66	83
– Rail and transport	46	235	29	192
– Other	1 084	1 345	982	1 119
Total trade payables	2 660	2 424	2 476	2 092
Other payables				
– Sundry	17	124	17	29
– Accruals	707	320	400	265
Total other payables	724	444	417	294
Total	3 384	2 873	2 893	2 386

The functional split of the average credit period on trade and other payables is:

	2008	2007	2008	2007
Average credit period in days for trade payables				
– Raw materials	28	32	28	34
– Energy	24	30	28	32
– Rail and transport	13	14	11	14
– Other, including related parties	52	54	58	58
Average credit period in days for other payables				
– Sundry	22	32	22	32

The group and company have financial risk management policies in place to ensure that all payables are paid within the credit terms.

For the group and company, the interest expense incurred for late payment on trade and other payables is Rnil (December 2007: Rnil).

31. NOTES TO THE STATEMENT OF CASH FLOWS

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
31.1 Cash generated from operations				
Profit from operations	**12 159**	7 703	**11 097**	6 450
Adjusted for non-cash movements				
– Depreciation and amortisation	**1 322**	1 099	**858**	752
– Unrealised profit on sales to joint ventures	**(4)**	8		
– Embedded derivatives unrealised	**(141)**	33	**(141)**	33
– Share option and participation costs	**60**	35	**60**	35
– Impairment charge	**121**		**28**	
– Movements in provisions	**547**	96	**538**	90
– Allowance for net realisable value	**215**	26	**182**	27
– Reconditionable spares usage	**12**	13	**9**	11
– Loss on disposal or scrapping of property, plant and equipment	**39**	31	**38**	31
Working capital movements				
– (Increase)/decrease in inventories	**(4 067)**	(41)	**(4 062)**	160
– Decrease/(increase) in trade and other receivables	**253**	(118)	**232**	(84)
– Increase/(decrease) in trade and other payables	**607**	(288)	**602**	(259)
– Utilisation of provisions	**(184)**	(158)	**(184)**	(158)
	10 939	8 439	**9 257**	7 088
31.2 Dividends paid				
Charged to equity	**(2 398)**	(1 948)	**(2 398)**	(1 948)
	(2 398)	(1 948)	**(2 398)**	(1 948)
31.3 Normal taxation				
Normal taxation recoverable at beginning of year	**108**	179	**164**	234
Amounts charged to the income statement	**(3 909)**	(2 316)	**(3 547)**	(2 219)
Amounts recognised in equity	**32**	21	**31**	21
Transfer from provisions	**(80)**	15	**(65)**	
Other movements	**(5)**			3
Withholding tax	**(13)**		**(13)**	
Normal taxation payable/(recoverable) at end of year	**780**	(108)	**690**	(164)
	(3 087)	(2 209)	**(2 740)**	(2 125)
31.4 Investment to maintain operations				
Replacement of property, plant and equipment	**(1 114)**	(1 003)	**(926)**	(810)
Intangible assets	**(25)**	(11)	**(25)**	(9)
Environmental	**(217)**	(126)	**(215)**	(121)
Reconditionable spares	**(57)**	(58)	**(38)**	(47)
	(1 413)	(1 198)	**(1 204)**	(987)
31.5 Investment to expand operations				
Property, plant and equipment for expansion and new technology	**(419)**	(654)	**(334)**	(512)
	(419)	(654)	**(334)**	(512)
Total capital expenditure	**(1 832)**	(1 852)	**(1 538)**	(1 499)

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
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	11	0[1]	9	0[1]
• Designated at FVTPL				
– Bifurcated embedded derivatives	366	218	366	218
Loans and receivables				
• Cash and cash equivalents	8 429	4 034	8 121	3 660
• Trade and other receivables	2 031	2 292	1 765	2 007
• Available-for-sale financial assets		71		
Financial guarantee contracts held	0[2]	0[2]	0[2]	0[2]
Total	10 837	6 615	10 261	5 885
Financial liabilities				
Designated as at FVTPL				
• Held-for-trading		0[1]		0[1]
Derivative instruments in designated hedge accounting relationships				
• Unmatured	129	53	117	53
• Matured yet unsettled	28	14	26	14
Loans carried at amortised cost				
• Borrowings and other payables	79	62	28	1
• Finance lease obligations	354	416	199	253
• Trade and other payables	3 384	2 873	2 893	2 386
Financial guarantee contracts issued	0[2]	0[2]	0[2]	0[2]
Total	3 974	3 418	3 263	2 707
Net financial assets	6 863	3 197	6 998	3 178

[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 32.7.*

The group and company do not have:

- financial assets designated as held-to-maturity; and/or
- financial liabilities designated at FVTPL (other than for derivative instruments held-for-trading at FVTPL).

32. FINANCIAL INSTRUMENTS continued

32.3 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of those financial assets for which active and liquid markets do not, or do no longer, exist are valued using generally accepted valuation techniques, such as those recommended within the *International Private Equity and Venture Capital Valuation Guidelines*;
- the fair value of stand-alone over-the-counter derivative instruments is calculated using quoted prices;
- the fair value of embedded derivatives is calculated using a valuation technique for which one or more significant inputs are not based on observable market data; and
- the fair value financial guarantee contracts issued or held is calculated using the cumulative probability methodology, as described in note 3.28.

The following financial assets and financial liabilities are measured at fair value in terms of the group's and company's accounting polices:

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
Financial assets measured at fair value				
Fair value through profit or loss (FVTPL)				
• Held-for-trading	**11**	0[1]	**9**	0[1]
• Designated at FVTPL				
– Bifurcated embedded derivatives	**366**	218	**366**	218
Derivative instruments in designated hedge accounting relationships				
Available-for-sale financial assets		71		
Financial guarantee contracts held	**0**[2]	0[2]	**0**[2]	0[2]
Total	**377**	289	**375**	218
Financial liabilities measured at fair value				
Designated as at FVTPL				
• Held-for-trading		0[1]		0[1]
Derivative instruments in designated hedge accounting relationships				
• Unmatured	**129**	53	**117**	53
• Matured yet unsettled	**28**	14	**26**	14
Financial guarantee contracts issued	**0**[2]	0[2]	**0**[2]	0[2]
Total	**157**	67	**143**	67
Net financial assets measured at fair value	**220**	222	**232**	151

[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 32.7.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.3 Fair value of financial instruments continued

Bifurcated embedded derivatives, available-for-sale (AFS) financial assets and financial guarantee contracts held and issued, are measured using a valuation technique for which one or more significant inputs are not based on observable market data.

For the embedded derivative, the key valuation inputs, the sensitivity analysis pertaining to those inputs, the carrying amounts and changes therein compared to the comparative period are detailed in note 32.12. Similarly financial guarantee contracts are analysed in note 32.7.

Developments relating to the available-for-sale equity investment, being the group's investment in HCCL, are described in note 4.2 and note 22. The fair value measurement of the investment was reclassified from being based on quoted prices on active markets for the same instrument to being based on a valuation technique for which one or more significant inputs are not based on observable market data. The reclassification and accounting impact thereof are:

	Group AFS financial asset Rm
AFS equity investment measured at fair value based on quoted prices on active markets for the same instrument	
Balance at 1 January 2007	
Initial recognition at cost	9
Total gains and (losses) in other comprehensive income (AFS investment reserve)	62
Balance at 31 December 2007	71
Reclassified as an AFS financial asset measured using a valuation technique for which one or more significant inputs are not based on observable market data	(71)
Balance at 31 December 2008	
AFS equity investment measured at fair value using a valuation technique for which one or more significant inputs are not based on observable market data	
Balance at 31 December 2007	
Reclassified from an AFS equity investment measured at fair value based on quoted prices on active markets for the same instrument, consisting of:	
– cost	9
– gains recognised in AFS investment reserve	62
Subsequent change in fair value with total losses recognised in other comprehensive income (AFS investment reserve)	(71)
Balance at 31 December 2008	
Total losses included in profit and loss for the year	
Change in AFS investment reserve included in other comprehensive income	(71)
Carrying amount of the AFS investment reserve (deferred fair value loss)	(9)

32. FINANCIAL INSTRUMENTS continued

32.3 Fair value of financial instruments continued

Except as detailed in the following table, the carrying amounts of those financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

	Carrying value 2008 Rm	Fair value 2008 Rm	Carrying value 2007 Rm	Fair value 2007 Rm
GROUP				
Non-current liabilities				
Non-current borrowings	**41**	**39**	51	47
Non-current finance lease obligations	**314**	**342**	329	390
Current liabilities				
Current borrowings	**10**	**16**	10	17
Current finance lease obligations	**40**	**44**	88	63
Total liabilities				
Total borrowings	**51**	**55**	61	64
Total finance lease obligations	**354**	**386**	417	453
COMPANY				
Non-current liabilities				
Non-current finance lease obligations	**168**	**155**	174	195
Current liabilities				
Current finance lease obligations	**31**	**33**	79	53
Total liabilities				
Total finance lease obligations	**199**	**188**	253	248

The generally 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.

The group's financial statements include unlisted equity-accounted investments in an associate and jointly controlled entities (note 20 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 limited assumptions are not supportable by observable market prices or rates.

The group and company have significant investments in the following equity-accounted investments:

- Macsteel International Holdings BV;
- Collect-a-Can (Proprietary) Limited;
- Consolidated Wire Industries Limited;
- Ensimbini Terminal (Proprietary) Limited;
- Toyota Tsusho SA Processing (Proprietary) Limited;
- Microsteel (Proprietary) Limited; and
- Pietersburg Iron Company (Proprietary) Limited.

In determining the fair value of these significant investments for impairment assessment and disclosure purposes, greater emphasis was placed on a net asset value, liquidation and simple earnings multiple valuation techniques for the reporting period ended 31 December 2008. Use of discounted cash flow techniques were de-emphasised due to the difficulty in forecasting forward earnings in the current economic climate.

In general, an earnings multiple of 5 was applied to the investments (December 2007: earnings multiple of between 7 to 9 times), while average liquidation realisation rates ranged from 90% to 100% depending on the nature of the business (December 2007: 70% to 100%). The higher realisation rates for 2008 reflect a realisation adjustment largely relating to certain property valuation rates that historically have been based on very low historical costs. The adjustment is based on observable market rates for similar assets.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.4 Financial risk management overview and objectives

The group's and company's financial risk management programme focuses 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 bi-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; and
  - liquidity risk, being:
    cash flow volatility; and
    fair value and cash flow interest rate risk;
- capital management and gearing risk; and
- 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 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; and
  - interest rate management
- cash management, through liquidity management.

The treasury policy is enacted by the treasury department (Treasury). Treasury identifies, evaluates and mitigates financial risks in close 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; and
- performance against the unhedged 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

32.4 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 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.

The group's prudent credit risk management approach contributes significantly to minimise exposure to credit defaults. Credit default risk is mitigated through sufficient collateral, an extensive credit insurance policy, continual assessment of customers' risk profiles and management of exposure per customer within approved credit limits. This approach will continue to be followed to ensure minimal exposure during the credit crisis. Despite an increase in past-due accounts at year-end, the majority of these have been recovered during January 2009.

32.5 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.

Risk is taken on counterparties in accordance with counterparty limits. Limits per counterparty are determined depending on the counterparty's credit rating. With the financial risk shocks in late 2008, this matter is carefully monitored by senior management.

(b) Financial counterparty exposure management

The board of directors approve 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 2008						
F1 and above	**4 800**	**4 505**	**5 100**	**17**		**246**
F2	**6 900**	**3 924[3]**	**0**	**0**		**31**
Total	**11 700**	**8 429**	**5 100**	**17**		**277**
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

[1] *Notional absolute amount of contracts, as opposed to fair value.*
[2] *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.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.5 Bank relationship and financial counterparty exposure management continued

(b) Financial counterparty exposure management continued

Fitch international rating	Description
F1	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.

Limits were adjusted during the year to align with expected business needs.

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by the banking counterparties.

32.6 Financing facilities

Prudent liquidity risk management 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:

	2008 Rm	2007 Rm
Borrowing capacity is determined by the directors in terms of the Articles of Association, namely 100% of the group's equity	**27 995**	20 583
Less total borrowings and finance lease obligations	**(405)**[2]	(478)
Unutilised borrowing capacity	**27 590**	20 105

[1] *Financing facilities are presented only on a group basis as this is the most meaningful level of aggregation for related decision-making.*

[2] *Borrowings exclude the cash-settled share-based payment payable.*

To address potential unforeseen funding requirements the group has access to the following facilities:

	Facility Rm	Drawn Rm	Available Rm	Term
31 December 2008				
Stand-by facilities				
– Uncommitted short-term facility	**1 398**	**(51)**	**1 347**	**Demand facilities**
– Facility available with 24 hours' notice	**1 000**		**1 000**	**Demand facilities**
Total	**2 398**	**(51)**	**2 347**	
31 December 2007				
Stand-by facilities				
– Uncommitted short-term facility	2 484	(61)	2 423	Demand facilities

32. FINANCIAL INSTRUMENTS continued

32.7 Financial guarantee contracts

	Group		Company	
	2008	2007	2008[1]	2007[1]
Financial guarantee contracts issued				
– Numbers	1	2	12	6
– Face value (Rm)	1	32	69	82
– Carrying amount	0	0	0	0
Financial guarantee contracts held				
– Carrying amount	0	0	0	0

[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.

The following are not regarded as financial guarantee contracts and are excluded from the analysis:

- contracts where the group or company has the ability to control the triggering of the guarantee event (letters of comfort); and
- commercial letters of credit.

The carrying amount of all financial guarantee contracts issued is Rnil (December 2007: Rnil) as the risk of default is highly remote. There is no collateral against these guarantees.

The face value of all contracts is disclosed as contingent liabilities in note 35.

Financial guarantee contracts held
The carrying amount of all financial guarantee contracts held is Rnil (December 2007: Rnil) as (i) the risk of default is highly 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 by the group and company is disclosed in note 22.

32.8 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 may enter into a variety of derivative financial instruments to manage 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 and nickel 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.
- 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).

Financial market risk exposures are measured using the Value at Risk (VaR) methodology, supplemented by sensitivity analyses.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.9 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 that 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 interest of simplicity, no adjustment is made to correct skewness against the assumption of normal distribution as 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 while a positive 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 2006 to 31 December 2008 (2007: 1 January 2005 to 31 December 2007).
- Base metal derivatives from 1 January 2006 to 31 December 2008 (2007: 1 November 2005 to 31 December 2007).

Foreign currency exposure inherent in trade and other receivables, trade and other payables, and bifurcated embedded derivatives are not managed using 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.

The VaR analysis is presented solely from a group perspective as this represents the most meaningful level of exposure analysis.

Variance – co-variance

VaR (97%, one-month) by risk type: investment or open position held	Average		Minimum (high)		Maximum (low)		Year-end	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm
Foreign denominated cash and cash equivalents on hand[1]								
– USD	**(641)**	(49)	**(78)**	285	**(1 204)**	(382)	**0[2]**	0[2]
Total	**(641)**	(49)	**(78)**	285	**(1 204)**	(382)	**0[2]**	0[2]

[1] *MZN excluded for 2008 as amounts do not significantly contribute to the VaR analysis.*

[2] *Re-valued at the closing rate for the reporting period, therefore no variance arises.*

32. FINANCIAL INSTRUMENTS continued

32.9 Value at Risk analysis continued

Variance – co-variance

VaR (97%, one-month) by risk type: investment or open position held	Average		Minimum (high)		Maximum (low)		Year-end[1]	
	2008 Rm	2007 Rm	**2008 Rm**	2007 Rm	**2008 Rm**	2007 Rm	**2008 Rm**	2007 Rm
Derivatives								
Unmatured base metal forward purchase contracts								
– Aluminium	**(17)**	2	**4**	9	**(39)**	(5)	**(53)**	(1)
– Zinc	**21**	35	**65**	177	**(22)**	(107)	**(21)**	(50)
– Nickel[3]	**(1)**	(1)	**28**	9	**(30)**	(10)	**(25)**	(2)
– Tin	**(14)**	(3)	**2**	1	**(30)**	(7)	**(21)**	0[2]
Base metal derivatives total	**(11)**	33	**99**	196	**(121)**	(129)	**(120)**	(53)
Unmatured foreign currency contracts								
– Buy USD		(1)		5		(7)		0[2]
– Buy EUR	**(3)**	(14)	**1**	3	**(7)**	(32)	**2**	0[2]
– Sell EUR		(1)		0[2]		(3)		0[2]
– Sell USD		0[2]		2		(3)		0[2]
Foreign currency derivatives total	**(3)**	(16)	**1**	10	**(7)**	(45)	**2**	0[2]
Total derivatives	**(14)**	17	**100**	206	**(128)**	(174)	**(118)**	(53)

[1] *Carrying amount of derivatives at the reporting date.*

[2] *Rounding to zero due to the use of numeric reporting scale format of one million.*

[3] *The VaR for nickel combines the forward purchase and sales contract exposures.*

Details of the sensitivity analysis for foreign currency risk and interest rate risk are discussed later in this note.

Notes to the group and company annual financial statements continued

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32. FINANCIAL INSTRUMENTS continued

32.10 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.

Base metals are hedged using over-the-counter cash-settled forward purchase contracts and options. The derivatives are transacted with reputable, creditworthy, 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	None	75%

The economic hedged position for the base metals is:

	Group		Company	
	2008	2007	2008	2007
At 31 December 2008				
Aluminium				
– Percent of exposure hedged	**25%**	15%	**25%**	15%
– Period hedged to:	**Dec 2009**	Sep 2008	**Dec 2009**	Sep 2008
– Average hedged price of forward purchase contract (USD/tonne)	**3 135**	2 505	**3 135**	2 505
Zinc				
– Percent of exposure hedged	**8%**	42%	**8%**	42%
– Period hedged to:	**Jun 2009**	Oct 2008	**Jun 2009**	Oct 2008
– Average hedged price of forward purchase contract (USD/tonne)	**1 997**	2 841	**1 997**	2 841
Nickel				
– Percent of net exposure hedged	**30%**	13%	**30%**	13%
– Period hedged to:	**Dec 2009**	Sep 2008	**Dec 2009**	Sep 2008
– Average hedged price of forward purchase contract (USD/tonne)	**25 905**	29 900	**25 905**	29 900
– Average hedged price of forward sales contract (USD/tonne)	**22 688**		**22 688**	
Tin				
– Percent of exposure hedged	**14%**	6%	**14%**	6%
– Period hedged to:	**Mar 2009**	Mar 2008	**Mar 2009**	Mar 2008
– Average hedged price of forward purchase contract (USD/tonne)	**21 912**	16 732	**21 912**	16 732

32. FINANCIAL INSTRUMENTS continued

32.10 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 forecast transaction was no longer expected to occur.

These instruments are classified as held-for-trading instruments as FVTPL.

At 31 December 2008 the tonnage of base metals hedged by unmatured derivative instruments decreased by 63% and 66% for the group and company respectively relative to the comparative period. Despite the economically hedged tonnage having reduced, the percentage of exposure hedged is higher than for the comparative period for all base metals other than zinc. The position reflects the confluence of hedged positions taken in early 2008, and the late-2008 impact of substantial reductions in the expected forward purchase requirement of base metals in response to the weaker steel demand situation expected into 2009.

Since mid-2008 management has decided not to take any further hedged positions following the commodity price collapse particularly in the second half of 2008. With fears of a deeper and wider global recession, the expectation of further downside pricing pressure on base metals acts as a deterrent to the transacting of further economic hedges. Markets trends will continue to be monitored into 2009 in order to determine the most opportune time to recommence hedging activities.

Notes to the group and company annual financial statements continued

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32. FINANCIAL INSTRUMENTS continued

32.10 Commodity price risk management using base metal derivatives continued

Unmatured instruments t: tonnes	Average price 2008 USD/t	 2007 USD/t	Tonnes 2008	 2007
GROUP				
(i) Derivative instruments in designated cash flow hedge accounting relationships				
Forward purchase contracts				
Aluminium	**3 135**	2 505	**3 644**	2 880
Zinc	**1 997**	2 841	**2 769**	15 370
Nickel	**25 905**	29 900	**249**	72
Tin	**21 912**	16 732	**189**	84
(ii) Held-for-trading at FVTPL				
Forward sales contracts				
Nickel	**22 688**		**(86)**	
Net total			**6 765**	18 406
COMPANY				
(i) Derivative instruments in designated cash flow hedge accounting relationships				
Forward purchase contracts				
Aluminium	**3 135**	2 505	**2 841**	2 250
Zinc	**1 997**	2 841	**2 769**	15 370
Nickel	**25 905**	29 900	**249**	72
Tin	**21 912**	16 732	**189**	84
(ii) Held-for-trading at FVTPL				
Forward sales contracts				
Nickel	**22 688**		**(86)**	
Net total			**5 962**	17 776

[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]	
2008 USDm	2007 USDm	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm
11	7			(53)	(1)			(53)	(1)
6	44			(21)	(50)			(21)	(50)
6	2			(34)	(2)	(6)		(28)	(2)
4	1			(21)	0[2]			(21)	0[2]
(2)		9				9			
25	54	9		(129)	(53)	3		(123)	(53)
9	6			(41)	(1)			(41)	(1)
6	44			(21)	(50)			(21)	(50)
6	2			(34)	(2)	(6)		(28)	(2)
4	1			(21)	0[2]			(21)	0[2]
(2)		9				9			
23	53	9		(117)	(53)	3		(111)	(53)

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32. FINANCIAL INSTRUMENTS continued

32.10 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	
	2008	2007	2008	2007
At 31 December				
Base metals hedge ineffectiveness percentage	**0.28%**	0.02%	**0.28%**	0.02%

Base metal sensitivity for derivative contracts

The following table details the group's and company's sensitivity to a 10% increase/(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 that can be further easily extrapolated in response to the recent high levels of price volatility. The sensitivity analysis includes only outstanding, unmatured 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	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm	2008 Rm	2007 Rm
Purchase contracts								
Aluminium +10%			**5**	5			**4**	5
Aluminium -10%			**(5)**	(5)			**(4)**	(5)
Zinc +10%			**3**	24			**3**	24
Zinc -10%			**(3)**	(24)			**(3)**	(24)
Nickel +10%	**1**		**2**	1	**1**		**2**	1
Nickel -10%	**(1)**		**(2)**	(1)	**(1)**		**(2)**	(1)
Tin +10%			**2**	1			**2**	1
Tin -10%			**(2)**	(1)			**(2)**	(1)
Sales contract								
Nickel +10%	**(1)**				**(1)**			
Nickel -10%	**1**				**1**			
Total +10%			**12**	31			**11**	31
Total -10%			**(12)**	(31)			**(11)**	(31)

The group's and company's sensitivity to base metal prices at the reporting date is less as the un-hedged tonnage is lower than in 2007.

As is evident from the VaR maximum loss exposure of R121 million, the carrying amount at 31 December 2008 of base metal derivatives of R120 million is converging on the statistical maximum loss exposure levels. While absolute maximum loss levels are comparable to the prior year, the risk is much more strongly concentrated in the price downside risk given that significantly lower tonnages were hedged against the comparative period.

32. FINANCIAL INSTRUMENTS continued

32.10 Commodity price risk management using base metal derivatives continued

Base metal cash flow hedge accounting reserve

Detailed analysis of the cash flow hedge accounting reserve for base metals is as follows:

	Group Cash flow hedge accounting reserve Rm	Company Cash flow hedge accounting reserve Rm
Balance at 1 January 2007	30	30
Gains/(losses) recognised in other comprehensive income and cash flow hedging reserve		
Effective base metal forward contracts	(103)	(103)
(Gains)/losses transferred to profit or loss: (i)		
Effective base metal forward contracts	(2)	(3)
Effective base metal zero cost collar options	(3)	(3)
De-designated ineffective cash flow hedging instruments (as detailed in note (i))	(3)	(2)
Ineffectiveness measurement of effective contracts	0[1]	0[1]
Related income tax	27	27
Balance at 31 December 2007	(54)	(54)
Gains/(losses) recognised in other comprehensive income and cash flow hedging reserve		
Effective base metal forward contracts	**(242)**	**(228)**
(Gains)/losses transferred to profit or loss: (ii)		
Effective base metal forward contracts	**138**	**138**
Effective base metal zero cost collar options		
De-designated ineffective cash flow hedging instruments (as detailed in note (ii))	**13**	**12**
Ineffectiveness measurement of effective instruments	**0[1]**	**0[1]**
Related income tax	**25**	**21**
Balance at 31 December 2008	**(120)**	**(111)**
2007		
(i) Gains/(losses) transferred from cash flow hedging reserve into profit or loss during the period are included in the following line items in the income statement		
– Profit from operations (note 9)		
– Raw materials and consumables used (effective instruments)	5	6
– Ineffectiveness measurement of effective instruments	0[1]	0[1]
– Gains and losses on changes in financial instruments designated as held-for-trading at fair value through profit or loss (note 10), as De-designated ineffective cash flow hedging instruments	3	2
Total	8	8
2008		
(ii) Gains/(losses) transferred from cash flow hedging reserve into profit or loss during the period are included in the following line items in the income statement:		
– Profit from operations (note 9), as raw materials and consumables used		
• Effective instruments	**(138)**	**(138)**
• Ineffective instruments	**(3)**	**(2)**
– Ineffectiveness measurement of effective instruments	**0[1]**	**0[1]**
– Gains and losses on changes in financial instruments designated as held-for-trading at fair value through profit and loss (note 10), as De-designated ineffective cash flow hedging instruments	**(10)**	**(10)**
Total	**(151)**	**(150)**

[1] *Rounding to zero due to the use of numeric reporting scale format of one million.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.11 Foreign currency risk management

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

	Group		Company	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
Monetary assets				
(i) USD				
Fair value through profit or loss (FVTPL)				
• Held-for-trading	9	0[2]	9	0[2]
Loans and receivables				
• Cash and cash equivalents	2 946	2 439	2 670	2 134
• Trade and other receivables				
– Related parties	254	158	160	84
– Unrelated parties	4	23	4	23
(ii) MZN				
Loans and receivables				
• Cash and cash equivalents	21			
(iii) ZWD				
Available-for-sale financial assets[1]		71		
(iv) EUR				
Fair value through profit or loss (FVTPL)				
• Held-for-trading	2			
Loans and receivables				
• Trade and other receivables				
– Related parties	2		2	
– Unrelated parties		1		1

[1] *The available-for-sale equity investment in HCCL, which is carried at Rnil (December 2007: R71 million) is not regarded as a pure foreign denominated financial asset despite its Zimbabwe Stock Exchange listing. The existence of the – albeit at reporting date suspended - fungible share arrangement, as described in note 4.2 and note 22, makes for the objective delineation between exchange rate and other changes in fair value particularly difficult. In order to preserve the purity of the foreign currency exposure sensitivity analysis, which due to the nil carrying amounts is of relevance only to the comparative period, the HCCL investment is excluded from the analysis in the sections which follow.*

[2] *Rounding to zero due to the use of numeric reporting scale format of one million.*

32. FINANCIAL INSTRUMENTS continued

32.11 Foreign currency risk management continued

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
Monetary liabilities				
(i) USD				
Derivative instruments in designated hedge accounting relationships				
• Unmatured	**129**	53	**117**	53
• Matured yet unsettled	**28**	14	**26**	14
Carried at amortised cost				
• Trade and other payables				
– Related parties	**846**	4	**865**	4
– Unrelated parties	**22**	67	**22**	67
(ii) EUR				
Fair value through profit or loss (FVTPL)				
• Held-for-trading	**0**[1]		**0**[1]	
Carried at amortised cost				
• Trade and other payables				
– Related parties	**0**[1]	5	**0**[1]	5
– Unrelated parties	**59**	54	**48**	45
(iii) JPY				
Carried at amortised cost				
• Trade and other payables				
– Unrelated parties	**1**	0[1]	**1**	0[1]
(iv) GBP				
Carried at amortised cost				
• Trade and other payables				
– Related parties	**0**[1]		**0**[1]	
– Unrelated parties	**1**	1	**1**	1
(v) SEK				
Carried at amortised cost				
• Trade and other payables				
– Unrelated parties	**0**[1]	0[1]		0[1]
(vi) 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.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.11 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 that can be further easily extrapolated in response to the high levels of rate volatility experienced by the ZAR. The sensitivity analysis includes only 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	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
USD				
Profit or loss	**242**	255	**196**	217
Other comprehensive income (hedging reserve)	**(16)**	(7)	**(16)**	(7)
EUR				
Profit or loss	**(6)**	(6)	**(5)**	(5)
MZN				
Profit or loss	**2**			
Total[1]				
Profit or loss	**238**	249	**191**	212
Other comprehensive income (hedging reserve)	**(16)**	(7)	**(16)**	(7)

[1] *JPY, GBP, SEK and AUD are not material and not reported due to the use of numeric reporting scale format of one million.*

Profit and loss exposure is mainly attributable to the exposure on USD 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 marginally lower compared to 2007 due to slightly lower USD-denominated cash holding at 31 December 2008. A lower export to domestic sales rates resulted in lower USD cash reserves.

32. FINANCIAL INSTRUMENTS continued

32.11 Foreign currency risk management continued

Economic hedging using derivative contracts

The group and company utilise the ZAR as 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.

Within these restrictions, the group and company accumulate 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, creditworthy, 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.

There exists no minimum hedging level for foreign currency exposures.

Foreign currency exposures relating to raw material and capital procurement that cannot be naturally hedged are selectively hedged on a case-by-case basis.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.11 Foreign currency risk management continued

The foreign denominated contract value of unmatured foreign exchange derivatives at 31 December 2008 decreased significantly by 95% and 97% for the group and company respectively, relative to the comparative period, primarily due to the systematic weakness of the ZAR throughout 2008, and particularly in the last quarter of the year, and the consequential beneficial impact on export revenues and foreign receivables, including cash and cash equivalents.

The following table details the outstanding unmatured forward foreign currency contracts at the reporting date:

Unmatured instruments

	Average price		Contract value	
FC: foreign currency	**2008 FC/R**	2007 FC/R	**2008 FCm**	2007 FCm
Group				
Forward contracts				
(i) Held-for-trading at FVTPL				
Capital procurement				
Buy USD				
0-3 months		6.90		7
Sell USD				
0-3 months		6.92		3
Buy EUR				
0-3 months	**13.55**	9.95	**0**[2]	6
7-11 months	**11.42**	10.40	**1**	3
12-24 months		11.42		1
Sell EUR				
0-3 months		10.10		1
7-11 months		10.29		0[2]
Total			**1**	21
Company				
Forward contracts				
(i) Held-for-trading at FVTPL				
Capital procurement				
Buy USD				
0-3 months		6.90		7
Sell USD				
0-3 months		6.92		3
Buy EUR				
0-3 months	**13.55**	9.95	**0**[2]	6
7-11 months		10.13		1
12-24 months				
Sell EUR				
0-3 months		10.10		1
7-11 months		10.29		0[2]
Total			**0**[2]	18

[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]	
	2008 Rm	2007 Rm	**2008 Rm**	2007 Rm	**2008 Rm**	2007 Rm	**2008 Rm**	2007 Rm
				0[2]		0[2]		
		0[2]				0[2]		
		0[2]	**0[2]**			0[2]		
	2			0[2]		0[2]		
		0[2]				0[2]		
		0[2]				0[2]		
		0[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]				0[2]		
		0[2]				0[2]		
		0[2]				0[2]		
		0[2]	**0[2]**	0[2]		0[2]		

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.11 Foreign currency risk management continued

Foreign currency sensitivity for derivative contracts

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 that can be further easily extrapolated in response to the high levels of rate volatility experienced by the ZAR. The sensitivity analysis includes only outstanding, unmatured 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	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
USD				
Profit or loss				
– Buy		4		4
– Sell		(2)		(2)
Other comprehensive income (hedging reserve)				
EUR				
Profit or loss				
– Buy	**2**	10	**1**	8
– Sell		(1)		(1)
Other comprehensive income (hedging reserve)				
Total				
Profit or loss				
– Buy	**2**	14	**1**	12
– Sell		(3)		(3)
Other comprehensive income (hedging reserve)				

32. FINANCIAL INSTRUMENTS continued

32.11 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:

	Group	Company
	Cash flow hedge accounting reserve Rm	Cash flow hedge accounting reserve Rm
Balance at 1 January 2007		
Gains/(losses) recognised in other comprehensive income and cash flow hedging reserve		
Effective foreign currency forward exchange contracts	3	1
(Gains)/losses transferred to profit or loss (i)		
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	0[1]	0[1]
2007		
(i) Gains/(losses) transferred from cash flow hedging reserve into profit or loss during the period are included in the following line items in the statement of financial performance:		
– 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.*

Notes to the group and company annual financial statements continued

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32. FINANCIAL INSTRUMENTS continued

32.12 Commodity risk managed by embedded derivatives

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.

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 2008					
Energy – pricing cap	1	SA PPI, Steel Industry Index, US PPI, Heavy Fuel Oil Index	Ref. Note (i)[1]	**366**	**148**
Total				**366**	**148**
For the year ended 31 December 2007					
Energy – pricing cap	1	SA PPI, Steel Industry Index, US PPI, Heavy Fuel Oil Index	Ref. Note (i)[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)

[1] *No expiry date defined in the 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.

32. FINANCIAL INSTRUMENTS continued

32.12 Commodity risk managed by embedded derivatives continued

(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.

At the end of 2007, the original contract's 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 statement of financial performance.

(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 continual 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 statement of financial performance.

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.

Notes to the group and company annual financial statements continued

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32. FINANCIAL INSTRUMENTS continued

32.12 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	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
Energy				
Market price for gas				
+ 10%	**88**	54	**88**	54
- 10%	**(88)**	(54)	**(88)**	(54)
Capped oil price inflation				
+ 10%	**(4)**	(3)	**(4)**	(3)
- 10%	**4**	3	**4**	3
Steel industry index				
+ 10%	**(1)**	(1)	**(1)**	(1)
- 10%	**1**	1	**1**	1
Gas price inflation				
+ 10%	**4**	9	**4**	9
- 10%	**(4)**	(9)	**(4)**	(9)
Volume off-take (GJ) change				
+ 10%	**36**	22	**36**	22
- 10%	**(36)**	(22)	**(36)**	(22)
Bulk-user price discount to ordinary industrial gas price				
+ 10%	**(72)**	(47)	**(72)**	(47)
- 10%	**72**	47	**72**	47

32. FINANCIAL INSTRUMENTS continued

32.13 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".

32.14 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. No early settlement provision exists for this loan. 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 that can be further easily extrapolated in response to the likely high rate volatility in the year ahead.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.14 Interest rate risk management continued

If interest rates had increased/(decreased) by 10% and all other variables were held constant, the profit for the year ended on major cash and cash equivalent holdings 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.

	Group		Company	
	2008 Rm	2007 Rm	**2008 Rm**	2007 Rm
ZAR cash and deposit holdings				
+ 10%	**39**	28	**39**	28
- 10%	**(39)**	(28)	**(39)**	(28)
USD cash and deposit holdings				
+ 10%	**6**	14	**5**	13
- 10%	**(6)**	(14)	**(5)**	(13)
Total				
+ 10%	**45**	42	**44**	41
- 10%	**(45)**	(42)	**(44)**	(41)

Based on the analysis above, the group's and company's sensitivity to interest rates has marginally increased due to higher average ZAR cash holdings and interest rates compared with the comparative reporting period.

32.15 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 availability of a conduit fungible share arrangement, which was suspended in late-2008. The critical judgements relating to this investment is described in note 4.2, and the accounting impact explained in note 32.3. At 31 December 2008, the carrying amount of the investment was Rnil (December 2007: R71 million), with a R9 million loss deferred to the AFS investment reserve (December 2007: R62 million deferred gain).

With a Rnil carrying amount at 31 December 2008, a sensitivity analysis has not been performed. However, the value of the investment on the last day that the ZSE traded, 14 November 2008, was R76 million, which closely approximates the carrying amount at 31 December 2007. Therefore, once trading resumes and liquidity impediments are removed, should market values revert to pre-suspension levels, the 2007 sensitivity analysis may be applied as a surrogate indicator of valuation sensitivity.

32. FINANCIAL INSTRUMENTS continued

32.15 Other price risks continued

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
Available-for-sale investment reserve				
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)		

Subsequent removal of any part of the liquidity discount applied to the 31 December 2008 valuation would not affect profit or loss as the resulting gains would be recognised in other comprehensive income, within the AFS investment reserve.

32.16 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 continually monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 32.6 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.16 Liquidity risk management continued

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 statement of financial position.

	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 2008							
Non-interest bearing							
• Trade and other payables	**0.0%**	**3 384**					**3 384**
Finance lease liability	**13.8%**	**41**	**42**	**293**	**258**	**(280)**	**354**
Borrowings and other payables	**16.5%[2]**		**46**	**63**		**(30)[2]**	**79**
Total		**3 425**	**88**	**356**	**258**	**(310)**	**3 817**
For the year ended 31 December 2007							
Non-interest bearing							
• Trade and other payables	0.0%	2 873					2 873
Finance lease liability	13.9%	62	63	301	317	(327)	416
Borrowings and other payables	15.9%[2]		20	68	12	(38)[2]	62
Total		2 935	83	369	329	(365)	3 351
COMPANY							
For the year ended 31 December 2008							
Non-interest bearing							
• Trade and other payables	**0.0%**	**2 893**					**2 893**
Finance lease liability	**9.7%**	**24**	**25**	**176**	**56**	**(82)**	**199**
Borrowings and other payables	**28.6%[2]**		**29**	**9**		**(10)[2]**	**28**
Total		**2 917**	**54**	**185**	**56**	**(92)**	**3 120**
For the year ended 31 December 2007							
Non-interest bearing							
• Trade and other payables	0.0%	2 386					2 386
Finance lease liability	7.5%	45	46	178	86	(102)	253
Borrowings and other payables	411.7%[2]			5		(4)[2]	1
Total		2 431	46	183	86	(106)	2 640

[1] *Calculated over the remaining tenure of the non-derivative financial liability.*

[2] *Share participation rights, being the difference between total fair value and the cash-settled liability recognised at the reporting date. Effective interest rate is a function of the share price performance of ArcelorMittal South Africa.*

32. FINANCIAL INSTRUMENTS continued

32.16 Liquidity risk management continued

(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 statement of financial position.

	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 2008							
Fixed interest rate receivables							
• Trade and other receivables[2]	**0.3%**	**2 037**				**(6)**	**2 031**
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	**3.48%**	**8 575**	**147**			**(293)**	**8 429**
Total		**10 612**	**147**			**(299)**	**10 460**
For the year ended 31 December 2007							
Non-interest bearing							
• Available-for-sale financial assets	0.0%				71		71
Fixed interest rate receivables							
• Trade and other receivables[2]	0.0%	2 293				(1)	2 292
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	7.1%	4 177	142			(285)	4 034
Total		6 470	142		71	(286)	6 397
COMPANY							
For the year ended 31 December 2008							
Fixed interest rate receivables							
• Trade and other receivables[2]	**0.3%**	**1 771**				**(6)**	**1 765**
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	**3.18%**	**8 250**	**129**			**(258)**	**8 121**
Total		**10 021**	**129**			**(264)**	**9 886**
For the year ended 31 December 2007							
Fixed interest rate receivables							
• Trade and other receivables[2]	0.1%	2 008				(1)	2 007
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	7.2%	3 791	131			(262)	3 660
Total		5 799	131			(263)	5 667

[1] *Calculated over the remaining tenure of the non-derivative financial assets.*
[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 investment income to be earned thereon.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.16 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 assets 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 2008						
Net cash-settled derivatives (unmatured)						
Base metal forwards[1]	**(88)**	**(32)**			**0[2]**	**(120)**
Foreign currency forwards	**0[2]**	**2**			**0[2]**	**2**
Embedded derivatives	**86**	**86**	**240**		**(46)**	**366**
Total	**(2)**	**56**	**240**		**(46)**	**248**
For the year ended 31 December 2007						
Net cash settled derivatives (unmatured)						
Base metal forwards	(35)	(18)			0[2]	(53)
Foreign currency forwards	0[2]	0[2]	0[2]		0[2]	0[1,2]
Embedded derivatives	49	51	161		(43)	218
Total	14	33	161		(43)	165
COMPANY						
For the year ended 31 December 2008						
Net cash settled derivatives (unmatured)						
Base metal forwards[1]	**(81)**	**(27)**			**0[2]**	**(108)**
Foreign currency forwards	**0[2]**				**0[2]**	**0[2]**
Embedded derivatives	**86**	**86**	**240**		**(46)**	**366**
Total	**5**	**59**	**240**		**(46)**	**258**
For the year ended 31 December 2007						
Net cash-settled derivatives (unmatured)						
Base metal forwards	(35)	(18)			0[2]	(53)
Foreign currency forwards	0[2]	0[2]			0[2]	0[1,2]
Embedded derivatives	49	51	161		(43)	218
Total	14	33	161		(43)	165

[1] *Cumulative amount for purchase and sales contracts.*

[2] *Rounding to zero due to the use of numeric reporting scale format of one million.*

32. FINANCIAL INSTRUMENTS continued

32.17 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, Experian South Africa (Proprietary) Limited trading as Kreditinform is used for domestic customers. 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 maximum liability of R1 800 million with a 10% excess. Credit insurance claims amounted to Rnil million (2007: Rnil million).

The group is exposed to three main customers, which 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 statement of financial position date for the group and company:

Customer	Rating	Credit limit 2008 Rm	Balance 2008 Rm	Credit limit 2007 Rm	Balance 2007 Rm
Top three customers by sales value	2:A	**2 575**	**564**	1 766	672
	1:B				
% of net trade receivables					
– Group			**32%**		33%
– Company			**35%**		37%

Credit risk exposure on an industry and geographical basis for the group and company is as follows:

	Group 2008 %	Company 2008 %
By industry		
Manufacturing	**26**	**24**
Merchants	**43**	**42**
Structural metal	**16**	**18**
Food and beverage	**8**	**9**
Other	**7**	**7**
	100	**100**
By geographical area		
South Africa	**87**	**91**
Asia	**5**	**4**
Other	**8**	**5**
	100	**100**

Except as detailed in 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 R 1 449 million (December 2007: R1 394 million). Of this amount, R67 million (December 2007: R58 million) represents bank guarantees.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS continued

32.18 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 2008.

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 statement of financial position.

	Group		Company	
	2008 Rm	2007 Rm	**2008 Rm**	2007 Rm
Cash and cash equivalents	**8 429**	4 034	**8 121**	3 660
Less: total interest bearing borrowings and finance lease obligations	**(405)**	(478)	**(199)**	(253)
Net cash and cash equivalents	**8 024**	3 556	**7 922**	3 407
Total shareholders' equity	**27 995**	20 583	**25 978**	19 909
Gearing ratio	**0%**	0%	**0%**	0%

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
Through utilising the group's centralised purchasing power during 2008, the company purchased products and services to the value of R5 038 million (December 2007: R222 million) from other companies in the group.

The outstanding balances at year-end are:
- included in trade and other receivables (note 24) R15 million (December 2007: R8 million); and
- included in trade and other payables (note 30) R1 026 million (December 2007: R24 million).

Jointly controlled entities and associates
Details of investments in jointly controlled entities and the associate are disclosed in Annexure 1 while income, after eliminating unrealised profits, is disclosed in note 20. Interest income from jointly controlled entities of R3 million (December 2007: R4 million) is included in income from investments (note 13).

The group purchased goods and services to the value of R44 million (December 2007: R57 million) from, and sold goods to the value of R5 604 million (December 2007: R5 877 million) to jointly controlled entities and its associate.

The outstanding balances at year-end are:
- included in trade and other receivables (note 24) R264 million (December 2007: R190 million);
- included in trade and other payables (note 30) Rnil (December 2007: Rnil); and
- included in the carrying value of jointly controlled entities (note 20) are long-term loans of R9 million (December 2007: R10 million).

Subsidiaries
Details of income from investments and indebtedness in subsidiaries are disclosed in notes 13 and 21 respectively, and Annexure 2.

Directors
Executive directors are defined as key senior management. Details relating to directors' remuneration and shareholdings (including share 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 198.

Corporate service fee/management fee
ArcelorMittal South Africa paid a corporate service fee of R135 million (December 2007: Rnil million) to ArcelorMittal Group for corporate services rendered.

ArcelorMittal South Africa received a management fee of R176 million (December 2007: R153 million) from Saldanha Steel (Proprietary) Limited for ArcelorMittal South Africa employees that work at Saldanha Works.

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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.1 Defined contribution plans

Membership of each fund at 31 December 2008 and employer contributions to each fund for the 2008 calendar year recognised in the income statement were:

	Working members		Employer contributions	
	2008	2007	2008 Rm	2007 Rm
Mittal Steel South Africa Selector Pension and Provident Funds	4 487	4 518	92	79
Iscor Employees' Provident Fund	4 029	4 029	39	32
	8 516	8 547	131	111

Contribution rates for active members are 7% and 10% 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 2008, the fund had 47 (December 2007: 53) active members and 8 795 (December 2007: 9 083) pensioner members. The fund is closed to the admittance of new members.

Contribution rates for active members are 7% and 10% by the member and ArcelorMittal South Africa respectively of the member's pensionable earnings.

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 1.7% 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 statutory actuarial valuation was performed as at 31 December 2007. 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:

	2008	2007
Discount rate	9.0%	8.2%
Expected return on plan assets	9.7%	9.2%
Expected rate of salary increase	6.9% + merit increases	6.4% + merit increases
General inflation rate	5.9%	5.4%

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:

	2008 Rm	2007 Rm
Current service cost	**2**	2
Interest cost on obligations	**533**	485
Expected return on plan assets	**(727)**	(683)
Net actuarial (gains)/losses recognised in the year[1]		
Adjustments for restrictions on the defined benefit plan asset[1]	**193**	197
Sub-total	**1**	1
Less member contributions paid during year	**0[2]**	0[1]
Total included in "Employee costs – pension and medical costs"	**1**	1

[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.*

The amount included in the statement of financial position arising from the group's and company's obligation in respect of this defined benefit plan is:

	2008 Rm	2007 Rm
Present value of the obligation at 31 December	**6 562**	6 870
Fair value of plan assets at 31 December	**(7 276)**	(8 274)
Surplus	**(714)**	(1 404)
Cumulative unrecognised actuarial (losses)/gains	**(747)**	136
Unrecognised defined benefit asset on initial adoption of IAS 19[1]	**963**	963
Sub-total	**(498)**	(305)
Restrictions on defined benefit plan asset recognised[1]	**498**	305
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.*

Movements in the present value of the defined benefit obligation in the current period were:

	2008 Rm	2007 Rm
Present value of obligation at 1 January	**6 870**	6 739
Interest cost	**533**	485
Current service cost	**2**	2
Benefits paid	**(722)**	(684)
Actuarial (gains)/losses on obligation	**(121)**	328
Present value of obligation at 31 December	**6 562**	6 870

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.2 Defined benefit plans continued

Movements in the present value of the plan assets in the current period were:

	2008 Rm	2007 Rm
Fair value of plan assets at 1 January	**8 274**	8 299
Expected return	**727**	683
Contributions	**1**	1
Benefits paid	**(722)**	(684)
Actuarial losses on plan assets	**(1 004)**	(25)
Fair value of plan assets at 31 December	**7 276**	8 274

The major categories of plan assets, and the expected rate of return at the statement of financial position date for each category, are:

	Expected return		Fair value of plan assets	
	2008 %	2007 %	2008 Rm	2007 Rm
Cash	**7.1**	6.6	**439**	494
Equities	**10.9**	10.4	**2 437**	2 771
Fixed interest-bearing stock	**8.7**	8.2	**3 365**	3 826
Foreign investments	**10.9**	10.4	**1 035**	1 178
Other assets		10.4		5
	9.7	9.2	**7 276**	8 274

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 negative return on plan assets was R277 million (December 2007: positive return of R658 million).

The plan assets include ordinary shares of ArcelorMittal South Africa Limited with a fair value of Rnil million (December 2007: fair value of R2 million).

	2008 Rm	2007 Rm	2006 Rm	2005 Rm	2004 Rm
Present value of defined benefit obligation	**6 562**	6 870	6 739	6 355	6 003
Fair value of plan assets	**(7 276)**	(8 274)	(8 299)	(7 318)	(6 610)
Surplus	**(714)**	(1 404)	(1 560)	(963)	(607)
Experience adjustments on plan liabilities – gains/(losses)	**121**	(328)	(590)		
Experience adjustments on plan assets – (losses)/gains	**(1 004)**	(25)	1 079		

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.2 Defined benefit plans continued

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 (2008: R1 million) to the defined benefit plan during the next financial year.

The fair value of the plan's assets exceeded the present value of the defined benefit obligations by 10.9% (December 2007: 20.4%). The payment of the funded benefits by the plan does not depend only on the financial position and investment performance, but also on the group and company's ability to make good any funding shortfall.

The group and company therefore underwrite the plan's investment and actuarial risk. Despite the fall in the funding surplus for the reporting period ended 31 December 2008, due to the detrimental risk shocks to financial markets, particularly in the last quarter of 2008, the funding continues to be adequate.

The likelihood that the group and company will be required to fund a shortfall in the 2009 reporting period is remote.

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 2008, the fund had 1 431 (December 2007: 1 682) pensioner members and 39 910 (December 2007: 41 065) 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 last full statutory actuarial valuation was performed as at 31 December 2007. 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:

	2008 %	2007 %
Discount rate	**9.0**	8.2
Expected return on plan assets	**9.7**	8.9
General inflation rate	**5.9**	5.4

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

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:

	2008 Rm	2007 Rm
Current service cost		
Interest cost on obligations	**32**	29
Expected return on plan assets	**(44)**	(41)
Net actuarial (gains)/losses recognised in the year[1]		
Adjustments for restrictions on the defined benefit plan asset[1]	**12**	12
Sub-total		
Less member contributions paid during the period		
Total included in "employee costs – pension and medical costs"		

[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.*

The amount included in the statement of financial position arising from the group's and company's obligation in respect of this defined benefit plan is:

	2008 Rm	2007 Rm
Present value of the obligation at 31 December	**405**	410
Fair value of plan assets at 31 December	**(476)**	(513)
Surplus	**(71)**	(103)
Cumulative unrecognised actuarial losses	**(52)**	(8)
Unrecognised defined benefit plan asset on initial adoption of IAS 19[1]	**90**	90
Sub-total	**(33)**	(21)
Restrictions on defined benefit plan asset recognised[1]	**33**	21
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:

	2008 Rm	2007 Rm
Present value of obligation at 1 January	410	406
Interest cost	32	29
Current service cost		
Benefits paid	(31)	(57)
Actuarial losses/(gains) on obligation	(6)	32
Present value of obligation at 31 December	**405**	**410**

Movements in the present value of the plan assets in the current period were:

	2008 Rm	2007 Rm
Fair value of plan assets at 1 January	513	519
Expected return	44	41
Contributions		
Benefits paid	(31)	(57)
Actuarial (losses)/gains on plan assets	(50)	10
Fair value of plan assets at 31 December	**476**	**513**

The major categories of plan assets, and the expected rate of return at the statement of financial position date for each category, are:

	Expected return		Fair value of plan assets	
	2008 %	2007 %	2008 Rm	2007 Rm
Cash	7.1	8.8	64	69
Equities	11.2	9.4	166	179
Fixed interest-bearing stock	8.7	8.2	182	196
Foreign investments	11.2	9.4	60	65
Other assets	11.2	9.4	4	4
	9.7	8.9	476	513

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

34. POST-EMPLOYMENT BENEFITS continued

34.1 Pensions continued

34.1.2 Defined benefit plans continued

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 negative return on plan assets was R5 million (December 2007: positive return of R55 million).

The plan assets include ordinary shares of ArcelorMittal South Africa Limited with a fair value of Rnil million (December 2007: fair value of Rnil).

	2008 Rm	2007 Rm	2006 Rm	2005 Rm
Present value of defined benefit obligation	**405**	410	406	361
Fair value of plan assets	**(476)**	(513)	(519)	(451)
Surplus	**(71)**	(103)	(113)	(90)
Experience adjustments on plan liabilities – gains/(losses)	**6**	(32)	(54)	
Experience adjustments on plan assets – (losses)/gains	**(50)**	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 (2008: Rnil) to the defined benefit plan during the next financial year.

The fair value of the plan's assets exceeded the present value of the defined benefit obligations by 17.5% (December 2007: 25.1%). The payment of the funded benefits by the plan does not depend only on the financial position and investment performance, but also on the group's and company's ability to make good any funding shortfall.

The group and company therefore underwrite the plan's investment and actuarial risk. Despite the fall in the funding surplus for the reporting period ended 31 December 2008, due to the detrimental risk shocks to financial markets, particularly in the last quarter of 2008, the funding continues to be adequate.

The likelihood that the group and company will be required to fund a shortfall in the 2009 reporting period is remote.

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 2008 there were 59 qualifying retirees (December 2007: 67).

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 are detailed in note 28.

34.2.2 The group and company also contribute to medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R88 million (2007: R76 million).

35. CONTINGENT LIABILITIES

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
Contingent liabilities at statement of financial position 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	**1**	32	**69**	82
– Amounts in legal trust accounts	**12**	12	**12**	12
– Litigation and claims	**692**	1 015	**692**	951

"Litigation and claims" consist of:

Taxation dispute – Business Assistance Agreement
During the first quarter of 2008, the Alternative Dispute Resolution (ADR) process with the South African Revenue Services was finalised with settlement being reached on the dispute pertaining to the tax deductibility of payments made in terms of the Business Assistance Agreement. Full and final settlement was reached for an amount of R100 million. For the financial year ended December 2006, a provisional obligation of R80 million was recognised in terms of the settlement offer made during the ADR hearing. A further R20 million was recognised as an expense in 2008, bringing the total obligation settled to R100 million.

In the comparative period, R323 million and R259 million was disclosed as a contingent liability for the group and company respectively.

Alleged contravention of Competition Act
Harmony Gold Mining Company and DRD Gold Limited 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 Tribunal handed down its decision regarding the remedies on 6 September 2007. In summary the decision concluded 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 remedies decision; and
- ArcelorMittal South Africa is ordered to pay the costs of the complainants.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

35. CONTINGENT LIABILITIES continued

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.

An appeals hearing at the Competition Appeal Court took place on 23 and 24 October 2008, the outcome of which is expected in the first quarter of 2009.

Applying the applicable accounting policies and the measurement and recognition criteria of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, no provision has been raised. This is consistent with the accounting treatment in the comparative period.

In another case brought before the Competition Tribunal, Barnes Fencing Industries (Proprietary) Limited (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 has 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 intervention application hearing was heard in February 2008. The Competition Tribunal granted leave to intervene by including additional complaints, namely: prohibited virtual practices and abuse of dominance. However, the request for a 10% administrative penalty was disallowed.

No dates have been set for the pre- or the main hearing.

Based on the current status of the litigation, no provision has been raised and no contingent liability quantified.

Contingent asset retirement obligation

As described in note 28, 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 participation rights

In 2007 the group and company granted share participation rights to 30 key employees for retention purposes.

During the current year a literal interpretation relating to the rights (previously termed "share appreciation rights") was clarified. Following legal clarification, the rights entail a cash payment priced off the average daily closing price of an ArcelorMittal South Africa Limited share over the 60-day trading period immediately preceding the expiry date.

The increase in the carrying amount of the share participation rights from R1 million to R28 million between 31 December 2007 and 31 December 2008 is largely attributable to the legal clarification of the rights attaching to the instruments.

Details of the two grants and their valuation at 31 December 2008 are as follows:

Grant 1	
Number of rights	310 605
Number of participants	17
Exercise date	31 August 2009
Total fair value of rights at 31 December 2008 (Rm)	29
Time apportioned fair value recognised as a liability at 31 December 2008 (note 26) (Rm)	23
Time apportioned fair value recognised as a liability at 31 December 2007 (note 26) (Rm)	1
Total fair value charged to earnings for the year ended 31 December 2008 (Rm)	22
Grant 2	
Number of rights	101 728
Number of participants	13
Exercise date	31 March 2010
Total fair value of rights at 31 December 2008 (Rm)	9
Time apportioned fair value recognised as a liability at 31 December 2008 (note 26) (Rm)	5
Time apportioned fair value recognised as a liability at 31 December 2007 (note 26) (Rm)	0[1]
Total fair value charged to earnings for the year ended 31 December 2008 (Rm)	5

[1] *Rounding to zero due to the use of numeric reporting scale format of one million.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

36. SHARE-BASED PAYMENTS continued

36.2 Equity-settled share option plan

The company and group 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.

"33.3/10: 33.3/10: 33.4/10 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 10 years. This is an open plan.

The option plans are equity-settled as each share option converts into one ordinary share of ArcelorMittal South Africa 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 employee's 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.

For the options granted during 2008, the key inputs utilised to determine the grant date valuation were:
- discount rate: 11.07% (2007: 9.54%);
- annual volatility rate: 42.08% (2007: 31.5%);
- early exercise multiple: 2.5 times strike price (2007: 2.0 times strike price);
- continuous dividend yield: 4.62% (2007: 3.37%); and
- expected attrition rate: 8.9% (2007: 6.8%).

The average fair value per option granted for the reporting period ended 31 December 2008 amounted to R77.67 (2007: R45.59).

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 2008	41.2
Add: Share releases, forfeitures and resignations	0.7
Less: Share offers	(0.8)
Number of shares available for future utilisation, as at 31 December 2008	41.1

	Options		Loan purchase and paid up/ deferred purchase plan	
	2008 Million	2007 Million	**2008 Million**	2007 Million
Outstanding at beginning of year	**3.4**	3.1	**0[1]**	0.1
Issued	**0.8**	1.2		
Exercised	**(0.6)**	(0.7)	**(0)[1]**	(0.1)
Lapsed/cancelled	**(0.1)**	(0.2)		0[1]
Outstanding at end of year	**3.5**	3.4		0[1]
The average remaining contractual life in days at the end of the year is:				
Average days until fully vested	**1 057**	563		
Average days until expiry	**2 977**	1 928		558
The average prices applicable per transaction type are:				
Issued (R/unit)	**92.61**	121.12		
Exercised strike price (R/unit)	**55.65**	57.33	**7.93**	9.51
Lapsed/cancelled (R/unit)	**105.38**	58.13		8.05
Outstanding (R/unit)	**92.40**	57.72		7.77

[1] *Rounding to zero due to the use of numeric reporting scale format of one million.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

36. SHARE-BASED PAYMENTS continued

36.2 Equity-settled share option plan continued

	Options		Loan purchase and paid up/ deferred purchase plan	
	2008	2007	**2008**	2007
Details of outstanding options during the year are:				
1. ArcelorMittal Group-type option plan				
Latest expiry date	**2018**	2017		
Exercise price range (R)	**53.38 –250.00**	53.38 - 138.25		
Number of outstanding instruments	**3 300 759**	2 799 102		
Total proceeds if outstanding instruments were immediately exercised (Rm)	**38**[1]	129		
Total intrinsic value of out-of-the-money options at 31 December (Rm)	**(48)**			
2. 30:30:40 option plan				
Latest expiry date	**2011**	2011		
Exercise price range (R)	**29.62 – 57.99**	14.32 - 57.99		
Number of outstanding instruments	**243 023**	584 664		
Total proceeds if outstanding instruments were immediately exercised (Rm)	**10**	58		
3. Legacy option plan				
Latest expiry date	**2011**	2011		
Exercise price range (R)	**9.71 - 10.10**	9.71 - 13.79		
Number of outstanding instruments	**4 974**	13 142		
Total proceeds if outstanding instruments were immediately exercised (Rm)	**0**[2]	2		
Details of outstanding loan purchase and paid up/deferred purchase plans are as follows:				
Latest expiry date				2010
Exercise price range (R)				2.78 - 9.71
Number of outstanding instruments				17 360
Total proceeds of shares issued (Rm)				2
Closing price	**R88.45**	**R136.50**		**R136.50**

[1] *Excludes out-of-the-money options.*

[2] *Rounding to zero due to the use of numeric reporting scale format of one million.*

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 2008				
Expiry date				
2009	**53.38**	**50 250**		
2010	**29.62 – 83.88**	**69 520**		
2011	**9.71 – 133.50**	**241 072**		
2015	**53.38**	**540 436**		
2016	**54.19 – 83.88**	**1 066 518**		
2017	**97.72 – 140.00**	**810 741**		
2018	**73.75 – 250.00**	**770 224**		
Total		**3 548 761**		
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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2008

37. COMMITMENTS

	Group 2008 Rm	Group 2007 Rm	Company 2008 Rm	Company 2007 Rm
Capital commitments				
Capital expenditure contracted for property, plant and equipment	**930**	1 232	**866**	1 075
Capital expenditure authorised but not contracted for property, plant and equipment	**1 227**	1 397	**1 154**	1 296
Operating lease commitments				
Equipment and vehicles				
The future minimum payments under non-cancellable stand-alone and embedded operating leases are:				
– Less than one year	**79**	46	**76**	44
– More than one year and less than five years	**77**	116	**72**	107
Total	**156**	162	**148**	151

38. RENTAL AGREEMENT

A depot and off-loading facility owned by the group and company (included under note 18) 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.

	2008 Rm	2007 Rm
The total rentals received for the year ended 31 December 2008 amounted to R23 million (2007: R25 million). The future gross operating rentals to be received in accordance with the agreement are:		
Gross operating rentals		
Not later than one year	**21**	23
Later than one year but not later than five years	**62**	77
Later than five years		8
Total	**83**	108

Annexure 1: Unlisted equity-accounted investments

	Functional currency	Number of shares held	Percentage holding 2008 %	Percentage holding 2007 %	Group carrying amount 2008 Rm	Group carrying amount 2007 Rm	Company carrying amount 2008 Rm	Company carrying amount 2007 Rm	Year-end other than 31 Dec
JOINTLY CONTROLLED ENTITIES									
Unlisted shares									
• Collect-a-Can (Proprietary) Limited	ZAR	2 400 000	**60**	60	**17**	15	**2**	2	
• Consolidated Wire Industries (Proprietary) Limited	ZAR	1 999 999	**50**	50	**90**	60	**14**	14	
• Ensimbini Terminals (Proprietary) Limited	ZAR	1 000	**50**	50	**12**	16	**10**	10	30 June
• Macsteel International Holdings BV	USD	35 001	**50**	50	**1 802**	1 003			
• Microsteel (Proprietary) Limited	ZAR	2 000	**50**	50	**36**		**36**		30 June
• Pietersburg Iron Company (Proprietary) Limited	ZAR	4 000	**50**	50	**(1)**	3	**6**	6	
Associate									
Unlisted shares									
• Toyota Tsusho South Africa Processing (Proprietary) Limited	ZAR	20	**20**	20	**12**	12	**16**	16	31 March
Total investment					**1 968**	1 109	**84**	48	
Directors' valuation of unlisted shares in jointly controlled entities and an associate					**2 001**	1 184			

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, statement of financial position and cash-flow items in respect of the jointly controlled entities are:

	2008 Rm	2007 Rm
STATEMENT OF FINANCIAL POSITIONS		
Non-current assets	1 001	620
Current assets	7 230	5 538
Total assets	8 231	6 158
Shareholders' equity	3 771	2 208
Non-current liabilities		
Borrowings	205	221
Other		7
Current liabilities		
Borrowings	1 428	871
Other	2 827	2 851
Total equity and liabilities	8 231	6 158
INCOME STATEMENT		
Revenue	44 261	26 769
Operating expenses	(43 790)	(26 341)
Net operating profit	471	428
Net financing costs	105	(28)
Gains and losses on changes in foreign exchange and financial instruments	(102)	32
Other income	217	(13)
Income from investments	154	3
Income from equity-accounted investments	238	217
Profit before taxation	929	639
Taxation		
– Normal	(115)	(93)
Net profit attributable to ordinary shareholders[1]	814	546
STATEMENT OF CASH FLOWS		
Net cash flows from operating activities	410	62
Net cash flows from investing activities	(46)	(124)
Net cash flows from financing activities	266	332
Foreign currency translations	199	(13)
Net increase in cash and cash equivalents	829	257

[1] *Indicative, amounts were translated at the average ZAR/USD exchange rate for the year and not at monthly exchange rate as per note 20. The amounts will thus not agree with amounts in note 20.*

The income statement, statement of financial position and cash-flow items in respect of the associate are:

	2008 Rm	2007 Rm
STATEMENT OF FINANCIAL POSITIONS		
Non-current assets	**119**	120
Current assets	**184**	153
Total assets	**303**	273
Shareholders' equity	**53**	58
Non-current liabilities		
Borrowings	**92**	92
Other		123
Current liabilities		
Borrowings	**55**	
Other	**103**	
Total equity and liabilities	**303**	273
INCOME STATEMENT		
Revenue	**483**	135
Operating expenses	**(461)**	(135)
Net operating profit	**22**	
Net financing costs	**(26)**	(15)
Loss before taxation	**(4)**	(15)
Taxation		
– Normal		
Net loss attributable to ordinary shareholders	**(4)**	(15)
STATEMENT OF CASH FLOWS		
Net cash flows from operating activities	**(43)**	19
Net cash flows from investing activities	**(8)**	(126)
Net cash flows from financing activities	**50**	106
Net decrease in cash and cash equivalents	**(1)**	(1)

Annexure 2: Investments in subsidiaries

	Country of incorporation[1]	Functional currency
PROPERTY		
Yskor Landgoed (Proprietary) Limited	RSA	ZAR
MANUFACTURING		
Iscor Building Systems (Proprietary) Limited	RSA	ZAR
Saldanha Steel (Proprietary) Limited	RSA	ZAR
SERVICE		
Ferrosure (South Africa) Insurance Co Limited	RSA	ZAR
Ferrosure (Isle of Man) Insurance Co Limited[3]	IOM	USD
MSSA Investments BV	NEH	USD
Pybus Fifty-Seven (Proprietary) Limited	RSA	ZAR
Vicva Investments and Trading Nine (Proprietary) Limited	RSA	ZAR
Dombotema Mining Investments (Proprietary) Limited	RSA	ZAR
ArcelorMittal South Africa Distribution (Proprietary) Limited[4]	RSA	ZAR
ArcelorMittal African Investments[5]	Mauritius	USD
ArcelorMittal Pipes and Tubes (Proprietary) Limited	RSA	ZAR
Total investments in subsidiaries (note 21)		

[1] *RSA – Republic of South Africa, IOM - Isle of Man and NEH - The Netherlands.*

[2] *This amount includes the shareholders' loan of R8 billion (December 2007: R8 billion) and intercompany advances of R4 billion (December 2007: R3 billion).*

[3] *Issued capital is non-voting redeemable preference shares.*

[4] *The name of the company was changed from Mabwetema Mining Investments (Proprietary) Limited as from 5 June 2008.*

[5] *The company was registered on 25 January 2007.*

Issued capital (unlisted ordinary shares)	Interest of company: Shares 2008 R	Shares 2007 R	Indebtedness 2008 Rm	Indebtedness 2007 Rm
4 000	**4 000**	4 000	**(94)**	(94)
100	**100**	100		
2 000	**1 009**	1 009	**4 082**	5 054[2]
1 000	**3 000 000**	3 000 000		
70	**12 011 246**	12 011 246		
134 669	**241 105 200**	241 105 200		5
1	**1 000**	1 000	**402**	378
1	**1 000**	1 000		
1	**100**	100		
1	**100**	100		
100	**716**	716	**179**	116
1	**1**	1		
	256 124 472	256 124 472	**4 569**	5 459

Analysis of shareholders

Range of shareholders			Number of shareholders	%	Holdings	%
1	–	100 shares	6 672	22.10	337 784	0.08
101	–	1 000 shares	21 057	69.74	4 699 279	1.05
1 001	–	50 000 shares	2 174	7.20	15 170 852	3.40
50 001	–	100 000 shares	117	0.39	8 451 535	1.90
100 001	–	10 000 000 shares	170	0.56	95 153 983	21.35
10 000 001 and more shares			4	0.01	321 938 699	72.22
			30 194	**100**	**445 752 132**	**100**

Type of shareholders	% shareholding
Corporate holdings	61
Pension funds	14
Unit trusts	9
Insurance companies	5
Other management funds	4
Other funds	5
Unclassified and below threshold	2
	100

Geographical holdings by owner	% shareholding
Switzerland	52.02
South Africa	35.1
USA	6.1
Other countries	4.5
Below threshold	2.28
	100

Shareholdings of more than 5%	Holdings	%
Mittal Steel Holdings AG	231 876 454	52.02
Public Investment Corporation	39 874 583	8.95
Industrial Development Corporation of South Africa	39 167 364	8.79

Public and non-public shareholders		
Mittal Steel Holdings AG	231 876 454	52.02
Public Investment Corporation	39 874 583	8.95
Industrial Development Corporation of South Africa	39 167 364	8.79
	310 918 401	
Non-public shareholders	310 918 401	
Public shareholders	134 833 731	
	445 752 132	

Information relating to the directors

Dr KDK Mokhele	**(53)**
Academic qualifications:	BSc (Agric), MS (Food Science), PhD (Microbiology)
Occupation:	Independent non-executive director
Experience:	Non-executive director since February 1998. Chairman of ArcelorMittal South Africa since 1 January 2007 and Chairman of the Transformation Committee.
Other current directorships:	Non-executive director of: Impala Platinum Holdings, African Oxygen, Zimplats Holdings, Tiger Brands Trustee: Hans Merensky Foundation
CPD Cornier	**(56)**
Academic qualifications:	MSc (École Polytechnique and École des Mines)
Occupation:	Non-executive director
Experience:	Appointed non-executive director on 14 May 2008. Member of the ArcelorMittal Group management board responsible for Asia, Africa and India, steel greenfield projects, equipment manufacturing and investments and allocations. He is also ArcelorMittal's Chief Technology Officer. Previously executive vice-president of FCS Commercial Auto and chief executive officer of Sollac Mediterranee.
Other current directorships:	Other ArcelorMittal Group companies
S Maheshwari	**(45)**
Academic qualifications:	BCom (Hons); CA CS
Occupation:	Non-executive director
Experience:	Appointed non-executive director in December 2002. Executive vice-president of ArcelorMittal Group, member of the ArcelorMittal Group management board, responsible for business development and mergers and acquisitions.
Other current directorships:	Other ArcelorMittal Group companies
AMHO Poupart-Lafarge	**(43)**
Academic qualifications:	Graduate Engineer, MSc (Economics)
Occupation:	Non-executive director
Experience:	Appointed alternate non-executive director on 24 July 2008 and non-executive director on 30 November 2008. Executive vice-president of Arcelor Mittal Group and member of the ArcelorMittal Group management board responsible for Africa and CIS.
Other current directorships:	Other ArcelorMittal Group companies
HJ Verster	**(42)**
Academic qualifications:	BCom (Hons), MBL, Executive Management Programme (Darden Business School)
Occupation:	Executive Director, Finance
Experience:	Appointed Executive Director, Finance, on 17 February 2006. Previously general manager, corporate treasury at Mittal Steel NV.
Other current directorships:	Non-executive director of Macsteel International Holdings BV, Ferrosure (Isle of Man) Insurance Company, other ArcelorMittal Group companies and director of the National Business Initiative.

Directorate and administration

DIRECTORS

Chairman

Dr KDK Mokhele#†■

Executive directors

NMC Nyembezi-Heita (Chief Executive Officer)
HJ Verster (Executive Director, Finance)
LGJJ Bonte (President)‡

Non-executive directors

DK Chugh◆#■
CPD Cornier‣
EK Diack*•
S Maheshwari◆
LP Mondi•■
DCG Murray* #†
MJN Njeke*•
ND Orleyn#■
AMHO Poupart-Lafarge‣

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 Belgium*
‣ *Citizen of France*
◆ *Citizen of India*

Shareholders' diary

Year end	31 December
Financial results for December 2008	11 February 2009
Annual General Meeting	12 May 2009
First quarter results 2009	29 April 2009
Interim results for 2009	29 July 2009
Third quarterly results 2009	28 September 2009

Notice to shareholders

Twenty-first annual general meeting

Notice is hereby given that the twenty-first annual general meeting of members of ArcelorMittal South Africa Limited will be held at The Hilton, 138 Rivonia Road, Sandton, Johannesburg, on Tuesday, 12 May 2009 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 2008, 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:
   - Dr KDK Mokhele
   - CPD Cornier
   - S Maheshwari
   - AMHO Poupart-Lafarge
   - HJ Verster

   Refer to page 199 of this report for abbreviated curriculum vitae of the above.

3. To approve the non-executive directors' fees for the year ended 31 December 2008 (refer to page 62).

4. To approve the following annual fees as the maximum non-executive directors' fees payable for the period 1 May 2009 until the next annual general meeting.

	Annual retainer	Attendance fee per meeting
Chairman	R 700 000	–
Director	R 132 000	R 10 000
Audit Committee chairman		R 22 000
Audit Committee member		R 10 000
Committee chairman		R 20 000
Committee members		R 10 000
Share Trust chairman		R 20 000
Share Trust member		R 10 000

5. To appoint Messrs Deloitte &Touche as the company's external auditors and Mr Ryan Michael Duffy as the audit partner.

6. Resolved that 5% (five percent) of the authorised but unissued share capital of the company be placed under the control of the directors of the company until the next annual general meeting, with the authority to allot and issue all or part thereof, for the purpose of implementing a group bonus scheme and a share incentive scheme, on such terms and conditions as they may deem fit, subject to the provisions of sections 221 and 222 of the Companies Act 61 of 1973, as amended, the Articles of Association of the Company and the JSE Limited Listings Requirements.

Special business

7. 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 Companies Act 61 of 1973, as amended (the Act) and

the JSE Limited (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 annual 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, to approve 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 group and 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 assets of the group and the company, will be in excess of the liabilities of the group and company the for a period of 12 (twelve) months after the date of notice of the annual general meeting. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements;
(c) the issued share capital and reserves of the group and the company 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 working capital of the group and the company 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 provides the necessary letter to the JSE 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.

Notice to shareholders continued

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 JSE Listings Requirements.

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: page 198
- directors' interests in securities: pages 62 and 63
- share capital of the company: page 131

Any member entitled to attend and vote at the annual general meeting is entitled to appoint a proxy to attend, speak and vote in his 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 Friday, 8 May 2009. The completion of a proxy form will not preclude a member from attending the annual general meeting.

Please refer to the notes to the proxy form on page 206 for additional guidance on completion of the proxy form and attendance at the annual general 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 annual 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 of a CSDP, a broker or Computershare Nominees (Proprietary) Limited. 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 their shares or obtaining a form of proxy to attend the annual 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, posted or faxed to the transfer secretaries, Computershare Investor Services (Proprietary) 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 annual general meeting (excluding Saturdays, Sundays or South African public holidays).

By order of the board

C Singh
Company Secretary

13 March 2009

Form of proxy

ArcelorMittal 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 twenty-first annual general meeting of the company, to be held on Tuesday, 12 May 2009 at 11:00 in The Hilton, 138 Rivonia Road, Sandton, 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 (Pty) Ltd
70 Marshall Street
Johannesburg

or Mail to
Computershare Investor Services (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 twenty-first annual general meeting of the company which will be held in The Hilton, 138 Rivonia Road, Sandton, Johannesburg on 12 May 2009 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 2008 financial statements			
2 a) Re-election of KDK Mokhele			
b) Re-election of CPD Cornier			
c) Re-election S Maheshwari			
d) Re-election of AMHO Poupart-Lafarge			
e) Re-election of HJ Verster			
3 Approval of non-executive directors' fees			
4 Approval of non-executive directors' future fees			
5 Reappointment of audit firm and audit partner			
6 Authority to issue unissued shares			
Special business			
7 Authority to repurchase shares			

Signed at ______ this ______ day of ______ 2009

(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 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 of a nominee of a CSDP, a broker or Computershare Nominees (Pty) Limited. 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 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 annual 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 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 annual general meeting, if he is the authorised proxy, to vote in favour of the ordinary resolutions at the annual general meeting, or any other proxy to vote or to abstain from voting at the annual general 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, posted or faxed to the transfer secretaries, Computershare Investor Services (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 annual general meeting (excluding Saturdays, Sundays or South African public holidays).

7. The completion and lodging of this form of 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 annual general 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 initialed 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 annual general meeting (excluding Saturdays, Sundays or South African public holidays).

BASTION GRAPHICS

http://www.arcelormittal.com/southafrica

ArcelorMittal South Africa
Room N3-5
Main Building
Delfos Boulevard
Vanderbijlpark 1911
South Africa

ArcelorMittal South Africa Limited Annual Report 2008