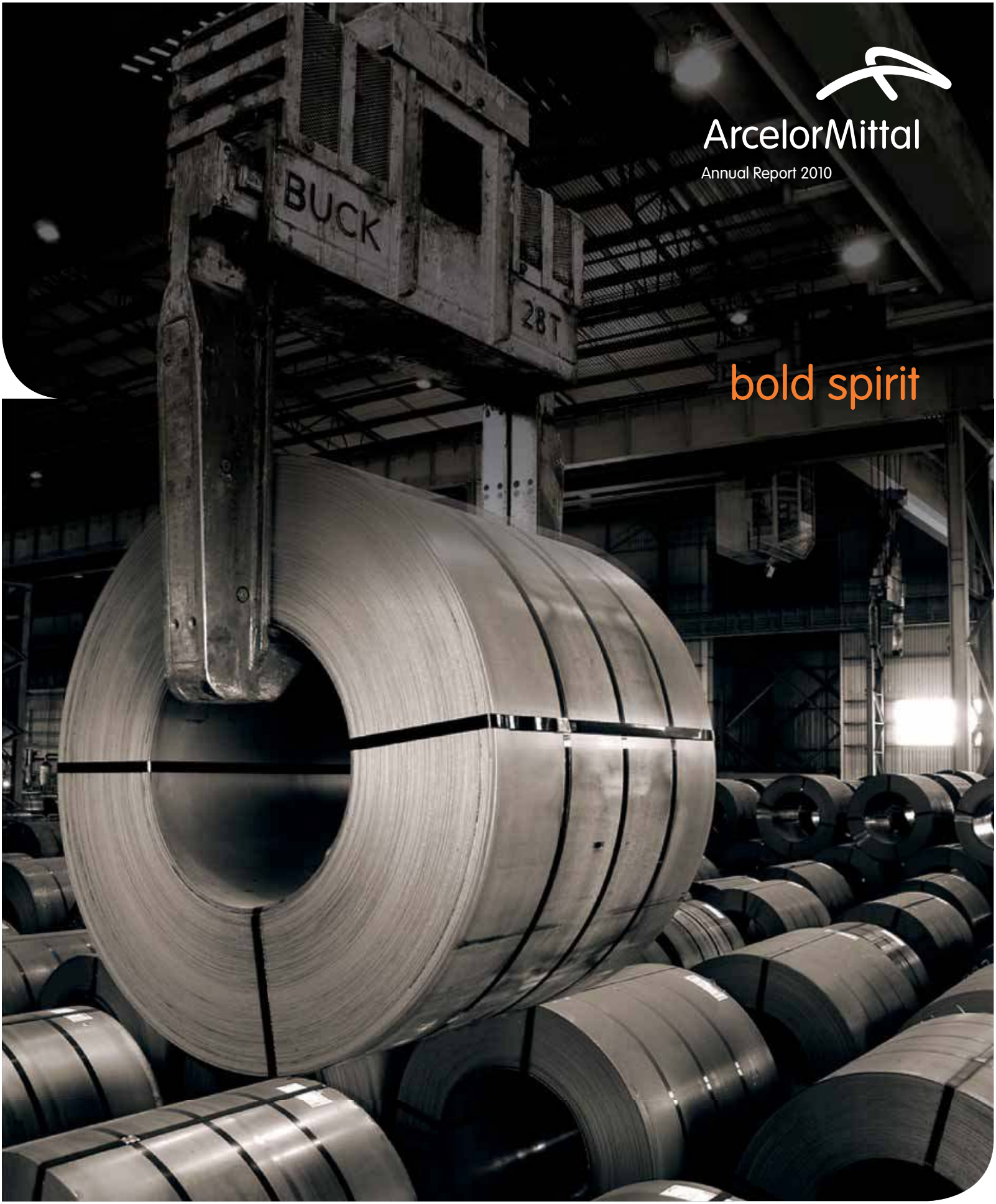


ArcelorMittal

Annual Report 2010

bold spirit

ArcelorMittal South Africa
("ArcelorMittal" or the "company")

Report scope and boundaries

This report contains our response to managing the most material financial and non-financial issues of concern to all our stakeholders. Our stakeholders include employees, communities in which we operate, suppliers, customers, shareholders, government and society at large.

We have strived to be relevant and fair in our reporting. In defining the report and the information included, we have been guided by the principles of the Global Reporting Initiatives (GRI) G3 Guidelines (see index appended) and the governance guidelines outlined in King II. Cognisance has been taken of the principles of King III and we are working towards embedding this in our reporting structures.

The information in this report covers the year ended 31 December 2010. This report includes only the operations of ArcelorMittal South Africa Limited and its subsidiaries (as detailed on page 197) and excludes those of the international ArcelorMittal Group unless they have relevance to our operations.

The scope, reporting periods, boundary and measurement methods applied in this report do not differ significantly from those applied in the 2009 ArcelorMittal South Africa Limited Annual Report and Sustainability Report.

Contents

in brief

Vision

We aim to retain our steel market leadership position in South Africa and furthermore extend our footprint to identified key markets in sub-Saharan Africa. We pride ourselves on being among the lowest-cost producers of steel globally.

Strategic objectives

- Drive business transformation to achieve excellence in safety, people, plant and processes to achieve ArcelorMittal Group benchmark targets for employee productivity and operational efficiency.
- Meet customer expectations in terms of product quality and service.
- Further embed our corporate responsibility program with respect to the safety, health, environment and the well-being of employees, contractors and the communities in which we operate.
- Build on relations with key stakeholders in order to enhance our image and reputation.
- Achieve a higher level of employee engagement and build a positive work environment overall so as to attract and retain talented people.

Brand values

Our goal is to provide the leadership that will transform tomorrow's steel industry. We have a clear vision of the future and align our processes to the ArcelorMittal Group's 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 bottomline, 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.

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 deeds are aligned with our ideals (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 within 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 among colleagues and across organisational levels.

Financial features

Headline earnings of

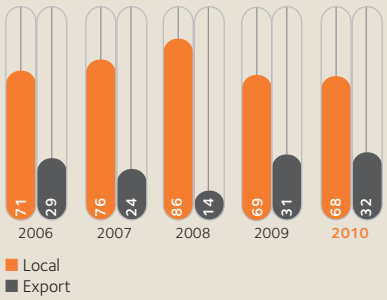
R1 377 million

EBITDA margin of

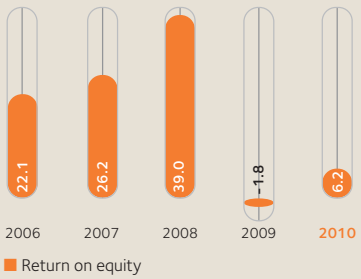
12% up from 6% in 2009

Adverse impact of strong rand

Sales breakdown (% of total sales)



Return on equity (%)



ArcelorMittal

For more information please visit our website at **www.arcelormittal.com/southafrica**

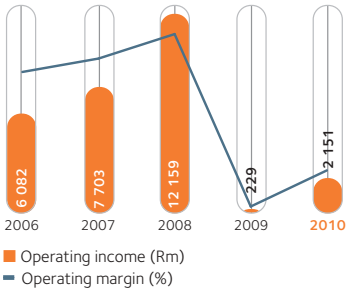
Financial summary

	Year ended 31 December	
	2010	2009
Physical ('000 tonnes)		
Liquid steel production	**5 674**	5 307
Domestic sales	**3 414**	3 072
Export sales	**1 627**	1 401
Financials (Rm)		
Revenue	**30 224**	25 598
EBITDA	**3 522**	1 547
Profit/(loss) from operations	**2 151**	229
– Flat Carbon Steel Products	**347**	(614)
– Long Carbon Steel Products	**826**	315
– Coke and Chemicals	**985**	449
– Corporate and Other	**(7)**	79
Headline earnings/(loss)	**1 377**	(440)
Net cash flow	**(369)**	346
Total assets	**31 718**	30 784
Share information (cents)		
Headline earnings/(loss) per share	**343**	(104)
Dividend per share	**150**	
Financial ratios (%)		
Return on shareholders' equity (based on headline earnings)	**6**	(2)
Net cash to equity	**14**	18

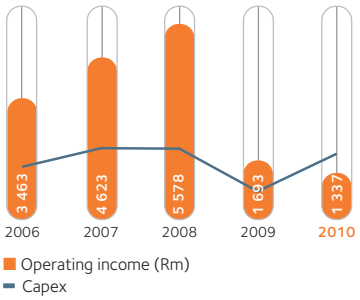
Group review at a glance

	Year ended 31 December					
	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm
GROUP INCOME STATEMENTS						
Revenue	**30 224**	25 598	39 914	29 301	25 350	23 984
Profit/(loss) from operations						
Flat Carbon Steel Products	**347**	(614)	7 007	4 827	3 644	4 518
Long Carbon Steel Products	**826**	315	3 672	2 652	2 111	2 109
Coke and Chemicals	**985**	449	1 743	727	184	301
Corporate and Other	**(7)**	79	(263)	(503)	143	(34)
Total	**2 151**	229	12 159	7 703	6 082	6 894
(Losses)/gains on changes in foreign exchange rates and financial instruments	**(150)**	(813)	637	(131)	301	246
Net financing (cost)/income	**(288)**	(77)	80	325	193	(29)
Income from investments	**2**	3	3	4	7	5
Income from equity-accounted investments (net of tax)	**122**	206	331	270	135	277
Income tax expense	**(492)**	(35)	(3 865)	(2 455)	(2022)	(2 327)
Impairment reversal		9	36			
Adjustments to attributable income for headline earnings	**32**	38	103	25	34	25
Headline earnings/(loss)	**1 377**	(440)	9 484	5 741	4 730	5 091
Headline earnings/(loss) per share (cents)	**343**	(104)	2 128	1 288	1 061	1 139
Dividends per share (cents)	**150**		707	429	347	380
STATEMENT OF CASH FLOWS						
Cash flows from operating activities	**1 337**	1 693	5 578	4 623	3 463	2 616
Capital expenditure	**(1 714)**	(914)	(1 832)	(1 852)	(1 446)	(1 608)
Investments	**(120)**	(524)		(16)		
Other	**128**	91	19	116	183	49
Net cash flows	**(369)**	346	3 765	2 871	2 200	1 057

Operating income and operating margin

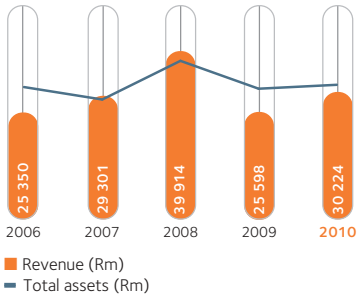


Cash flow from operating activities and capex

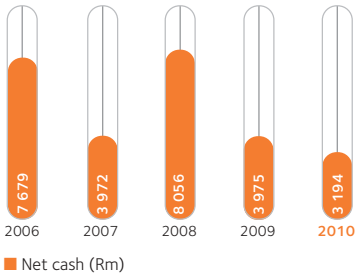


	Year ended 31 December					
	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm
GROUP STATEMENT OF FINANCIAL POSITION						
ASSETS						
Non-current assets						
Property, plant and equipment	**16 432**	15 862	15 917	15 525	14 973	14 260
Intangible assets	**84**	72	71	58	58	74
Equity-accounted investments	**2 386**	2 369	1 968	1 109	953	912
Other financial assets	**208**	187	203	195	134	61
Current assets						
Cash and cash equivalents	**3 506**	4 348	8 429	4 034	7 750	5 219
Other	**9 102**	7 946	10 847	7 284	7 307	5 811
Total assets	**31 718**	30 784	37 435	28 205	31 175	26 337
EQUITY AND LIABILITIES						
Capital and reserves						
Total shareholders' equity	**22 556**	21 925	27 995	20 583	23 260	19 451
Non-current liabilities						
Borrowings and other payables	**224**	220	273	52	61	71
Non-current provisions	**1 499**	1 420	1 661	1 290	1 327	*1 288*
Finance lease obligations	**515**	557	314	328	502	596
Deferred income tax liability	**2 354**	2 435	2 526	2 603	2 485	2 007
Current liabilities						
Borrowings and other payables	**88**	153	100	10	10	10
Finance lease obligations	**59**	57	40	88	93	89
Other	**4 423**	4 017	4 526	3 251	3 437	2 825
Total equity and liabilities	**31 718**	30 784	37 435	28 205	31 175	26 337

Revenue and total assets



Net cash



Group review at a glance continued

	Year ended 31 December					
	2010	2009	2008	2007	2006	2005
RATIOS						
Profitability and asset management						
Return on net assets (%)	**8.4**	1.5	43.2	30.3	24.3	33.9
Return on ordinary shareholders' equity (%)						
– Attributable earnings (%)	**6.0**	(1.9)	38.6	26.1	22.0	28.7
– Headline earnings (%)	**6.2**	(1.8)	39.0	26.2	22.1	28.8
Return on invested capital (%)	**10.1**	1.9	56.0	40.0	33.6	43.4
Operating margin (%)	**7.1**	0.9	30.5	26.3	24.0	28.7
Net asset turn (times)	**1.1**	1.0	1.2	1.2	0.9	1.0
Solvency and liquidity						
Financing cost cover (times)	**7.5**	3.0	0.0	0.0	0.0	237.7
Current ratio (times)	**2.8**	2.9	4.1	3.4	4.3	3.8
Net debt to equity ratio (%)	**14.2**	18.1	28.8	19.3	33.0	22.9
Cash realisation rate (%)	**52.2**	172.9	50.3	68.3	58.7	40.5
Productivity						
Average number of employees ('000)	**9.1**	9.2	9.5	9.1	9.8	10.9
– Steel	**7.8**	8.0	8.6	8.2	9.1	10.1
– Corporate and Other	**1.3**	1.2	0.9	0.9	0.7	0.8
Revenue per average employee (R'000)	**3 305**	2 767	4 293	3 217	2 594	2 195
Prices (actual invoiced) USD/t C&F						
Hot-rolled-coil export price	**703**	508	966	659	531	560
Low-carbon wire-rod export price	**698**	510	909	592	508	490

	Five-year annual compound growth rate %	Year ended 31 December					
		2010	2009	2008	2007	2006	2005
SHARE PERFORMANCE							
Number of shares in issue (million)		**401**	401	446	446	446	446
Weighted average in issue (million)		**401**	423	446	446	446	446
Earnings per ordinary share							
– Basic earnings basis (cents)		**335.2**	(113.0)	2 104.5	1 282.3	1 053.5	1 136.5
– Headline earnings basis (cents)		**343.2**	(104.0)	2 127.6	1 287.9	1061.1	1 139.0
Dividend per ordinary share (cents)		**150.0**		707.0	429.0	347.0	380.0
Dividend cover (times)		**9.2**		3.0	3.0	3.1	3.0
Net equity per ordinary share (cents)	5.2	**5 622**	5 465	6 280	4618	5 218	4 360

		Five-year annual compound growth rate %	Year ended 31 December 2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm
Liquid steel production ('000 tonne)								
Flat Carbon Steel Products		(5.5)	**3 814**	3 428	4 084	4 231	4 863	5 067
Long Carbon Steel Products		(3.2)	**1 860**	1 879	1 690	2 144	2 192	2 194
Total		(4.8)	**5 674**	5 307	5 774	63 75	7 055	7 261
Sales								
Local ('000 tonne)								
Flat Carbon Steel Products		(0.6)	**2 336**	2 079	2 835	2 886	2 968	2 402
Long Carbon Steel Products		(0.1)	**1 078**	993	1 540	1 535	1 432	1 083
Total		(0.4)	**3 414**	3 072	4 375	4 421	4 400	3 485
SA customers (%)	Ave	73.9	**68**	69	86	76	71	56
Export ('000 tonne)								
Flat Carbon Steel Products		(11.7)	**1 012**	779	577	1042	1 300	1 881
Long Carbon Steel Products		(6.6)	**615**	622	137	366	494	864
Total		(9.9)	**1 627**	1 401	714	1 408	1 794	2 745
Export (%)	Ave	26.1	**32**	31	14	24	29	44

	Five-year annual compound growth rate %	Year ended 31 December 2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm
INTERNATIONAL CRUDE STEEL PRODUCTION (million tonne)							
World-wide	4.3	**1 395**	1 229	1 304	1 322	1 240	1 129
Asia	8.6	**881**	805	748	734	666	584
Europe	(4.5)	**173**	139	229	210	235	218
Northern America	(2.5)	**112**	82	125	132	131	127
Former USSR	(0.9)	**108**	98	114	124	120	113
Other	6.8	**121**	105	88	122	88	87

Board of directors

N Nyembezi-Heita *(Nonkululeko) (51)*
Chief Executive Officer
- *BSc (Hons) (Elec Eng), MSc (Elec Eng), MBA*

Appointed Chief Executive Officer on 1 March 2008. Member of the Safety, Health and Environment and Transformation Committee. Non-Executive Chairman of Arivia.Kom (Pty) Limited. Non-Executive Director of JSE Limited.

MJN Njeke *(Johnson) (52)*
Independent non-executive chairman
- *BCom, BCompt (Hons), CA(SA), HDip Tax Law*

Appointed non-executive director on 1 January 2002. Appointed Chairman of the Board and Chairman of the Nominations Committee on 4 February 2010. Chairman of Metropolitan Holdings Limited, Deputy Chairman of Kagiso Media. Director of numerous companies including NM Rothschild (SA) (Pty) Limited, Compass Group (SA) (Pty) Limited, Resilient Property Income Fund Limited and MTN Group Limited.

M Macdonald *(Malcolm) (68)*
Independent non-executive director
- *BCom CA(SA)*

Appointed as independent non-executive director, Chairman of the Audit and Risk Committee and member of the Safety, Health and Environment Committee on 4 February 2010. Previously the Financial Director of Iscor between 1997 and 2004. Director and chairman of Audit Committees on the Boards of Astral Foods Limited, GijimaAST Limited and Coris Capital Limited.

DK Chugh *(Davinder) (54)*
Non-executive director
- *BA LLB, BSc (Hons), MBA (India)*

Appointed as non-executive director in September 2006. Appointed senior executive vice-president and member of the ArcelorMittal Group Management Board in September 2006. Joined ArcelorMittal South Africa in May 2002 as executive director, Commercial. Appointed Chief Executive Officer of ArcelorMittal in September 2004.

ND Orleyn *(Thandi) (55)*
Independent non-executive director
- *BJuris, BProc, LLB*

Appointed as an independent non-executive director on 1 February 2007. Appointed Chairman of the Transformation Committee on 4 February 2010. Thandi chairs the Remuneration Committee and is a member of the Nominations Committee and shareholder of Peotona Group Holdings, Director of South African Reserve Bank, Toyota SA, Implats Limited, Reunert Ltd, Freeworld Coatings Limited and Ceramic Industries Limited.

DCG Murray *(Chris) (66)*
Independent non-executive director
- *BCom, CA, MBL*

Appointed non-executive director on 11 May 2007. Chairman of the Safety, Health and Environment Committee. Previously Managing 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.

LP Mondi *(Lumkile) (48)*

Non-executive director

- *MA Economics, BCom (Hons) Economics, BCom (Economics, Business Economics and Commercial Law), Advanced Corporate Finance and Value Creation, Advanced Management Programme – INSEAD (2006).*

Appointed non-executive director on 11 May 2007, member of the Transformation and Remuneration Committees. Chief economist and divisional executive of professional services at the Industrial Development Corporation.

AMHO Poupart-Lafarge *(Arnaud) (45)*

Non-executive director

- *Graduate Engineer and MS in Economics*

Appointed alternate non-executive director on 24 July 2008 and appointed as non-executive director on 30 November 2008. Executive vice-president of ArcelorMittal Group and CEO of Long Carbon Europe. Previously executive vice-president of Africa, including CIS.

CPD Cornier *(Christophe) (58)*

Non-executive director

- *MS of: Ecole Polvtechnique and Ecole des Mines*

Appointed non-executive director on 14 May 2008. Member of the ArcelorMittal Group Management Board. Responsible for Asia, Africa and India, Technology, Steel Greenfield Projects Execution. Previously a member of the Management Committee of ArcelorMittal, responsible for Flat Carbon Western Europe.

S Maheshwari *(Sudhir) (48)*

Non-executive Director

- *BCom (Hons), CA CS*

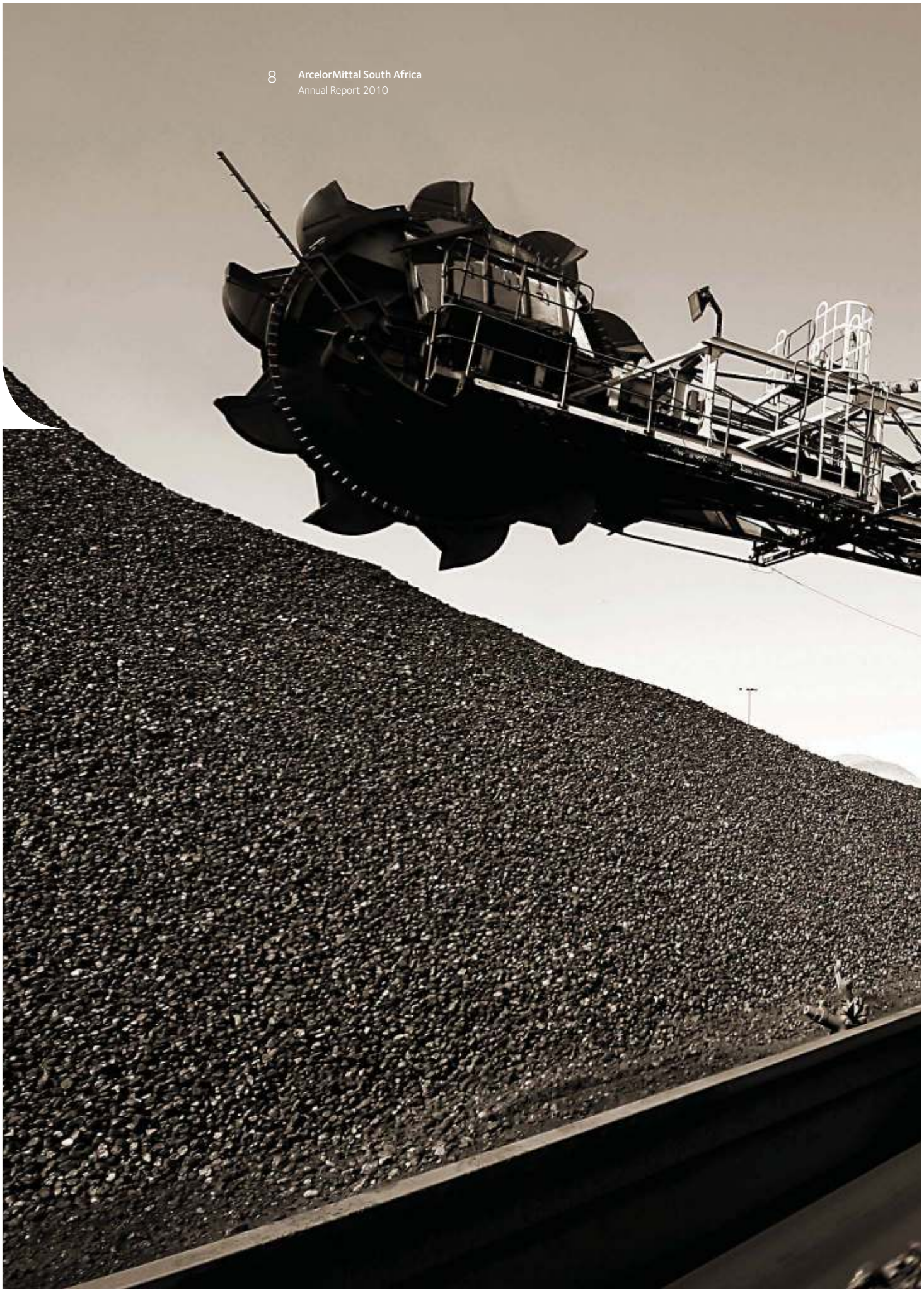
Appointed non-executive director in December 2002. Senior Executive vice-president of ArcelorMittal Group, member of the ArcelorMittal Group Management Board, responsible for Corporate Finance, M&A, Business Development and Risk Management.

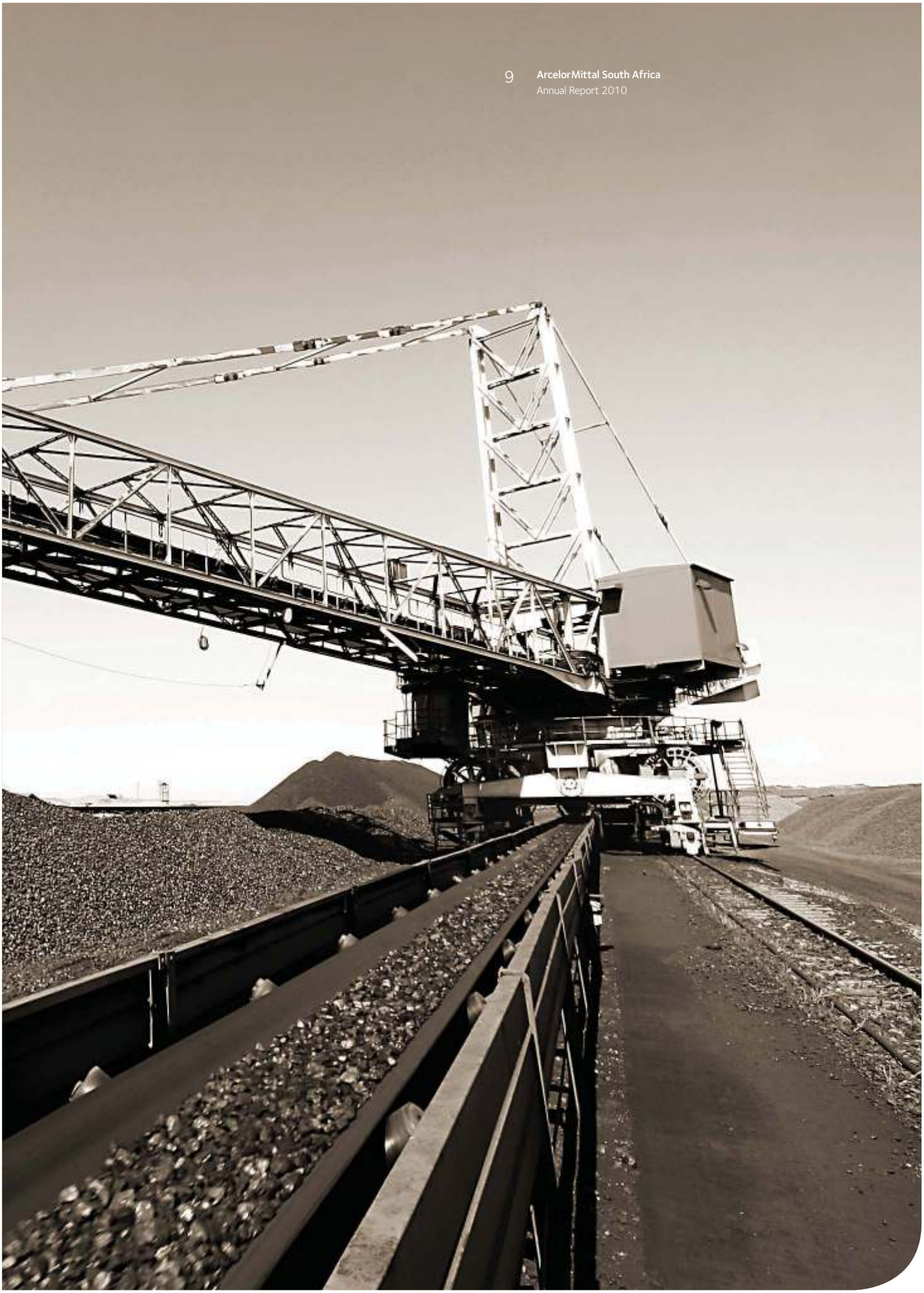
RH Torlage *(Rudolph) (48)*

Chief Financial Officer

- *B Accounting, BCompt (Hons), CA(SA), MDP*

Appointed Chief Financial Officer and member of the board on 3 September 2010. Previously General Manager, Company Controlling from September 2005. Non-executive director of Macsteel International Holdings BV, Coal of Africa Limited and other ArcelorMittal Group companies.





Chairman's and Chief Executive Officer's report

JOHNSON NJEKE
Chairman

NONKULULEKO NYEMBEZI-HEITA
Chief Executive Officer

The past year was characterised by two very distinct halves: a strong first half when input costs were contained and there were significant restocking in the market; however, this was followed by rapid rises in raw material prices and deteriorating demand conditions, along with a strengthening rand in the second half of the year. This is further confirmed by our financial performance which shows an overall positive performance during 2010, but a tough third and fourth quarter.

The key drivers of our business are steel demand, steel prices and costs.

Dear shareholder

The company achieved a strong rebound in profitability from a loss making position the previous year, with an improvement in EBITDA margin from 6% in 2009 to 12% in 2010. We had predicted a gradual recovery in 2010, which turned out to be the case as evidenced by the 13% rise in sales volumes. While the year saw the return of relative stability in the global economy, the steel industry is still some way from the highs experienced in 2007 and early 2008. Externally, the company had to contend with momentous events that have the potential to alter the group's future in a significant way. Internally, we began to lay a firm foundation for a significant improvement in operational performance across the board and continued to focus on environmental and safety management. With respect to the latter, we achieved the important milestone of zero fatalities for the year for the first time whilst our lost time injury frequency rate improved by a substantial margin.

Business drivers

The key drivers of our business are steel demand, steel prices, costs – particularly the cost of raw materials – and the relative strength of the rand against the currencies of our trading partners.

The global steel industry is integrally linked to the global economic cycle. Since the global meltdown in 2008, the sector has experienced considerable volatility, resulting in poor line of sight into the immediate future.

The rebound in apparent global steel demand that became evident in the latter part of 2009 carried over into the first half of 2010, with demand increasing above levels supported by restocking alone and rapidly rising steel prices in almost all regions on the back of increasing raw materials costs. However, renewed financial turmoil in EU countries affected market confidence across all regions and ushered a slowdown in the second half of the year.

China and India are the new locomotives of steel production and demand, together accounting for over half of global steel consumption. The big question is how these powerful regions will lead or respond to the vacillating winds of the current economic recovery.

In South Africa, the first half of the year leading into the FIFA Soccer World Cup showed good growth, but this optimism faded in the second half. The construction sector – the largest consumer of steel in South Africa by some margin – continued to languish with no clear sign of when recovery will be established. Consumer facing segments in the packaging and automotive sectors experienced stable and good recovery respectively. A major contributor to the weakness in second half was the delay in the commencement of a number of public sector infrastructure projects which are now anticipated in the first half of 2011.

In the near term, we believe that the government's infrastructure development programme, along with the continued growth of the South African economy, will sustain the local steel industry. Electricity and water supply projects should underpin demand, and once the construction, consumer and mining sectors start to recover, medium-term prospects look promising. We expect the South African economy to grow at 3.3% in 2011, which should translate into steel demand growth of 7.5%.

The strong rand not only made exports of steel less price competitive in foreign markets, it also brought a flood of cheaper imports into the country across all sectors. Primary steel imports were 674 000 tonnes last year, up from 482 000 tonnes in 2009, reducing demand for locally produced steel. An uncompetitive currency is just as devastating for our customers further down the steel manufacturing chain who find it increasingly hard to compete with finished goods imports.

International steel prices remained at low levels at year end, dropping 6% in third quarter against quarter two and falling another 6% in fourth quarter to end the year at $718 per tonne. Steel prices have risen considerably since the beginning of 2011 on the back of rising raw material prices and restocking.

Chairman's and Chief Executive Officer's report continued

No fatalities for the year under review and our lost time injury frequency rate declined to 1.6 per million hours work (2009: 2.6).

Group performance

Our reported steel shipments of 5 million tonnes for 2010 were 13% higher than the 4.5 million tonnes the previous year. Average selling prices were flat in rand terms, reflecting the reduction in demand in the second half of the year and the relative strength of the rand against the USD.

Headline earnings of R1 377 million achieved in 2010 represented a significant turnaround from the loss of R440 million a year earlier. A positive trend was already evident in the latter part of 2009 with a fourth quarter headline profit of R469 million recorded after three successive quarterly losses. Our Coke and Chemicals business performed strongly and has become a significant contributor to the group's operating profit.

Safety

The tragic fatalities at Newcastle and Vanderbijlpark Works in 2009 profoundly affected everyone at ArcelorMittal. While steel making remains a hazardous undertaking, the incidents galvanised our efforts to achieve zero fatalities at our operations. We are glad to report that there were no fatalities for the year under review.

Rolling out our fatality prevention standards and monitoring their implementation has been a major focus. Compliance with each of the 13 standards is physically audited and graded. Our goal is to achieve 100% compliance with level 3 (out of 5) by the middle of 2011. A safety champion has been appointed for each standard, guiding its roll-out across the group.

These measures have resulted in a significant improvement in our safety performance as evidenced by the trend in our lost time injury frequency rate. This declined from 2.6 per million hours worked at the end of 2009 to 1.6 in 2010. Naturally, we are pleased with the improvement; nevertheless, we will not be satisfied until we reach zero incidents and fatalities at all our operations on a consistent basis.

Regrettably, 2011 ushered a setback. A crushing accident at our Vanderbijlpark operation resulted in a fatality in February. The root causes of this incident are still under investigation at the time of writing. We have expressed our condolences to the family and provided every assistance to them as they try to cope with the tragedy.

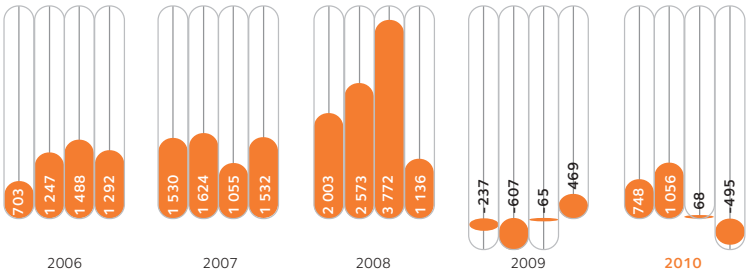
Input costs

In 2010, large mining groups replaced the previous annual contract pricing model with quarterly pricing for iron ore and coking coal, introducing volatility and impeding effective long-term planning. Further, this pricing model is not a true reflection of the dynamics of market demand and supply, rather reflecting the peaks and troughs of speculative coal and iron ore trading in the spot market. The company's cost of imported coking coal decreased by 27% year-on-year, an anomaly resulting from the roll-over of the more expensive 2008 coking coal contract into 2009. The cost of iron ore increased by 44% following the interim agreement with Kumba.

Energy costs have also risen sharply with electricity tariffs increasing by 25% year-on-year. We anticipate that the 90% cap imposed by Eskom on our power use will start posing a real constraint on our production volumes in 2011 as capacity utilisation climbs to levels above 85%. The issue will require close attention as demand picks up. Potential electricity supply constraints from Eskom served to quicken the pace of our efforts to generate our own electricity by making use of off-gases and waste heat generated in the steel making process.

There has been an upward trend in a whole host of input costs in South Africa in the recent past. Over and above electricity, other infrastructure costs such as rail tariffs have also been escalating as have employment costs, outpacing inflation for several years. At the same time, quality of service and productivity levels have been declining, resulting in an overall rise in the cost of doing business and a drop in efficiency. Over time, South Africa has steadily witnessed an erosion of most of its sources of comparative advantage so that today, the country is beginning to compare unfavourably with other low cost emerging market producers with whom we compete.

Headline earnings per quarter



Iron ore dispute

The dispute with Sishen Iron Ore Company (Proprietary) Limited (SIOC), a subsidiary of Kumba Iron Ore Limited, has been widely reported. The dispute centres on the validity of the supply agreement entered into between SIOC and us for the supply of iron ore on a cost related basis from Sishen mine.

We remain of the firm opinion that the supply agreement remains valid and binding and we are taking all appropriate steps to protect our rights in this regard. The preparations for the arbitration proceedings are well advanced. No actual date for the hearing has been set, but is expected to take place during early 2012.

Simultaneously, given developments around the disputed rights, we regard our intention to acquire Imperial Crown Trading (ICT) as a prudent decision based on strong commercial grounds that not only secures our iron ore supply, but moves us more strongly towards vertical integration and cost competitiveness. The acquisition is still subject to the fulfilment of conditions precedent in accordance with the agreement with ICT.

Responsible pricing of steel

When Iscor's mining interests were unbundled in 2001, access to iron ore at cost plus 3% was stipulated in order to give the steel manufacturing side of the business the best possible foundation to build a long-term sustainable business. This was granted unconditionally and was particularly pertinent in an environment where the steel industry worldwide was battling through a major slump and Iscor's steel making business had made losses for several years, with a huge debt resulting from the construction of Saldanha. The mining business was fully compensated for the portion of Sishen retained by the steel operation in the form of Iscor taking on additional debt equal to the net present value of 21.4% of Sishen mine. Steel pricing was not linked in any way to the Sishen contract.

When the ArcelorMittal group acquired a controlling stake in Iscor in 2004, a discussion ensued on finding ways to stimulate the development of downstream steel manufacturing. This was a broad discussion and not exclusively confined to steel prices; the latter was merely one of the instruments. Clearly, growth in the industry was a topic of mutual interest between the government and the company.

We take as a basic point of departure the fact that we operate in a globalised world and believe that by setting domestic steel prices that are aligned to international prices – the so-called 'basket price' – we give the South African steel industry the best achievable platform to be globally cost competitive.

The numbers bear this out. Over the period from April 2006 to end 2009, the benefit to downstream steel consuming sectors of the economy amounts to R9 billion in revenue foregone by the company. This represents the difference between the prices derived on the basis of import parity and basket pricing over that period. The benefit from the low cost iron ore over the same period was R11 billion using spot export parity iron ore prices as a comparative. In addition, our ongoing export rebate scheme offers lower priced steel to those companies which demonstrate value addition to steel inputs from ArcelorMittal and subsequent export of the finished steel products. The total value of this rebate has been R2 billion over the same period.

Therefore, we have effectively passed through the total value of the iron ore cost benefit to the downstream industry over that period. However, over shorter periods, the benefits passed on to the downstream industry may not match the benefit of the ore supply at the cost plus arrangement. It is important to emphasise that steel pricing has to be viewed over a full cycle – typically 5 to 7 years – as the correlation between raw material prices and steel prices is affected by capacity utilisation and demand levels.

Our steel EBITDA margin over the past 5 years peaked at 27.5% in 2006, dropping to 6% in 2009 and increased to 11.7% in 2010. This

Chairman's and Chief Executive Officer's report continued

Continuos improvement will enhance efficiencies and with that will come sustainable cost savings.

level of performance lags that of other emerging market integrated steel producers in Russia, Brazil and India. This is a clear indication that we determine our prices in a responsible manner, bearing in mind that we have operated in the lowest cost quartile over this period.

An important element to emphasize is the ongoing competition we face from steel imports into the country. Unlike the overwhelming majority of countries with domestic steel production capabilities, South Africa imposes no import duties on steel products nor offers any kind of protection or incentive to the steel industry. Historically, 10% to 12% of domestic steel consumption is sourced from foreign markets largely in steel grades that are not produced locally. When domestic prices fall out of line with international prices or indeed the company cannot meet local demand, nothing stops our customers from importing steel. Indeed, this is precisely what occurred in the second half of 2010. A confluence of negative events combined to create a perfect storm, namely: the transport strike in April which severely limited deliveries of raw materials to our plants, resulting in steel supply shortages; further uncertainty about future supply occasioned by the iron ore dispute; the imposition of the iron ore surcharge pitched domestic steel prices above international prices; and the strong appreciation of the rand against the US dollar making imports relatively cheaper. The consequence of these developments was the highest level of steel imports into South Africa in 30 years.

B-BBEE transaction

In August 2010, the company announced its intention to conclude a Broad-Based Black Economic Empowerment deal that will introduce a 26% B-BBEE shareholding into the company's ownership structure. Our new equity partners will include more than 8 500 ArcelorMittal staff as well as neighbouring communities. Although broadly supportive of the deal in principle, our shareholders have expressed various concerns relating to aspects of the deal which we are endeavouring to address prior to tabling the transaction for board and shareholder approval.

Operations

We continued to manage our production output according to the volatile demand levels that have persisted for the last two years. The fairly stable operating performance for much of the year suffered a setback when cold hearth conditions beset both Blast Furnaces D at Vanderbijlpark Works and N5 at Newcastle Works towards the end of the year. Vanderbijlpark Works was able to recover full furnace operation by mid-December and Newcastle Works only in mid-January, which had a serious impact on production and consequently sales of long products.

At Vanderbijlpark Works, the electric arc furnaces were used to balance supply and demand during the year although these never reached full capacity due to low levels of demand. The failure of a raw material bin at Saldanha Works thankfully did not result in any injuries, but limited the plant's ability to operate at full capacity during the year. The company has advanced to the final phase of a feasibility study to restart coke battery No. 1 at Newcastle Works. This battery, which operated for only 8 years before it was decommissioned in 1981, will produce an additional 450 000 tonnes per annum of coke for the ferrochrome industry. The project will be completed towards the end of 2013.

Transforming business processes

We are determined to retain our global cost competitiveness by reaffirming our commitment to excellence in everything we do. Continuous improvement will enhance efficiencies and with that will come sustainable cost savings.

Our business improvement initiatives leverage off the experience of the ArcelorMittal group, taking proven methodologies from successful units and implementing them locally. Vanderbijlpark Works launched an ambitious masterplan during the first quarter of 2010 focussing on reliability, cost efficiencies and throughput improvements.

The World Class Manufacturing programme at Saldanha Works evaluates performance against the rest of ArcelorMittal group to identify areas for potential improvement, such as maintenance and people development. And by twinning with Monlevade, a long product mill in Brazil, Newcastle Works is examining the further standardisation of work routines and integrated management systems. The newly adopted visual management system is helping to clarify individual plant level strategies, targets and ongoing performance against targets.

Over the coming years, we expect the benefits from these initiatives to cascade across many aspects of our business. Superior performance and increased efficiency ensure that we continually drive our costs down and thus retain our cost position in the bottom quartile of world steel producers.

Capital expenditure

Our capital expenditure for 2010 was R1 714 million, up from R915 million in 2009. The bulk of the spending was on sustainable maintenance with environmental projects accounting for close to 20% of the total. Key environmental projects undertaken during the period were:

- The R230 million sinter bag house facility at Vanderbijlpark Works is on track for completion in the first quarter of 2011 and will significantly reduce particulate (dust) emissions. Particulate emissions from the sinter main stack are the biggest single point source at the site, so this is a project of considerable importance to Vanderbijlpark's overall emissions reduction strategy.
- Completion of Phase 1 of the remediation of Vanderbijlpark Works' waste disposal facility at a cost of R45 million will yield important benefits for ground and surface water as well as fugitive dust emissions.
- Rehabilitation of various dams previously used for waste water disposal using biological treatment was completed at a total cost of R46 million.
- Spending on the R200 million zero-effluent discharge initiative at Newcastle Works continues although design challenges have pushed out the completion date to early 2013.

Transforming the workplace experience

People are the ultimate differentiator in the pursuit of excellence. Our drive to attract, develop and retain talent within an inclusive workplace culture regained focus over the past year. The company makes available a multitude of training and professional development opportunities to our employees which are an embodiment of our belief in lifelong learning. During the year we invested over R172 million in training, bursaries and other skills development programmes. At the end of 2010 we had a total of 3 221 people in the training pipeline – over five times the equivalent number ten years ago – 102 bursars enrolled at universities in engineering degrees and more than 80 staff pursuing various degrees. Despite this significant investment, the skills shortage facing the engineering and related industries and the lack of critical skills will remain an ongoing challenge in the short to medium term.

We have made significant progress in improving the physical state of workers' facilities at all sites prioritising change rooms, ablution facilities and dining rooms at a cost so far of around R18.6 million.

The roll-out of the new four-team shift roster commenced in October 2010 to replace the old three-team system. This represents a significant investment by the company from which we expect to derive important benefits, not least of which are reduction in overtime hours, a better work-life balance for our employees and making more time available to train the workforce to increase productivity. Significantly, the change to a four-team system will result in the creation of more than 1 228 permanent jobs across the company.

Socio-economic equity

We recognise that our operations have a significant social and economic impact on the lives of employees, their families and the surrounding communities. The seven pillars of Broad-Based Black Economic Empowerment are key indicators of our performance on this journey to socio-economic equity.

Our relationship with the communities from which we draw our labour and on which we have an impact is extremely important to us. Many of our operations are located in regions that face significant economic and social challenges. We therefore encourage local economic growth and endeavour to foster the development of strong and sustainable local communities by working in active partnership with local organisations in an open and transparent manner.

In 2010 the company made significant progress on a number of key initiatives. These were aimed at education and skills development, small business development and a variety of issues

Chairman's and Chief Executive Officer's report continued

We need to produce steel efficiently while minimising our impact on the environment.

affecting neighbouring communities. The flagship project in ArcelorMittal South Africa Foundation's programme is the school building programme to which the company has committed a total of R250 million to be spent over 7 years. The first school – Meetse-a-Bophelo in Mamelodi – was handed over to the Department of Basic Education in November 2010. Another program that we have been supporting for a number of years now is the operation of math and science centres to provide additional tutoring in those subjects to schools in the immediate vicinity of our mills. We spent R11.8 million on the Sebokeng and Saldanha science centres and started work to establish one in Newcastle. We are beginning to see a real impact on math and science performance in the matric exams in the Sebokeng area, the longest running of our centres

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Managing our impact on the environment

Steel making has a significant environmental footprint and is a big consumer of natural resources. This is one of our most important long-term sustainability challenges – we need to produce steel efficiently while minimising our impact on the environment.

The Vereeniging Works dust extraction unit was commissioned in January 2010 at a cost of R220 million. This project has resulted in a substantial reduction of emissions in the area and brings the operation in line with world standards for emissions abatement. At Vanderbijlpark Works, we are in the final stages of commissioning the sinter off-gas treatment project which will reduce both particulate and SO_2 emissions.

Many of our ongoing projects are focused on improving the health of our workers. We made steady progress with the desulphurisation project at Newcastle Works which will replace the old soda-ash system with a new calcium carbide system that is more environmentally friendly and improves working conditions. We are on track to complete the project during the second quarter of 2011.

Legacy water pollution issues at the dams and maturation ponds at Vanderbijlpark Works have been an ongoing challenge for us for many years. We have employed ground-breaking biological treatment methods to reduce organic contaminants in these water bodies in one of the biggest remediation exercises ever tackled in South Africa. Our most pressing environmental issue remains the achievement of zero-effluent discharge status at Newcastle Works.

In our efforts to improve our environmental performance, we rely heavily on the experience, research and development provided by our parent company. Many of the group's plants in Europe, North and South America are close to the technical limits of what can be achieved in terms of emissions reduction, and these act as benchmarks to plants like ours.

With regard to energy, detailed action plans that set realistic targets for improved efficiency and reduced energy usage have been drawn up. Beyond improved energy efficiencies, the ArcelorMittal group is also working to develop breakthrough technologies that reduce the utilisation of carbon in the steel making process. Once again we will be one of the beneficiaries when these technologies become commercially viable. The group has set a target of reducing specific CO_2 emissions by 8% per tonne of steel produced by 2020, with 2007 serving as the base year.

Business ethics

The board of directors takes ultimate responsibility for the company's adherence to ethical conduct and sound corporate governance standards and sees to it that all business judgements are made with reasonable care, skill and diligence, as more fully discussed in our Governance Report.

We subscribe to the ArcelorMittal group legal compliance programme which has been designed to increase awareness of, and improve adherence to, applicable legislation and regulations. We are finalising the roll-out of a compliance framework

aimed at further entrenching a sound compliance culture and to cater for the specific needs of the company. During the period under review, we conducted a competition law compliance audit which confirmed compliance with applicable competition law requirements overall.

It is a condition of service for our employees to adhere to the ArcelorMittal Code of Business Conduct and Anti-Corruption Guidelines. These were designed to help employees understand their ethical and legal obligations in handling the company's business. All employees are required to undergo regular training to ensure that they fully understand and comply with the code.

We are currently subject to a number of investigations by the competition authorities. The most material of these pertains to a case that was referred by the Competition Commission to the Competition Tribunal in September 2009 against ArcelorMittal and various players within the primary steel industry, including the South African Iron and Steel Institute, alleging cartel conduct by these companies in contravention of the Competition Act. The case is ongoing.

Changes to board composition

We effected a number of changes to the composition of the board. We welcomed Mr Johnson Njeke as chairman of the board of directors with effect from 4 February 2010. Mr Malcolm Macdonald joined the board as an independent non-executive director in February and Mr Eric Diack resigned from the board and as chairman of the Audit and Risk Committee in July and was replaced by Mr Macdonald as chairman of the Audit and Risk Committee. Mr Kobus Verster resigned as Chief Financial Officer in August 2010 and was replaced by Mr Rudolph Torlage. We thank our outgoing directors for their contribution and commitment to the group over the years.

Appreciation

Our employees deserve special mention for their valuable contribution and dedication over the past year. The company had to navigate its way through a particularly challenging set of circumstances, which would have been impossible without the loyalty, support and collective efforts of all our staff.

We would also like to take this opportunity to thank all our stakeholders for the loyalty they have shown us. A company cannot thrive and grow without the support of its customers, suppliers, shareholders, and members of the communities in which it operates.

Finally to our fellow board members, we would like to thank you for your strong support as well as ongoing advice and guidance.

Conclusion

Looking ahead to 2011, we are cautiously optimistic. There are early signs of a reasonably buoyant first half but poor visibility going into the second half of the year. There seems to be merit in the argument that the sector has bottomed out and the immediate future is relatively positive. We emerged from the global economic crisis a leaner and stronger company that is well positioned to benefit from the upturn when it materialises.

Our financial position is strong; we have some of the best technical skills in the country and a training pipeline that will ensure that we have an ample supply of skills on which we can draw for our future needs. To succeed in our ambition to retain our position among the lowest cost producers in the world, we will:

- persist on the business transformation path we embarked upon in 2010;
- sustain our financial performance through the economic cycle;
- continue to pursue opportunities to grow our business in sub-Saharan Africa; and
- achieve higher levels of backward integration on key raw material inputs.

Naturally, it is important to grow our business whilst continuing to advance our plans to address the economic, environmental, and wider social challenges of our time.

Although unlikely to reach finality in 2011, we expect to make substantial progress towards the resolution of the iron ore dispute and advancing the transactions referred to elsewhere in this report.

We have set for ourselves the challenge of transforming tomorrow; boldness is our secret ingredient to doing so. To drive domestic industry growth, an export orientation is an imperative for the steel industry. In the next financial year, we aim to triple the level of incentive support extended to export oriented steel manufacturers compared to 2010.

Responsible pricing

Background

When Iscor's mining interests were unbundled in 2001, the steel manufacturing side of the business had been losing money for some time. The architects of the unbundling correctly surmised that the steel business could not stand on its own without access to cheap sources of raw materials – hence the stipulation of access to iron ore at cost plus 3%. There was no suggestion at this stage that this benefit should be passed on to anyone – it was done purely to give Iscor a chance of surviving and building a long-term sustainable business.

When the ArcelorMittal group acquired a controlling stake in Iscor in 2004, the competitive pricing and downstream industry development dialogue was initiated, but these were never a condition for the transaction, nor was there a link to the Sishen contract established three years earlier. Nevertheless, there was agreement that we needed to find a means to contribute to the development of downstream industries, whether through pricing reductions or other means. This was the chief motivation behind the introduction of the basket pricing methodology in 2006.

Free market pricing

We believe that a sustainable steel industry depends on fair and transparent steel prices. This has been much debated. The most natural method for setting prices would be to allow supply and demand fundamentals to determine the free market price. This approach is not possible in South Africa as we supply 68% of the primary steel product market, the logistical cost to move steel between South Africa and major steel markets overseas is significant, and the local industry competes in a world market characterised by protectionist measures. These factors all contribute to distort the forces that would determine a fair market price.

A distorted market

The international playing field is severely distorted by countries that apply trade barriers and subsidise exports to protect their local steel industries. Certain developed and developing countries impose protective measures against any perceived trade threat through anti-dumping or countervailing measures, even on a short-term basis.

The USA serves as an excellent example of a developed economy that relies heavily on government protection against dumped and/or subsidised imports from several countries, including China. The US Government has repeatedly demonstrated its willingness to take protective measures, even where these may be in conflict with precedent and convention and despite the threat of adverse political consequences.

The South African steel industry has in the past been prejudiced by trade measures imposed to protect domestic industries by developing countries including India, Thailand and Argentina. The countries concerned were prepared to discard convention and impose trade measures in response to complaints from their local industries, even where the complaints were subjective and without substantiation. The South African steel industry was also at the short end of trade actions by the USA, the EU and China with the imposition of safeguard measures (although these were later withdrawn).

The Gulf trade authorities recently imposed safeguard measures against all imports of certain profile products from the "whole world" (sic) to protect and advance the establishment of a steel industry in the Arabian Gulf countries. These safeguards will prevail until their own industries are able to compete.

It is apparent that:

- Governments from developed and developing countries are prepared to take extreme measures to protect domestic industries against subsidised and dumped imports
- These governments often discard convention, taking trade actions deemed necessary despite attendant legal risks
- By contrast, the South African government's approach is much less active in protecting domestic industries
- Businesses are usually required to initiate trade actions without assistance from government. This is a distracting, costly and lengthy exercise.
- Exporters in contravention of international agreements are often able to delay court actions by taking decisions of the International Trade and Administration Commission on review or appeal, allowing them to continue exports.
- In South Africa, these decisions are adjudicated by normal law courts that do not have the necessary background or experience in the intricacies of trade law. This can discourage pursuance of trade cases by domestic producers. In other jurisdictions, there are often specialised courts to consider these matters.

Import parity pricing

The next best choice is to use Import Parity Pricing (IPP), i.e. the price that an importer would have to pay to bring the commodity into the country. This price would equal the best international steel price available plus transport and associated import costs. This was the model that we adopted up to March 2006, an approach we felt was fair as our relatively low output volumes had little impact on global volumes and therefore market prices. Moreover, there is no import protection of any kind to steel imports into South Africa in sharp contrast to

the overwhelming majority of steel producing countries in the world.

Our current approach to pricing

Our approach to pricing weighs the needs of all our stakeholders: local customers, exporters, the government and the company's owners. We price our steel according to the average international domestic steel prices of a basket of representative developed and developing markets that account for 80% of the world's steel markets. We believe the resultant basket price – as it has come to be called – is both fair and transparent.

While the basket reflects what we believe to be an appropriate price in the South African market, it is necessary to maintain a degree of flexibility in our pricing and deviate from the basket from time to time. For instance, during 2010, prices deviated from this approach as a result of the dispute with Kumba which led to a sudden and sharp escalation in our iron ore costs. In order to protect our operations, we levied a surcharge on customers to offset the sudden volatility in the input costs of iron ore for the three months from May to July 2010. The detail is included in the chapter on Commercial Matters–Supply chain on page 37.

Rebates to support the development of the local steel industry

As part of our commitment to developing the steel industry in South Africa, we provide support for certain industries to facilitate their growth. One example of this is the strategic pricing rebates we offer to certain selected industries:

- Our value-added export scheme subsidises certain operations in the beneficiation and export of steel products. In 2010 a total amount of R270 million was granted to value-added exporters for 215 000 tonnes. This amounted to a 25% rebate on the average domestic steel price. This effectively passes on export parity pricing to these targeted value-adding industries with the intention of helping them to use their dormant production capacity and therefore increase export profitability. This scheme operates in all the downstream industries, but is mainly utilised by the pipe and tube industry and the wire rod industry.
- We also offer strategic rebates to certain sectors to assist in building sustainable steel-related industries. This assistance is aimed at increasing local industry competitiveness against final product imports. For example, we rebate the steel supplied to the fruit and vegetable canning industry, as well as the bolt and nut industry, to enable them to be competitive against subsidised imports.

While the debate has raged about the fairness of the benchmark pricing system, the downstream steel-consuming sectors of the economy have benefited by about R9 billion, being the difference between the import parity price and the benchmark; in effect, the revenue foregone by us.

On top of this benefit, our ongoing rebate system, administered in co-operation with the dti, offers lower priced steel to certain consumers of steel. This rebate assists those companies that add 20% or more value to exported steel products. The total value of this rebate to the downstream sector has been R2 billion over the 5-year period to end December 2009.

Over the same five year period, our calculated benefit of receiving iron ore at cost plus 3% from Sishen comes out at just over R11 billion. Taking into account both the rebate and the lower price we realise for steel sold on the benchmark pricing system, we have effectively passed through the total value of this benefit to the downstream industry over that 5-year period. However, over shorter periods, the benefits passed on to the downstream industry may not match the benefit of the ore supply at the cost plus arrangement. It is important to emphasise that steel pricing has to be viewed over a full cycle – typically 5 to 7 years – as the correlation between raw material prices and steel prices is affected by capacity utilisation and demand levels.

Price controls

On November 25, 2010, the South African cabinet issued a statement stating that it intended restricting the prices linked to the 21.4% Sishen mining rights to us and other steel producers to cost plus 3%. This restriction would be conditional upon a government-determined developmental pricing model that would limit domestic steel prices to no higher than the lowest quartile of global steel prices.

Given the strategic role steel plays in the manufacturing sector, concern about steel prices is understandable. However, a variety of factors need to be taken into account in the consideration of an appropriate level of steel prices in any given market. For example, the sector is highly cyclical and therefore steel companies need to ensure that business decisions are made with long run sustainability in mind. Furthermore, other input costs such as coking coal need to be taken into account. Yet another factor is the need to continually re-invest in plant and equipment to keep pace with technology or market growth or both. Experience from other markets where price controls have been imposed is that this policy approach acts as a disincentive, discouraging further private sector investment and expansion in the affected sector and seriously curbing the ability of the sector to prosper.

Finance report

This report should be read in conjunction with the financial statements presented on pages 116 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. We have adopted all of the new and revised standards, amendments 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 our operations and effective from 1 January 2010.

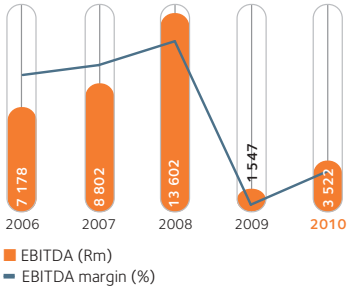
The principal accounting policies and methods of calculation are consistent with those applied in 2009, except for the early adoption of amended standards and interpretations as set out in our accounting policies. The amended statements and interpretations did not have a significant impact on our financial results.

Headline earnings

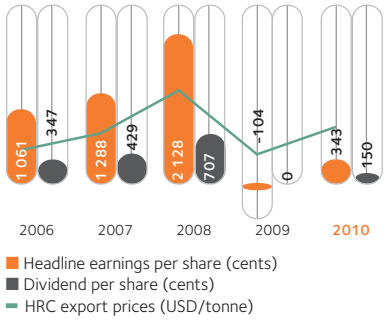
The following table provides a comparable view of our earnings for 2010.

	Year ended 31 December	
	2010 Rm	2009 Rm
Revenue	**30 224**	25 598
Profit from operations	**2 151**	229
Finance and investment income	**71**	202
Finance costs	**(507)**	(1 089)
Income from equity-accounted investments (net of tax)	**122**	206
Impairment reversal		9
Income tax expense	**(492)**	(35)
Profit/(loss) attributable to owners of the company	**1 345**	(478)
Adjusted for:		
Loss on disposal or scrapping of assets	**44**	29
Impairment charge		26
Impairment reversal		(9)
Tax effect	**(12)**	(8)
Headline earnings/(loss)	**1 377**	(440)
Headline earnings/(loss) per share (cents)	**343**	(104)

EBITDA and EBITDA margin



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



Headline earnings of R1 377 million improved significantly compared with the loss of R440 million in 2009.

Revenue increased by 18% to R30 224 million driven by 13% higher sales volumes. Average net realised prices in rand terms increased by 3% despite the rand strengthening by 13% against the USD (R7.34 in 2010 compared with R8.44 in 2009). Domestic sales volumes increased by 11% and exports by 14.90%.

Profit from operations increased from R229 million to R2 151 million due to increased production volumes and inventory movement. The cash cost of steel sales on a rand-per-tonne basis decreased by 2.5% over 2009.

Finance and investment income was down 65% due to lower cash balances following our share buy-back arrangement returning R3 918 million to shareholders in June 2009 and lower interest rates earned on investments.

Finance cost of R507 million includes the foreign exchange losses of R150 million incurred on the revaluation of the US-dollar-denominated cash, receivables and payables, following the strengthening of the rand by 11%. In 2009 the currency strengthened by 21% resulting in a loss of R813 million.

Income from equity-accounted investments decreased by 41% to R122 million, mainly due to the losses incurred by Coal of Africa amounting to R158 million. Income received from the marketing and shipping joint venture, Macsteel International Holdings, increased by 30% to R279 million.

Cost performance

Raw materials and consumable costs increased by 22%. Cash cost per tonne of hot-rolled coil and billets increased by 4% and 5% respectively over 2009. Iron ore costs increased by 44.90% and constituted 17% (2009:13%) of total cost per tonne of crude steel produced for 2010. This increase was the result of the contractual dispute with Sishen Iron Ore Company and the subsequent conclusion of an interim agreement at a higher price than cost plus 3%. Coking coal costs decreased by 20% year-on-year.

Employee costs increased by 12% compared to 2009, the result of a 3% increase in headcount, and an 8% salary and wages increase.

Energy costs increased by 17% compared with 2009. Gas and electricity costs together comprise energy costs. Electricity cost increased by 25% over 2009 due to the increase in the price.

Other operating expenses (hired labour, maintenance and transport) increased by 25% compared with 2009. During 2009, after the 2008 melt-down in the global economy, the hiring of labour and the repair and maintenance costs were closely managed and spent only when critically necessary. In 2010 the increase in production necessitated the increase in labour and expense on repairs and maintenance. The Transnet strike and the unreliability of its service resulted in greater use of more expensive road transport.

Finance report continued

Cash flow

Cash flows are detailed below:

	Year ended 31 December	
	2010 Rm	2009 Rm
Cash profit from operations	**3 766**	1 828
Working capital	**(1 100)**	2 878
Cash generated from operations	**2 666**	4 706
Interest income	**69**	199
Finance costs	**(85)**	(122)
Investment income and dividend from equity-accounted investments	**128**	91
Realised foreign exchange movement	**(58)**	(529)
Income tax	**(653)**	(934)
Dividends	**(602)**	(1 627)
Capital expenditure	**(1 714)**	(914)
Investment in associate	**(120)**	(524)
Repurchase of shares		(3 918)
Repayment of borrowings and finance lease obligations	**(374)**	(157)
Decrease in cash	**(743)**	(3 729)

The cash outflow of R743 million is largely as a result of the investment in working capital requirements of R1 100 million. This was mainly the result of an increase of R1 544 million in inventories as prices of input materials increased, while volumes remained on 2009 levels.

Capital expenditure nearly doubled due to the cut-backs during 2009.

The R120 million investment in associate was mainly for participation in the rights issue of Coal of Africa.

Dividend

An interim dividend of 150 cents per share was declared and paid during 2010. Following the headline loss of R427 million made for the second half, no final dividend was declared.

Share performance

Over a five-year period the share price has increased by an average of 6% per annum compared with the 20% per annum rise of the All Share Index over the same period.

Up until the end of 2008 our share price had performed better that the All Share Index but has underperformed since dispute with SIOC.

Competition Commission matters

The Competition Commission ("the Commission") is formally investigating the following four cases against ArcelorMittal South Africa.

Scrap metal investigation

Arising out of an immunity application from the Commission's 2008 scrap metal industry investigation, it alleges that we contravened of the Competition Act in our dealings with a major scrap supplier, of substantially lessening and/or preventing competition in the scrap market.

Price fixing of flat steel products

Following a complaint, the Commission summoned us to provide it with information regarding an investigation into the allegation that during the period 1 January 2005 to the present time we and another major flat steel producer in South Africa engaged in price fixing.

Tinplate investigation

The Commission alleged that we charged excessive prices for our local tinplate and gave special rebates to large tinplate customers.

Investigation into wire rod, flat products and fencing standards

The Commission is investigating allegations of preferential pricing to a large long-steel-products customer between the period September 2000 and December 2008 and differential pricing strategies for flat and long steel products to customers with respect to transport of the affected products.

We are co-operating fully with the commission in these investigations and have delivered all the requested documentation to the Commission. None of these matters has been referred by the Commission to the Competition Tribunal ("the Tribunal").

Matters that have been referred by the Commission to the Tribunal have been disclosed as contingent liabilities in the notes to the financial statements as fully described on page 193.

The role of steel in our economy

Critical infrastructure

Our steel is used in various projects for our critical infrastructure in South Africa. These include::

- **Transport systems – road, airport and rail systems.**
- **Electricity transmission and distribution systems – power stations and grid.**
- **Telecommunications networks – signal transmission stations.**
- **Water supply and treatment – dams, pipes and purification plants.**
- **Fuel supply systems – piping for liquid, gas and solid fuel transportation.**

The public sector's infrastructure programme will use an estimated 2.5 million tonnes of steel between 2007 and 2015 in these sectors. The list is dominated by Eskom's Medupi and Kusile power stations, followed by the country's rail network and dam building projects.

We believe that most transport-related infrastructure problems will be addressed by 2014 but there will be some demand from Eskom, whose projects are scheduled to run through to 2020. Furthermore, the Department of Water Affairs has announced that its dam building programme will run through to 2015.

Government, through the budget speech of 2011, has announced capital spending of R487.4 billion in the next four years, with Eskom taking the largest allocation of 68.7% (R334.8 billion).

Construction activities, especially large infrastructure developments within the public sector, mining, and manufacturing sectors, has been the key driver of growth in gross fixed investment in the South African economy. Steel is the mainstay of these sectors and hence the steel industry contributes directly to the country's gross domestic product (GDP), tax revenues and foreign exchange earnings. Steel is also the key raw material for the manufacturing and metal fabrication sectors and thus a vital ingredient in many downstream consumer industries such as transport, aviation, housing and packaging. Very few modern constructions do not contain steel as part of their design. Steel is being increasingly viewed as a building material of choice with significant advantages in terms of speed of construction, safety, cost and aesthetic appeal. However, the threat of the industry not achieving its full growth potential remains in the strong rand, development of strong metal alloys and synthetic plastics, which are replacing or being used as substitutes for steel in some sub-sectors of the manufacturing sectors such as vehicles and packaging. Considering that almost 80% of our South African steel output is used in the manufacturing and construction sectors, such developments need to be closely monitored.

Steel is a key resource in the development of the South African economy as its feeds into the gross domestic fixed investment through infrastructure development, which is critical to a balanced and sustainable economic growth.

The other development in the industry is the unique feature that steel poses, that is a recycled product. Due to its magnetic properties, steel packaging can be readily and cost-effectively recovered from the domestic waste stream. Unlike other materials, steel's properties do not deteriorate when it is re-melted. For this reason, every steel plant is a recycling plant and the product always contains recycled steel. Used steel cans are recycled into part of a guard rail, which may one day be recycled into an appliance. Across the world 435 million tonnes of steel products, including used steel cans, appliances, automobiles and construction materials are recycled every year as part of the steel making process. This equates to a worldwide recycling rate of over 50%.

As a group ArcelorMittal is the biggest recycler of scrap steel in the world, and the group works with local and national governments to promote it further. Every year more than 25 million tonnes of products are recovered and recycled, which also saves around 35 million tonnes of CO_2.

The steel industry is a major employer for South Africans and according to the South African Iron and Steel Institute (SAISI), directly employs more than 33 000 employees. We account for over 71% of the country's output and are the market leader in Africa's steel industry.

The company constitutes about 1.3% of South Africa's GDP and has a favourable impact on the country's balance of payment as the cost and quality of the company's steel limits the need to import the product.

South Africa is the 21st largest producer in the world and manufactures about half of Africa's crude steel. According to our latest calculations, primary steel producers in the country have the capacity to produce over 8 million tonnes of finished steel products per year. According to SAISI almost 4.8 million tonnes was sold domestically in 2010.

The steel sector also plays a critical role in skills development. The steel manufacturing process requires a broad set of skills and a continuous programme of upskilling of employees. Maintaining a healthy skills pipeline through training and bursaries is an imperative for companies in the sector. Skills that are being developed by the industry range from project managers and engineers to technicians and artisans. Such training programmes contribute to the broader industrial skills base of the country at a time when the economy is short of skills despite the impact of the financial crisis. At the end of last year we alone had over 3 000 people in our skills development pipeline.

Flat Carbon Steel Products

THE PROCESS →

Produces a wide variety of flat steel products across all its plants. ArcelorMittal is the largest supplier of flat steel products in sub-Saharan Africa.

Slabs are used to make steel strip, normally called hot-rolled coil. After leaving the roughing stand, the slab passes continuously through a series of finishing stands which progressively squeeze the steel to make it thinner. As the steel becomes thinner, it also becomes longer and starts moving faster. Because the single piece of steel will be a whole range of different thicknesses along its length as each section of it passes through a different stand, different parts of the same piece of steel are travelling at different speeds. This requires very close control of the speeds at which each individual stand rolls. The entire process is controlled by computer. Finally the long strip of steel is coiled and allowed to cool.

Hot-rolled strip is a flat product which has been coiled to make storage and handling easier. It is a lot thinner than plate, typically a few millimetres thick, although it can be as thin as one millimetre. Its width can vary from 150 millimetres to nearly two metres. It frequently goes through further stages of processing such as cold rolling and is also used to make pipes.

Long Carbon Steel Products

THE PROCESS →

Produces a range of long products including bar, billets, blooms, hot-finished and cold-drawn seamless tubes, window and fencing profiles, rod and light, medium and heavy sections.

Blooms and billets are used to make long products. After leaving the roughing stand, the piece of steel passes through a succession of stands which do not just reduce the size of the steel, but also change its shape. Long products are so called because they come off the mill as long bars of steel. They are, however, produced in a vast range of different shapes and sizes.

They can have cross-sections shaped like an H or I (called joists, beams and columns), a U (channels) or a T. These types of steel section are used for construction. Bars can have cross-sections the shape of squares, rectangles, circles, hexagons or angles. These bars can also be used for construction, but many types of bar are also used for engineering purposes. Rod is coiled up after use and is used for drawing into wire or for fabricating into products used to reinforce concrete buildings, as are some types of bar. Other types of long product include railway rails and piling. Some long-product mills make unique shapes of steel to a customer's individual specification. These are known as special sections.

Coke and Chemicals

THE PROCESS →

Converts coking-quality coal to coke in the coke ovens. Volatiles are removed and sold as by-products. The remaining pure carbon or coke is used in the blast furnace.

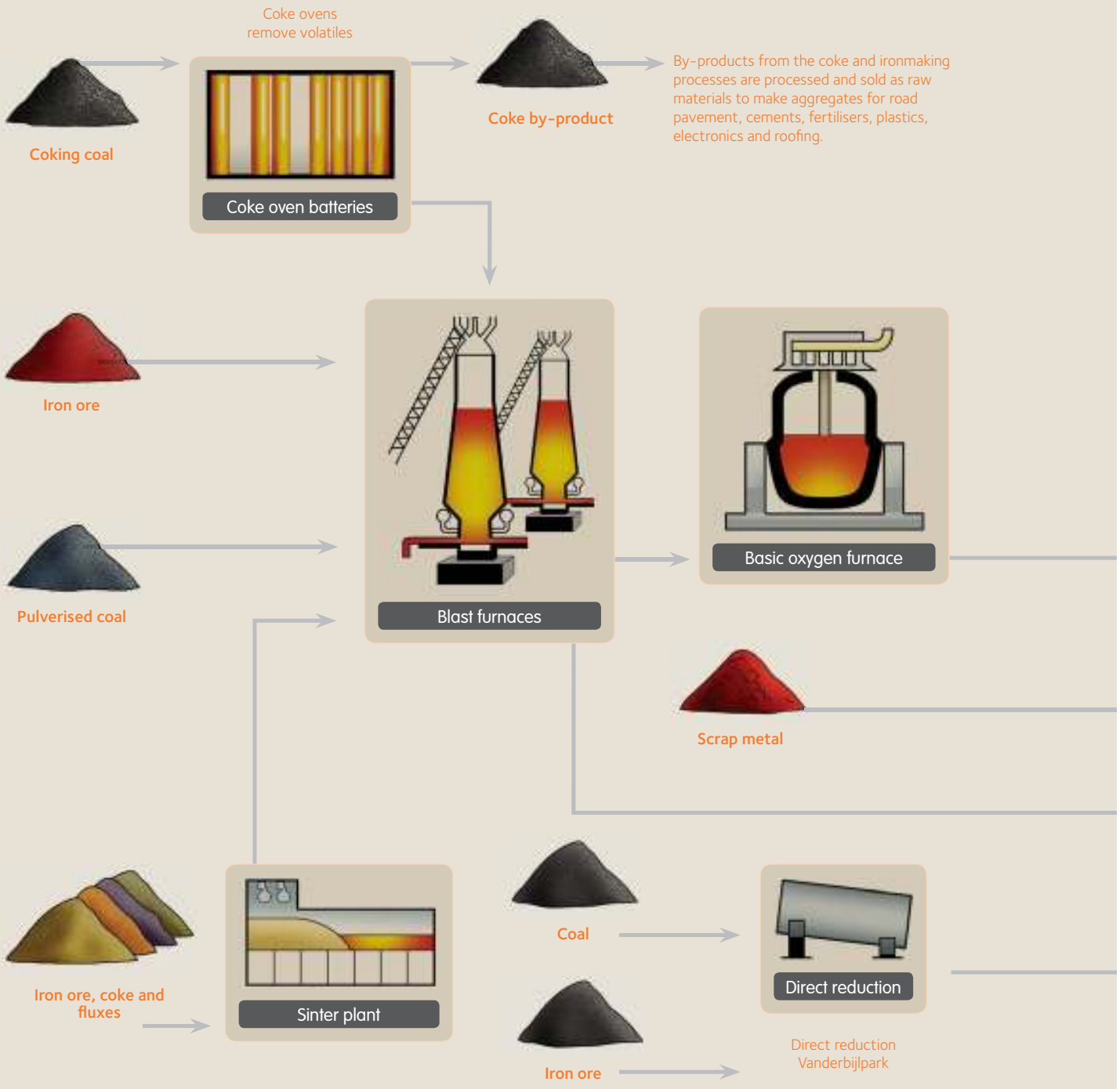
Blast furnace operation demands the highest quality of raw materials, operation and operators.

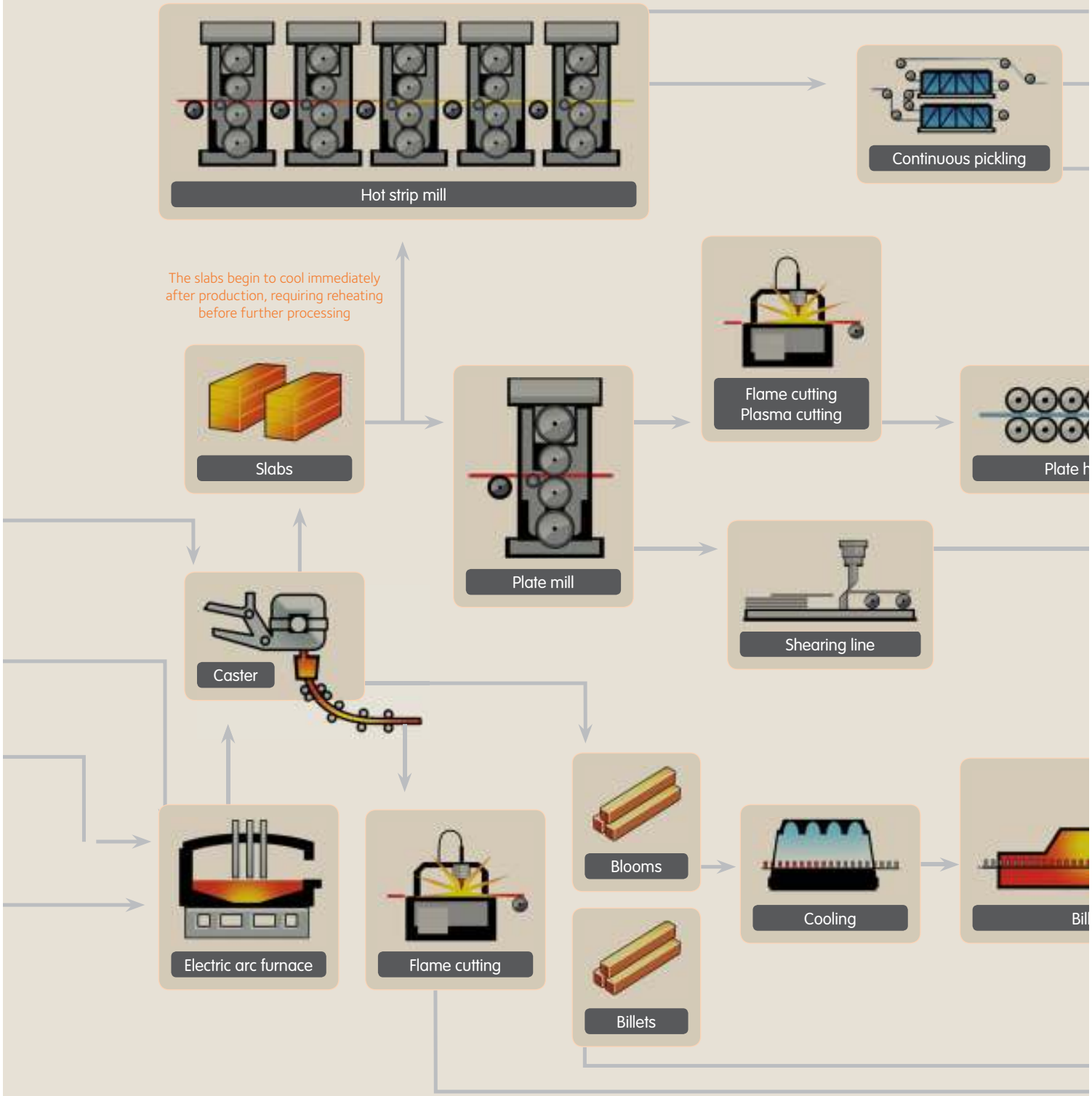
Coke is the most important raw material fed into the blast furnace in terms of its effect on blast furnace operation and hot metal quality.

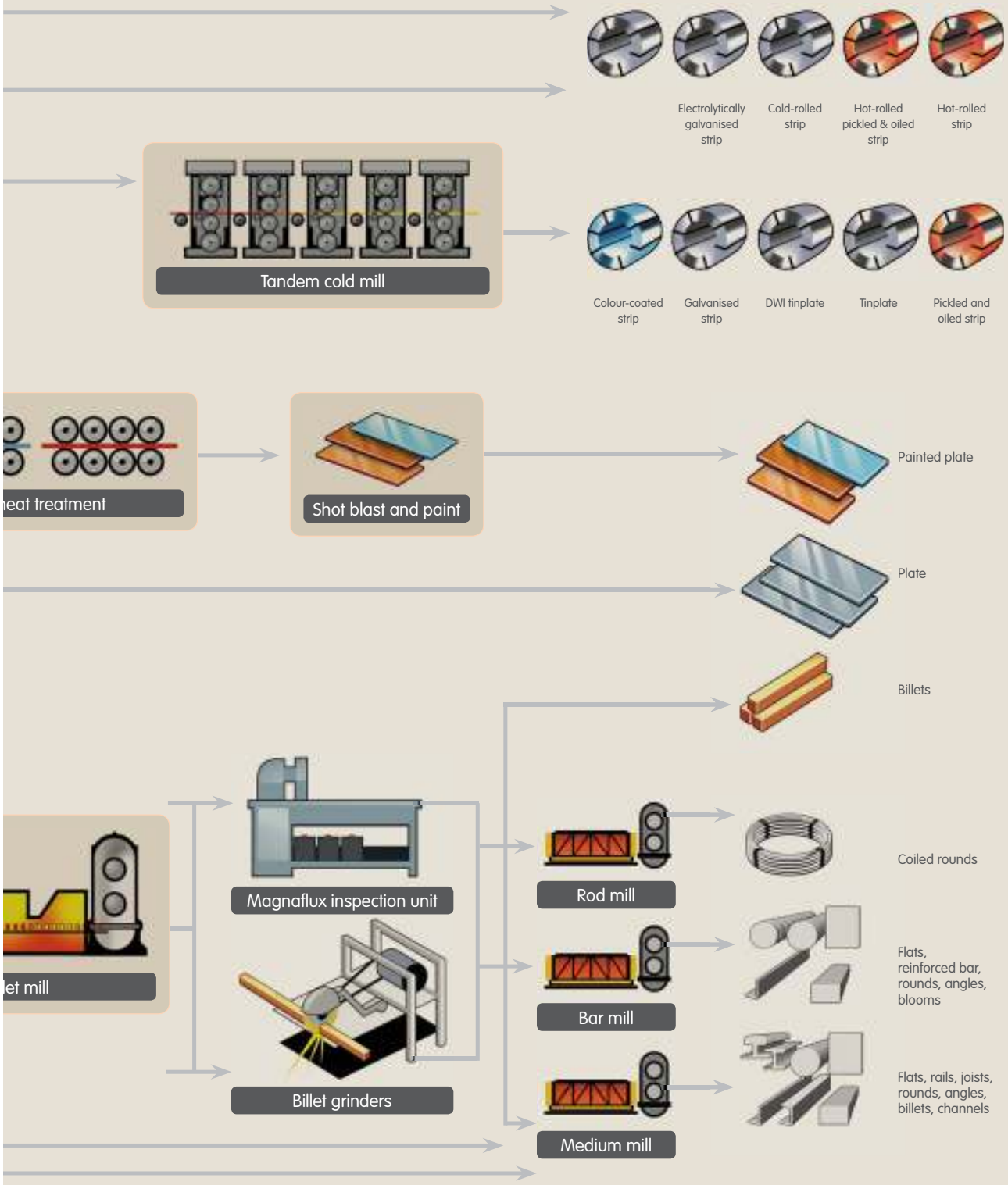
A high-quality coke is able to support a smooth descent of the blast furnace burden with as little degradation as possible while providing the lowest amount of impurities, highest thermal energy, highest metal reduction and optimum permeability for the flow of gaseous and molten products.

Introduction of high-quality coke to a blast furnace will result in lower coke rate, higher productivity and lower hot metal cost.

The steel making process




Hot strip mill
Continuous pickling
The slabs begin to cool immediately after production, requiring reheating before further processing
Slabs
Plate mill
Flame cutting
Plasma cutting
Plate h
Shearing line
Caster
Electric arc furnace
Flame cutting
Blooms
Billets
Cooling
Bil


Electrolytically galvanised strip
Cold-rolled strip
Hot-rolled pickled & oiled strip
Hot-rolled strip
Tandem cold mill
Colour-coated strip
Galvanised strip
DWI tinplate
Tinplate
Pickled and oiled strip
eat treatment
Shot blast and paint
Painted plate
Plate
Billets
Magnaflux inspection unit
Rod mill
Coiled rounds
et mill
Bar mill
Flats, reinforced bar, rounds, angles, blooms
Billet grinders
Medium mill
Flats, rails, joists, rounds, angles, billets, channels

Directing the company responsibly

Governance report

Our board is guided by the four principles of leadership detailed in the King Report on Governance for South Africa 2009 ("King III") – Fairness, Responsibility, Accountability and Transparency. Sustainable development is a cornerstone of how we do business. This helps us retain our focus on our key goal of improving the company's financial viability while ensuring social equity and protecting the environment in which we operate. The board aims to set the ethical tone for our company and to integrate our brand values of sustainability, quality and leadership into everything we do.

This section of the report lays out how we govern our business in the best interests of our stakeholders. In addition to King II, our approach to integrated governance is guided by current legislation, the JSE Limited (JSE) Listings Requirements, the recommendations of King III and the Global Reporting Initiative (GRI) G3 guidelines. In our self-assessment against the GRI G3 requirements we have achieved a B level of compliance for this report.

Fairness

The concept of fairness in all we do guides our action as set out in our code of business conduct and code of ethics. Fairness to:

Shareholders	means delivering on our strategic goal to deliver industry-leading value, thereby justifying their investment decision.
Employees	means building a sustainable business to ensure their future, providing a safe workplace, helping them live healthy lives, offering the opportunity for continual personal development and remunerating them fairly.
Communities in which we operate	means considering our impact on their health and safety and offering upliftment where this is possible through our corporate social investment programmes.
Our environment	means taking responsibility for managing our environmental impact on the earth.
Our customers	means providing a reliable supply of steel at a fair price and of good quality.
Our suppliers	means responsible payment terms, preferential procurement and focused enterprise development.

Code of business conduct

We follow the global ArcelorMittal Group Code of Business Conduct and Anti-corruption Guidelines. Our core values of honesty, integrity and dignity are firmly entrenched in our code of business conduct, listed at the front of this report. The code was designed to help employees understand their ethical and legal obligations in handling the company's business.

All employees are required to undergo training to ensure that they fully understand and comply with the code.

We have 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 Internal Assurance and outcomes of the investigations are communicated to employees.

Code of ethics

The group's Code of Ethics lays down the values against which we judge our conduct. Specific ethical issues (corruption, anti-competitive behaviour, theft and fraud) are reported on in the business ethics section on page 86.

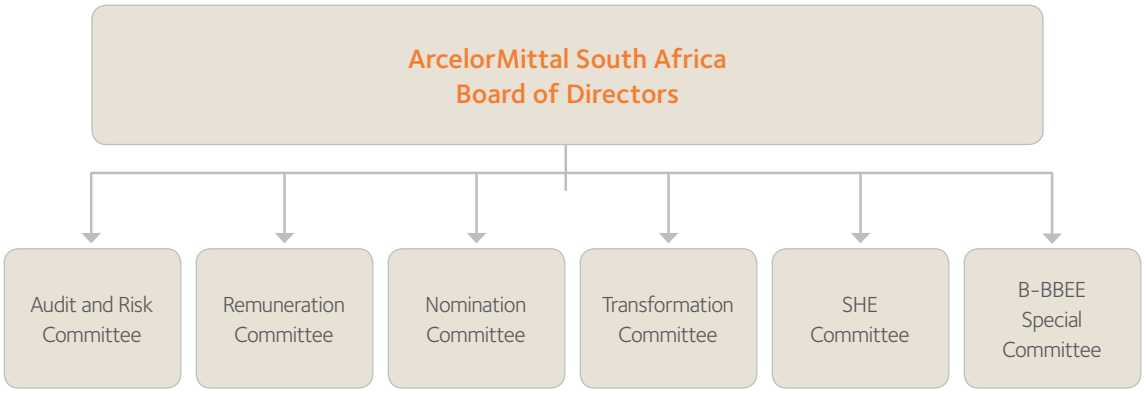
The group Anti-corruption Guidelines establish procedures for managing concerns about possible corrupt practices and provide guidelines on how to fight and prevent corruption.

All senior executives and employees in relevant sections of the business are required to be trained on these guidelines.

Additional issues relating to fairness are detailed in the corporate governance appendix on page 88.

Responsibility

Responsibility for the leadership of the company rests with the board. We believe that the structures and systems we have put in place in respect of the board, its committees and subcommittees give us the necessary control and authority to ensure that we perform in an accountable manner and can stand behind our actions and decisions.



Directing the company responsibly continued

Changes made during the year and plans for the year ahead

The board's governance policies and procedures are continually updated to ensure ongoing adherence to the JSE Listings Requirements, King II and current legislation and the principles and recommendations of King III. During the period under review, the following changes were made:

- The Audit Committee and Risk Committee were combined to form one committee.
- A special B-BBEE Committee was formed.

We will evaluate areas where governance at a corporate and subsidiary level can be strengthened. We are in the process of taking appropriate steps to ensure compliance with the new Companies Act 71 of 2008.

Additional issues relating to responsibility are detailed in the corporate governance appendix on page 89.

Accountability

The board is responsible to its stakeholders and we have implemented risk management, internal control and assurance procedures that guide our actions and provide a sound basis for our business decisions.

Independent Advice

The members of the board and committees may seek advice from independent experts whenever it is considered appropriate. Individual directors may, with the consent of the Chairman, seek independent professional advice at the expense of the company on any matter connected with the discharge of their responsibilities as directors.

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, 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 and Risk 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

Board accountability for risk

Our board is ultimately accountable for risk management and the Audit and Risk Committee as a subcommittee also oversees our risk policies and strategies.

Each functional risk area has a risk officer who reports directly to the general manager of the area. The Manager, Risk and Insurance, attends all high-level risk committee meetings and prepares a consolidated risk management report that is presented to the Audit and Risk Committee and finally to the Board of Directors.

Most significant risk exposures

The most significant strategic risks currently faced by the company are:

- Non-market-related steel pricing controls
- Protracted steel market weakness (domestic and/or international)
- Possible iron ore loss of favourable contract
- Protracted domestic currency strength
- Misalignment of input cost and steel prices
- Major plant failures
- The unreliable state of domestic freight rail service
- Electricity supply
- New domestic steel competition
- Carbon footprint taxes

The most significant contentious and non-quantifiable risks faced by the company are:

- Reputation
- Health, safety and environment
- Employee wellness
- Loss of talent
- Contract management and general compliance

Actions to mitigate the above risks have been assigned, with follow-up progress meetings scheduled.

We have documented business continuity plans in place, which will allow us to continue our activities.

Following an external review, substantial progress has been

made towards the alignment of the Enterprise Risk Management (ERM) methodology and reporting process. The implementation of a risk database will also contribute towards streamlining the alignment and reporting process. In the year ahead we will focus our attention on improving the robustness of the risk management process and a formal internal audit will also be conducted.

Our approach to risk management is discussed further in the risk management section in the Corporate Governance Appendix on page 96.

Annual financial statements and going concern

The board acknowledges its responsibility for ensuring the preparation of the annual financial statements in accordance with International Financial Reporting Standards (IFRS) and the JSE Listings Requirements 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. We place strong emphasis on achieving the highest levels of financial management, accounting and reporting to stakeholders. Our accounting policies and practices also conform to IFRS.

The directors report that, after making enquiries, they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, we continue to adopt the going-concern basis in preparing the annual financial statements.

Transparency with stakeholders

Stakeholder engagement

In line with its commitment to be a responsible corporate citizen, we have put in place procedures to understand the impact of our operations on both internal and external stakeholders.

Our stakeholder engagement matrix maps out the concerns and grievances of the communities in which we operate, sets out action plans to address these, monitors progress towards our goals and identifies the most useful and appropriate engagement platforms for our different stakeholders.

Communication to stakeholders

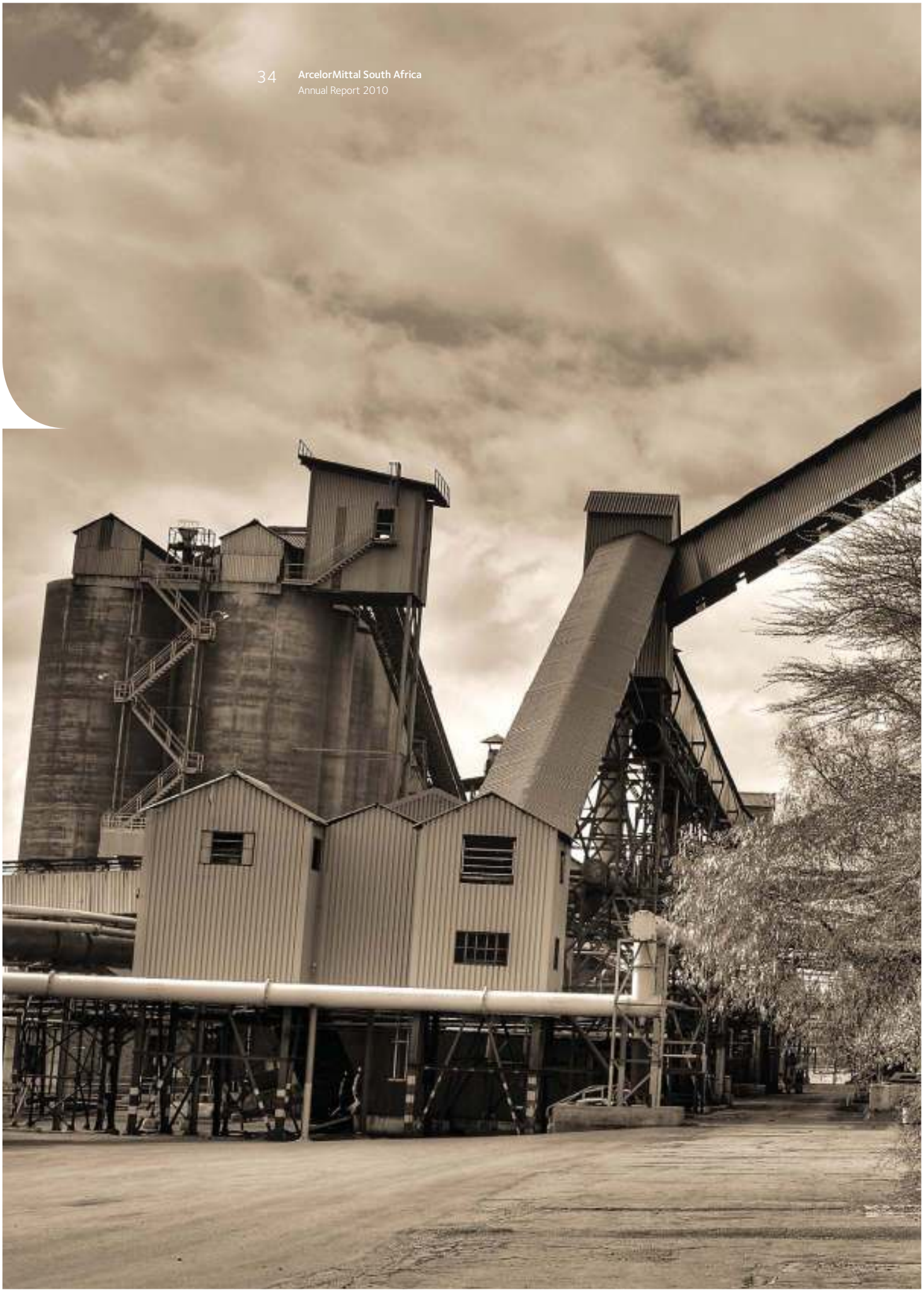
In our communications with our stakeholders, including this integrated report, we aim to set out our successes, our key risks, opportunities and our ongoing challenges in a clear and candid manner.

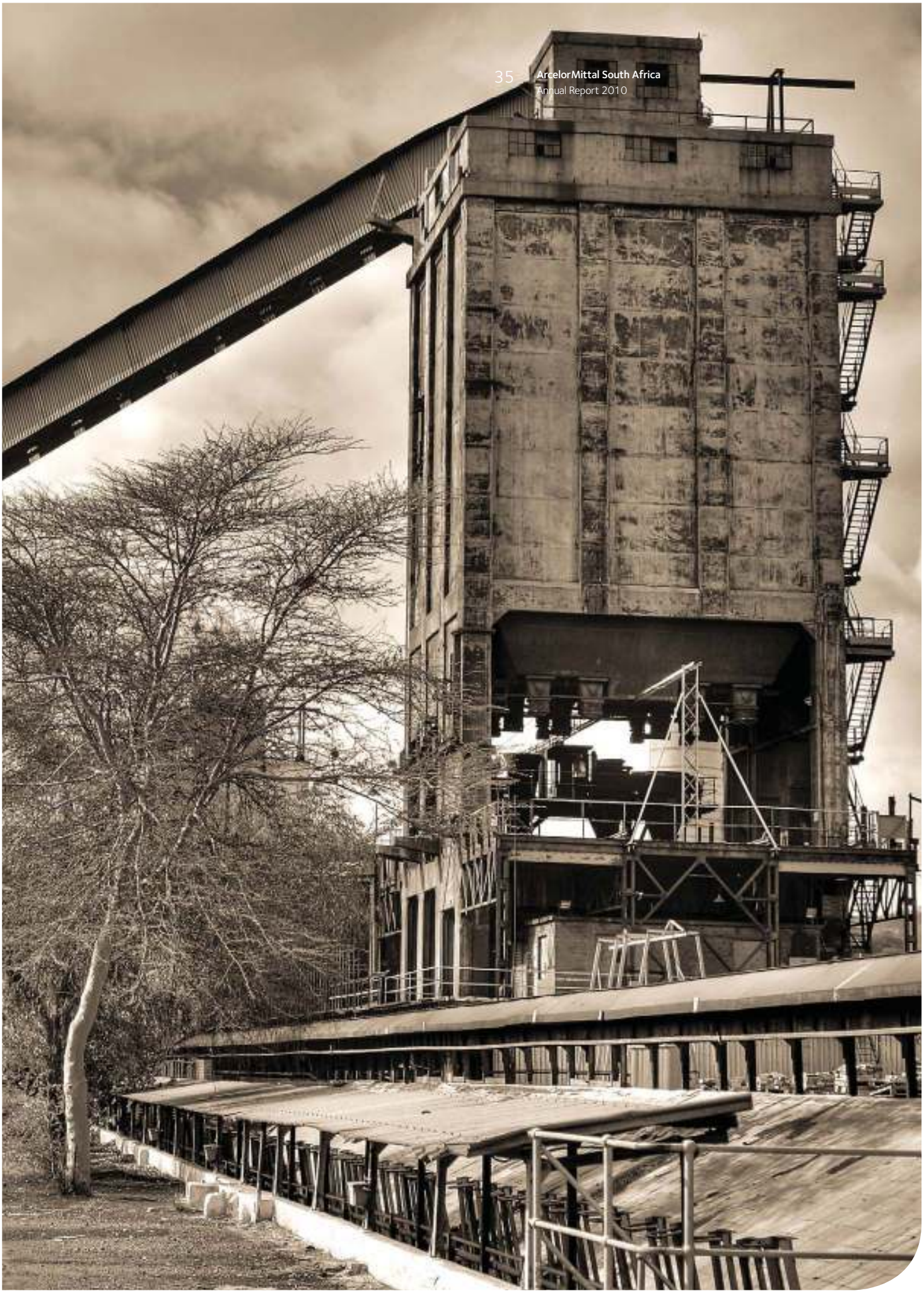
The board ensures that material matters of interest and concern to shareholders and other stakeholders are addressed in the company's public disclosure and communication. In this regard the board ensures that we provide adequate transparency on all pertinent matters. The CEO and CFO meet with shareholders and analysts as well as with the media in order to ensure accurate reporting of company matters. Our engagements with these and other important stakeholders are detailed in the stakeholder engagement section on page 96.

The board further encourages shareholders to attend its annual general meeting, notice of which is contained in this integrated report, where shareholders have the opportunity to put questions to the board and the Chairman of the Audit and Risk Committee.

Our website provides all pertinent company announcements, as well as the latest and historical financial reports. The website is a more complete source of current and previously released public information. We also use the website as a feedback mechanism for our stakeholders at large.

It should be noted that we endeavour to attend to all reasonable information requests, except those that may compromise our business.





Commercial matters

External environment

Steel market

International steel market

According to the World Steel Association, total world steel output was up by 15% to 1.4 billion tonnes in 2010 compared to 2009. The developed world reversed the trend it showed last year, with North America, Japan and the EU recovering strongly in percentage terms, although this was off an extremely low base as compared to the 2008 levels.

In developed markets, the real estate sector remains weak with further recovery likely to be retarded by the phasing out of stimulus packages. China's role as the locomotive of steel demand cannot be overstated as it accounts for nearly 50% of the global steel consumption. Thus the effects of the Chinese government's moves to cool their real estate sector will negatively affect the steel sector and this effect is expected to carry over into 2011. India, with an anticipated growth rate of 9% for the year ahead, is expected to overtake Japan in 2011 to become the third largest user of steel after China and the US. Future growth will therefore come largely from these countries.

We are expecting the global steel market to grow at around 5% in 2011. We expect growth in major developed markets like Europe and North America to be slow, with emerging economies such as Brazil, India and China driving growth in global steel demand.

Local steel market

The South African economy is steadily recovering from the recession of 2008-09 with GDP growing by 2.8% in 2010, driven mainly by a strong recovery in consumer spending and improved export performance. Overall, the South African economy had a tale of two halves. The first half of the year leading into the FIFA Soccer World Cup showed good growth, with GDP peaking at 3.1% in the second quarter but later slowing to 2.6% in the third quarter. However, the economy registered a stronger growth of 4.4% in the fourth quarter of 2010, with the mining and the manufacturing sector attributing strongly to this growth, while the construction sector contribution remained relatively low and growing only by 0.2%. This is a concern for the steel industry, considering that construction sector accounts for almost 60% of the SA steel consumption. The reported results of the listed construction and cement companies have also shown the pressure that construction is currently under. With sustained recovery not expected until 2012, steel demand will remain muted.

Construction activities for the mining sector consumes around 15% of steel output and is clearly another industry undergoing a period of uncertainty, with the stronger rand not helping its cause. Uncertainty around mineral rights and the long-term future of the local mining industry are also discouraging some mining companies from investing heavily in the mining construction projects at their operations.

Almost 25% of the South African steel sales are exposed to the automotive, packaging and residential housing industries, which are dependent on consumer demand. However, despite a strong recovery in consumer spending as compared to last year, this did not translate into higher steel demand in the sector. Cheaper imports, mainly from Asia, coupled with a strong rand, have underpinned local production.

Overall, the strong rand has also affected our earnings for the year, as cheaper steel imports flow into the country and also heavily limiting our export growth potential.

According to the South African Iron and Steel Institute (SAISI) data, real consumption in South Africa increased by 8.9% overall to 4.9 million tonnes in 2010 from 4.5 million tonnes in 2009.

Cautious restocking of inventories continued, but by the end of the year the industry found itself once again with high levels of stock (more than 12 weeks of sales) on hand, 20% above the long-term average. This may well be the result of poor demand in the market affecting the ability of the industry to unwind stock quickly.

We have a significant exposure to the construction industry, which makes up around 55% of our total sales. There are significant question marks around this sector of the economy with several big government projects (Medupi and Kusile) having been delayed. Our forecast growth rate for the local steel industry is dependent on these projects gaining momentum in the coming year.

Foreign exchange rate

Exchange rates are as difficult to forecast as ever and dollar weakness has had a significant effect on our earnings for the year, especially in the third and the fourth quarter. This effect was significant owing to the size of the domestic market, the significant exposure to exports, the realised selling prices and the impact on our dollar-denominated cash and receivables.

Supply chain issues

Long-term financial sustainability depends on a sustainable supply of our key input material – iron ore, coke, coal and electricity – at competitive prices. While we are committed to driving our production costs down to global benchmarks, there remain factors that are beyond our control. Effective strategic planning depends on some degree of predictability in prices so that forecasts are as accurate as possible. While forecasting is never an exact science, we currently face a particularly challenging set of circumstances.

Securing the supply of iron ore and the dispute with Sishen Iron Ore Company (Proprietary) Limited

The dispute over the 2001 Sishen Iron Ore supply agreement between us and Sishen Iron Ore Company (Proprietary) Limited (SIOC), a subsidiary of Kumba Iron Ore Limited (Kumba), remains unresolved. Both us and Kumba are committed to resolve the dispute as soon as possible.

The history of this dispute lies in the decision made 10 years ago to separate Iscor's profitable mining business from its loss-making steel business. This resulted in the mining assets of the company being spun off to become Kumba, with the steel business remaining as Iscor.

Under the 2001 agreement, Iscor received a 21.4% stake in the Sishen Mine for security of supply. Kumba was financially compensated at that time for these rights. We thus held 21.4% of the Sishen mining rights under the old order, but agreed with Kumba each year what its actual off-take would be, at an agreed price of cost plus 3% up to a maximum tonnage of 6.25 million per annum.

On 5 February 2010 Kumba notified us that it was no longer prepared to accept the cost plus 3% payment structure enshrined in the agreement on the basis that, as we did not convert our undivided 21.4% share to a new order mining right, our right

Commercial matters continued

to the supply of iron ore at cost plus 3% had fallen away. We rejected SIOC's notification and asserted that the supply agreement remains valid notwithstanding the mining rights issue, which is now subject to a High Court review.

The parties agreed to a dispute resolution process and agreement was eventually reached whereby SIOC would continue to supply iron ore to us under an interim supply agreement. Arbitrators have been appointed and the hearing is expected to take place in the first half of 2012.

We remain of the firm opinion that the long term supply agreement with SIOC remains valid and binding. We are taking all steps necessary to protect our shareholders in this regard. We intend to vigorously defend our rights in this matter and take all necessary steps to minimise the financial impact on the business.

Interim pricing agreement

On 21 July 2010, following negotiations between Kumba and us, an interim iron ore supply and pricing agreement, effective from 1 March 2010 to 31 July 2011, was concluded. In terms of this agreement:

- iron ore will be supplied to Saldanha Works at a fixed price of USD 50 per tonne free-on-rail (FOR);
- the inland plants will receive iron ore at a fixed price of USD 70 per tonne FOR for both lump and fine material;
- the total volumes to be received on this basis will not exceed 6.25 million tonnes per annum as per the contract; and
- the ratio between lump and fine ore will be set at 73% and 27%.

When the dispute first arose, we imposed a surcharge on its domestic sales to compensate for the iron ore cost increase. In view of the interim agreement, the company, with effect from 1 August 2010, charged a single all-in price, reflecting the higher cost of iron ore. The surcharge was also discontinued

This interim agreement has no bearing on the arbitration process currently under way, nor on our conviction that the existing cost plus 3% supply agreement remains legally valid and binding on the parties.

Financial effects of the dispute

The financial effects of the dispute for the group are significant. Comparing the current interim agreement against the cost plus 3% model, the cost impact for the year under review is R990 million. The production cost for liquid steel produced increased by R240 per ton.

Imperial Crown Trading transaction

On 10 August, 2010, we announced our intention to acquire 100% of the shares of Imperial Crown Trading (ICT) for R800 million. The Department of Minerals and Resources (DMR) has awarded ICT a prospecting right in relation to the 21.4% share of the Sishen mining rights. It was announced in January 2011 that ICT has applied for a mining right in respect of the same portion and this application share and was accepted by the DMR. This transaction to acquire ICT is still subject to the fulfilment of the conditions precedent, including completion of a due-diligence exercise to our satisfaction.

Alternative supply sources

The supply of ore from Thabazimbi will be maintained and alternative methods to upgrade the low-quality

ore are being looked at. This could extend the life of the mine by more than 25 years. However, in order to fulfil additional demand the company has recently reached agreement for the supply of one million tonnes with an option to renew this agreement.

Our strategy is to develop and own mines through acquisitions and greenfield developments. In this regard we have advanced in evaluating several prospects to develop iron ore mines in the Northern Cape and Limpopo. In addition, the company is a 50% shareholder in the Pietersburg Iron Ore Company (Proprietary) Limited with resources outside Makhado in Limpopo. This project is progressing well.

Electricity

We remain concerned about the supply of electricity from both a price and stability perspective. The National Energy Regulator approved Eskom tariff increases of around 25% each year for another two years, which will double our power bill. The tariff increases have accelerated our efforts to make our processes more energy-efficient.

Certainty of supply remains a concern. While supply has stabilised since the electricity blackouts in 2007, the company is still operating under a 90% cap on power consumption from Eskom. While uncertain demand for steel has kept our capacity utilisation low, once production picks up above 80% on a consistent basis this will become a constraint. Supply restrictions are an important agenda item in our regular interactions with Eskom.

These concerns have added to the urgency to improve the energy efficiency of our processes and expand our own power generation capacities. We continue to investigate other projects that could add to our power generation capacity using surplus gases released during the steel making process. These processes have the added advantage of reducing secondary CO_2 emission levels.

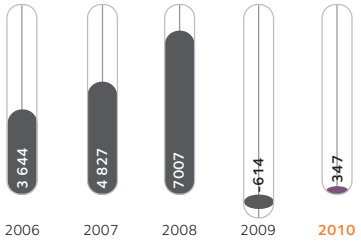
Reliability of rail transport

The performance of Transnet Freight Rail was once again a concern during 2010. We depend almost entirely on the Transnet rail network to supply our facilities with coal and iron ore and to export steel. Industrial action and continuing performance well below acceptable levels have increasingly forced us to resort to road transport for the delivery of iron ore.. Not only is road transport more expensive than rail, it damages public infrastructure, adds to our environmental impact and is less safe than rail. We are continuously seeking to address this underperformance in our dialogue with Transnet Freight Rail management.

Operational review

Flat Carbon Steel Products

**Net operating profit–
Flat Steel Carbon Products (Rm)**



We produce flat steel products at our Vanderbijlpark and Saldanha operations. Vanderbijlpark Works is the largest supplier of flat steel products in sub-Saharan Africa with an annual capacity of 4.4 million tonnes of liquid steel. This is cast into slabs and hot-rolled into heavy plates 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 prepainted sheet. Vanderbijlpark Works meets more than three quarters of South Africa's flat steel product requirements.

Saldanha Works, which produces thin-gauge and ultra-thin-gauge hot-rolled coil for domestic and select export markets, is one of only a few steel mills in the world to have a continuous production chain that does not require coke ovens and blast furnaces. Saldanha Works can produce 1.2 million tonnes of liquid steel per annum giving the group a combined capacity of 5.7 million tonnes for flat steel products.

Markets

	% of total sales	
	2010	2009
Geographical sales distribution		
South Africa	70	73
Rest of Africa	18	16
Asia	12	11
Local market segmentation (%) of total sales		
Building and construction	34	36
Pipe and tube (welded)	24	23
Packaging	17	15
Automotive	14	12
Mining, energy, water, chemicals and gas	4	7
Furniture and appliances	3	3
Machinery and equipment	2	2
Agriculture	1	1
Transportation	1	1

Markets

Domestic

Despatches of flat steel products to the domestic market in 2010 were 12% higher than in 2009. The main reasons for the increase are due to restocking during the first half of 2010 and a 25% jump in household spending on durable goods during the first three quarters of 2010. The ratio of domestic sales to total sales declined from 73% in 2009 to 70% in 2010.

International

Exports of flat products also increased substantially from 27% in 2009 to 30% in 2010. Exports outside the African continent increased marginally from 11% in 2009 to 12% in 2010 emphasising our strategy to remain focused on the African region. Our net realised export prices in US Dollar terms in 2010 were on average 37% higher than in 2009.

The Flat Steel Carbon Products segment posted a R347 million operating profit during the year compared with a loss of R614 million in 2009, due mainly to higher sales volumes and prices. Costs were negatively affected due to higher iron ore and local coal prices. These were partially offset by lower import coking

Operational review continued

Flat steel products are used in consumer-facing industries such as automotive, packaging, building and construction as well as welded pipes and tubes. Flat steel products are produced at our operations in Vanderbijlpark and Saldanha.

coal prices due to the late completion of contractual coking coal commitments at pre-crisis pricing levels in 2009.

Vanderbijlpark Works

Blast Furnace C was stopped in the middle of November to manage the slowdown in steel demand and was subsequently restarted during December following the cold conditions experienced by Blast Furnace D. Blast Furnace D was operating normally by the end of December. The Electric Arc Furnaces were used to balance supply and demand during the year, although low levels of demand meant that they never operated at full capacity.

Vanderbijlpark Works now has a total of six direct reduction iron ore (DRI) kilns, each of which can produce around 500 tonnes per day although fluctuating demand levels meant that not all kilns operated at full capacity during the year. The two new DRI kilns commissioned during quarter three of 2009 were briefly stopped in July for design modifications which improved their performance. These modifications allowed for the power-generating plant to operate at a consistently acceptable level.

In order to continue the focus on continuous cost improvements, a formal process called Business Improvement was launched, drawing on methodologies already well established within ArcelorMittal Group. Quality performance remains a key focus with the launching of breakthrough projects towards the end of the year with significant improvements expected in 2011.

Saldanha Works

During May, the supporting structures around one of the DRI stock holding bins collapsed causing the bin to fall. Although there were no injuries, the incident severely affected the plant's ability to operate, and capacity utilisation was limited to around 80% until end September.

During October the reduction shaft of the Corex plant was stopped for 21 days to repair the bustle refractory after it failed prematurely.

Further improvements at the hot strip mill resulted in a significant increase in the percentage of ultra-thin hot-rolled coil product being produced, further strengthening our position as a world leader in the production of ultra-thin hot-rolled coil.

Capital expenditure

	Year ended 31 December	
	2010 Rm	2009 Rm
Value-adding	284	107
Replacements	687	423
Environmental	176	100
Total	1 147	630

Capital expenditure

Capital expenditure increased to R1 147 million in 2010 from R630 million in 2009. The majority of the funds (R687 million) were allocated to replacement capital, while R284 million was spent on value-adding capital and R176 million on environmental projects.

The sinter off-gas project at Vanderbijlpark Works will be commissioned during quarter one of 2011 at a total cost of R247 million, of which R93 million was spent in 2010. Other expenditure includes the installation of a coke cutter in Vanderbijlpark Works to optimise fuel rate consumption.

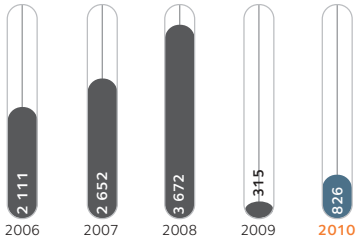
Operational results

	Year ended 31 December	
	2010 Rm	2009 Rm
Revenue (Rm)	**19 434**	16 292
EBITDA (Rm)	**1 442**	381
Net operating income (Rm)	**347**	(614)
Liquid steel production ('000 t)	**3 814**	3 428
Sales volumes ('000 t)	**3 348**	2 858
– Domestic	**2 336**	2 079
– Export	**1 012**	779
Domestic sales (%)	**67**	73
Capital expenditure (Rm)	**1 146**	630
Hot rolled coil export price (USD/t C&F)	**703**	508
Number of employees	**4 926**	5 123
Total HRC production cash cost (Rand per tonne)	**4 045**	4 070
Total HRC production cash cost (USD per tonne)	**551**	482

Operational review continued

Long Carbon Steel Products

**Net operating profit–
Long Steel Carbon Products (Rm)**



The Long Carbon Steel Products segment, comprising the integrated steel works at Newcastle Works and the electric arc furnace route at Vereeniging Works, produces a wide range of long products. These include bars, billets, blooms, hot-finished and cold-drawn seamless tubes, window and fencing profiles, rod and light, medium and heavy sections. The building and construction industry is our biggest market segment, accounting for about half of the sales during the year. Other significant market segments are the mining, automotive, agricultural, engineering, manufacturing and petrochemical industries. The segment's combined annual production output capacity is about 2.3 million tonnes of liquid steel, with Vereeniging Works capable of producing 0.4 million tonnes and Newcastle Works 1.9 million tonnes.

We are committed to meeting domestic sales first but is also a strong competitor in the global market, thanks to its ability to provide high-quality products at competitive prices.

Markets

	% of total sales	
	2010	2009
Geographical sales distribution		
South Africa	**64**	61
Rest of Africa	**25**	30
Asia	**8**	8
Europe	**0**	1
Americas	**3**	0
Local market segmentation (%) of total sales		
Building and construction	**44**	47
Machinery and equipment	**22**	21
Mining, energy, water, chemicals and gas	**19**	18
Automotive	**8**	7
Agriculture	**4**	5
Furniture and appliances	**3**	2

Markets

Domestic

Local sales of long steel products in 2010 increased by 9% due mainly to infrastructure projects aimed at the FIFA Soccer World Cup. Despatches in second half of 2010, however, were 19% down on those of the first half of 2010, indicating a severe slow-down in activities. Contributing factors are the result of contracts not forthcoming from the government notwithstanding the urgent need for infrastructure maintenance and expansion. Only 64% of total long-steel-product sales were dispatched to the local market in comparison with 92% two years ago. Total sales to the African continent accounted for 89% of total shipments, which were in line with those of the previous three years.

International

Export sales of long steel products in 2010 were only 1% lower than in the previous year due to the increase in domestic sales. Shipments outside the African continent, mainly Asia and the Americas, amounted to 11% of total long-steel-product sales, compared with 9% in 2009. Our net realised export prices in US Dollar terms in 2010 were on average 29% higher than in 2009.

Operational review continued

Long steel products are produced at our Newcastle and Vereeniging operations and are used extensively in the infrastructure industry, comprising products such as rebar, rod and wire rod.

The net operating income increased from R315 million to R826 due to higher sales volumes and prices. Costs were negatively affected by higher iron ore and local coal prices, which were also partially offset by lower import coking coal prices as also applicable in the flat steel business.

Production declined by 1% against 2009, of which the cold conditions experienced on Blast Furnace N5 during December was the main contributor.

Newcastle Works

Newcastle Works operated at 82% of capacity in 2010 compared with 87% in 2009. Cold blast furnace conditions affected output in December after very stable operating conditions during the year. Coal and iron ore supply from Transnet Freight Rail was once again erratic due to industrial action and performance issues. Supply had to be supplemented with more expensive road freight deliveries .The downstream units continued their good performance from the previous year and improved production levels.

Vereeniging Works

Vereeniging Works operated at 73% of capacity compared with 55% in 2009. With Newcastle Works being the lower-cost producer, output at Vereeniging Works was cut back as far as possible to maximise low-cost production. Newcastle Works also supplied Vereeniging Works with some of the requirements for its rolling mills.

Capital expenditure

Total capital expenditure increased from R271 to R457 million during 2010. The bulk of the funds spent on capital projects went towards replacement projects (R270 million) and environmental capital (R120 million), while new value-adding capital investments were R67 million.

Capital expenditure

	Year ended 31 December	
	2010 Rm	2009 Rm
Value-adding	**67**	18
Replacements	**270**	105
Environmental	**120**	148
Total	**457**	271

At Newcastle Works the majority of expenditure was spent on maintenance and environmental projects, whereas at Vereeniging Works the majority of expenditure was against safety, environmental and maintenance projects.

Expenditure in 2011 will be focused on environmental, safety and maintenance projects.

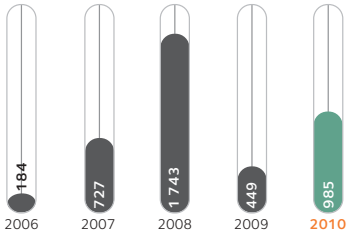
Operational results

	Year ended 31 December	
	2010 Rm	2009 Rm
Revenue (Rm)	**9 769**	8 531
EBITDA (Rm)	**1 090**	591
Net operating income (Rm)	**826**	315
Liquid steel production ('000 t)	**1 860**	1 879
Sales volumes ('000 t)	**1 693**	1 615
– Domestic	**1 078**	993
– Export	**615**	622
Domestic sales (%)	**64**	61
Capital expenditure (Rm)	**457**	271
Average low-carbon wire-rod export price (USD/t C&F)	**698**	510
Number of employees	**2 517**	2 708
Total billet production cash cost (Rand per tonne)	**3 466**	3 293
Total billet production cash cost (USD per tonne)	**472**	390

Operational review continued

Coke and Chemicals

Net operating profit– Coke and Chemicals (Rm)



Our Coke and Chemicals segment produces commercial coke for the ferroalloy industry from coke batteries located in Pretoria and Newcastle Works, as well as from excess capacity at Vanderbijlpark and Newcastle Works when available. We also process and beneficiate metallurgical and steel by-products, including coal tar.

Economic recovery mainly in the ferroalloy industry contributed positively to the performance figures for the year under review. Revenue increased from R1 653 million in 2009 to R2 449 million in 2010, with net operating income increasing from R449 million in 2009 to R985 million in 2010.

Operational results

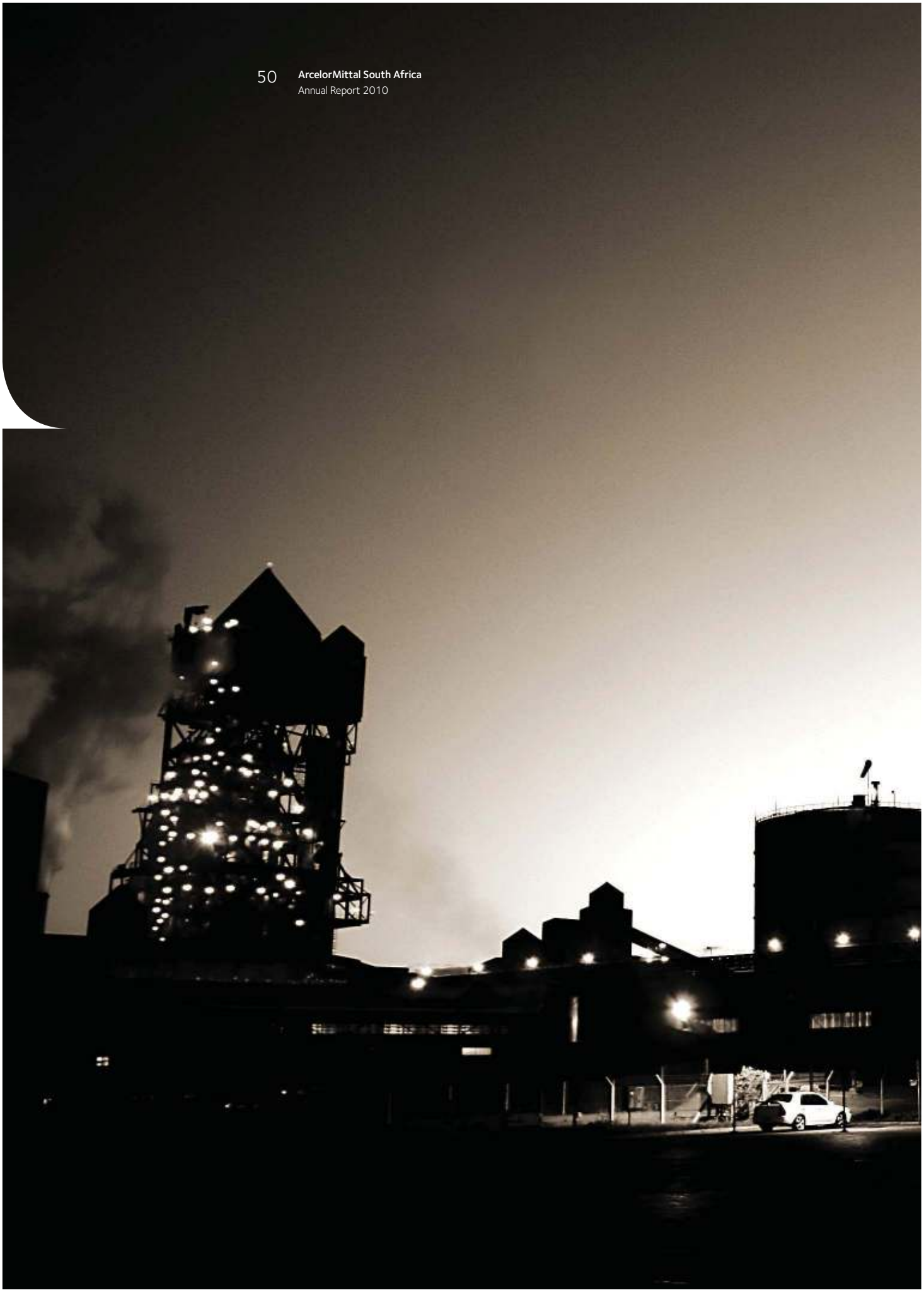
	Year ended 31 December	
	2010	2009
Revenue (Rm)	**2 449**	1 653
EBITDA	**1 029**	556
Net operating income (Rm)	**985**	449
Capital expenditure (Rm)	**29**	9
Sales volumes ('000 t)	**1 642**	1 385
– Coke	**630**	433
– Tar	**125**	111
– Other	**887**	851
Number of employees	**241**	250

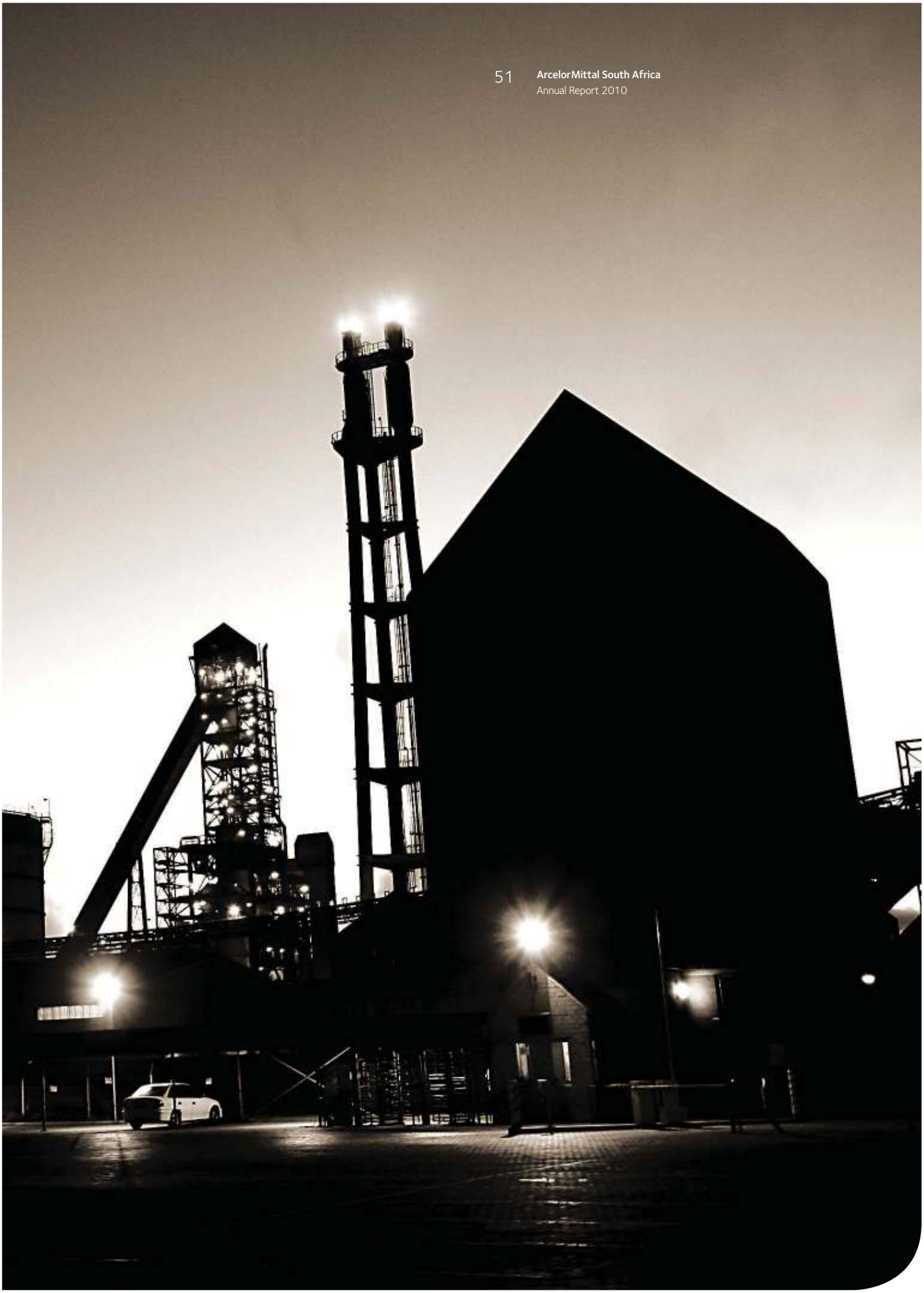
Market conditions

Market conditions for commercial coke were much improved from the depressed situation experienced in 2009, with both demand and prices increasing to reasonable levels. Availability of commercial coke for sale was unfortunately limited by the higher demand for metallurgical coke from our steel making operations.

Capital expenditure

In 2010 Coke and Chemicals spent R29 million. The main focus of the capital expenditure programme was addressing safety, maintenance and environmental projects.





Socio-economic equity

The Department of Trade and Industry (dti) has challenged companies operating in South Africa to contribute to the broad-based empowerment of black people who were disadvantaged under the previous government regime. This brought about significant disparity in wealth, education, ownership and control of the factors of production, as well as general living conditions, such as housing, services and health.

In this section we report on our progress towards the socio-economic transformation of the company and its key stakeholder groups.

Highlights and challenges

We continued an excellent track record in skills development and rolled out further long-term capital-intensive corporate social investment projects.

Our biggest challenges are to improve our employment equity, enterprise development and ownership.

Tackling these challenges is an ongoing priority and one to which we remain fully committed. However, our realistic expectations are that in order for transformation to be sustainable and meaningful, progress must be made incrementally over a long-term period.

Governance of transformation

Transformation forms part of our broader commitment to corporate responsibility, and as such falls under the Corporate Responsibility and External Relations portfolio. It forms an integral part of our engagement with and responsibility towards communities, society, employees, government and other key stakeholders. The portfolio is managed by the Group Manager, Corporate Responsibility and External Relations, who reports to the CEO with oversight by the Transformation Committee, which met twice in 2010.

In meeting our transformation objectives we are guided by an internal transformation policy and transformation targets which are aligned with the dti Codes of Good Practice. Progress against targets is reported internally to the board on a quarterly basis.

Ownership

During the year we announced a B-BBEE deal whereby the Ayigobi Consortium and Esop will acquire a 26% ownership stake in the company.

The B-BBEE transaction will have to be approved by shareholders at a special shareholders meeting once all the conditions precedent to this transaction have been fulfilled.

Management control

Programmes to develop a black leadership pipeline and invest in young up-and-coming managers will further strengthen our sustainability as a new era of leadership comes into force. For more details on these programmes see the chapter on growing a robust skills pipeline on page 62.

Employment equity

Employment equity represents our biggest transformation challenge. A hiring freeze in the previous year prevented us from making any progress, and attrition of black employees during the year under review only served to lower our employment equity numbers further. We remain committed to our transformation journey and continue to invest in developing a culture that is welcoming and accepting of all groups of people. During the year we revived the diversity training placed on hold in 2009 and since 2008 have trained

approximately 4 000 employees. This training is run by an external service provider, the Diversity Institute. It is a highly interactive programme that affords delegates a platform to voice their concerns and thoughts regarding diversity.

Skills development

We are renowned within the ArcelorMittal Group and recognised by peers in the industry as a best-practice organisation for skills development. Some 85% of our skills development pipeline candidates are from historically disadvantaged groups, and all training and skills development programmes favour black candidates.

The highly mechanised nature of our business makes the employment of people with disabilities a challenge, but one we are committed to overcoming. To this end we have embarked on a programme to identify those areas in the business suitable for the employment of people with disabilities, and the future will see a strong drive towards filling such positions.

For more information on skills development initiatives and how these are benefiting historically disadvantaged individuals, refer to the chapter on growing a robust skills pipeline on page 62.

Preferential procurement

We are unable to procure critical services and raw materials such as electricity, coal and rail transport from other vendors and are therefore unable to make improvements in our most significant areas of procurement.

We have therefore concentrated our preferential procurement efforts on other services where it is possible to improve performance. The total spend for the year was R1 391 million of which R940 million was spent on BEE-compliant road transport companies.

Small black-owned companies require additional assistance and support to make it on to our vendor lists and deliver the consistent quality we require. To this end we embarked on a pilot project during the year to identify such smaller suppliers and put them through a four-month programme to improve their quality management systems. Our intention is for these suppliers to achieve SABS quality accreditation. On successful completion of the pilot, we will roll out the programme to other areas and operations.

The logistics department embarked on an initiative to facilitate procurement access for small and micro black-owned businesses, without exposing the company to the risks associated with doing business with start-ups. We appointed a group of experienced transport management team members who will transfer skills to the beneficiaries, negotiate bulk-buying discounts for diesel, tyres, spares and insurance services and provide a centralised workshop for the maintenance and parking of trucks, and sleeping quarters for drivers.

During the year we also signed a memorandum of understanding with Absa Bank to provide support to B-BBEE companies who require financing and preferential payment terms. This will allow them easier access to capital for expansion and the purchasing of equipment, and help them to overcome cash-flow challenges by securing payment seven days after invoicing.

Enterprise development

This represents another significant transformation challenge and will receive more focused attention in the forthcoming period.

Socio-economic equity continued

During the year we also signed a memorandum of understanding with Absa Bank to provide support to B-BBEE companies who require financing and preferential payment terms.

Value-added statement

Direct economic value generated and distributed

	2010 Rm	2009 Rm
1. Direct economic value generated		
Revenue	**30 577**	25 868
2. Economic value distributed		
Operating cost	**24 452**	20 121
Employee wages and benefits	**2 951**	2 640
Payments to providers of capital	**687**	1 749
Payments to government	**263**	1 274
Community investments	**30**	36
3. Economic value retained	**2194**	48

** Please note that 2009 figures have been reclassified to better disclose financial flows for the year.*

Socio-economic development

Impact and engagement

Our business touches the lives of countless people, particularly those living in the communities surrounding our operations. Our social licence to operate depends on having a good working relationship with these communities and this in turn requires that we engage with them regularly, attempt to uncover and respond to their issues and concerns and make an investment in their ongoing sustainability.

We are guided by the group's strategy and standards for stakeholder engagement.

Identifying key communities and their most pressing concerns

During 2009 we conducted an extensive stakeholder mapping exercise to identify key community stakeholder groups: These are:

- **Vanderbijlpark**: Bophelong, Boipatong and Sebokeng
- **Vereeniging:** Sharpeville and Peacehaven
- **Saldanha**: West Coast, Vredenburg, Hopefield, Langebaan, Velddrif and Malmesbury
- **Newcastle:** Blaauwbosch, Madadeni and Osizweni

The stakeholder mapping exercise also uncovered the most pressing issues pertaining to each community. These have been incorporated into a stakeholder map, which informs the programmes and initiatives in which we invest.

The stakeholder map is an ever-evolving document. While running community projects throughout the year, we have the opportunity to engage with community members and their representatives on an ongoing basis. Communities and stakeholder groups can also raise certain issues with the company through various other forums. For example NGOs, GroundWork and Vaal Environmental Justice Alliance staged a protest at Vanderbijlpark Works during our ArcelorMittal Group annual general meeting in Luxembourg and handed over a list of concerns. The issues raised through these various interactions are added to the stakeholder map.

Areas of concern raised in our interactions include:

- Poor state of housing in local communities.
- Infrastructural needs, including clinics, hospitals, schools, crèches and recreational facilities.
- Poor state of the Bophelong Police Station.
- A perceived lack of consultation with communities.
- The need for NGO representatives to provide communities with detailed feedback of interactions with the company.
- HIV/Aids.
- Environmental issues (groundwater pollution, waste disposal, rehabilitation).
- The involvement of communities in waste management projects for social upliftment.

Our approach is to address each of these issues systematically in order of priority. In 2009 we addressed the first three issues on the list, investing R19 million of the R36 million in infrastructure development, renovating the Bophelong Police Station and the Boipatong Community Hall and embarking on a re-roofing project for homes in both communities.

During 2010 we invested R30 million in the completion of the school that was built in Mamelodi, in re-roofing houses in Boipatong and Bophelong, in operations of our science centres in Sebokeng, Saldanha and Newcastle, in building houses with Habitat for Humanity in Orange Farm and other related projects.

Detailed information on projects follow.

Poor state of housing in Boipatong and Bophelong

During the year we continued with the re-roofing project in Bophelong and Boipatong, re-roofing a further 1 800 houses and employing 80 local people. This brings to 2 200 the number of homes re-roofed, providing better shelter to around 9 000 people in these communities. The project is run in partnership with the local Emfuleni Municipality.

In the year ahead we will re-roof the remaining 190 identified houses, before moving on to phase two of the project, which involves the removal and replacement of asbestos roofs in 780 houses. This project has generated a great deal of goodwill and positive relations with these communities.

Provision of recreational facility for the children of Boipatong

The Boipatong community raised the need for a safe recreational area where the community's children can play, and identified land adjacent to the Leeuwspruit river as a potential site for such a facility. However, the spruit is clogged and polluted and could present a health hazard to children. Our project to provide a recreational facility was therefore expanded to include the rehabilitation of the waterway. We have engaged the services of environmental experts to advise and assist us in this regard. There is a partnership between the Sedibeng District Municipality, the Emfuleni Municipality and the company, wherein the district authorities will take responsibility for obtaining the environmental approvals from the relevant authorities for the project. The company will rehabilitate the first 10 hectares of the spruit and will establish a park and a children's play area.

The dilapidated state of KwaMasiza hostel

KwaMasiza is a hostel in Sebokeng formerly owned by the company and sold 10 years ago to a private company. Hostel residents, some of whom are our employees, voiced their concerns at the hostel's severe state of disrepair and asked for assistance. The local municipality, which is owed rates and taxes by the current owners, is currently investigating ways of how best to resolve the matter. They plan to renovate the area and relocate residents into family units. We are working with them on this initiative.

Socio-economic equity continued

Nearly 1 000 houses will be re-roofed during 2011, the majority of which have the hazardous asbestos roofing material.

Occupational health-related illness of former employees

NGOs representing local communities in Vanderbijlpark have raised the issue of former employees with alleged occupational health-related illnesses.

We have invested R1 million and health assessments on 294 individuals have been conducted to determine their state of health and the possibility of any illnesses being related to time spent working at the company. Any cases of occupational-health-related illnesses among former employees will be addressed in accordance with legislation and our obligation to support these people. Other individuals with non-occupational-health-related illnesses will be referred to the relevant professionals within the public health sector to ensure they receive treatment.

Investing in community CSI projects

Around 80% of our CSI budget is dedicated to education projects with a specific focus on maths, science and technology. The other two focus areas are health, with a strong focus on HIV/Aids, and social promotion through infrastructure development and poverty alleviation.

Flagship projects

Our flagship CSI projects include the roll-out of ArcelorMittal Science Centres and the school building project which uses alternative steel construction methods. During the year we launched a new initiative providing greater support to the volunteer efforts of employees and encouraging a culture of giving and volunteerism among our people.

Science centre project

We currently have two working ArcelorMittal Science Centres. They benefit 1 200 learners from 45 different schools in the communities surrounding the Vanderbijlpark Works, and 800 learners from five schools in the Saldanha Bay communities. These learners attend the science centres once a week and receive education in mathematics, life sciences, physical sciences and scientific english.

In 2010 we started work on our third and final science centre, commencing with the renovation of an existing facility in Newcastle. Once complete, this centre will benefit around 800 learners from 20 schools in the area.

The R150 million school building project will result in two more schools being built during 2011 in KwaZulu-Natal and the Eastern Cape.

The science centres have provided an excellent recruitment source for the company's various bursary programmes (see the chapter on growing a robust skills pipeline for more details). In addition to the bursaries awarded by the company, 17 bursaries for engineering-related technician training at the Vaal University of Technology were also awarded.

Amounts spent on the science centres consists of R8 million at Vanderbijlpark Works, R3.3 million for Saldanha Works, and R430 000 for Newcastle Works – a total investment of R11.8 million.

Schools project using steel construction modalities

The construction of the first school, in Mamelodi, was handed over to the Minister of Education in November 2010. Meetse-A-Bophelo Primary School now offers significantly improved facilities for its 1 500 learners. It was built using the latest steel construction technologies and stands as a model for the speed, environmental efficiency and cost-effectiveness of steel construction modalities. We hope this model will be adopted more extensively in South Africa and become recognised for the valuable contribution it can make to solving housing, schooling and other infrastructural challenges. This school won the SA Institute of Steel Construction award for the best community development project in 2010.

We plan to build a further two schools in 2011, Sizwe Primary in Newcastle and another to be determined by the Eastern Cape Department of Education. These schools form part of a R250 million commitment from us to improve education facilities in close partnership with the Department of Education.

Employee social grants project

Many of our employees do volunteer work in the communities in which we operate, and we applaud their efforts in this regard. To provide them with additional support and foster a culture of employees who are in touch with the communities we serve, we have established an employee volunteer fund. This will allow them to apply for grants of between R20 000 and R50 000, which will be channelled to specific projects benefiting local communities.

Habitat for Humanity collaboration

Our relationship with Habitat for Humanity continues to grow with the building of eight houses in 2009 and an additional eight houses in 2010 in Orange Farm. A further 10 houses will be built in Newcastle using Protea steel construction technologies. The Protea technology consists of a steel sandwich panel with polyurethane insulation on both the wall panels and the roof. The house will be built on a raft foundation and the technology allows the wall and roof structure to be erected in three days.

Human Resources management

During the year we lifted the hiring freeze implemented in 2009, resumed payment of increases to salaried employees and successfully negotiated a new one-year Collective Labour Agreement with the trade unions.

The talent, skills and commitment of our people are central to our ongoing success and their importance to the company cannot be overstated.

While 2010 saw an increase in production and a slight easing of pressure, the past two years have nevertheless been challenging for our employees. We have dealt with the concerns of our employees as best we can and maintained open communications throughout in order to respond appropriately to issues as they arise. This, however, remains a work-in-progress.

Highlights and challenges

During the year we lifted the hiring freeze implemented in 2009, resumed payment of increases to salaried employees and successfully negotiated a new one-year Collective Labour Agreement with the trade unions. Diversity training was resumed to create an awareness of the strength of cultural diversity in the workplace in order to promote harmonious relations and establish a culture of mutual respect. Together with one of our sister plants within the ArcelorMittal Group we completed the pilot of the global workforce planning tool, which will be rolled out to all international operations.

Our biggest human resources challenge during the year remained an acute skills shortage and difficultly in sourcing the skills our operations require. In recognition of the importance of employee engagement, we prioritise activities that enhance engagement and improve employee morale as part of day-to-day management. Exposing our key talent to the senior leadership team is a key part of this programme as further detailed on page 61 of this report. We continue to make slow but steady progress in our employment equity efforts.

Table 1: Workforce profile as at 31 December 2010

	Female				Male				
Occupational level	Black	Coloured	Indian	White	Black	Coloured	Indian	White	Total
Top management	1				1		2	6	10
Senior management	10	1		7	13	1	4	106	142
Professionally qualified and experienced specialists and mid-management	39	8	15	133	120	26	48	515	904
Skilled technical academically qualified workers, junior management, supervisors, foremen and superintendents	137	42	9	291	1 774	211	228	2 613	5 305
Semi-skilled and discretionary decision-making	53	20	4	107	1 920	92	46	277	2 519
Unskilled and defined decision-making	7				341			5	353
Grand total	247	71	28	538	4 169	330	328	3 522	9 233

Table 2: Workforce by employment type, contract and region

Area	Blue collar	White collar	Total full-time	Part-time	Total
Coke and Chemicals	173	68	241	3	244
Corporate Office	145	942	1 087	116	1 203
Newcastle Works	1 452	269	1 721	59	1 780
Pretoria Works	27	27	54		54
Saldanha Works	371	163	534	4	538
Tubular Products	148	27	175		175
Vanderbijlpark Works	3 546	846	4 392	222	4 614
Vereeniging Works	520	99	619	6	625
Total	6 382	2 441	8 823	410	9 233

Legislative framework

Externally, our human resources practices are governed by the relevant human rights and labour legislation, including the Labour Relations Act, Basic Conditions of Employment Act (BCEA), Occupational Health and Safety Act and the Bill of Rights in the South African Constitution.

Copies of the BCEA are displayed in all work areas. In our induction programme, employees are familiarised with the company's grievance procedure and the disciplinary code. All such information can also be accessed through the intranet. We are guided by legislation on the minimum notice periods given to employees regarding significant operational changes in the company.

We subscribe to the principles of fair labour practice and non-discrimination. There was no industrial action during the year, nor were there any forced retrenchments.

Employee engagement and representation

The General Manager, Human Resources reports to the CEO and is responsible for all human resources issues. During the year we refined, standardised and centralised policies relating to skills development and training, employment equity, remuneration and human rights in an effort to make our human resources processes more understandable and transparent.

Around 85% of employees belong to one of the two trade unions with collective bargaining rights – the National Union of Metal Workers of South Africa (NUMSA) and Solidarity. During the year we negotiated and signed a recognition agreement wherein the threshold for recognition was redefined. United Association of South Africa (UASA) failed to meet the minimum percentage of employee representation required in accordance with the recognition agreement and consequently is no longer among the unions recognised as collective bargaining agents for our employees. Union representatives

Human Resources management continued

Plans are in place and budgets have been approved to roll out a variety of campaigns to sustain communication and to boost employee morale in the year ahead.

hold seats on various committees, including the Safety, Health and Environment and Employment Equity Committees.

Management meets with union representatives on a monthly basis and senior trade union members are involved in negotiations on wages and conditions of service. The two-year Collective Labour Agreement signed in 2008 lapsed in 2010. In March 2010 we renegotiated a new agreement with unions resulting in a 7.5% salary increase and a housing allowance increase of 10% for the three lowest categories. The overall cost impact of this agreement was 7.8%

We recognise the importance of maintaining open and transparent dialogue with employees, particularly during difficult periods, and we continue to engage with employees through various structures and forums. Personal growth is a strong motivator for most people, especially for our professional staff. This factor – combined with the shortage of skills in the country – was the prime reason we maintained our skills development and training programme through the economic crisis period and continue to invest substantial sums in this area.

Identifying employee concerns

Information obtained through engagement surveys, and our performance on critical human resources indicators, have highlighted the following material human resources issues:

- Employee morale
- Attracting external talent
- Employment equity
- Remuneration

Attracting external talent is dealt with in the section 'Growing a robust skills pipeline', while employment equity is dealt with in the section 'Socio-economic equity'. The rest are dealt with below, as well as the aspect of career development.

Employee morale

The negative effects of the economic downturn, cost cutting, tightening of budgets, unfavourable press coverage and government's open criticism of the company's pricing structure have led to uncertainty among employees and a drop in employee morale.

We are aware of the negative impact of these issues on our people and taken active steps to boost employee morale, starting with clear and regular communication. Plans are in place and budgets have been approved to roll out a variety of campaigns to sustain such activities. In particular, our senior managers have been encouraged to respond to employee concerns at local level.

The global company carries out biannual group-wide climate surveys, testing employee views on the state of the company. Specific action plans are drawn up after a group-wide communication process.

Specific interventions to address issues around recognition and reward (including non-monetary recognition) and career development raised in the employee survey, are dealt with below.

We have reintroduced an employee recognition programme as part of our short-term reward strategy alongside the annual individual and business performance review cycles. This new programme will ensure that we acknowledge and reward employees' outstanding performance that contributes to superior business results. The programme will reward employees through monetary and non-monetary awards across all levels in the organisation. The programme is an integral part of our employee value proposition and forms part of our total rewards and benefits philosophy.

Remuneration

Remuneration was raised as one of the most significant areas for improvement in the last employee survey. We recognise that competitive, market–related salaries are crucial to attracting and retaining the best people. We conduct two external remuneration surveys per annum in order to analyse the competitiveness of our salary scales against market benchmarks. This process informs our total rewards framework leading to specific interventions.

During the year, we conducted an analysis of the effectiveness of our total reward model (share scheme and other benefits), and the impact of our internal parity policy. We expect to complete this exercise in early 2011 and effect indicated changes during the course of the year..

During 2010 we paid average annual increases of 8% to non-bargaining category employees and 7.5% to bargaining units.

Personal career development

We strongly believe that part of developing a robust skills pipeline lies in providing existing employees with career development opportunities, and we have implemented various platforms to facilitate this process. All employees receive regular performance and career development reviews. An internal competency mapping system currently allows us to see at a glance which courses individual employees in the bargaining unit need to attend, while non-bargaining employees have specific developmental requirements which are raised at their performance management discussions. This information is currently being consolidated into a single system that will highlight which training programmes each employee needs to attend. We are also in the process of compiling a training life-book that will be included in employee induction packs, mapping out the various career paths open to them in the company and outlining the courses required to achieve certain career goals.

Human rights

We do not have operations in regions where the abuse of human rights is a risk. The ArcelorMittal Group launched the human rights policy to all employees along with the other human resources policies that were refined during the year.

Growing a robust skills pipeline

During the year we expanded the scope of many of the programmes designed to develop our engineering and technical skills pipeline, and increased the number of bursaries and learnerships in many areas.

We recognise the importance of skills development in feeding and nurturing a robust skills pipeline that will sustain our human resources requirements into the future. Our spend on training this year nearly doubled to R172.6 million. This commitment covers a variety of responses to the challenges we face.

Challenges

Lack of engineering and technical skills

Our business relies heavily on engineering and technical skills, both of which are in short supply, not only in South Africa. The skills shortage is made more acute by the need to effect real transformation and an additional effort to be made to develop scarce skills from previously disadvantaged individuals.

Ageing workforce

Internal analysis also reveals that our production workforce is an ageing one. We estimate that around 1 000 of these highly experienced employees will retire within the next two years. While it is possible to recruit and train employees to replace those lost, the nature of production work requires new recruits to gain hands-on experience. The transfer of skills from the old to the new workforce will prove critical in this regard. Programmes were developed to ensure effective transfer of skills which includes a robust talent identification and succession-planning process. A two-year production learner programme was implemented not only to staff the four-team shift system, but to ensure a steady supply of labour as well as skills transfer.

Inadequate or misaligned national education pipeline

Sources of skills are by and large inadequate or misaligned to the needs of our industry. Tertiary education institutions are not producing enough graduates to meet the country's demand, forcing companies to compete aggressively for skilled engineers and technicians. We therefore have to meet our needs for skills with innovative programmes in partnership with learning institutions. By responding to these challenges, we are growing a robust skills pipeline for our current and future needs.

Highlights and challenges

Skills development remains one of our key areas of strength. During the year we expanded the scope of many of the programmes designed to develop our engineering and technical skills pipeline, and increased the number of bursaries and learnerships in many areas. 86% of our pipeline candidates are drawn from historically disadvantaged groups.

Attracting and retaining the best people

We have improved our recruiting process for engineering and technical skills and developed a new employee induction programme. We continue to invest in the training and development of our people, providing them with opportunities to grow and develop promising career paths in our organisation. We plan to leverage our position as part of a global group to provide young talent with the opportunity to travel to operations overseas and gain international experience.

Skills development

Managing skills development

The Manager, Training, reporting to the General Manager, Human Resources, is responsible for skills development, which is managed through the training and pipeline centre of excellence (CoE). A training and skills development committee ensures that all stakeholders

are engaged on issues of skills development and training. Comprising line management, training CoE representatives, human resources consultants and trade union members, meets once a month to review skills development needs, performance and ongoing strategy. We are guided by an internal training and skills development policy, and comply with the requirements of the Skills Development Act. The dti Codes of Good Practice on Skills Development further inform our skills development strategy, particularly as it relates to transformation of the workplace.

Meeting our skills requirements is the responsibility of the training and pipeline CoE, assisted by the talent management and organisation development CoE, the organisational management and remuneration CoE and the transformation committee. An annual company skills audit, together with training needs analysis, highlights where the critical skills gaps lie. A workforce analysis helps to identify our long-term skills pipeline and succession planning needs. The results of these assessments inform a comprehensive workplace skills plan.

Black engineers – our most pressing need

Training and skills development cannot be separated from the workplace transformation agenda, and any programme to attract and develop skilled people must be aligned with employment equity and black skills development needs (see section 'Socio-economic equity').

Initiatives to address skills challenges

Our response to the skills development challenge is two-pronged. Internal initiatives help to develop and train our own people while external projects focus on growing, developing and attracting critical skills from within the current and future market. Programmes include the following:

Bursaries

- *University bursaries:* there are currently 100 bursars on our university bursary programme spread over the four years at university, all of whom are studying towards qualifications in the engineering field. At the beginning of the year, 25 bursars enrolled at various universities and we awarded 26 new bursaries for students embarking on degrees in 2011. Around 56% of our bursars are from historically disadvantaged groups. We did not, however, manage to fill all bursary positions due to a lack of suitable candidates. In the year ahead we plan to recruit bursars from among deserving black students who are already enrolled in engineering degrees.
- *Technician bursaries:* our technician training approach reverted to the old model that alternates six-month tranches of technical college and on-site training. With the help of CSI funding we managed to add 22 bursars, identified through the ArcelorMittal science centres, to the 24 whom we had already funded for the year. We have awarded 80 technician bursaries for 2011 to meet our growing demand for these skills.
- *Apprentices:* we dropped our intake of apprentices slightly from 512 in 2009 to 419 this year, in order to be able to increase the number of production learners (see below). These trainees will undergo our accelerated artisan training programme, which provides six months of institutional training complemented by 12 months on-site mentored practical training to ensure artisans are

Growing a robust skills pipeline continued

We are currently funding 22 bursaries, identified through the ArcelorMittal Science centres.

both qualified and competent. A total of 168 artisans completed the programme during the year, of which 90% come from historically disadvantaged groups.

- *Production learners:* we doubled the number of production learners during the year to 421, adding these to the 1 400 learners brought in for implementation of the fourth-team shift system. These learners will provide a critical production skills pipeline to fill the gap which will be caused by the attrition of current production employees who are retiring.

Internal programmes to develop technical skills

- *Internship programme:* this two-year programme employs university graduates with BCom/BA degrees (GITs), graduates with engineering degrees and engineering diplomas to provide them with hands-on work experience before they are absorbed into the company full-time. Six new GITs were employed this year, with a further 15 starting in 2011. Of these 21 GITs, 19 are black. The engineering graduates come through our university supported programmes which we sponsor with 43 graduates with engineering degrees and 28 with engineering diplomas in our pipeline during 2010.
- *Artisan-to-technician conversion programme:* this programme, run in partnership with the Vaal University of Technology, currently has 85 artisans in the pipeline who are converting their qualifications to those of technicians. We are looking to use 'virtual classroom' learning in 2011 to accommodate production employees from Saldanha Works wishing to do a similar conversion.
- *Virtual classroom:* the virtual classroom at Newcastle Works continues to deliver outstanding results, with artisan-to-technician conversion students achieving pass rates of between 90% and 100%. September saw the first 'live' international transmission with the ArcelorMittal University in Luxembourg, an exciting development that will allow more of our employees to benefit from the university's training at a fraction of the cost.

External programmes to improve the quality of skills from schools, colleges and universities

- *Teacher-in-service Programme:* we continue to volunteer our services to the Teacher-in-service Programme, run by the International Institute for Electrical and Electronic Engineers. This programme helps school educators make the link between the maths and science principles taught in the classroom and their practical application in the field of engineering.
- *School career guidance:* plans are in place for the development of a career guidance DVD that will showcase the various career options in the engineering field to secondary-school learners. We plan to distribute this DVD to schools, career expos and at our science centres.
- *University and further education and training (FET) college industry partnerships:* we continue to work closely with universities and FET colleges, advising them on how to align their curricula with the real needs of industry. We are investigating the possibility of an exchange programme with FET colleges, whereby we will host their lecturers at our plants on six-month sabbatical programmes to provide them with further hands-on insight into the industry. In turn, our employees will get

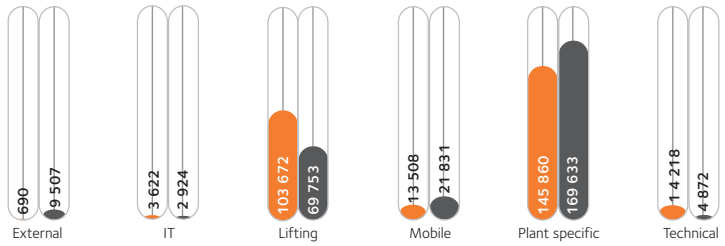
the opportunity to lecture certain courses, offering students the industry perspective. In future we would like to increase funding for research at universities, particularly for our bursars, into projects that would benefit our business.

Management leadership development

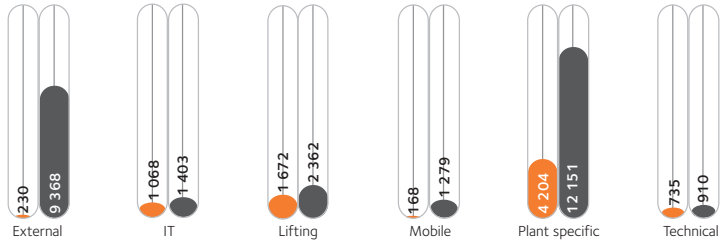
The ArcelorMittal Group has identified eight core competencies that every manager should possess. For succession-planning purposes it is critical that managers are equipped not only with technical knowledge but with the skills to manage people, identify business opportunities, forecast potential risks and lead the organisation to a profitable future.

In response, we have completed a system to map out all higher-level positions detailing what kinds of management and leadership training will be required for each role. Such courses will be added to our existing suite of international executive training, MBA and external management development programmes on which we currently send managers. A number of ArcelorMittal University courses were successfully presented for middle and senior managers during this year aiming at improving leadership and management skills. Specific international leadership development training at Kellogg University was completed for identified senior executives.

Hours of training for barganing category employees



Hours of training for package category employees



Safety, health and wellness

In our plans to achieve a future where all health and safety incidents are eliminated, entrenchment of fatality prevention standards and learning from incidents at other sites have been identified as key elements.

Management of health and safety

Nothing is more important than the health, safety and wellbeing of our employees and contractors. The nature of our business involves a diverse array of potentially dangerous situations. We have and continue to invest time and resources to changing mindsets, behaviours and eliminating conditions that may lead to fatalities, injuries or adversely impact our employees, contractors and the communities we operate in. We have identified our four critical focus areas: a continued focus on fundamentals; the necessity for a culture that identifies and eliminates unsafe acts and conditions before they lead to incidents; a culture of openness; and a culture of operational discipline.

Focus on fundamentals

In our plans to achieve a future where all health and safety incidents are eliminated, entrenchment of fatality prevention standards and learning from incidents at other sites have been identified as key elements. A number of key projects that will enable us to reach our goal of zero incidents have been identified and are currently at varying stages of completion.

Culture of anticipation

Significant safety improvements are predicated on the early identification and rectification of unsafe behaviours and conditions. We have placed emphasis on shop floor audits (which are face to face leadership interventions with employees and contractors), auditing our plants to ensure that their general conditions do not pose undue health and safety risks, increased our emphasis on contractor management and supervision, and sought to inject a greater element of interactivity into our training. Adverse findings from all these various elements are analysed to determine the potential worst outcome and these identified risks are then rectified.

Culture of openness

One of the biggest challenges facing us is creating a culture where everyone feels responsible for the safety and wellbeing of other employees and contractors, and where they believe they are empowered to act accordingly. In order to generate such a culture the right processes need to be in place. Firstly, visual leadership is required – leadership that ensures that all our employees understand that they have an important role in achieving our health and safety goals. Secondly, we have to continue building health and safety into our daily routines. Health and safety must be top of our agendas in all our meetings.

General managers hold safety site meetings attended by employees, contractors and union representatives every month (OHSACT requires meetings at least every three months).

Safety meetings are also held at the beginning of each shift and all new employees receive mandatory safety training as part of induction.

Health and safety is a key topic covered by formal agreements with trade unions, and general managers hold bi-monthly meetings with trade union representatives. In the past, trade unions have filled the single seat on the board's Safety, Health and Environment (SHE) committee on an annual rotational basis. However, following requests made by trade unions during the year, we agreed to grant both trade union representatives a permanent seat on this committee.

Celebrating and recognising safety successes is a necessity for creating a culture of openness. Until recently we have tended to focus more on

the disciplinary aspects of health and safety. We have revised a reward system to better balance the need for disciplinary actions with the need for affirming and rewarding safe behaviour.

Operational discipline

Operational discipline starts with ensuring that standards and procedures have been developed and that adequate management systems are in place. Thereafter the standards and procedures must be aligned with local legislation and ArcelorMittal Group requirements. It is imperative that practices are consistent with procedures. For example, one of our key requirements is that no task may be commenced without hazards being identified and the risks of that job being assessed. On the whole this is adhered to, but occasionally lapses do occur and these are dealt with when discovered.

Initiatives for improvement

The loss of five lives in 2009 served to strengthen our resolve to achieve our goal of zero injuries and fatalities. During the year we implemented stricter controls, greater leadership involvement at all levels on issues of safety and an intensified focus on entrenching safety standards.

We significantly increased safety training. Some R10 million was invested in general safety and health-related training. This amounted to 113 different courses, 27 awareness interventions, over 33 000 training inventions comprising approximately 133 000 hours. This compares with R6.5 million invested in health and safety training in the previous year.

Health and safety

The global ArcelorMittal Group has set itself a goal of becoming the safest steel and mining company in the world, and although much remains to be done before we achieve this ambition, our focus on continuous health and safety improvement has helped us progress in the right direction.

Safety highlights and challenges

We are extremely proud of having finished the year on zero fatalities and well within target for Lost Time Injury Frequency Rate (LTIFR), our key safety indicator. We stepped up health and safety training dramatically, particularly relating to the Fatality Prevention Standards. In spite of these significant gains, however, much still remains to be done. We have also put measures in place to improve our emergency response plans.

Regrettably, one fatality at our Vanderbijlpark Works occurred in February 2011. The root causes of this crushing accident are still under investigation.

Fatality prevention standards

The entrenchment of the group's ten fatality prevention standards (FPS) remains central to improving our safety performance. These standards are:

- Contractor management
- Cranes and lifting
- Isolation and lock-outs
- Vehicles and driving
- Working with gas and in confined spaces
- Rail safety
- Working at heights
- Shop floor audits
- Emergency preparedness
- Incident investigation

FPS champions conducted cross-site audits to test compliance and benchmark each site against the FPS. The audit team also tested compliance against the Permit to Work standards. Audit results have informed remediation plans on each of the safety standards investigated, to help us achieve our goal for full compliance with FPS compliance at Level 3.

Contractor management

Contractors continue to be included in all health and safety engagement, training, measurement and reporting. They are subject to the same health and safety standards as our own employees. All contractors must comply with OSHAS 18001.

Improving our emergency response plans

We continued to implement Vanderbijlpark Works' emergency response improvement programme throughout the company, following the benchmarking and gap analysis exercise conducted with ArcelorMittal's Gent plant which embodies best practice in this area.

Safety, health and wellness continued

This represents a significant improvement from the previous year's LTIFR of 2.6 and exceeds our goal of attaining an LTIFR of 1.9.

Working from recommendations arising out of the exercise, we have:

- constructed a dedicated crisis centre;
- appointed a crisis team and team leader;
- identified at least two assembly points per area and, where possible, three;
- drawn up maps depicting these assembly points for display in each area; and
- drawn up the duties and responsibilities of the medical station.

Journey to Zero

The global Journey to Zero (JTZ) programme, which engages all employees to work towards the common goals of zero fatalities and virtual elimination of lost time injuries, continues to be rolled out across the company. It is supported in large part by our other initiatives to improve safety performance.

As at the end of December 2010, 22 of 55 JTZ projects were reported as complete. JTZ assessments are scheduled for the first quarter of 2011 to verify roll-out and/or implementation actions. During the assessment sessions good practices will be identified for roll-out amongst the plants.

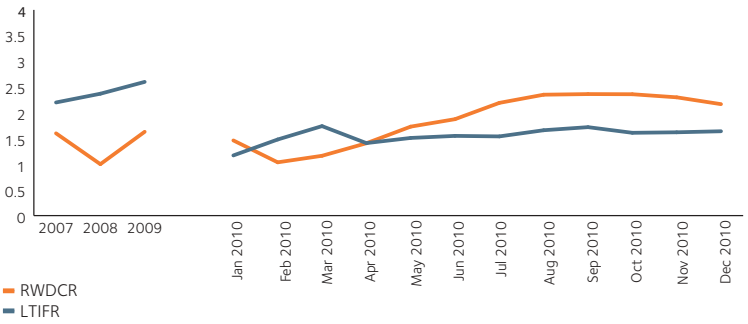
Reviewing our performance against key safety indicators

Lost time injury frequency rate

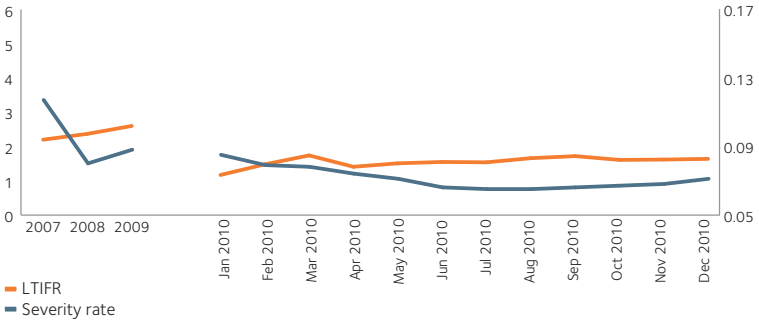
We are extremely pleased to report that our efforts to secure the safety of our employees are paying off. We finished 2010 with no fatalities for the first time in over 30 years. Our key safety indicator, Lost Time Injury Frequency Rate (LTIFR), was 1.61 injuries per million man-hours worked for the year, a record for us. This represents a significant improvement from the previous year's LTIFR of 2.6 and exceeds our goal of attaining an LTIFR of 1.9. Vanderbijlpark Works produced their best ever safety performance of 1.45 and Newcastle Works nearly equalled their 2007 record of 1.25 with an LTIFR of 1.26 for the year. Safety also improved at our other operations. Pretoria Works contractors worked for more than 2 050 days without a lost time injury and over 1 000 days without a recordable injury. Saldanha, Vereeniging, Vanderbijlpark and Newcastle Works all managed more than one million man-hours without a lost time injury.

Maintaining this improvement will require ongoing vigilance. Our focus on the process safety management programme will mean increasing safety leadership visibility, maintaining the discipline required to conduct in-depth investigations and ensure corrective measures are implemented and increasing shared vigilant supervision. We will continue to improve the training we offer all employees and contractors and ensure all incidents are reported.

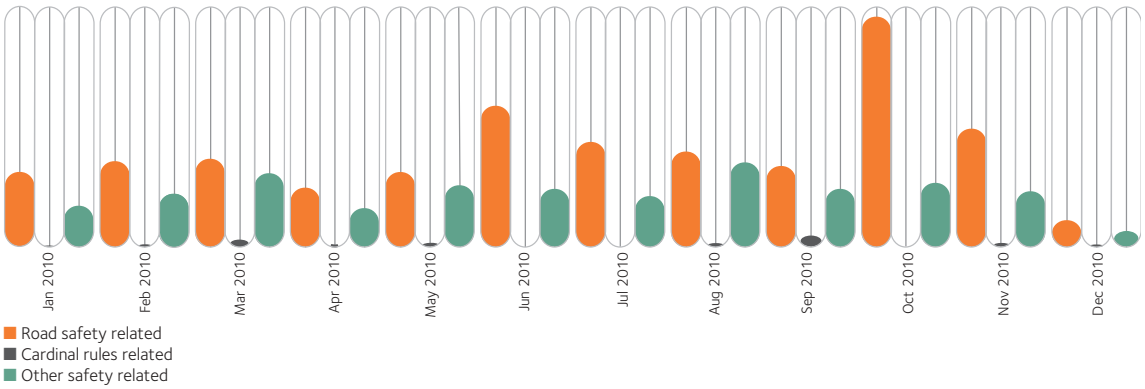
Cummulative Lost time Injury Frequency Rate (LTIFR) vs Restricted Work Day Case Ratio (RWDCR)



Cummulative LTIFR vs Severity Rate (Emplo + Contr)



Number of saftey related disciplinary actions



Severity rate

The severity rate is linked to the LTIFR and as such has also improved considerably, from 0.088 in the previous year to 0.068 this year, within our target of 0.07.

Shopfloor audits

Shopfloor audits (previously referred to as safety management audit techniques or SMATs) showcase best practice, recognise positive health and safety behaviour and identify opportunities to change any negative behaviour. They represent a powerful daily engagement tool to reinforce existing health and safety standards.

Work conducted over the past year to improve the quality of shopfloor audits has had pleasing results. In the second half of 2010 we refined the definition of our shopfloor audits to include only management to employee interactions. This led to a decrease in the number of shopfloor audits from 185 559 in 2009 to 128 173 in 2010. Analysis of the data reveals a growing trend of shopfloor audits identifying the causes of serious injuries.

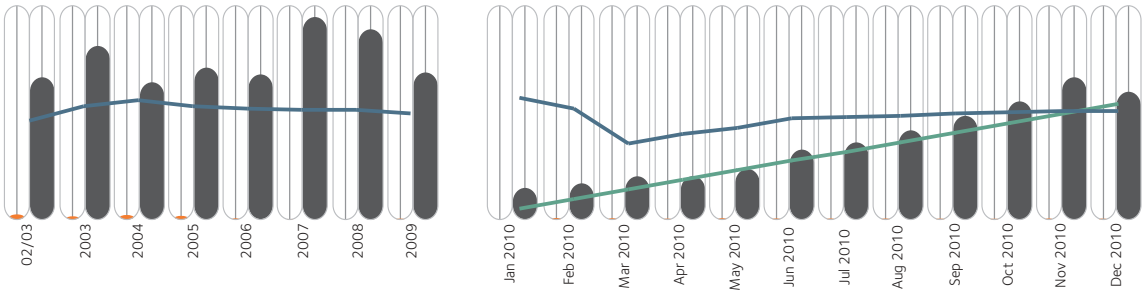
Safety related disciplinary actions

Improved safety performance relies to a large extent on the behaviour and compliance of employees and contractors to the company's safety standards. In particular, failure to comply with the FPS often leads to serious injury or fatalities. Structures are in place to facilitate safety related disciplinary actions where these are required. Overall, 650 safety related disciplinary actions were taken during the year, with 257 safety-related dismissals.

Safety, health and wellness continued

We engaged the services of an external service provider to conduct research and pilot an employee wellness programme at Newcastle Works, with a view to rolling it out to the rest of the group in 2010.

Frequency rate



- Occupational diseases frequency rate
- % OH programme performance
- Cumulative % employees medically examined in current year
- Target for employees to be examined

Occupational diseases frequency rate

The occupational diseases frequency rate (ODFR) declined, with 0.42 occupational diseases reported per million man-hours during the year, compared with 0.39 in 2009. Noise induced hearing loss remains the most significant occupational health risk. In total there were 13 occupational health diseases reported compared with 10 in 2009 of which 9 were noise induced hearing losses. Other key occupational diseases include lung infection, and sight impairment.

Due to operational realities and staffing limitations, medical examinations do not always take place as scheduled. We plan to increase examinations in the first quarter of 2011 to bring us closer to our targets.

Entrenching holistic workplace wellness

In 2009 we embarked upon a journey to implement a holistic wellness programme throughout the company. We engaged the services of an external service provider to conduct research and pilot an employee wellness programme at Newcastle Works, with a view to rolling it out to the rest of the group in 2010.

Work done during the year, however, has resulted in a more comprehensive wellness strategy which necessitated a further six months' running of the pilot before the programme can be rolled out across the company. This will now take place in 2011.

The wellness programme comprises three components: prevention of chronic diseases through health education in the workplace; screening for chronic diseases; and referral and adherence management for any employee who is diagnosed with a chronic disease.

The programme focuses on conditions such as hypertension, Type I and II diabetes, chronic obstructive airways disease, asthma, TB, high cholesterol, spinal pathology, musculo-skeletal disorders, psychological conditions, cancers and HIV/Aids. Medical surveillance data on body mass index, urine glucosis, blood pressure, smoking habits and history of chronic diseases will also be incorporated into the system to ensure that employee health is managed holistically.

As part of the Newcastle Works pilot project, 473 employees took part in structured behavioural change communication workshops, while 1 691 people underwent chronic disease screening. Results of these tests reveal that the Works has abnormally high levels of obesity and that one-third of employees have high blood pressure. In response, we implemented a fitness-lifestyle programme through which over 100 employees are currently undergoing weekly 'boot camp' training on site. Their progress is monitored on a monthly basis. Around 130 of them have signed up to the Referral and Adherence Management programme, mostly for obesity, hypertension and high cholesterol.

Of the employees who underwent disease screening, 610 received HIV Counselling and Testing. Some of those who tested positive joined other employees already participating in the company's HIV Positive Support programme.

A disease profile index will help the company establish prevalence rates for each of these conditions, per operation. In the past, such information was not captured in a standardised way but the new system will allow for this. Once operational, it will also allow us to quantify the financial risk of each disease to the company.

The external service provider is currently rolling out healthcare training and awareness for employees and their families, and family members are invited to participate in health awareness days run by the company. Training for the rest of the group is conducted by another service provider.

Update on strategic interventions

The following provides an update on the strategic interventions outlined in the previous year's report regarding the wellness programme.

- **Implementation of a behavioural change strategy on total wellness:** a strategy was developed internally at Vanderbijlpark Works to manage behavioural change among HIV-positive employees. This has been incorporated into the pilot and in the process of finalising a behavioural change management tool for all chronic and lifestyle diseases.
- **Implementation of common standards, procedures and protocols to govern wellness initiatives across the business:** the employee wellness task team, partnered with human resources during the year to consolidate, integrate, centralise and standardise all policies and procedures for wellness-related issues.
- **Alignment of canteens, restaurants, dressing rooms and ablution facilities with health and wellness standards:** this is a group-wide project, initiated by the group's Chairman and CEO, Mr Lakshmi Mittal. An audit was carried out to assess which areas were falling short of the required standards and work has commenced to perform the necessary upgrades. To date R18.6 million has been invested in upgrading these areas.
- **Increasing accessibility for disabled employees:** an internal audit identified the areas requiring improvement and a single contractor appointed to carry out the upgrades. Of the R18.6 million mentioned above, a substantial amount was invested in increasing accessibility for disabled employees.
- **Promotion of sporting activities:** this has been incorporated into a pilot and will be rolled out to the rest of the company with the rest of the employee wellness programme.
- **Converting medical stations to health and wellness centres:** this is planned for roll-out over a three-year period.

Introduction of compulsory medical aid

In 2009 we highlighted our intention to investigate a compulsory medical aid for all employees. Employees were previously given the choice of joining any of the three accredited medical schemes for the company, but many elected not to. This resulted in 2 500 employees who have no medical cover at all, making it impossible for the company to properly address disease management.

Following negotiations with the bargaining forum all new employees are required to have compulsory medical cover from 1 June 2010, and all existing employees must join a medical scheme by 2013. The bargaining forum raised concerns about the affordability of medical cover for some employees and we are currently investigating the possibility of introducing a subsidisation model.

Environmental performance

The promulgation in April 2010 of the new Air Emissions Standards in terms of the National Environmental Management: Air Quality Act 39 of 2004 presents a new environmental compliance challenge, especially for our coke-making operations.

The impact of our operations on the environment constitutes one of our most significant business and reputational risks. The environmental footprint of iron- and steel making derives from its need for natural resources, electricity and coal and some degree of environmental impact is therefore unavoidable, we recognise our responsibility to manage and reduce this impact as far as possible. This needs to be balanced with the demand for steel by South Africa's growing economy and infrastructural needs.

Key issues

Our most pressing environmental issues are outlined below:

- Emissions to air, of which particulates and compliance with the new Air Emissions Standards are the key concerns.
- CO_2 emissions and their impact on climate change.
- Water usage and efforts to achieve zero effluent discharge (ZED) status at Newcastle Works.
- Waste, by-products and recycling.
- Soil and groundwater pollution from past and current operations.

Overview

Highlights

We have made good progress in meeting our environmental goals during the year under review. Apart from minor delays, all our key projects remain on track for completion and there were no serious findings from the various audits and site visits conducted by the environmental authorities. The report resulting from a Green Scorpion inspection conducted during August 2010 at Vanderbijlpark Works is not yet available. There were no significant environmental spills during the year and we were not issued with any fines or non-monetary sanctions for non-compliance with environmental laws and regulations. One incident was reported to the authorities in October 2010 in terms of section 30 of The National Environmental Management Act as a result of the uncontrolled release of emissions to atmosphere during an emergency situation at our Pretoria Works coke battery.

The Vereeniging Works Electric Arc Furnace dust extraction system, completed at the end of 2009, has delivered excellent results, greatly improving our particulate emissions. SO_2 emissions have also been reduced by more than 30%, thanks to the Coke Clean Gas Project at Vanderbijlpark Works. A new waste disposal site was completed at Vanderbijlpark Works before the deadline of 31 December 2010 as stipulated by the Department of Water Affairs. This is a significant milestone as all waste is now disposed of at a site that fully complies with all environmental requirements. The achievement has also enabled Vanderbijlpark Works to phase out the last of its unlined ponds which were used for the storage of leachate and contaminated run-off from the old disposal site. Leachate and contaminated run-off from the old and new disposal sites are now stored in a new storage facility adjacent to the new disposal site. Good progress continues to be made on the rehabilitation of legacy sites, especially at our Vanderbijlpark Works.

Challenges

Our most pressing environmental issue remains the achievement of zero-effluent discharge (ZED) status at Newcastle Works. This project has been slightly delayed due to design challenges and we still await the re-issue of a water use licence from the authorities. We remain confident however that ZED status will be achieved early in 2013.

The promulgation in April 2010 of the new Air Emissions Standards in terms of the National Environmental Management: Air Quality Act 39 of 2004 presents a new environmental compliance challenge, especially

for our coke-making operations. Comprehensive plans, including a reviewed Coke Strategy were drafted during 2010 in order to comply with the timeframes specified to achieve the required emission limits. The board will review these plans and grant approval for the necessary upgrades of facilities to ensure we comply with the required five- to-ten-year time periods.

Reduced production continued to hamper efforts to reduce CO_2 emissions through reduction of electricity and coal consumption in specific terms (per ton of product produced).

Structures to manage environmental impact

While ultimate responsibility for environmental performance lies with the CEO, the issue is managed by the Group Manager, Environment, who sits on the Executive Committee and reports to the Chief Technology Officer. The Manager, Corporate Energy oversees issues of energy efficiency, power supply and climate change.

We are governed by the global ArcelorMittal Environmental and Energy policies, which ensures that sound principles and requirements are applied uniformly across the globe. We adhere to the group's policy stipulation that all production facilities are certified according to the ISO 14001 standard relating to environmental management systems.

Global ArcelorMittal Group Environmental Policy

The Global ArcelorMittal Group Environmental Policy outlines the following principles:

- Implementation of environmental management systems, including ISO 14001 certification for all production facilities.
- Compliance with all relevant environmental laws and regulations, and other company commitments.
- Continuous improvement in environmental performance, taking advantage of systematic monitoring and aiming at pollution prevention.
- Development, improvement and application of low-impact environmental production methods, benefitting from locally available raw materials.
- Development and manufacture of environmentally friendly products, focusing on their use and subsequent recycling.
- Efficient use of natural resources, energy and land.
- Management and reduction where technically and economically feasible of the CO_2 footprint of steel production.
- Employee commitment and responsibility in environmental performance.
- Supplier and contractor awareness and respect for this policy.
- Open communication and dialogue with all stakeholders affected by its operations.

Legislative framework

Externally we are governed by environmental legislation, including but not limited to the:

- National Environmental Management Act 107 of 1998;
- Atmospheric Pollution Prevention Act 45 of 1965 (repealed on 1 April 2010);
- National Environmental Management: Air Quality Management Act 39 of 2004;
- National Water Act 36 of 1998;

Environmental performance continued

We remain committed to engaging with key stakeholders on issues of environment. These include environmental NGOs, government, communities and the media.

- Protected Areas Act 57 of 2003;
- National Environmental Management: Waste Act 59 of 2008; and
- Bill of Rights – chapter 2 of the Constitution of the Republic of South Africa, 1996.

The environment is one of the five key areas assessed by the Audit and Risk Committee and SHE Committee of the board. The risk assessment process is well established and environmental risks are identified at each of the Works. These are externally audited and included in the company risk register.

Engaging with stakeholders on environmental issues

We remain committed to engaging with key stakeholders on issues of environment. These include environmental NGOs, government, communities and the media.

Such engagement is guided by the ArcelorMittal Group strategy on stakeholder engagement and community engagement standard. During the year the company proactively engaged with representatives from the communities within which it operates. This engagement is co-ordinated by our Corporate Social Responsibility department which is at a corporate and plant level at our production facilities. Environmental issues and requests raised by communities during these meetings include the following:

- Greater involvement of community members in waste management projects for social upliftment. The recently launched Waste Act is unfortunately restrictive as even small waste-related projects require waste management licences, which in turn affects their financial feasibility.
- Concerns regarding the state of the Leeuwspruit river in Boipatong. A partnership with provincial authorities and other stakeholders is currently being considered to get a proposal off the ground.
  - Public participation exercises conducted as part of environmental impact assessment processes.
  - Monitoring committees established as part of permit or other requirements.
  - Monitoring forums established by national, provincial or local authorities, or a combination thereof.

On 10 May 2010, environmental NGOs GroundWork and Vaal Environmental Justice Alliance (VEJA) staged a protest at Vanderbijlpark Works to coincide with the company's annual general meeting. A second protest march was conducted on 27 October 2010 by VEJA, where additional issues or concerns were raised. The key environmental issues raised related to:

- the unconditional release of Vanderbijlpark's Environmental Master Plan compiled during the period 2000 to 2002;
- the eviction of hostel dwellers from buildings that were sold by Iscor in the past (a process over which we have no control); and
- allegations of preferential treatment received by certain smallholding owners during the buy-out that proceeded up to 2002.

The Environmental Master Plan was researched and written for internal purposes (basically a self-critique) and dates back to 2002. The detailed results of an audit of this kind are a confidential matter and we believe that this document must be viewed in this light. In addition, significant changes in the environmental legislative framework recently introduced have led to more

stringent environmental controls, thus rendering the Environmental Master Plan outdated and irrelevant.

Taking the above into consideration, we communicated that we did not intend to release the old Environmental Master Plan. We continue to engage with GroundWork, VEJA and other local and international NGOs on compliance in terms of the new environmental legislation, and environmental projects in our areas of operation.

Engagement with the Department of Environmental Affairs, provincial environmental authorities and municipalities is ongoing, and our relationship with these regulatory bodies is open and constructive. We hold regular meetings with representatives from various departments to keep them abreast of our environmental strategy, action plans and progress against timelines. We remain committed to full legal compliance on all environmental issues.

The new air emissions standards

The new air emissions standards in terms of the National Environmental Management: Air Quality Act 30 of 2004 came into effect on 1 April 2010. This legislation stipulates new standards for particulate, SO_2 and NO_x emissions.

Existing plants will have 10 years to comply with the standards for new plants. Existing plants that do not meet the current standards will have five years to do so and a further five years to comply with the standards for new plants. There is provision for companies to apply for postponements in the event that they cannot achieve the proposed standards due to technological constraints, but such postponements can be issued only for a maximum period of five years and only after a public participation process is completed.

Audits and site visits

Our production facilities are regularly visited by government environmental authorities and external standards organisations for site visit and audit purposes. The following summarises those visits conducted during the year:

- Vereeniging Works: the Green Scorpions visited this site in July 2010 to conduct a follow-up inspection on the back of the directives issued to the company regarding air emissions and the closure of the Vaal Waste Disposal site. We have complied with both directives and await official feedback on the visit.
- Vanderbijlpark Works: the Green Scorpions conducted a full site inspection in August 2010. A full inspection was conducted in November 2008 and while we responded to the findings, the report was never closed. The Green Scorpions indicated their intention to withdraw the original report due to the time lapsed and the fact that they had since employed new personnel who were unfamiliar with the site. This paved the way for the latest inspection. The report findings have not been issued yet.
- SO 14001 inspections: these are conducted on an annual basis and all operations maintained their ISO 14001 certification during 2010.

Air emissions

Particulate and SO_2 emissions constitute our most important air emissions.

This year marks the point at which we are beginning to reap the rewards of our long-term investment in environmental projects, particularly as regards air emissions.

Particulate emissions

Point source particulate emissions during the year under review increased slightly from 0.68kg/tonne of crude steel in 2009 to 0.72kg/tonne of crude steel in 2010 (total combined score for all operations. The increase is not necessarily due to poorer environmental performance

Environmental performance continued

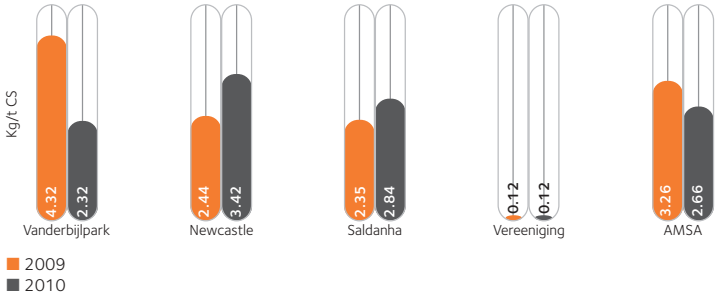
SO_2 emissions have dropped significantly when compared with 2009 figures, from 3.26kg/tonne of crude steel to 2.66kg/tonne of crude steel – an 18% improvement.

but rather to the fact that monitoring systems were expanded and improved. The Vereeniging Works EAF dust extraction system is working well. There are no visible emissions escaping through the roof and the dust capture rate from the meltshop activities has improved by 45% to the current 16.84kg/tonne of liquid steel, which can be regarded as an optimum of what can be achieved. Improved maintenance of coke batteries and dust extraction systems and greater vigilance have also helped to lower visible particulate emissions. Monthly reporting highlights any potential problems and we have focused on improving our response time for rectifying such issues. The coke batteries ceramic welding project, completed last year, has also helped to reduce particulate emissions.

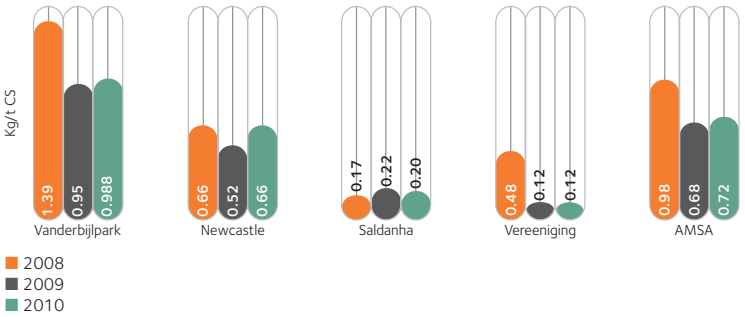
SO_2 emissions

SO_2 emissions have dropped significantly when compared with 2009 figures, from 3.26kg/tonne of crude steel to 2.66kg/tonne of crude steel – an 18% improvement for the South Africa group as a whole. The Vanderbijlpark Works coke clean-gas project, R327 million, was commissioned during the year and has played a pivotal role in reducing SO_2 emissions at this operation by 46% during the year under review in specific terms – a significant achievement. There was a fairly significant increase in the emissions from our Newcastle Works facility, which can be attributed to improved monitoring and problems experienced with the sulphur recovery unit at the coke batteries. The increase in specific SO_2 emissions from our Saldanha Works facility can also be attributed to improved monitoring and the higher utilisation of the coal-based Corex furnace to produce liquid iron.

SO_2 emissions



Particulate emissions



We continue to invest in the following ongoing projects to reduce air emissions:

Vanderbijlpark Works

- Sinter plant off-gas treatment project: this project, which is expected to reduce SO_2 emissions by 1 500 tonnes per annum and particulate emissions by 1 000 tonnes per annum, is on track for completion in quarter one of 2011. (reduction figures based on full production).
- EAF dust extraction system: after the temporary halt reported in 2009, this project is now back on line. Detailed design is underway and we expect construction to be completed by 2013/14. Once commissioned, this system is expected to reduce visible air emissions to a similar extent as the system currently running at Vereeniging Works.
- Blast Furnace D stockhouse baghouse project: this remains on track for completion by 2012.
- Implementation of various improvements at the coke batteries [as per requirements of the National Environmental Management: Air Quality Management Act (NEMEQA)] over the next five years.

Newcastle Works

- Blast furnace cast house dust extraction unit improvements: on track for completion in 2014.
- Desulphurisation facility at steel meltshop: on track for completion during May 2011.
- Implementation of various improvements at the coke batteries (as per NEMAQA requirements) over the next five years.

Coke and Chemicals

The coke battery at the old Pretoria Works is scheduled for a complete upgrade in order to comply with the new NEMAQA requirements over the next 5 years.

CO_2 emissions and their impact on climate change

CO_2 emissions are a further important air emissions indicator but, because of the fact that they are inextricably linked with issues of energy usage and climate change, they are dealt with separately in the chapter on energy and climate change.

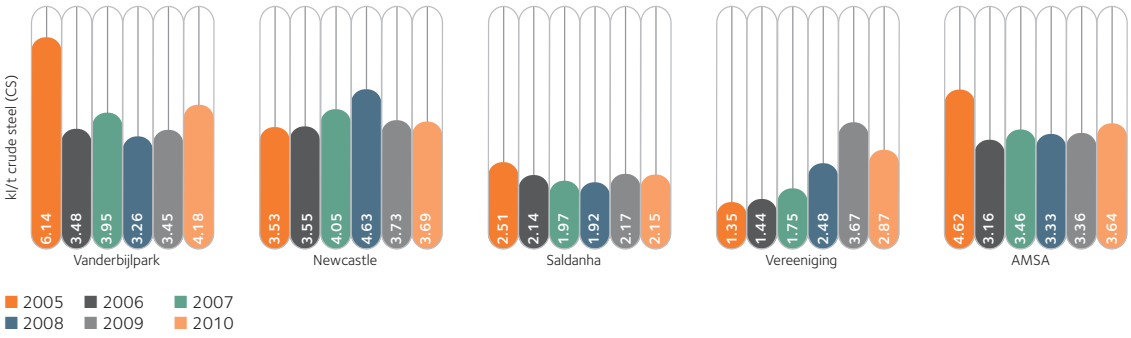
Water usage and pollution

While iron- and steel making requires large quantities of water, we are making good progress in reducing water consumption, with a 37% absolute reduction being achieved to date from the baseline of 2005. We stick firmly to our goal of reducing water intake by 40% against this baseline. However, delays on the project to make Newcastle Works a ZED facility has necessitated an extension of the target date from 2011 to 2013 (for more detail view the project list that follows).

Our total freshwater intake for 2010 was 3.64kl/tonne of liquid-steel produced which was up on the 3.36kl of the previous year, due mainly to increased water usage at our Vanderbijlpark Works where significant water quantities had to be used for rehabilitation projects.

Each production facility draws its water from a particular source. Vanderbijlpark Works draws its water from the Vaal River and Vaal Dam, Newcastle Works from the Ngagane River, Saldanha Works from the municipality and Vereeniging Works from the Vaal and Klip rivers. The total water withdrawal per plant is outlined in the graph below.

Fresh water intake



Environmental performance continued

All efforts continue to be made to ensure that we operate our plants within the expected environmental standards. At our Vereeniging Works, projects to reduce the levels of fluoride in the discharged effluent have been successful, while we also have reduced levels of boron in the effluent from our Tubular Products division and levels have remained compliant since July 2010.

We are working hard to reduce the amount of waterborne effluent discharged by our plants, and both Saldanha Works and Vanderbijlpark Works have long held ZED status. As such these plants recycle 100% of their effluent. At this stage, Newcastle Works and Vereeniging Works do not recycle any water.

Our most pressing challenge is to make Newcastle Works a ZED plant, and to secure a new water use licence for this operation and Pretoria Works. We remain in close contact with the authorities on the status of our applications but are yet to receive the actual licences.

At Vereeniging Works, projects to reduce the levels of fluoride in the discharged effluent have been successful. Although there are occasional spikes in fluoride levels above the one milligram per litre discharge specification, these rarely reach two milligrams and are a huge improvement on the 30mg spikes experienced in the past. Spikes are typically due to overflows or leaking pipes and are, without fail, reported to the relevant authorities.

We also successfully reduced levels of boron in the effluent from our Tubular Products division at Vereeniging Works and levels have remained compliant since July 2010.

During the year Pretoria Works experienced an increase in sulphate and chloride levels in their discharged effluent due to high leachate volumes from the slag disposal sites. This was reported to the authorities and internal investigations suggest the problem was caused by excessively high rainfall in the area during early 2010 and new slag reclamation areas that were exposed to such high rainfall. High leachate volumes were not experienced in the past and especially not during the dry seasons.

Update on key water-related projects

Newcastle Works

- ZED project: Design of the biological water treatment reactor required by the plant has taken longer than expected and although this is now complete, the issue has delayed the project as more civil work is required than originally planned. Completion date is now set for early 2013. Obtaining the necessary environmental authorisations also takes longer than expected following NEMA and the Waste Act.

Vanderbijlpark Works

- New gravel filter plant (coal water project): We experienced design challenges and contractor-sourcing issues during the year which delayed the final planning of the project. This project will improve our ability to treat organically polluted water from our coke-making operations and is now scheduled for completion by 2014 – gravel filters for tar removal form an important part of this project. The project had to be postponed due to the poor economic situation our sector finds itself in. The second phase of this project will entail a biological treatment plant to be installed after completion of the coal water project to further enhance the recycling potential of this water as re-use is currently limited.
- Groundwater management plan: This was completed in Q4 2010 and will inform the important decisions to be made in 2011 as to the preferred methods to reduce current pollution levels and restrict its spread in the underlying aquifer.

Waste, by-products and recycling

We remain committed to recycling as many of our by-products as possible, and to finding markets for those that cannot be recycled. However, although disposal is our least-preferred course of action, it is sometimes unavoidable with certain by-products. Other pressing issues relating to air and water have also necessitated tough decisions regarding approval of capital expenditure allocation. Consequently, investment in re-use of by-products had to be constrained. During the year we generated 4 045 720 tonnes of steel by-products, managing to recycle 13% and sell 45% to customers.

In total, 39% was disposed of as waste. This is down by 4% on the previous year's figures. The main reason for the improvement is increased demand for our by-products as the economic situation slowly improves. The most significant by-product streams that were disposed of are listed in the table that follows:

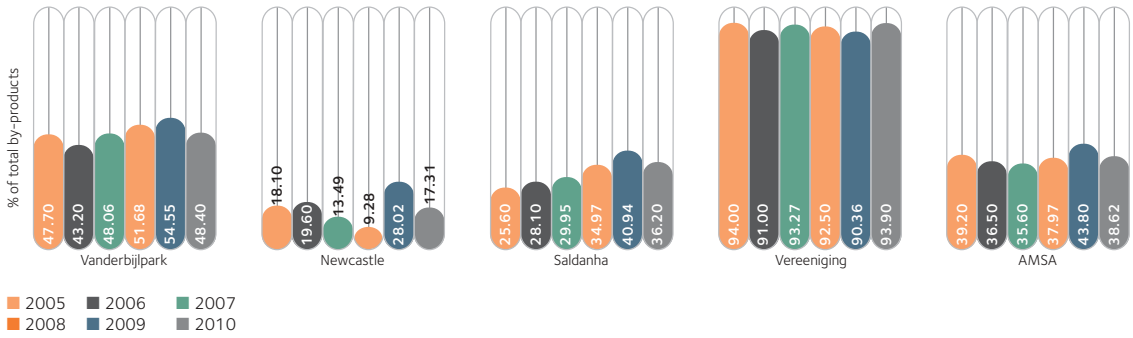
Waste type	Weight mass	Disposal method
Steel slag	668 591	Landfill
Iron slag	42 336	Landfill
Other metallurgical waste, including:		
Furnace and gas treatment sludges, dust and dolochlor	371 002	Landfill

The company's hazardous-waste streams consist mainly of tarry sludges and oil-contaminated waste, 242 679 tonnes which were disposed of at certified hazardous-waste disposal sites during the year. Newcastle Works makes use of an internal hazardous-waste disposal site but hazardous waste from Saldanha, Vereeniging, Pretoria and Vanderbijlpark Works is transported to external hazardous-waste facilities. This is managed by external contractors who are certified to transport hazardous waste.

Financial constraints and relative importance have focused much of our efforts on finding markets for our by-products which otherwise need to be disposed of as general- and hazardous-waste streams. While we have not made significant progress in improving our disposal rate, we continue to look for alternative markets for various by-product streams.

While the steel making process has a significant environmental impact, the products we make do not. Steel is almost infinitely recyclable and easy to recover from waste streams. Around 19% of the steel we produce is made from recycled scrap steel and while we do not track the percentage of packaging reclaimed once our products leave our operation, such packaging is also made largely from recyclable steel.

By-products disposed



Environmental performance continued

We remain committed to fulfilling our responsibility of rehabilitating so-called "legacy sites" which may have suffered soil and groundwater pollution at a time when environmental standards and legislation were less comprehensive than they are today.

The most significant raw materials used in our steel making process are listed below by weight:

Raw material type	Weight
Iron ore	7 200 541
Coal	4 700 046
Dolomite	502 434
Limestone	565 614
Scrap	1 092 014

Soil and groundwater pollution

We remain committed to fulfilling our responsibility of rehabilitating so-called "legacy sites" which may have suffered soil and groundwater pollution at a time when environmental standards and legislation were less comprehensive than they are today. An environmental provision amounting to approximately R1 222 million is in place to take care of the required rehabilitation needs throughout the group.

The following provides an update on the rehabilitation progress being made at various sites:

- **Vaal waste disposal site –** located at Vereeniging Works close to the Vaal River: the site remains closed in accordance with the directive issued by the Green Scorpions in 2007 and we completed the removal of all magnetite in 2009. We are still awaiting feedback from the authorities on the rehabilitation plan proposal submitted in 2008 by the company. Rehabilitation cannot commence until we have received feedback and the necessary sanction from the authorities.
- **Mooiplaats waste disposal site –** located 10km west of Pretoria Works at the Mooiplaats Quarry: during the year we received authorisation to proceed with rehabilitation and are currently in the tender process to identify suitable contractors to cap the site.
- **Zwartkops waste disposal site –** located east of the Zwartkops race-track in Pretoria: we continue negotiations with the owners of this site, who contested the findings of an external study they commissioned to determine the environmental risk posed by the site. We remain confident that further discussions and the promulgation of new waste classification systems will lead to resolution of the issue.
- **Dunswart waste disposal site –** located south of Benoni: the EIA, placed on hold in 2009 and 2010 due to financial constraints, will be revived in 2011 and we look forward to being able to rehabilitate the site once the necessary studies and authorisation procedures are complete. Illegal occupation of this land may cause further delays.
- **Klip waste disposal site –** located on the banks of the Klip River close to Vereeniging Works: rehabilitation

of this site was placed on hold in 2009 but the project was brought back on line in 2010. A Waste Management Licence was issued and the potential requirement for a Water Use Licence resolved. Work will commence in 2011 to remove tarry waste from the premises.

- **Dam 10 –** located on the Vanderbijlpark Works premises: remediation of this important dam is nearing completion. Ground-breaking rehabilitation/remediation methods involving the use of bacteria (biological treatment) are being used to reduce the organic contamination levels in the dam sediments. It covers an area of 80 hectares, making it one of the biggest rehabilitation/remediation exercises to date tackled in South Africa. It was the main source of ground water pollution in the surrounding areas and the process of drying it out commenced in 2004.
- **Maturation ponds** – located on the Vanderbijlpark Works premises: these ponds are in the process of being remediated and the successful biological treatment options used in Dam 10 are also being used in this pond system. Organically polluted coke-making effluent was stored in these ponds in the past. The major advantage of using biological treatment options is that organic pollutants are reduced to acceptable levels, thereby significantly reducing disposal volumes.
- **Capping of the existing slag disposal site at Vanderbijlpark Works:** 39 hectares (one third of the existing site) was capped during 2010 at a cost of R45 million to limit the ingress of rainwater into the waste body, thereby reducing the generation of potentially harmful leachate from the site. A phased approach will be adopted until 2014 to cap the remainder of the existing disposal site. A new disposal site was constructed during 2010 at a cost of R30 million in order to phase out the existing site. The phasing out of the existing disposal site by end of 2010 is a requirement stipulated in the Water Use Licence of Vanderbijlpark Works.

Our main environmental goals for the year ahead are listed below:

- Continue to focus on legal compliance and improving compliance levels even further. Start implementing our strategies to comply with the timelines stipulated to achieve the required emission levels in terms of NEMAQA. There will be a strong focus on our coke-making facilities.
- Commission the sinter emission abatement project at Vanderbijlpark Works, which will significantly reduce priority pollutants like particulates and SO_2.
- Continue with the implementation of the Newcastle Works' ZED project.
- Continue with the rehabilitation/remediation of our contaminated legacy sites

Energy and climate change

At a global group level, the company's goal is to reduce CO_2 emissions by 8% (170kg/tonne of steel produced) by 2020. While we do not believe that it is possible for the South African industry and business to achieve our government's target, outlined in the 2009 Copenhagen Climate Change Summit, to reduce CO_2 emissions by 34% by 2020, we remain full committed to engaging with key stakeholders to set realistic targets.

Climate change is of material importance to our corporate citizenship, but it also presents a potential risk to our business. Global warming precipitated by increased carbon emissions is likely to result in weather pattern disturbances that may hamper our ability to do business. Drought will severely impact steel-making operations, which rely heavily on water, and flooding will disrupt our supply chain and could result in the flooding of mines that supply our most important raw materials.

Structures to manage energy, CO_2 emissions and their impact on climate change

We are mindful of the role our operations play in contributing to global warming, and the responsibility it has to minimise its carbon emissions and manage its energy usage more efficiently.

At a global level, ArcelorMittal Group's goal is to reduce CO_2 emissions by 8% (170kg/tonne of steel produced) by 2020. The ArcelorMittal Group's Climate Change Steering Committee oversees the achievement of this target and other climate change matters for all international operations. In South Africa the issues of climate change and energy form part of the Chief Technology Officer portfolio and are the responsibility of the Manager, Corporate Energy. The Safety, Health and Environmental (SHE) and Energy Policies guide our management of these issues.

We do not believe that it is possible for the South African industry and business to achieve government's target outlined in the 2009 Copenhagen Climate Change Summit, to reduce CO_2 emissions by 34% by 2020. Nevertheless, we remain fully committed to engaging with key stakeholders to refine these targets so as to arrive at something more achievable.

Quantifying the challenge

Iron and steel making relies heavily on coal and natural gas as reducing agents and fuel to enable the chemical reactions required for the process.

Electric arc furnace technology, which uses scrap metal, provides a lower-carbon alternative but the availability, quality and cost of scrap steel prevents us from being able to use this technology more extensively and still meet the country's demand for steel.

In South Africa, a company's carbon footprint is inextricably linked to electricity usage because the national electricity supply is derived from coal. This makes benchmark comparisons with other steelmakers across the globe – many of whom use nuclear energy and cleaner forms of electricity – inherently problematic.

Reducing our reliance on the national electricity grid and investigating cleaner forms of energy provide the most significant possibilities for reducing indirect carbon emissions. As a signatory to the national energy accord, ArcelorMittal has already committed itself to reducing its electricity consumption by 12% by 2014. In addition, proposed electricity tariff increases over the next three years will strengthen the business case for alternative energy projects. The company's annual electricity cost has increased from R700 million in 2007 to R1.7 billion in 2010. In the past, low electricity tariffs meant that the return on investment made most energy efficiency projects unfeasible.

Status of energy efficiency projects

We have invested in various electricity generation and alternative energy projects, chief among which is the 40MW capacity power generation plant at Vanderbijlpark Works which uses waste heat from the DRI kilns to generate power. This plant, in operation during the year under review, brings to 80MW the company's own power generation capacity.

However, this plant is designed for a production facility running at full capacity. If both kilns 5 and 6 are not running at full capacity, there is not enough steam generated in the boilers to turn the power plant's turbines. The 71% production rate for 2010 has therefore hampered the plant's ability to produce electricity at an optimal level. When operated erratically the plant's lifespan is severely limited.

The possibility to add an additional boiler which will enable stable power generation, even if one of the kilns is out of operation is under investigation. As the economy recovers and production increases, along with a growing demand for steel, we look forward to reaping the full benefits that this power plant is capable of delivering.

In the meantime other major co-generation plans, which were linked to the company's expansion plans, remain shelved. Such projects are highly capital intensive and it will increase the risk of starving operational capital requirements. All efforts will focus on repairing existing power generation facilities, before investigating new, smaller projects.

Last year we reported on research being conducted at Saldanha Works into the viability of a large wind power generation facility. The research concluded that, under current conditions and taking into account expected price escalations going forward, pure wind energy is too costly to be included in the generation mix. A smaller wind project is currently under investigation which will limit capital expenditure and allow further research into wind as an alternative green electricity supply option.

Steel as an energy saver

While steel making consumes considerable energy and is associated with a significant carbon footprint during production, steel products can help to save energy over the long term. With high levels of durability and strength, the material's lifecycle is long but recyclable. Steel products and infrastructure last and do not need to be replaced as often as those made from other materials. This product characteristic reduces production costs and thus carbon emissions.

Energy and climate change continued

Development of new technologically advanced steel products also contribute to lighter steel products, which in turn reduce carbon emissions.

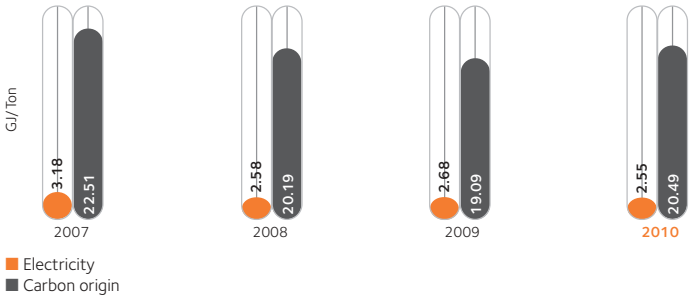
Development of new technologically advanced steel products also contribute to lighter steel products, which in turn reduce carbon emissions. The World Steel Association reports, for example, "Light-weight advanced high-strength steels (AHSS), allow for less steel to be used in cars, reducing their weight by 9%, fuel consumption during the use phase by 5,1% and greenhouse gas emissions by 5,7% without compromising safety."

Measuring our performance

Our carbon footprint for our steel manufacturing sites is measured and reported on an annual basis to group in the ArcelorMittal annual report and in the JSE Carbon disclosure project. The basis of calculation is an adapted global model used in ArcelorMittal Group, which benchmarks with similar steel plants.

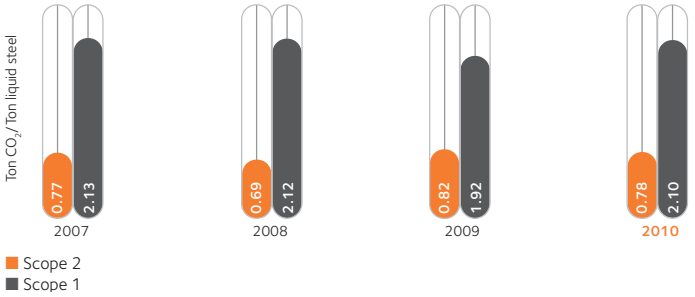
We are reporting on scope I and scope II emissions separately this year.

Energy intensity GJ/Ton



During the year under review, overall carbon emissions increased by 13.4% to 16.3M (11.9M ton scope 1 and 4.4M ton scope 2) tonnes of CO_2 due to plants not running at full capacity and major plant disruptions at the Newcastle Works. The lower-than-efficient production levels lead to a drop in energy efficiency and increasing our energy intensity from 22 GJ/tonne of steel produced to 23 GJ/tonne.

CO_2 Ton/Ton liquid steel



Goals

In the coming year the focus will be on the following energy efficiency and CO_2 reduction projects:

- Variable-speed drives
- Electricity generation from waste process gases and waste heat
- Lighting retrofits and replacement
- Heat recovery – optimisation of cooling processes, utilisation of generated process heat.
- Water heating systems – heat pumps and solar
- Compressed-air systems

(Saving of 1Kwh = saving of 1.03kg CO_2) – Eskom Annual report 2010.

The electricity generation and waste heat recovery projects are both running over two to three years and the benefit will only be seen in the specific carbon emissions after full implementation. Most of these projects will only reduce scope II emissions.

CO_2 emission per source

Coal 70%
Nat gas 3%
Fuel 0%
Electricity 27%

Energy GJ per source

Coal 82%
Nat gas 7%
Fuel 0%
Electricity 11%

Business ethics

There were no reported instances of contravention of ethical or anti-corruption guidelines during the year.

Our approach to managing business ethics and corruption is guided by the ArcelorMittal Group Code of Business Conduct (see page IV of the annual report) and Anti-corruption Guidelines. Both policies form part of our compliance programme.

The Group anti-corruption guidelines establish procedures for handling concerns around possible corrupt practices and provide guidelines on how to fight and prevent corruption. All senior executives as well as staff in relevant sections of the business are required to be trained in the application of these guidelines. To date 686 employees out of a total of 983 requiring anti-corruption training have been trained in our anti-corruption policies and procedures. Fraud risks relating to corruption are included in the annual internal audit plan to be covered during a year as part on the internal audit work.

ArcelorMittal's anti-corruption policy provides guidelines with regard to payment to political parties or government officials. Political contributions may be made only in accordance with applicable laws and are subject to prior written approval of the local legal department. No gifts and gratuities may be offered to government officials except for promotional items of little value and provided they are not offered with a corrupt intent.

There were no reported instances of contravention of ethical or anti-corruption guidelines during the year. There were also no significant cases of fraud or other misdemeanours reported.

Anti-competitive behaviour

Anti-competitive behaviour is monitored according to the ArcelorMittal Group Anti-trust Guidelines which we have an obligation to observe. The anti-trust guidelines explain the basic principles of anti-trust and competition law. The guidelines require absolute avoidance of any conduct which violates underlying principles of competition laws. All senior executives as well as staff in relevant sections of the business are trained in the application of these guidelines.

Competition Authority investigations

The group is currently the subject of a number of investigations by the Competition Authority expanded on in the 'Finance report' on page 23.

Product responsibility

While we hold a dominant position within the local steel industry, it is a relatively small part of the global industry. Given the strategic role of steel in the development of our infrastructure and economy, we see the need to support local industry where possible. Local customers need high-quality products at a competitive price to grow, but international supply and demand dynamics set the global steel price. Our challenge is finding the right balance while running a long-term sustainable business.

Customer satisfaction

We interact with our customers as part of its day-to-day business activities. Every year we measure our ability to deliver on our customers' expectations through a customer satisfaction survey and every third year we use an external reviewer to survey customer satisfaction levels. The results of the external survey conducted this year showed that we have improved on the service delivered to our customers since 2007. The top three complaints from customers regarding service remain:

- On time in full (OTIF) delivery of material outside promised delivery date.
- Lead time from order placement to delivery is to long.
- Poor product quality.

Ongoing initiatives are in place to improve these aspects of our service delivery.

Recycling of product

Our strategy is to recycle as much of our product and packaging as possible. We use scrap steel in our electric arc furnaces, accounting for around 20% of the steel we produce. We are also partners with Nampak in Collect-a-Can, a non-profit enterprise that focuses on recovering scrap tinplate generated in the tinplate and can-making processes and recovering cans for recycling. This initiative is the only one in the world where producers of material for steel cans and the can manufacturer have led the drive to recover used materials. Established in 1993, the recovery rate of cans has risen from 18% to 69% in 2009. Not only have steel beverage cans fallen from around 8% of total litter to less than 1%, but the organisation also pays out more than R20 million every year to an estimated 160 000 collectors, most of whom have no other source of income. We aim to achieve a recycling rate of 72% of can packaging in South Africa.

Corporate governance appendix

In 2010 a total amount of R270 million was granted to value-added exporters for 215 000 tonnes. This amounted to a 25% rebate on the average domestic steel price. The total value of this rebate to the downstream sector has been R2 billion since inception.

Additional information relating to fairness

Relevant guidelines and legislation

ArcelorMittal is listed on the Johannesburg Stock Exchange (JSE). The company is subject to the JSE Listings Requirements, the guidelines contained in King II, Companies Act 61 of 1973, as amended ("the Companies Act") as well as other legislation applicable to companies in South Africa.

While we are satisfied that the conduct of our business is done according to the highest standards of corporate governance, we recognise that practices and procedures can always be improved and we continuously review our own standards against those in a variety of jurisdictions.

Statement of compliance

The Company Secretary presented an assessment of our compliance with the JSE Listings Requirements for the year for review by the Audit and Risk Committee. The board, through the Audit and Risk Committee, are satisfied that the company and its directors have complied with the rules and regulations of the JSE Listings Requirements in all material respects during the financial year ended 31 December 2010.

JSE SRI Index Annual Review 2010

We qualified for the 2010 SRI Index. The JSE identified best performers as those companies who have met the relevant required environmental threshold, as well as all applicable core indicators in the social and governance areas.

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 our affairs.

Closed periods

A closed share trading period is exercised by the directors from the date of the end of every quarter up to the date of the publication of the quarterly results on SENS. Additional closed periods are enforced as required in terms of any corporate activity or when directors are in possession of price-sensitive information. No director or any employee who participates in the management share scheme, may trade in our shares during the closed periods.

Director's share dealings

We apply a share-dealing policy requiring all directors, senior executives and the Company Secretary to obtain prior written clearance from either the Chairman or CEO to deal in our shares. The Chairman and CEO may not deal in the company's shares without first advising and obtaining clearance from the appointed Compliance Officer and the board.

No director may trade in our shares during closed periods as defined in the JSE Listings Requirements and all directors keep the Company Secretary advised of all their dealings in our shares.

Interests of directors

The direct and indirect interests of directors and their associates in the company's shares as at 31 December 2010 is set out on page 120. There were no changes to the directors' interests in the share capital of the company between 31 December 2010 and the date of posting of this report. A record of dealings and clearance provided in terms of the

JSE Listings Requirements is kept by the Company Secretary.

Conflicts of interest

We encourage directors to avoid situations where they have, or can have, a direct or indirect interest that conflicts with the company's interests. Directors are required to inform the board timeously of conflicts or potential conflicts of interests they may have in relation to particular items of business. A director who has a conflict of interest with respect to a contract or transaction that will be voted on at a meeting shall not be counted in determining the presence of a quorum for purposes of the vote, may not vote on the contract or transaction, and shall not be present in the meeting room when the vote is taken.

Interests in contracts

No director has a significant interest in any contract or arrangement entered into by the company or its subsidiaries. The register of interests of directors in contracts in terms of section 234 of the Companies Act, as amended, is kept by the Company Secretary.

Legal compliance

We subscribe to the ArcelorMittal Group Legal Compliance Programme which has been designed to increase awareness of, and improve adherence to, applicable legislation and regulations. This programme delegates responsibility for compliance to designated managers equipped to deal with the relevant areas of legal compliance. We are furthermore finalising the roll-out of a compliance framework system aimed at further entrenching a sound compliance culture and to cater for the specific needs of the company.

Among other interventions, the framework provides for the monitoring of compliance with the applicable legislation. During the period under review, the company conducted a competition law compliance audit which (overall) confirmed compliance with applicable competition law requirements.

We are not aware of instances during the year under review where the company transgressed the legislation applicable to its operations.

Affiliation

The ArcelorMittal Group is an active member of the World Steel Association and supports its initiatives in regard to:

- 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; and
- the identification and management of risk.

Additional information relating to responsibility

The Board of Directors

Changes to Directorate

The following changes to Directorate took place since the last annual report:

- Mr MJN Njeke was appointed as permanent Chairman of the Board with effect from 4 February 2010.
- Mr EK Diack resigned as independent non-executive director and Chairman of the Audit and Risk Committee on 9 July 2010.
- Mr HJ Verster resigned as Chief Financial Officer (CFO) on 23 August 2010.
- Mr RH Torlage was appointed as acting interim CFO on 23 August 2010 and then appointed as CFO and executive director on 3 September 2010.
- Mr M Macdonald was appointed as an independent non-executive director on 4 February 2010 and as Chairman of the Audit and Risk Committee on 9 July 2010.
- Ms ND Orleyn was appointed as a member of the Audit and Risk Committee on 9 September 2010.

Membership

Independent non-executive directors

MJN Njeke
DCG Murray
M Macdonald
ND Orleyn

Corporate governance appendix continued

Our board of directors adheres to the highest standards of corporate governance and are considered to be independent in mind character and judgement.

Non-executive directors
DK Chugh
S Maheshwari
AMHO Poupart-Lafarge
LP Mondi
CPD Cornier

Executive directors
N Nyembezi-Heita (CEO)
RH Torlage (CFO)

The independent non-executive directors completed an assessment (which was based on the guidelines contained in the JSE Listings Requirements, King III Code and the Companies Act) and are considered by the board to be independent in mind, character and judgement.

Chairman
Mr MJN Njeke
Elected 4 February 2010

The board elected Mr Njeke as Chairman as it felt that he would provide the direction necessary for an effective board. The Chairman is independent and free of any conflicts of interest. The Chairman's role and functions are formalised and requires that he:

- sets the ethical tone for the board and the company;
- provides overall leadership to the board;
- as Chairman of the Nomination Committee, identifies and participates in selecting board members and oversees a formal succession plan for the board, the CEO, the CFO and certain key management appointments;
- together with the Company Secretary, formulates an annual board work plan;
- ensures that the directors are aware of their fiduciary duties as directors of the board;
- ensures that complete, timely, relevant, accurate and accessible information is placed before the board to enable them to reach an informed decision;
- ensures that decisions by the board are executed; and
- ensures that good relations are maintained with the company's major shareholders and stakeholders.

Chief Executive Officer
Ms N Nyembezi-Heita
Appointed 1 March 2008

The CEO sets the tone in providing ethical leadership and creating an ethical environment. The CEO plays a critical role in the operations and success of the day-to-day business of the company. Board authority conferred on management is delegated through the CEO, in accordance with approved authority levels. The CEO's role and functions are formalised and include the following:

- appointing the executive team and ensuring proper succession planning and performance appraisals;
- developing the company' strategy for consideration and approval by the board;
- developing, recommending and implementing the annual business plans and the budgets that support the company's short- and long-term strategies; and
- establishing an organisation structure for the company to enable execution of its strategic planning.

Directors
The board, through the Nominations Committee, have considered that the executive and non-executive directors together have the range of skills, knowledge and experience necessary to enable them to effectively govern the business. Directors exercise objective judgement on the affairs

of the company independently from management, but with sufficient management information to enable proper and objective assessment to be made.

The Nominations Committee is in the process of interviewing candidates for the position of independent director and an additional member for the Audit and Risk Committee. An announcement will be made as soon as the candidate has been appointed by the board

The Nominations Committee assists the board in ensuring that it is comprised of individuals whose background, skills, experience and characteristics will assist in meeting the future needs of the company.

The directors understand their fiduciary duty to act in good faith and in a manner that a director reasonably believes to be in the best interests of the company. Each decision made is based on all the relevant facts provided to the board at the time.

Roles and responsibilities

The board is governed by a formal Board Charter setting out composition, processes and responsibilities.

The primary responsibilities of the board include the following:

- retain full and effective control of the company;
- give strategic direction to the company;
- monitor management in implementing plans and strategies as approved by the board;
- appoint the CEO and executive directors;
- ensure that succession is planned;
- identify and regularly monitor key risk areas and key performance indicators of the business;
- ensure that the company complies with relevant laws, regulations and codes of business practice;
- ensure that the company communicates with shareowners and relevant stakeholders openly and promptly;
- identify and monitor relevant non-financial matters;
- establish a formal and transparent procedure for appointment to the board, as well as a formal orientation programme for incoming directors;
- regularly review processes and procedures to ensure effectiveness of internal systems of control and accept responsibility for the total process of risk management; and
- assess the performance of the board, its committees and its individual members on a regular basis.

Board meetings and attendance

The board meets regularly, at least once a quarter and when necessary to fulfil its role. The board held 11 meetings during the past financial year, five of which were special board meetings. Attendance by directors at board meetings is set out on page 95.

Retirement and re-election of directors

The retirement age for an executive director is 63 and for a non-executive director 70 years of age, subject to review at the discretion of the board on the recommendation of the Nomination Committee.

One-third of the directors are subject, by rotation to retirement and re-election at the annual general meeting in terms of the company's Articles of Association ("articles"). Messrs DCG Murray, CPD Cornier, AMHO Poupart-Lafarge and LP Mondi retire and, being eligible, have offered themselves for re-election. Biographical details of the directors are provided on page 6 of this report to enable shareholders to make an informed decision in respect of their election. In accordance with the company's articles, Mr RH Torlage's appointment as a director of the board with effect 3 September 2010 will be confirmed by shareholders at the forthcoming annual general meeting.

Board appointments and induction

The board has adopted a policy on the procedures for the appointment of directors to ensure that the appointments are formal, transparent

Corporate governance appendix continued

and a matter for the board as a whole. The Nomination Committee periodically assesses the skills represented on the board by the non-executive directors and determines whether those skills meet the company's needs. Directors are invited to assist with the identification and nomination of potential candidates.

The Nominations Committee proposes suitable candidates for consideration by the board. The board ascertains whether potential candidates are competent to be appointed as directors and are able to contribute to business judgement calls made by the board. The board particularly considers the knowledge and experience required to fill any gap in the board, the integrity of the individual and the skills and capacity of the individual to discharge his/her duties to the board.

On appointment, all directors are provided with a Directors' Manual which contains information on their fiduciary duties and responsibilities as a director of the company. Meetings are scheduled for the new director to meet key management and visit all the operational sites of the company.

Remuneration

Details of the remuneration paid to the executive and non-executive directors of the company are set out in the Remuneration Report on page 124 of this report. Shareholders will be invited to consider and approve the non-executive directors' fees at the 2011 annual general meeting by means of a special resolution.

Board committees

While the board remains accountable and responsible for the performance and affairs of the company, it delegates to management and board committees certain functions to assist it to properly discharge its duties. Each committee acts within approved written terms of reference under which authority is delegated by the board. The chairman of each committee reports at each scheduled meeting of the board and minutes of committee meetings are provided to the board. The attendance by the members at the committee meetings is set out on page 95.

Audit and Risk Committee

The Audit and Risk Committee Report required in terms of section 270A(1)(F) of the Companies Act, as amended, is set out on page 118 of this report. On 4 February 2010, the board approved the appointment of Mr EK Diack as Chairman of the combined Audit and Risk Committee. Subsequent to Mr Diack's resignation from the board on 9 July 2010, Mr M Macdonald was appointed as the chairman of the committee.

Committee members

M Macdonald (Chairman)
DCG Murray
ND Orleyn

Permanent invitees

N Nyembezi-Heita
RH Torlage
Chief Operating Officer
External auditors
Group Manager, Statutory Reporting
Group Manager, Internal Audit
Manager, Risk and Insurance
Group Manager, Tax
Head of Legal Counsel
Group Manager, Information Management

The committee conducts its work according to an annual work plan which is regularly monitored and updated 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.
- The independence of the external auditors, meeting with the external auditors at least once a year without management being present.
- Recommendations to the board on all aspects relating to the appointment, retention, resignation/dismissals of external

auditors, ensuring that the process complies with all relevant legislation.
- Nomination of the external audit firm and the audit partner.
- Any statements on ethical standards for the company and how they are promoted and enforced.
- That the CFO is appropriately qualified and experienced.
- Significant cases of unethical activity by employees or by the company itself.

The 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 resources and technology risks.
- IT governance risks.
- Business continuity and disaster recovery risks.
- Credit and market risks.
- Compliance risks.

Safety, Health and Environment Committee (SHE)

The SHE Committee has been mandated to assist the board in ensuring sound management of safety, health and environmental matters.

Committee members
DCG Murray (Chairman)
M Macdonald
N Nyembezi-Heita

Permanent invitees
Chief Operating Officer
Chief Technology Officer
Group Manager, Health, Safety and Wellness
Group Manager, Environment
NUMSA
Solidarity
General Managers of business units

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;
- 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;
- deal with any other matters formally delegated by the board to the committee from time to time; and
- ensure adequate resource provision to comply with SHE policies, standards and regulatory requirements.

Remuneration Committee

Committee members
ND Orleyn (Chairman)
DCG Murray
DK Chugh
LP Mondi

By invitation
N Nyembezi-Heita
AMHO Poupart-Lafarge
General Manager, Human Resources
Vice-President, Human Resources for the ArcelorMittal Group

The functions of the Remuneration Committee are to:
- determine and agree with the board the framework or broad policy for the remuneration of the company's executive and senior management;
- determine the targets and rules for any performance-related pay schemes operated by the company;
- determine the rules for any share incentive scheme;
- approve general salary increases and mandates for negotiations with trade unions and review and assess any ad hoc remuneration matters;
- oversee any major changes in employee benefit structures throughout the company;
- be involved in and ensure a proper system of succession planning for top management and monitor succession planning in the rest of the organisation;
- confirm appointment to senior management positions;
- approve employment equity plans for implementation; and
- deal with any other human resources matters formally delegated by the board to the committee from time to time.

Corporate governance appendix continued

Nominations Committee

Committee members
MJN Njeke (Chairman)
ND Orleyn
DCG Murray

By invitation
N Nyembezi-Heita
AMHO Poupart-Lafarge
DK Chugh
General Manager, Human Resources
Vice-President, Human Resources for ArcelorMittal Group

The functions of the Nomination Committee are to:

- regularly review the board structure, size and composition and make recommendations to the board on the composition of the board in general and any adjustments that are deemed necessary, including the balance between executive, non-executive and independent non-executive directors;
- be responsible for identifying and nominating candidates for the approval of the board to fill board vacancies (executive and non-executive directors) as and when they arise;
- be responsible for succession planning, in particular for the chairman and executive directors;
- agree, and put in place, a performance contract with the CEO;
- formalise the annual performance reviews of the board as a whole, the respective board committees and individual board members;
- in the exercise of its duties, have due regard for the principles of governance and code of best practice; and
- deal with any other nomination matter formally delegated by the board to the committee from time to time.

Transformation Committee

The Transformation Committee was established to drive strategy and the achievement of B-BBEE targets within the company.

Committee members
ND Orleyn (Chairman)
N Nyembezi-Heita
RH Torlage
DK Chugh
LP Mondi

By invitation
CPD Cornier
AMHO Poupart-Lafarge
Chief Operating Officer
General Manager, Human Resources
Group Manager, Corporate Responsibility and External Relations

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.

Additional committees

Executive Committee

Committee members
N Nyembezi-Heita (Chairman)
RH Torlage
Chief Operating Officer
Chief Technology Officer
Chief Marketing Officer
General Managers of business units
Head of Legal Counsel
General Manager, Human Resources
Group Manager, Environment
Group Manager, Corporate Responsibility and External Relations
Manager, Corporate Communications and Branding
Group Manager, Information Management
Group Manager, Internal Audit

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.

The committee meets formally on a monthly basis.

B-BBEE Special Committee

This board committee was established to consider the B-BBEE transaction.

Committee members

ND Orleyn (Chairman)
MJN Njeke
N Nyembezi-Heita
S Maheshwari
C Cornier

Board and committee meeting attendance

The attendance at meetings by directors for the year ended 31 December 2010, including teleconferences, is summarised below:

Director	Board [7]	Audit and Risk [7]	SHE	Trans-formation	Remune-ration	Nomina-tion	B-BBEE Special Com
Mr MJN Njeke	11/11	N/A	N/A	N/A	N/A	3/3	4/4
Ms N Nyembezi-Heita	11/11	6/7[1]	3/3	2/2	3/4[1]	3/3[1]	4/4
Mr DK Chugh	9/11	N/A	N/A	2/2	4/4	1/3[1]	N/A
Mr CPD Cornier	7/11	N/A	N/A	2/2[1]	N/A	1/3[1]	4/4
Mr EK Diack[2]	6/6	5/5	N/A	1/2[1]	N/A	N/A	4/4
Mr M Macdonald[3]	10/11	6/7	3/3	N/A	N/A	N/A	N/A
Mr S Maheshwari	5/11	N/A	N/A	N/A	N/A	N/A	2/4
Mr LP Mondi	10/11	N/A	N/A	1/2	2/4	N/A	N/A
Mr DCG Murray	10/11	7/7	3/3	1/2[1]	4/4	3/3	N/A
Ms ND Orleyn[4]	9/11	N/A	N/A	2/2	3/4	3/3	3/4
Mr AMHO Poupart-Lafarge	6/11	N/A	N/A	1/2	2/4	1/3	N/A
Mr RH Torlage[5]	2/3	5/7[1]	N/A	1/2[1]	N/A	N/A	N/A
Mr HJ Verster[6]	7/8	6/6	N/A	N/A	N/A	N/A	4/4

1. Attended by invitation
2. Resigned from the board on 9 July 2010
3. Appointed as independent non-executive director on 4 February 2010 and Chairman of the Audit and Risk Committee on 9 July 2010
4. Appointed as member of the Audit and Risk Committee on 9 July 2010
5. Appointed as CFO and member of the board on 3 September 2010
6. Resigned from the board on 23 August 2010
7. Includes special meetings

Corporate governance appendix continued

Additional information relating to accountability

Company Secretary

Premium Corporate Consulting Services (Proprietary) Limited is the Company Secretary who advises the board on the appropriate procedures for the management of meetings and the implementation of governance procedures. The Company Secretary provides the board collectively, and each director individually, with guidance on the discharge of their responsibilities in terms of the legislation and regulatory requirements applicable to South Africa. The board is informed of changes to legislation, regulation and best practice on a quarterly basis.

The Company Secretary and Chairman of the board ensure that the affairs of the board are managed effectively. Appointment and removal of the Company Secretary is dealt with by the board.

The Company Secretary monitors directors' dealings in shares and ensures adherence to closed periods for share trading.

Risk management

The integrated approach to Enterprise Risk Management (ERM) at ArcelorMittal

The objective of our Enterprise Risk Management is to enhance capability to manage the uncertainties we face.

The ERM policy is aligned with the ArcelorMittal Group Risk Management Policy, world best practices, the King III proposals and the ISO 31000 standards. ERM is a structured and systematic process.

Board accountability

The board is ultimately accountable for risk management within the company and the Audit and Risk Committee as a subcommittee also oversees our risk policies and strategies.

Organisational structures

Effective risk management is conducted within the approved risk management framework and structures that are tailored to the company's specific circumstances.

Risk management is thus structured around the following functional risk areas: Sales and Marketing, Procurement and Logistics, Human Resources, Finance, Strategic, Legal, Health and Safety, Environmental and Operations.

Insurance

Our insurance department, with the assistance of external consultants and using recognised international procedures and standards, undertakes regular loss prevention audits of all the company's plants and operations. We have an insurance programme in place that provides insurance cover for losses above agreed deductibles at competitive costs. Insurance cover is in principle risk-based.

Continuous improvement

To improve the robustness of the ERM process we consulted PwC to review our risk management performance.

The review process assessed the following:

- The adequacy of our current risk management efforts.
- Benchmarking the risk management activities to the PwC risk maturity model.
- The degree to which management is identifying risks.
- Alignment of risks efforts with our strategy and executive goals.
- The performance and adequacy of risk reporting requirements.

Additional information relating to transparency

Stakeholder engagement

As part of a global group, we are guided by the ArcelorMittal Group strategy on stakeholder engagement, highlighted as a key focus area for 2010. In line with group strategy and standards, we run our own engagement programme aimed at addressing the legitimate interests and expectations of our stakeholders.

Our stakeholder engagement policy governs how we identify and engage with relevant stakeholders. This policy is implemented by the Corporate Responsibility and External Relations office, with regular feedback directly

to the Board of Directors. We canvas our stakeholders for their issues in our engagements, prioritise these according to their materiality to our long-term sustainability and then use them to inform our risk assessment processes and ultimately, our long-term strategy.

Outlining a stakeholder engagement plan

Our own community development strategy includes an engagement plan which outlines ongoing open engagement with those structures that represent the interests of communities and the environments in which they exist. These groups include community forums, local municipalities and NGOs.

The engagement plan is designed to make sure that there is a two-way flow of information, and seeks to:

- provide a way for stakeholders to communicate their interests and expectations of the company;
- inform our stakeholders of our actions and progress on various issues, in order to manage our gap between stakeholder perceptions and our actual performance;
- build capacity within certain stakeholder groups so that our interactions evolve over time;
- foster sound and honest relationships with stakeholders through open dialogue;
- understand their needs, perceptions and issues so we can jointly develop programmes that are of mutual benefit;
- create a platform for community members and elected officials to educate themselves about the company, its future and its impact on surrounding communities; and
- open a conduit for executive management and operating units to communicate their endeavours to stakeholders.

Stakeholder engagements during the year

Our engagements with stakeholders vary in frequency and nature depending on the stakeholder involved. Key stakeholder interactions this year include:

Communities

The nature of our operations means that we have a direct impact on the communities in which we operate. Some communities have a legacy of past issues that we are currently working to address. It is important to us that we stay informed of the concerns of the communities surrounding our operations and that we communicate our progress directly to them on a regular basis.

This is especially important given that the majority of our employees are drawn from local communities. This means that impacts on our communities directly affect the wellbeing of our workforce and that positive developments for our employees positively impact the communities around us.

We interact regularly with diverse groups within the community to:

- identify and define critical issues and topics;
- gain wider perspectives by including different points of view and a broader range of interests;
- build networks by providing opportunities to meet interested groups and individuals in a neutral arena; and
- identify and target problems before they arise.

Our community activities are discussed further in the section on socio-economic equity on page 52 of the report.

Employees, contractors and trade unions

Our employees are not only the heart of our company, but an important aspect of our impact on the communities around us. We interact with employees directly and through trade unions on at least a monthly basis. We communicate with our employees through our in-house magazines, poster campaigns, our internal radio station, newsletters and website.

We conducted an employee survey in 2009, the results of which are being communicated to employees and

Corporate governance appendix continued

used to inform our Human Resources strategy for the future. To address these concerns, our areas of focus in the short term will cover recognition and reward, employee development and performance management.

We discuss our human resources opportunities, challenges and responses more fully on page 58 of this report.

NGOs, media and environmental interest groups

ArcelorMittal Group's global focus on increasing engagement with NGOs in 2009 coincided with our community interactions and liaison with environmental groups and the media. This is a crucial area in which we have been able to communicate our environmental strategy and ensure that this is in line with community priorities. We have a strategy in place that aims to assist NGOs to build capacity so that they can participate in environmental assessment and monitoring structures in the future.

During the year we interacted with NGOs and the media directly and held a series of community forum meetings in Vanderbijlpark and Vereeniging which will be replicated in Saldanha and Newcastle.

Key concerns included emissions, waste disposal, legacy rehabilitation projects and community health.

Our engagement, environmental governance structures and responses are more fully discussed in the environmental section of the report on page 72.

Investors

Senior management interacts with investors on a regular basis, both one-on-one and at the quarterly results presentations. Investor concerns at present are focused on the short-term high-profile issues of iron-ore supply, pricing and the B-BBEE transaction.

Government and regulators

As a responsible corporate citizen operating in a key strategic industry, we interact regularly with government at local and national levels, as well as with regulators across the country.

Key stakeholders within this grouping include:

- The Department of Environmental Affairs and Tourism
- The Department of Water Affairs and Forestry
- The Gauteng Department of Agriculture, Environment and Conservation
- The Green Scorpions
- The Department of Trade and Industry
- The Department of Health
- The Competition Commission and the Competition Tribunal
- The South African Revenue Service

The concerns raised by these stakeholders depend on their portfolios. Our interactions with them are described in the relevant sections of the report.

Suppliers

Building a sustainable supply chain is key to our future. We interact with our suppliers as a matter of course in the day-to-day operations and through our account management procedures. The most pressing issues raised by suppliers are getting fair access to business opportunities and appropriate payment terms. By operating in accordance with our code of conduct we believe we address these issues at an operational level.

The most significant supplier issue this year has been the ongoing dispute with Kumba Iron Ore, which revolves

around supply and pricing, as more fully discussed on page 37. While we are working to address this issue in a constructive and equitable manner, it is crucial for our future that we build a sustainable supply chain based on broadly predictable pricing.

We also invest heavily in smaller suppliers where possible as more fully discussed in our socio-economic equity section on page 53.

Customers

Our customers look to us for a reliable supply of top-quality products at a fair price. We interact with them through day-to-day business activities and conduct an annual customer satisfaction survey. Every third year, we engage external reviewers to conduct this survey. This year's external survey showed customers' key concerns to be around efficient delivery, lead times in ordering and product quality.

The business improvement projects discussed on page 14 are aimed at producing high-quality products at costs that are consistently in the lowest quartile of our international peers. We believe our approach to pricing, discussed on page 18, is transparent and fair. Interactions with our customers are more fully detailed in the section on product responsibility on page 87.

While we believe that we are fair in all of our business conduct, we are the subject of several ongoing reviews by the competition authorities as discussed on page 23.

Customer health and safety

While the manufacture of steel is an extremely hazardous process, steel itself is not a hazardous material. While it is a product that has been around for many hundreds of years in its current form, there are new applications being thought of all the time, like light-steel frame applications in manufacturing. With a commodity such as steel, there is little requirement for assessments on the health and safety impacts on customers and there are no regulations or voluntary codes concerning health and safety impacts in South Africa.

Information labeling

At present there are no requirements for steel to carry information labeling relating to sustainability impacts in South Africa. Should such requirements come into force in the future we will assess them and implement them as appropriate.

Marketing communications

As our products are in most cases not sold directly to end-user consumers we are not affected by any laws, standards or voluntary codes related to marketing communications, including advertising, promotion and sponsorship.

Customer privacy

We do not collect customer information due to the nature of our business and we therefore do not expose customers to breaches of privacy or losses of customer data.

Compliance

While there were no significant fines for non-compliance with laws and regulations concerning the provision and use of products and services, the group's activities are subject to ongoing scrutiny by the Competition Authority as referred to in more detail on page 23.

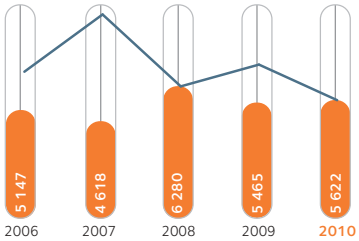
Supplementary information

JSE securities exchange statistics

Exchange statistics

	Year ended 31 December					
	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm
Number of ordinary shares traded (m)	**217**	291	348	251	248	294
Number of transactions ('000)	**283**	321	308	136	90	87
Value of ordinary shares traded (Rm)	**19 384**	27 740	54 435	31 887	18 069	15 953
% of issued shares traded (Rm)	**54**	73	78	56	56	66
Year-end market price/headline earnings ratio (times)	**23.1**	(99.0)	4.2	10.6	9.3	5.4
Headline earnings yield at year-end (%)	**4.3**	(1.0)	24.1	9.4	10.8	18.6
Dividend yield at year-end (%)	**1.9**		8.0	3.1	3.5	6.2
Market price per ordinary share (cents)						
– year-end	**7 922**	10 300	8 845	13 650	9 825	6 125
– highest	**11 745**	12 796	26500	15300	9 900	6 930
– lowest	**7 115**	6 120	5 865	9 153	5 640	4 160
– weighted average price per share trade	**8 933**	9 533	15 642	12 704	7 286	5 426
Year-end market price/net equity per ordinary share (times)	**1.41**	1.88	1.41	2.96	1.88	1.40
Market capitalisation at year-end (Rm)	**31 783**	41 324	39 427	60 845	43 795	27 302
ArcelorMittal share price index (base: 2004=0)	**129**	157	307	474	341	213
JSE Actuaries index – Industrial (base 2004=0)	**167**	221	246	299	259	188

Net asset value versus share price (cents)



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 or 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.

EBITDA margin

Earnings before interest, taxation, depreciation and amortisation as a percentage of revenue.

Financial cost cover

Net operating profit divided by net financing costs.

Financial gearing (debt-equity ratio)

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

Headline earnings yield

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

Invested capital

Net equity, borrowings and other payables, finance lease obligations, 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.

Supplementary information continued

Definitions continued

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.

Stock rotation days

Inventories at year-end multiple with 365 days divided by cost of goods sold for 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.

Selected group financial data translated into US Dollars and Euros

for the year ended 31 December 2010

	2010 USD million	2009 USD million	2010 Euro million	2009 Euro million
CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME				
Revenue	**4 118**	3 033	**3 278**	2 193
Operating expenses	**(3 825)**	(3 006)	**(3 045)**	(2 174)
Profit from operations	**293**	27	**233**	19
Finance and investment income	**10**	24	**8**	17
Finance costs	**(69)**	(129)	**(55)**	(93)
Impairment reversal		1		1
Income after tax from equity-accounted investments	**16**	25	**13**	17
Profit/(loss) before tax	**250**	(52)	**199**	(39)
Income tax expense	**(67)**	(4)	**(53)**	(3)
Profit/(loss) for the year	**183**	(56)	**146**	(42)
Other comprehensive income				
Exchange differences on translation of foreign operations	**(27)**	(45)	**(22)**	(33)
Gains on available-for-sale investments taken to equity	**4**	4	**3**	3
Movement in gains deferred from equity-accounted investments	**1**	19	**1**	14
Share of other comprehensive income of equity-accounted investments	**10**	16	**8**	12
Tax effect on amounts taken directly to equity		(5)		(3)
Total comprehensive income/(loss) for the year	**171**	(67)	**136**	(49)
Attributable earnings/(loss) per share (cents)	**46**	(13)	**36**	(10)
Headline earnings/(loss)	**188**	(52)	**149**	(38)
Headline earnings/(loss) per share (cents)	**47**	(12)	**37**	(9)
CONDENSED GROUP STATEMENT OF FINANCIAL POSITION				
ASSETS				
Non-current assets	**2 886**	2 499	**2 162**	1 734
Property, plant and equipment	**2 482**	2 144	**1 858**	1 487
Intangible assets	**13**	10	**10**	7
Unlisted equity-accounted investments	**360**	320	**270**	222
Other financial assets	**31**	25	**24**	18
Current assets	**1 905**	1 661	**1 426**	1 151
Inventories	**1 081**	779	**810**	540
Trade and other receivables	**274**	283	**204**	196
Taxation	**3**		**2**	
Other financial assets	**17**	11	**13**	8
Cash and cash equivalents	**530**	588	**397**	407
Total assets	**4 791**	4 160	**3 588**	2 885
EQUITY AND LIABILITIES				
Shareholders' equity	**3 407**	2 963	**2 551**	2 055
Stated capital	**6**	5	**4**	3
Reserves	**(374)**	(317)	**(280)**	(220)
Retained income	**3 775**	3 275	**2 827**	2 272
Non-current liabilities	**694**	626	**519**	434
Borrowings and other payables	**34**	30	**25**	21
Finance lease obligations	**78**	75	**58**	52
Non-current provisions	**226**	192	**170**	133
Deferred income tax liability	**356**	329	**266**	228
Current liabilities	**690**	571	**518**	396
Trade and other payables	**607**	472	**455**	328
Borrowings and other payables	**13**	21	**10**	14
Other financial liability				
Finance lease obligations	**9**	8	**7**	5
Taxation		1		1
Current provisions	**61**	69	**46**	48
Total equity and liabilities	**4 791**	4 160	**3 588**	2 885

Supplementary information continued

Selected group financial data translated into US Dollars and Euros continued

for the year ended 31 December 2010

	2010 USD million	2009 USD million	2010 Euro million	2009 Euro million
Condensed group statement of cash flows				
Cash inflows from operating activities	**182**	201	**145**	145
Cash outflows from investing activities	**(232)**	(160)	**(185)**	(115)
Net cash flow	**(50)**	41	**(40)**	30
Cash outflows from financing activities	**(68)**	(483)	**(41)**	(349)
Decrease in cash and cash equivalents	**(101)**	(442)	**(81)**	(319)
Effect of foreign exchange rate changes	**43**	132	**71**	81
Cash and cash equivalents at beginning of year	**588**	898	**407**	645
Cash and cash equivalents at end of year	**530**	588	**397**	407
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 at the last day of the reporting period.				
R = USD at year-end	**6.62**	7.40		
R = USD average for the year	**7.34**	8.44		
R = Euro at year-end			**8.84**	10.67
R = Euro average for the year			**9.22**	11.67

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2.6	Nature of ownership and legal form	Directorate and administration	199
2.7	Markets served	Operational review	26
2.8	Scale of the reporting organisation	Financial summary	I
2.9	Significant changes regarding size, structure or ownership	None	
2.10	Awards received in the reporting period	None	
3	Report parameters		
3.1	Reporting period	Report scope and boundary	IFC
3.2	Date of most recent previous report	Report scope and boundary	IFC
3.3	Reporting cycle	Report scope and boundary	IFC
3.4	Contact point for questions	Refer to website	1
3.5	Process for defining report content.	Transparency with stakeholders	
3.6	Boundary of the report	Report scope and boundary	IFC
3.7	Specific limitations on the scope of the report	No limitations	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities	Financial statements	136
3.9	Data measurement techniques and bases of calculation	Not reported	
3.10	Restatements of information	None	
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4	Governance, commitments and engagement		
4.1	Governance structure	Governance report	30
4.2	Indicate if chairman of the highest governance body is also an executive officer	Chair is non-executive	90
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4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the board	Stakeholder engagement	96
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4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy	Not reported	
4.8	Statements of mission or values, codes of conduct, and principles and the status of their implementation	Introduction	II – IV
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance	Directing the company responsibly	30
4.10	Evaluation of the highest governance body	Not performed	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Not reported	
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4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation operates	Not reported	
4.14	List of stakeholder groups engaged by the organisation	Transparency with stakeholders	33
4.15	Basis for identification and selection of stakeholders with whom to engage	Transparency with stakeholders	33
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Transparency with stakeholders	33
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded	Socio-economic equity	54
	Economic Performance Indicators		

Item		Section	Page
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Value added statement	54
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Not reported	184
EC3	Coverage of the organisation's defined benefit plan obligations	Note 28 of the financial statements	
EC4	Significant financial assistance received from government.	N/A	
EC5	Range of ratios of standard entry level wage compared with local minimum wage at significant locations of operation	Not reported	
EC6	Policy, practices, and proportion of spending on locally based suppliers at significant locations of operation	Preferential procurement	53
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Not reported	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Socio-economic equity	54
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Not reported	
	Environmental Performance Indicators		
EN1	Materials used by weight or volume	Environmental section	80
EN2	Percentage of materials used that are recycled input materials.	Environmental section	79
EN3	Direct energy consumption by primary energy source	Energy and climate change	85
EN4	Indirect energy consumption by primary source	Energy and climate change	85
EN5	Energy saved due to conservation and efficiency improvements	Not reported	
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	Not reported	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Energy and climate change	85
EN8	Total water withdrawal by source	Environmental section	77

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Item		Section	Page
EN9	Water sources significantly affected by withdrawal of water. (The total number of significantly affected water sources by type)	Environmental section	80
EN10	Percentage and total volume of water recycled and reused	Not reported	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not reported	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Not reported	
EN13	Habitats protected or restored	Not reported	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Not reported	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Not reported	
EN16	Total direct and indirect greenhouse gas emissions by weight	Energy and climate change	85
EN17	Other relevant indirect greenhouse gas emissions by weight	Not reported	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Energy and climate change	82
EN19	Emissions of ozone-depleting substances by weight	Not reported	
EN20	NO_2, SO_2, and other significant air emissions by type and weight	SO_2 emissions	76
EN21	Total water discharge by quality and destination	Not reported	
EN22	Total weight of waste by type and disposal method	Environmental section	79
EN23	Total number and volume of significant spills	Environmental overview	72
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally	N/A	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and run-off	Not reported	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Environmental section	72
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Not reported	

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EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	Not reported	
EN30	Total environmental protection expenditures and investments by type	Not reported	
	Social Performance Indicators – labour practices and decent work		
LA1	Total workforce by employment type, employment contract, and region	Human resources	58 – 59
LA2	Total number and rate of employee turnover by age group, gender, and region	Human resources	58 – 59
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations	Not reported	
LA4	Percentage of employees covered by collective bargaining agreements	Employee engagement and representation	59
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Legislative framework under human resources	59
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	Safety health and wellness (SH&W)	70
LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	SH&W	70
LA8	Education, training, counseling, prevention, and risk-control programme in place to assist workforce members, their families, or community members regarding serious diseases	SH&W	70
LA9	Health and safety topics covered in formal agreements with trade unions	SH&W	70
LA10	Average hours of training per year per employee by employee category	Growing a robust skills pipeline	65
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Not reported	
LA12	Percentage of employees receiving regular performance and career development reviews	Personal career development	61

GRI Index continued

Item		Section	Page
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Human resources	58
LA14	Ratio of basic salary of men to women by employee category	Not reported	
	Social Performance Indicators – human rights		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	Not reported	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Not reported	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Not reported	
HR4	Total number of incidents of discrimination and actions taken	Not reported	
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	Not reported	
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	Human rights	61
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	Human rights	61
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	Not reported	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Not reported	
	Social Performance Indicators – society		
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	Stakeholder engagement	33

Item		Section	Page
SO2	Percentage and total number of business units analysed for risks related to corruption	Not reported	
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Not reported	
SO4	Actions taken in response to incidents of corruption	Not reported	
SO5	Public policy positions and participation in public policy development and lobbying	Not reported	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Not reported	
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	Anti competitive behaviour	23
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	None	
	Social Performance Indicators – product responsibility		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	While the manufacture of steel is an extremely hazardous process, steel itself is not a hazardous material. While it is a product that has been around for many hundreds of years in its current form, there are new applications being thought of all the time, like light-steel frame applications in manufacturing. With a commodity such as steel, there is little requirement for assessments on the health and safety impacts on customers and there are no regulations or voluntary codes concerning health and safety impacts in South Africa.	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	None that we are aware of	

GRI Index continued

Item		Section	Page
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	At present there are no requirements for steel to carry information labelling relating to sustainability impacts in South Africa. Should such requirements come into force in the future we will assess them and implement them as appropriate.	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	N/A	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Customer satisfaction	87
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	As our products are in most cases not sold directly to end-user consumers we are not affected by any laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	N/A	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	We do not collect customer information due to the nature of our business and we therefore do not expose customers to breaches of privacy or losses of customer data.	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	N/A	

GRI Index continued

Self-declaration of GRI application

In accordance with the application level requirements set out in the table below, ArcelorMittal South Africa declares its application of the GRI at a level B.

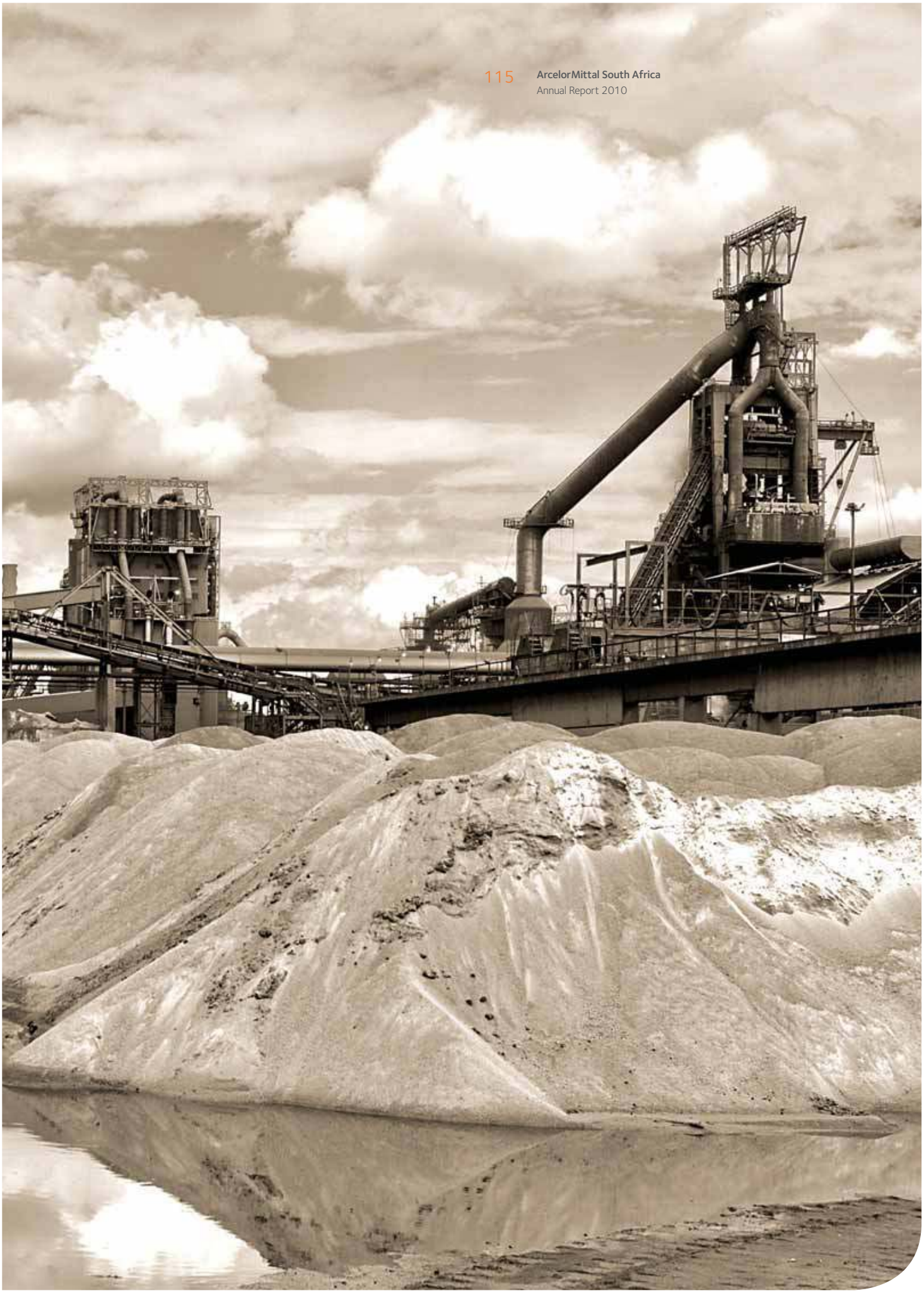
Report application Level		C	C+	B	B+	A	A+
Standard disclosures	G3 Profile Disclosures	Report on: 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report externally assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report externally assured	Same as requirement for Level B	Report externally assured
	G3 Management Approach Disclosures	Not required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	G3 Performance Indicators and Sector Supplement Performance Indicators	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, including at least one from each of: Economic, Environmental, Human rights, Labour, Society Product Responsibility.		Report on each Core G3 and Sector Supplement Indicator with due regard to the Materiality Principle by either (a) reporting on the Indicator or (b) explaining the reason for the omission.	

Financial statements

optimistic spirit

ArcelorMittal continues to pursue initiatives that will deliver continuous cost and productivity efficiency to keep the company among the world's lowest-cost producers.

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 Companies Act 61 of 1973, as amended, 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, Listings Requirements of the JSE Limited 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 and Risk Committee, which consists of independent non-executive directors, meet periodically with the external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The group's internal auditors independently evaluate the internal controls. The external auditors are responsible for reporting on the financial statements. The external and internal auditors have unrestricted access to all records, property and personnel as well as to the Audit and Risk Committee. The directors are not aware of any material breakdown in the functioning of these controls and systems during the period under review.

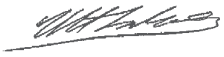
The directors are of the opinion, based on the information and explanations given by management and the internal auditors that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the group and company annual financial statements.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

The directors have reviewed the group and company's financial budgets for the year to 31 December 2011. In light of review of the current financial position and existing borrowing facilities, they consider it appropriate that the annual financial statements continue to 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 117.

The directors of the company accept responsibility for the annual financial statements which were approved by the board of directors on 8 March 2011 and are signed on its behalf by:

N Nyembezi-Heita
Chief Executive Officer
8 March 2011



RH Torlage
Chief Financial Officer
8 March 2011

Certificate by Company Secretary

In terms of section 268(G) of the Companies Act 61 of 1973 ("the Act"), as amended, I certify that, to the best of my knowledge and belief, the company has, in respect of the financial year reported upon, lodged with CIPRO all returns required of a public company in terms of the Act and that all such returns are true, correct and up to date.

Premium Corporate Consulting Services (Proprietary) Limited
Company Secretary
8 March 2011

Independent auditors' report

To the members 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 statement of financial position and the consolidated statement of financial position as at 31 December 2010, and the statement of comprehensive income and the consolidated statement of comprehensive income, the statement of cash flows and the consolidated statement of cash flows and the statement of changes in equity and the consolidated statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory information, the directors' report and the Audit and Risk Committee report as set out on pages 118 to 197.

Directors' responsibility for the financial statements
The 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall preparation of the financial statements.

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 annual financial statements present fairly, in all material respects, the financial position of the group and of the company as at 31 December 2010, 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
8 March 2011

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

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

National Executive: GG Gelink, Chief Executive; AE Swiegers, Chief Operating Officer; GM Pinnock, Audit; DL Kennedy, Risk Advisory; NB Kader, Tax & Legal Services; L Geeringh, Consulting; L Bam, Corporate Finance; JK Mazzocco, Human Resources; CR Beukman, Finance; TJ Brown, Clients; NT Mtoba, Chairman of the Board; MJ Comber, Deputy Chairman of the Board.

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

Member of Deloitte & Touche Tohmatsu Limited

Audit and Risk Committee report

The Audit and Risk Committee comprised of the following independent non-executive directors during the year and to the date of this report:
Mr EK Diack, resigned with effect from 9 July 2010 as member and Chairman;
Mr M Macdonald, appointed as Chairman with effect from 9 July 2010;
Mr DCG Murray; and
Ms ND Orleyn, appointed on 9 September 2010;

The Audit and Risk Committee reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee mandate, and has regulated its affairs in compliance with this mandate, and has discharged all of the responsibilities set out therein.

The Audit and Risk Committee considered the matters set out in section 270A(5) of the Companies Act 61 of 1973, as amended by the Corporate Laws Amendment Act, and is satisfied with the independence and objectivity of Deloitte & Touche as external auditors and Mr R Duffy as the designated auditor. The Audit and Risk Committee further approved the fees to be paid to Deloitte & Touche and their terms of engagement and preapproved any proposed contract with Deloitte & Touche for the provision of non-audit services to the company.

As required by JSE Listings Requirement 3.84(h), the Audit and Risk Committee has satisfied itself that the Chief Financial Officer has the appropriate expertise and experience.

The Audit and Risk Committee is satisfied that there was no material breakdown of the internal accounting controls during the financial year. This is based on the information and explanations given by management and the group internal audit function.

The Audit and Risk Committee has evaluated the annual financial statements of ArcelorMittal South Africa Limited and the group for the year ended 31 December 2010 and, based on the information provided to the Audit and Risk Committee, considers that the group and company complies, in all material respects, with the requirements of the Companies Act, as amended, and International Financial Reporting Standards (IFRS).

M Macdonald
Audit and Risk Committee Chairman
8 March 2011

Directors' report

for the year ended 31 December 2010

The directors have pleasure in submitting their report together with ArcelorMittal South Africa Limited's and the group's annual financial statements for the year ended 31 December 2010.

Nature of business

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 public company incorporated and domiciled in South Africa. The address of the registered office is detailed on page 199.

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

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

Financial results and activities

The contents of the annual financial statements adequately address the financial performance of the group for the financial year ended 31 December 2010.

Further detailed reports on the activities and performance of the group and the various segments of the group are contained on pages 40 to 49 of this annual report.

At 31 December 2010 the group had a net asset value per share of 5 622 cents (2009: 5 465 cents). The net asset value per share was calculated using a net asset value of R22 556 million (2009: R21 925 million). Refer to note 11 of the annual financial statements for information on earnings and headline earnings per share.

Dividends

Details of the dividends paid are set out in note 12 of the annual financial statements.

Property, plant and equipment

Details of capital expenditure are provided in note 13 and the statements of cash flow.

Shareholders' resolutions

The following special resolutions were passed by the subsidiaries of the company during the year under review:

ArcelorMittal Pipes and Tubes South Africa (Proprietary) Limited

Special resolutions passed on 1 June 2010:

- The name of the company was changed to ArcelorMittal South Africa Operations (Proprietary) Limited; and
- The main business of the company as described in the Memorandum of Association was deleted and replaced by the following "steel manufacturing operations and ancillary activities" in terms of sections 56(4) and 55(1) of the Companies Act.

Directors' report continued

for the year ended 31 December 2010

Cautionary announcements

At 31 December 2010 and to the date of this report the following cautionary announcements were in issue:

- The company is still considering matters relevant to the B-BBEE Transaction announced on 10 August 2010 and the satisfaction of the conditions precedent.
- Following the reaching of an interim pricing agreement between the company and Sishen Iron Ore Company (Proprietary) Limited in respect of the supply of iron ore from the Sishen Mine, shareholders are advised that the arbitration process is progressing.

Authorised and issued share capital

Details of the authorised and issued share capital are set out in note 19 of the annual financial statements.

Shareholders

ArcelorMittal Holdings AG, as controlling shareholder, has an effective shareholding of 52.02%. Details of the registered and beneficial shareholders of the company are set out on page 198 of this annual report.

Directors' interests

The details of the beneficial direct interests of directors, in the shares of the company are set out on page 125 of these financial statements.

Details of the indirect interest of directors in the shares of the company are set out below:

	2010			2009		
Director	Direct	Indirect	Total	Direct	Indirect	Total
DCG Murray		1 557	1 557		1 557	1 557
M Macdonald		5 400	5 400		5 400	5 400
HJ Verster*		3 420	3 420		3 420	3 420
Total		10 377	10 377		10 377	10 377

** Resigned as executive director and Chief Financial Officer with effect from 23 August 2010.*

No other director holds any direct or indirect beneficial interest in the share capital of the company. No change to the above interests occurred between the end of the financial year ended 31 December 2010 and 8 March 2011.

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 note 15 and Annexures 1 and 2 of the financial statements.

Borrowing powers

In terms of articles 14.1 and 14.2 of the Articles of Association, the borrowing powers of the company and its subsidiaries are subject to any limitations imposed by the directors on the borrowing powers of the company. The borrowing powers are limited to total equity as detailed in note 19 of the annual financial statements.

Amendment of articles to allow for electronic payment of dividend

Shareholders who have dematerialised their shares receive payment electronically. Shareholders who have not yet dematerialised their shares, or who have not yet given a dividend payment mandate to the company's transfer secretaries and are therefore still receiving their dividends by cheque, need to note that the incidence of cheque fraud is increasing, and there have been several attempts to frequently cash dividend cheques issued by the company.

Accordingly, shareholders will be requested, at the forthcoming annual general meeting, to consider and approve and addition to the company's articles of association to provide that dividend and other payments to shareholders be paid by means of electronic funds transfer into a bank account designated for such purposes by members, with payments by cheque no longer being permissible.

Directorate

The names of the directors who presently hold office and served on the various committees of the board are set out on page 199 of this annual report.

The following changes in directorate have taken place since the last annual report:

- Mr MJN Njeke — Appointed as permanent chairman of the board with effect from 4 February 2010;
- Mr M Macdonald — Appointed as independent non-executive director with effect from 4 February 2010;
- Mr EK Diack — Resigned as independent and non-executive director with effect from 9 July 2010;
- Mr HJ Verster — Resigned as executive director and Chief Financial Officer with effect from 23 August 2010; and
- Mr RH Torlage — Appointed as executive director and Chief Financial Officer with effect from 3 September 2010.

Retirement by rotation

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

In terms of article 16.1 of the Articles of Association, the following directors are required to retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting:

- Mr CPD Cornier
- Mr LP Mondi
- Mr DCG Murray
- Mr AMHO Poupart-Lafarge

Shareholders will be requested to confirm Mr RH Torlage's appointment at the forthcoming annual general meeting.

Going concern

The financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The directors have a reasonable expectation that the group has adequate resources to continue as a going concern in the foreseeable future.

Independent auditors

Deloitte & Touche continued in office as auditors of the group. At the forthcoming annual general meeting to be held on Tuesday, 25 May 2011, shareholders will be requested to re-appoint Deloitte & Touche as the independent auditors of the group and the appointment of Mr RM Duffy as individual designated auditor who will undertake the audit of the company for the ensuing year, terminating at the conclusion of the next annual general meeting of the company.

Litigation

Details on litigation and claims are set out in note 30 of the annual financial statements.

Company Secretary

The registered business and postal addresses appear on page 199 of this report.

Premium Corporate Consulting Services (Proprietary) Limited was appointed as Company Secretary with effect from 1 May 2009.

Subsequent events

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

Directors' remuneration report

ArcelorMittal South Africa's remuneration strategy and practice for executive directors is similar to the general reward philosophy we follow for senior managers of the company. Our approach to remuneration is based on market benchmarks and best practice aligned to ArcelorMittal Group's reward philosophy.

Executive remuneration philosophy

The appointment and total remuneration of executives is proposed through the Remuneration Committee for approval and the Group Management Board.

The executive remuneration philosophy is based on the following principles:

- To provide total remuneration competitive with executive remuneration levels of industrial companies of similar size and scope.
- To promote internal, external equity and competitiveness.
- To retain leadership talent that consistently performs at expected and higher levels.

Competitiveness

The total remuneration package (cost to company, short-term bonus & long term incentives) of executive directors and other senior managers of the company are benchmarked bi-annually to ensure market competitiveness. Remuneration levels are determined by the Remuneration Committee by reference to companies that ArcelorMittal South Africa competes for talent with which are mainly in the heavy industry. This is also done by taking into account:

- Affordability;
- Company's market pay positioning;
- Global and local business results;
- Individual performance and
- Individual potential

Remuneration Structure

Executive directors are paid a base salary as well as a variable performance based bonus and also participate in the company's share scheme. All remuneration elements are reviewed annually in accordance with the company's philosophy, which is aimed at rewarding directors appropriately in accordance to market best practice and individual performance. The Remuneration Committee annually reviews every director's pay and benefits, including the bonus structure and performance parameters proposed by the company.

Remuneration Mix

The components that made the total remuneration in determining pay levels are explained below in details:

Component	Principles and Policy
Guaranteed Remuneration	The cost to company includes guaranteed pay and employer contributions to retirement fund. It is used as the basis for calculating any remuneration adjustments, for internal and external comparisons
Short Term Incentives	The bonus design is based on global design principles and it is a discretionary bonus plan. The outcome is based on performance of ArcelorMittal Group, the performance of the relevant operating unit, site or department and the individual's overall performance and potential. The bonus is calculated as a percentage of the individual's base salary. Different percentage ranges are used depending on the internal role level of the individual. Performance-related bonuses are paid only if certain minimum performance thresholds are exceeded by the ArcelorMittal Group as a whole and/or the relevant business segment.
Long Term Incentives	A discretionary long term incentive plan or stock options plan is aimed at allocating a fixed number of share options on an annual basis as approved by the Remuneration Committee based on the Johannesburg Stock Exchange as governed by the Trust Deed. The objective is to link the individual engagement and performance to the longer term retention of leadership talent. The long-term incentive scheme (share option scheme) is being reviewed going forward to align with the ArcelorMittal Group and ensuring best practices in line with relevant King III principles.
Benefits	ArcelorMittal South Africa provides benefits related to health care, and subsidize contributions to medical aid at a capped rand value. The company offers retirement benefits through compulsory participation in the various retirement fund plans and a suite of options has been made available for employees to choose from which is funded from.

Consistency

The remuneration structure is consistent for executive directors and other senior managers of ArcelorMittal South Africa. Benefits offered to executive directors are in line with those offered to other employees, such as pension fund and medical aid.

Non-Executive Directors

The appointment and total remuneration of non-executive directors are based on proposals from the Remuneration and Nominations Committee for approval by the ArcelorMittal South Africa Board. Non-executive fee structure comprises of an annual fee and in addition a fee for attending and contributing to board meetings. The Chairman receives an annual fee inclusive of all board and board committee attendances. Non-executive directors do not receive short term incentives (performance bonus), nor do they participate in the long term incentive plan (share options scheme).

Directors' remuneration report continued

Fee Structure

Fee structures for remuneration of board and sub committee members are recommended to the board by the Remuneration Committee and reviewed annually. It includes market norms, practices and benchmarks, inclusive of new legislation, regulations and corporate governance guidelines.

Succession Planning

The company has a performance management system for executives referred to as the global executive development program (GEDP) which manages succession planning for executives in the company. The term of office of an independent non-executive director is based on a three year cycle. 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 can be eligible for re-election.

Directors' remuneration for ArcelorMittal South Africa and its subsidiaries

	Notes	Fees R	Basic salary R	Bonuses/ performance-related payments R	Allowances[10] R	Other benefits[11] R	Retirement contri-butions R	Retention contract leave pay and annual retainer[12] R	Total R
For the year ended 31 December 2010									
Executive directors									
N Nyembezi-Heita			3 212 202	379 275	187 739	17 235	335 587		4 132 038
RH Torlage	1		525 612		50 580	6 588	47 611		630 391
HJ Verster	2		1 426 336	262 000	5 159	13 787	118 467	790 858	2 616 607
Sub-total			5 164 150	641 275	243 478	37 610	501 665	790 858	7 379 036
Non-executive directors									
EK Diack	3	216 000						66 000	282 000
M Macdonald	4	239 000			2 883			119 533	361 416
LP Mondi	5	135 920						150 480	286 400
DCG Murray		351 000			3 923			132 000	486 923
MJN Njeke	6, 7	865 120							865 120
ND Orleyn		274 000						132 000	406 000
Sub-total		2 081 040			6 806			600 013	2 687 859
Total		2 081 040	5 164 150	641 275	250 284	37 610	501 665	1 390 871	10 066 895

Directors' remuneration for ArcelorMittal South Africa and its subsidiaries continued

	Notes	Fees R	Basic salary R	Bonuses/ performance-related payments R	Allowances[10] R	Other benefits[11] R	Retirement contri-butions R	Retention contract leave pay and annual retainer[12] R	Total R
For the year ended 31 December 2009									
Executive directors									
LGJJ Bonte	8		3 019 124	1 635 500	1 704 071				6 358 695
N Nyembezi-Heita			2 784 048	1 580 340	187 632	23 760	293 719		4 869 499
HJ Verster			1 971 835	1 211 945	19 722	23 895	164 144	3 439 087	6 830 628
Sub-total			7 775 007	4 427 785	1 911 425	47 655	457 863	3 439 087	18 058 822
Non-executive directors									
EK Diack		314 000							314 000
KDK Mokhele		700 000							700 000
LP Mondi	5	149 000							149 000
DCG Murray		312 000			4 078				316 078
MJN Njeke	9	277 000							277 000
ND Orleyn		282 000							282 000
Sub-total		2 034 000			4 078				2 038 078
Total		2 034 000	7 775 007	4 427 785	1 915 503	47 655	457 863	3 439 087	20 096 900

Director's remuneration are not paid to the non-executive directors in the employment of the ArcelorMittal Group.

Notes

1. *Appointed as Chief Financial Officer and executive director on 3 September 2010.*
2. *Resigned on 23 August 2010.*
3. *Resigned on 9 July 2010.*
4. *Appointed on 4 February 2010 as independent non-executive director.*
5. *Fees paid to Industrial Development Corporation in Mr Mondi's capacity as Chief Economist and Divisional Executive of Professional Services of that company.*
6. *The annual retainer is made up of R427 500 (including VAT: R52 500) paid to Kagiso Trust in Mr Njeke's capacity as Deputy Chairman of that company, and R400 000 paid directly to Mr Njeke, following his resignation from Kagiso Trust.*
7. *Appointed as acting Chairman of the Board with effect from 4 December 2009 and permanent Chairman of the Board with effect from 4 February 2010.*
8. *Resigned as President and executive director of the board on 30 November 2009.*
9. *Fees paid to Kagiso Media in Mr Njeke's capacity as Deputy Chairman of that company.*
10. *Includes travel allowances.*
11. *Includes medical aid.*
12. *Includes retention, leave payments and annual retainer fee. Annual retainer fee only payable to non-executive directors.*

Directors' remuneration report continued

Directors' share options

ArcelorMittal South Africa equity-settled share option scheme

Options issued to directors, which form part of the 41.1 million (December 2009: 40.3 million) shares allocated to the Management Share Trust, totalled 317 397 as at 31 December 2010 (December 2009: 400 791) as follows:

	Balance as at 1 January 2010			
	Subscription price R	Number	Date of issue	Period granted (years)
For the year ended 31 December 2010				
Name				
DK Chugh	50.26	22 876	2005/09/28	6
	53.38	48 522	2005/12/12	10
		71 398		
N Nyembezi-Heita	186.50	31 660	2008/03/25	10
	73.75	66 520	2008/11/10	10
	105.50	66 520	2009/11/02	10
		164 700		
RH Torlage	83.88	29 563	2006/11/08	10
	82.02	2 946	2006/12/12	10
	133.50	16 770	2007/11/20	10
	73.75	16 770	2008/11/10	10
	106.50	15 250	2009/11/20	10
		81 299		
HJ Verster	83.88	59 523	2006/11/08	10
	82.02	5 950	2006/12/12	10
	133.50	34 020	2007/11/20	10
	73.75	34 020	2008/11/10	10
	105.50	31 180	2009/11/02	10
		164 693		
Total		482 090		

Notes

[1] *Appointed on 3 September 2010 as Chief Financial Officer and executive director. These options were offered and accepted before his appointment as director.*

[2] *Resigned on 23 August 2010, hence these shares were forfeited.*

[3] *On 25 October 2010, 11 328 shares were sold at R83.25 each. The remaining 22 692 shares in this tranche were forfeited.*

[4] *Offer accepted on 13 January 2009.*

[5] *Offer accepted on 6 November 2009.*

Issues					Sold/forfeited			Balance as at 31 December 2010
Subscription price R	Number of options	Date of issue	Period granted (years)	Notes	Number during the year	Gross gains	Notes	Number
								22 876
								48 552
								71 398
								31 660
								66 520
								66 520
								164 700
							1	29 563
							1	2 946
							1	16 770
							1	16 770
							1	15 250
								81 299
					59 523		2	
					5 950		2	
					34 020		2	
					34 020	107 616	3	
					31 180		2	
					164 693	107 616		
					164 693			317 397

Directors' remuneration report continued

Directors' share options continued

ArcelorMittal South Africa equity-settled share option scheme continued

	Balance as at 1 January 2009			
	Subscription price R	Number	Date of issue	Period granted (years)
For the year ended 31 December 2009				
Name				
DK Chugh	50.26	22 876	2005/09/28	6
	53.38	48 522	2005/12/12	10
		71 398		
N Nyembezi-Heita	186.50	31 660	2008/03/25	10
		31 660		
HJ Verster	83.88	59 523	2006/11/08	10
	82.02	5 950	2006/12/12	10
	133.50	34 020	2007/11/20	10
		99 493		
Total		202 551		

Executive international mobility share option plan

Options issued to directors that qualify for participation in the Global ArcelorMittal Group Plan amounted to nil (December 2009: 8 250) ArcelorMittal Group shares.

	Balance at beginning of year			
	Subscription price USD	Number	Date of issue	Period granted (years)
For the year ended 31 December 2010				
Name				
HJ Verster	**28.75**	**8 250**	**2005/08/23**	**10**
Total		**8 250**		
For the year ended 31 December 2009				
LGJJ Bonte	64.30	10 000	2007/08/02	10
	82.57	15 000	2008/08/05	10
		25 000		
HJ Verster	28.75	8 250	2005/08/23	10
Total		33 250		

Notes

[1] *On 22 November 2010 shares were sold at USD33.10.*

[2] *Issued prior to becoming Chief Financial Officer and directors of ArcelorMittal South Africa on 17 February 2006.*

[3] *Resigned as President and director on 30 November 2009.*

Refer to note 29 relating to the abovementioned directors' participation in the above plan, specifically with regard to the accounting treatment for the reporting period and the presentation of comparative information.

	Issues				Sold/forfeited			Balance as at 31 December 2009
Subscription price R	Number of options	Date of issue	Period granted (years)	Notes	Number during the year	Gross gains	Notes	Number
								22 876
								48 522
								71 398
								31 660
73.75	66 520	2008/11/10	10	4				66 520
105.50	66 520	2009/11/02	10	5				66 520
	133 040							164 700
								59 523
								5 950
								34 020
73.75	34 020	2008/11/10	10	4				34 020
105.50	31 180	2009/11/02	10	5				31 180
	65 200							164 693
	198 240							400 791

	Issues				Sold/forfeited			Balance at end of year
Subscription price USD	Number of options	Date of issue	Period granted (years)	Notes	Number during the year	Gross gains	Notes	Number
					8 250	**35 921**	**1**	
					8 250	**35 921**		
					10 000		3	
					15 000		3	
38.30	12 500	2009/08/04		10	12 500		3	
	12 500				37 500			
							2	8 250
	12 500				37 500			8 250

Group and company statements of comprehensive income

for the year ended 31 December 2010

	Notes	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Revenue		**30 224**	25 598	**26 956**	23 282
Raw materials and consumables used		**(17 027)**	(14 003)	**(15 171)**	(12 975)
Employee costs		**(2 951)**	(2 640)	**(2 951)**	(2 635)
Energy		**(2 419)**	(2 062)	**(1 812)**	(1 558)
Movement in inventories of finished goods and work-in-progress		**744**	(1 296)	**702**	(1 139)
Impairment charge	6		(26)		
Depreciation		**(1 360)**	(1 279)	**(951)**	(909)
Amortisation of intangible assets		**(11)**	(13)	**(9)**	(10)
Other operating expenses		**(5 049)**	(4 050)	**(4 312)**	(3 358)
Profit from operations	7	**2 151**	229	**2 452**	698
Finance and investment income	8	**71**	211	**70**	84
Finance costs	9	**(507)**	(1 089)	**(458)**	(1 017)
Income after tax from equity-accounted investments		**122**	206		
Profit/(loss) before taxation		**1 837**	(443)	**2 064**	(235)
Income tax expense	10	**(492)**	(35)	**(623)**	(183)
Profit/(loss) for the year		**1 345**	(478)	**1 441**	(418)
Other comprehensive income					
Exchange differences on translation of foreign operations		**(200)**	(380)		
Gains on available-for-sale investment taken to equity		**29**	37		
Movement in losses deferred from equity on cash flow hedges		**8**	158	**8**	146
Share of other comprehensive income of equity-accounted investments		**75**	135		
Tax effect on amounts taken directly to equity		**(2)**	(40)	**(2)**	(41)
Total comprehensive income/(loss) for the year		**1 255**	(568)	**1 447**	(313)
Profit/(loss) attributable to:					
Owners of the company		**1 345**	(478)		
Total comprehensive income/(loss) attributable to:					
Owners of the company		**1 255**	(568)		
Attributable earnings/(loss) per share (cents)	11				
– Basic		**335**	(113)		
– Diluted		**335**	(113)		

Group and company statements of financial position

as at 31 December 2010

	Notes	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
ASSETS					
Non-current assets					
Property, plant and equipment	13	**16 432**	15 862	**10 884**	10 072
Intangible assets	14	**84**	72	**55**	51
Equity-accounted investments		**2 386**	2 369	**737**	617
Investments in subsidiaries	15			**9 041**	8 751
Other financial assets	16	**208**	187	**139**	150
Total non-current assets		**19 110**	18 490	**20 856**	19 641
Current assets					
Inventories	17	**7 156**	5 767	**6 284**	5 139
Trade and other receivables	18	**1 816**	2 096	**1 582**	1 644
Taxation		**18**		**23**	
Other financial assets	16	**112**	83	**112**	83
Cash and cash equivalents		**3 506**	4 348	**3 155**	4 222
Total current assets		**12 608**	12 294	**11 156**	11 088
Total assets		**31 718**	30 784	**32 012**	30 729
EQUITY AND LIABILITIES					
Capital and reserves					
Stated capital	19	**37**	37	**37**	37
Reserves		**(2 475)**	(2 344)	**(68)**	(52)
Retained income		**24 994**	24 232	**24 868**	24 096
Total shareholders' equity		**22 556**	21 925	**24 837**	24 081
Non-current liabilities					
Borrowings and other payables	20	**224**	220	**204**	189
Finance lease obligations	21	**515**	557	**384**	420
Non-current provisions	22	**1 499**	1 420	**1 481**	1 399
Deferred income tax liability	23	**2 354**	2 435	**1 087**	1 044
Total non-current liabilities		**4 592**	4 632	**3 156**	3 052
Current liabilities					
Trade and other payables	24	**4 020**	3 496	**3 494**	2 892
Borrowings and other payables	20	**88**	153	**78**	143
Other financial liabilities	16		3		2
Finance lease obligations	21	**59**	57	**50**	47
Taxation			8		11
Current provisions	22	**403**	510	**397**	501
Total current liabilities		**4 570**	4 227	**4 019**	3 596
Total equity and liabilities		**31 718**	30 784	**32 012**	30 729

Group and company statements of cash flows

for the year ended 31 December 2010

	Notes	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Cash generated from operations	25.1	**2 666**	4 706	**2 635**	4 904
Interest income		**69**	199	**67**	197
Finance cost		**(85)**	(122)	**(56)**	(89)
Dividends paid	25.2	**(602)**	(1 627)	**(669)**	(1 627)
Income tax paid	25.3	**(653)**	(934)	**(656)**	(847)
Realised foreign exchange movements		**(58)**	(529)	**(46)**	(487)
Cash flows from operating activities		**1 337**	1 693	**1 275**	2 051
Investment to maintain operations	25.4	**(1 259)**	(784)	**(1 064)**	(733)
Investment to expand operations	25.5	**(455)**	(130)	**(443)**	(125)
Investment in associates		**(120)**	(524)	**(120)**	(524)
Dividend from equity-accounted investments		**126**	88		
Income from investments – dividends				**1**	6
Income from investments – interest		**2**	3	**2**	3
Cash flows from investing activities		**(1 706)**	(1 347)	**(1 624)**	(1 373)
Borrowings and other payables repaid		**(43)**	(58)	**(32)**	(48)
Finance lease obligation repaid		**(320)**	(82)	**(311)**	(74)
Increase in loans to subsidiaries				**(317)**	(4 151)
Increase in contributions to the Management Share Trust and other		**(11)**	(17)	**(11)**	(19)
Repurchase of shares			(3 918)		
Cash flows from financing activities		**(374)**	(4 075)	**(671)**	(4 292)
Decrease in cash and cash equivalents		**(743)**	(3 729)	**(1 020)**	(3 614)
Effect of foreign exchange rate changes on cash and cash equivalents		**(99)**	(352)	**(47)**	(285)
Cash and cash equivalents at beginning of year		**4 348**	8 429	**4 222**	8 121
Cash and cash equivalents at end of year		**3 506**	4 348	**3 155**	4 222

Group statements of changes in equity

for the year ended 31 December 2010

	Stated capital Rm	Reserves						Retained income Rm	Total equity Rm
		Treasury share equity reserve[1] Rm	Management Share Trust reserve[2] Rm	Share-based payment reserve[3] Rm	Attributable reserves of equity-accounted investments Rm	Other reserve[4] Rm	Cash flow hedge accounting reserve[5] Rm		
Group									
Balance at 1 January 2009	37		(207)	95	1 137	598	(120)	26 455	27 995
Total comprehensive income/(loss) for the year						*(204)	114	(478)	(568)
Management Share Trust: net treasury share purchases (net of income tax)			(12)						(12)
Share-based payment expense				55					55
Repurchase of shares		(3 918)							(3 918)
Dividend								(1 627)	(1 627)
Transfer of equity-accounted earnings					118			(118)	
Balance at 31 December 2009	**37**	**(3 918)**	**(219)**	**150**	**1 255**	**394**	**(6)**	**24 232**	**21 925**
Total comprehensive income for year						**(96)	**6**	**1 345**	**1 255**
Management Share Trust: net treasury share purchases (net of income tax)			**(54)**						**(54)**
Share-based payment expense				**32**					**32**
Dividend								**(602)**	**(602)**
Transfer of equity-accounted earnings					**(19)**			**19**	
Balance at 31 December 2010	**37**	**(3 918)**	**(273)**	**182**	**1 236**	**298**		**24 994**	**22 556**

	2010	2009
Dividends per share (cents)		
– Interim	**150**	
– Final (declared after statement of financial position date)		

* *R135 million relates to equity-accounted investments.*
** *R75 million relates to equity-accounted investments.*

Group statements of changes in equity continued

for the year ended 31 December 2010

	Stated capital Rm	Reserves				Retained income Rm	Total equity Rm
		Management Share Trust reserve[2] Rm	Share-based payment reserve[3] Rm	Other reserves[4] Rm	Cash flow hedge accounting reserve[5] Rm		
Company							
Balance at 1 January 2009	37	(207)	95	23	(111)	26 141	25 978
Total comprehensive income/(loss) for the year					105	(418)	(313)
Management Share Trust: net treasury share purchases (net of income tax)		(12)					(12)
Share-based payment expense			55				55
Dividend						(1 627)	(1 627)
Balance at 31 December 2009	**37**	**(219)**	**150**	**23**	**(6)**	**24 096**	**24 081**
Total comprehensive income for year					**6**	**1 441**	**1 447**
Management Share Trust: net treasury share purchases (net of income tax)		**(54)**					**(54)**
Share-based payment expense			**32**				**32**
Dividend						**(669)**	**(669)**
Balance at 31 December 2010	**37**	**(273)**	**182**	**23**		**24 868**	**24 837**

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

1. **Treasury share equity reserve**
   The company implemented a share buy-back arrangement and acquired 9.995% of the shareholding of each shareholder in 2009. The shares acquired remain in issue as treasury shares of the group.

2. **Management Share Trust reserve**
   The Management Share Trust reserve represents the net outflow from the purchase of treasury shares in order to meet obligations in terms of the ArcelorMittal South Africa Equity-settled Share Option Plan housed in the Management Share Trust. The Trust is consolidated as a controlled special purpose entity in terms of SIC-12, *Consolidation – Special Purpose Entities*.

3. **Share-based payment reserve**
   The share-based payment reserve represents the accumulated charge for share options in terms of IFRS 2, *Share-based Payment*. The share option plan is equity-settled.

4. **Other reserves**
   Other reserves consist of the following:
   - Capital redemption reserve of R23 million (December 2009: R23 million) for the group and company.
     The capital redemption reserve was created in terms of Section 8(1) of the South African Companies Act 61 of 1973, following the redemption of shares during the year ended 30 June 2000, out of profits that would otherwise be available for distribution to ordinary shareholders.
   - Available-for-sale investment reserve of R259 million (December 2009: R162 million) for the group.
     The available-for-sale investment reserve consists of:
     – reserves relating to equity-accounted investments of R197 million (December 2009: R130 million); and
     – unrealised fair value gains above cost relating to the group's investment in Hwange Colliery Company Limited of R62 million (December 2009: R33 million).
   - Translation of foreign operation reserve of R16 million (December 2009: R209 million) for the group.
     The translation of foreign operation reserve consists of:
     – reserves relating to equity-accounted investments of R7 million (December 2009: R145 million); and
     – other group-related translation reserves of R23 million (December 2009: R64 million).

5. **Cash flow hedge accounting reserve**
   The cash flow hedge accounting reserve comprises the portion of the cumulative net change in the fair value of derivatives designated in effective cash flow hedging relationships where the hedged item has not yet affected the income statement.

Notes to the group and company annual financial statements

for the year ended 31 December 2010

1. ADOPTION OF NEW AND REVISED STANDARDS

1.1 Standards, Interpretations and Amendments effective in 2010

The following standards, amendments thereto and interpretations as issued by the International Accounting Standards Board (IASB), which are effective for the current reporting period, were early adopted in the previous reporting period:

- IFRS 2 (Amendment), *Share-based Payments*;
- IAS 27 (Amendment), *Consolidated and Separate Financial Statements*, and IFRS 3 (Amendment), *Business Combinations;*
- IAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*;
- IFRIC 17, *Distribution of Non-cash Assets to Owners*; and
- IFRIC 18, *Transfers of Assets from Customers*.

1.2 Early adoption of Amendments and Interpretations with no impact on the group and company accounting policies and financial results

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

- IFRS 7 (Amendment), *Financial Instruments: Disclosures* – enhanced derecognition disclosure requirements; and
- IFRIC 14 (Amendment), IAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* and their Interactions – prepayments of a minimum funding requirement;
- Annual 2010 IFRS, *Improvement projects amendments*.

1.3 Standards and Interpretations in issue not yet adopted

The group and company have not early adopted IFRS 9, *Financial Instruments*, (effective for annual periods beginning on or after 1 January 2013), as it represents the first of a three-phased process that will eventually result in the complete replacement of IAS 39, *Financial Instrument: Recognition and Measurement*. The future adoption of IFRS 9, as it is presently constituted, is not expected to have a material impact on the financial performance, position (or changes there in), and disclosures of the financial results of the group and company.

There are no Interpretations in issue that have not been adopted.

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

In compliance with the JSE Listings Requirements, the following amended authoritative guidance as issued by the South African Institute of Chartered Accountants (SAICA) has been adopted, with no impact on the group's and company's accounting policies and financial results.

AC 504 (Amendment), IAS 19 (AC 116) *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment*, issued in October 2010.

No circulars were issued during the reporting period that were relevant to the group and company.

2. RESTATEMENTS, RECLASSIFICATIONS AND DISCLOSURE ENHANCEMENTS

2.1 Restatements and reclassifications

The group and company have made no restatements or reclassifications for the reporting period.

2.2 Disclosure enhancements

2.2.1 IAS 1, Presentation of Financial Statements – single statement of comprehensive income, and the regrouping of reserves within statement of changes in equity

As part of continuing initiatives to improve the quality of financial reporting, the group and company have:

- adopted a single statement of comprehensive income; and
- consolidated into the category "Other Reserves" the following reserves previously disclosed separately: the capital redemption reserve, available-for-sale reserve and translation of foreign operations reserve.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the group and company financial statements are set out below. These policies have been consistently applied from the comparative 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 and the AC500 standard as issued by the Accounting Practices Board that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2010, and those Amendments and Interpretations early adopted.

3.2 Basis of preparation

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

- 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 and company 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 the respective notes to the annual financial statements.

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.

Dividends received from subsidiaries, jointly controlled entities and associates are recognised in profit or loss when the company has the right to receive the dividend.

3.4 Basis of consolidation – subsidiaries

The group 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 are 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 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. This 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*.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.5 Interests in joint ventures continued

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

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

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

3.6 Investments in associates

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

The results and assets and liabilities of associates are incorporated in the 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 statement of comprehensive income and its share of post-acquisition movements in reserves is recognised as reserves of the group. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

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

3.7 Segment reporting

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

3.8 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 (its functional currency). The group's financial statements are presented in the South African Rand, which is the company's functional and presentation currency.

Transactions and balances

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.8 Foreign currency translation continued

Transactions and balances continued

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

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency of the group as follows:

- assets and liabilities for each reporting date presented are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each reporting date are translated at average exchange rates for the reporting period; and
- all resulting exchange differences are recognised as a separate component of equity, within the translation of foreign operations reserve.

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

3.9 Property, plant and equipment

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

Major improvements, which are expected to generate future economic benefits over more than one reporting period, are capitalised, while repairs and maintenance are charged as an expense when incurred. Where a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items.

Property, plant and equipment under construction are recorded as extensions under construction until they are ready for their intended use; thereafter they are transferred to the related category of property, plant and equipment and depreciated over their estimated useful lives. Qualifying borrowing costs incurred during construction are capitalised. Gains and losses on retirement or disposal of assets are reflected in the statement of comprehensive income.

3.10 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 statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

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

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.11 Intangible assets

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

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

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

Purchased intangible assets other than goodwill
(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.

(ii) Non-integrated computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives.

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

3.12 Impairment of tangible and intangible assets 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 post-tax discount rate that reflects the weighted average cost of capital of the company.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

3.13 Financial assets

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

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

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

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.13 Financial assets continued

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

Other financial liabilities

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

3.15 Derivative financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.16 Inventories

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

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

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

3.17 Cash and cash equivalents

Cash and cash equivalents 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.

3.18 Stated capital

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

Ordinary shares are classified as equity.

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

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

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

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

3.19 Borrowings

Borrowings are recognised initially at cost, which typically reflects the fair value of the funding transaction. Borrowings are subsequently measured at amortised cost.

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

3.20 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.

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

3.21 Employee benefits

Short-term employee benefits

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

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.21 Employee benefits continued

Short-term compensated absences (leave pay benefits)

The expected cost of short-term employee benefits in the form of compensated absences are recognised (i) in the case of accumulating compensated absences, when the employees render service that 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.

Retirement benefits

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

Defined benefit plans are those plans that provide guaranteed benefits to certain categories of employees, by way of contractual obligations. 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 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.

Medical benefits

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

Termination benefits

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

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

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

3.22 Provisions and contingent liabilities

Provisions

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

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

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

The increase in 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.

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.22 Provisions and contingent liabilities continued

Contingent liabilities

Legal claims are assessed using an accumulative probability method to determine whether a present obligation exists and whether the obligations are measurable

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

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

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

3.23 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 other operating expenses.

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

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 where material and continue unwinding the discount as interest income.

Dividend income

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

3.24 Operating leases

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

3.25 Borrowing costs

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

All other borrowing costs are recognised in the statement of comprehensive income in the period incurred.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES continued

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

Cash-settled share-based payments

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

Vesting conditions

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

3.27 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 declared).

Normal tax

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

Secondary tax on companies (STC) – South Africa

STC is treated as part of the income tax expense in the statement of comprehensive income for the period. It is recognised as an expense in the same period as the related dividend is declared. As the level of dividends may vary between reporting periods, the resulting tax charge in the statement of comprehensive income 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 net 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.

3.28 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.

3.29 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. If they qualify for derecognition per IAS 39 *Financial Instruments* recognition and measurement.

3.30 Comparative figures

When necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY AND ASSOCIATED SENSITIVITIES

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are detailed in the notes to the financial statements where applicable.

5. SEGMENTAL REPORT

Segment information is presented only at 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 as follows:

- Flat Carbon Steel Products consisting of the Vanderbijlpark Works, Saldanha Works and ArcelorMittal South Africa Distribution.
- Long Carbon Steel Products consisting of the Newcastle Works, Vereeniging Works and decommissioned Maputo Works.
- Coke and Chemicals undertaking the processing and marketing of by-products and the production and marketing of commercial-grade coking coal.
- Corporate and Other, 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 non-trading consolidated subsidiaries and special purpose entities.

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

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 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 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 2010

	Flat Carbon Steel Products		Long Carbon Steel Products	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
5. SEGMENTAL REPORT continued				
Revenue				
– External customers	**18 848**	15 889	**8 976**	8 112
– Intersegment customers	**586**	403	**793**	419
Total revenue	**19 434**	16 292	**9 769**	8 531
Distributed as:				
– Local	**14 529**	13 053	**6 258**	5 695
– Export				
Africa	**2 722**	1 782	**1 715**	1 725
Europe	**4**	3	**64**	105
Asia	**1 593**	1 051	**487**	503
Other			**452**	84
Results				
Operating profit/(loss) before depreciation, amortisation and impairments[1]	**1 442**	381	**1 090**	591
Depreciation and amortisation	**(1 095)**	(995)	**(264)**	(250)
Impairment charge against property, plant and equipment				(26)
Segment profit/(loss) from operations	**347**	(614)	**826**	315
Finance and investment income				
Finance costs	**(24)**	(34)	**(11)**	(28)
Income after tax from equity-accounted investments				
Profit/(loss) before tax	**323**	(648)	**815**	287
Income tax expense				
Profit/(loss) after tax				
Segment assets	**19 177**	18 430	**5 277**	4 530
Investments in equity-accounted entities				
Capital expenditure	**1 147**	630	**457**	271
Segment liabilities	**8 483**	7 997	**4 335**	3 810
Cash inflow/(outflow) from operations	**1 144**	2 260	**789**	1 726
Number of employees at year-end	**5 145**	5 123	**2 580**	2 708

[1] *Included in these amounts are expenses incurred in respect of inventory written down to net realisable value of which the aggregate amounts are disclosed in note 7. The following amounts were written off per segment:*

- *Flat Carbon Steel Products: R118 million (2009: R1 835 million)*
- *Long Carbon Steel Products: R40 million (2009: R681 million)*

	Coke and Chemicals		Corporate and Other		Adjustments and eliminations		Total reconciling to the consolidated amounts	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
	2 400	1 597					**30 244**	25 598
	49	56			**(1 428)**	(878)		
	2 449	1 653			**(1 428)**	(878)	**30 244**	25 598
	2 398	1 596					**23 185**	20 344
	2	1					**4 439**	3 508
							68	108
							2 080	1 554
							452	84
	1 029	556	**(87)**	21	**48**	(2)	**3 522**	1 547
	(44)	(107)	**(8)**	(6)	**40**	66	**(1 371)**	(1 292)
								(26)
	985	449	**(95)**	15	**88**	64	**2 151**	229
			71	211			**71**	211
			(472)	(1 027)			**(507)**	(1 089)
			108	206	**14**		**122**	206
	985	449	**(388)**	(595)	**102**	64	**1 837**	(443)
							(492)	(35)
							1 345	(478)
	1 079	887	**8 273**	9 854	**(4 474)**	(5 286)	**29 332**	28 415
			2 386	2 369			**2 386**	2 369
	29	9	**81**	4			**1 714**	914
	1 178	897	**(4 552)**	(3 511)	**(282)**	(334)	**9 162**	8 859
	832	678	**(25)**	43	**1**	(2)	**2 791**	4 705
	244	250	**1 292**	952			9 261	9 033

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	2010 Rm	2009 Rm
5. SEGMENTAL REPORT continued		
5.1 Revenue from major products and services		
The group's revenue from its major products sold to external customers was as follows:		
Flat Carbon Steel Products	**18 848**	15 889
– Plate	**837**	913
– Hot-rolled coil	**9 704**	7 231
– Cold-rolled coil	**2 137**	1 453
– Galvanised sheet	**3 169**	2924
– Coated sheet	**755**	824
– Tin plate	**1 965**	2 289
– Other	**281**	255
Long Carbon Steel Products	**8 976**	8 112
– Billets and blooms	**281**	595
– Bars and rebars	**1 836**	1 850
– Wire rod	**2 645**	2 220
– Sections	**2 594**	2 180
– Rails	**63**	91
– Seamless tubular products	**702**	541
– Forged	**837**	617
– Other	**18**	18
Coke and Chemicals	**2 400**	1 597
– Coke	**1 896**	1 210
– Tar	**378**	293
– Other	**126**	94
Total consolidated revenue	**30 224**	25 598
5.2 Geographical information		
The group operates principally in South Africa. Export sales are primarily sold into sub-Saharan Africa and Asia.		
5.3 Information about major customers		
Segmentation of the group's top three customers, as measured on total revenue, is as follows:		
Flat Carbon Steel Products	**5 508**	4 868
Long Carbon Steel Products	**1 933**	1 525
Total revenue attributable to top three customers	**7 441**	6 393
Expressed as a % of total consolidated revenue	**25%**	25%
Of these top three customers, one customer contributes more than 10% to total revenue	**3 606**	2 942
Expressed as a % of total consolidated revenue	**12%**	11%

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
6. IMPAIRMENT CHARGE				
Impairment charge against property, plant and equipment		(26)		
Total		(26)		
An impairment charge was recognised in 2009 of R26 million on the formal cessation of operations at the Maputo Works.				
7. PROFIT FROM OPERATIONS				
Profit from operations has been arrived at after charging:				
Amortisation of intangible assets	**11**	13	**9**	10
Depreciation	**1 360**	1 279	**951**	909
Employee costs	**2 951**	2 640	**2 951**	2 635
– Salaries and wages	**2 687**	2 334	**2 687**	2 329
– Termination benefits	**5**	3	**5**	3
– Pension and medical costs	**227**	249	**227**	249
– Share-based payment expense	**32**	54	**32**	54
Loss on disposal or scrapping of property, plant and equipment	**44**	29	**17**	29
Operating lease rentals	**132**	96	**97**	91
Railage and transport	**1 169**	993	**1 119**	942
Repairs and maintenance	**2 021**	1 786	**1 542**	1 428
Research and development costs	**72**	248	**72**	248
Write-down of inventory to net realisable value	**(155)**	(28)	**(146)**	(5)
Auditors' remuneration	**11**	11	**9**	9
– Audit fees	**10**	9	**8**	8
– Other services and expenses	**1**	2	**1**	1
Directors' remuneration			**10**	20
Fair value losses transferred from equity on effective derivative instruments designated as cash flow hedges	**8**	144	**8**	136
Impairment losses/(gains) on financial assets				
– Allowance for doubtful debts recognised on trade and other receivables	**5**	15	**5**	15
– Other allowances on trade and other receivables		(62)		(47)
(Gains)/losses on changes in the fair value of embedded derivative instruments	**(18)**	133	**(18)**	133

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
8. FINANCE AND INVESTMENT INCOME				
Finance income				
– Bank deposit and other interest income excluding interest income from subsidiaries and equity-accounted investments	**69**	199	**67**	197
Investment income				
– Dividends received			**1**	6
– Interest received	**2**	3	**2**	3
– Impairment reversal/(charge) on investments		9		(122)
Total	**71**	211	**70**	84
Impairment reversal against investments in jointly controlled entity				
In 2009 a R9 million impairment against the group's and company's investment in its jointly controlled entity, Pietersburg Iron Company (Proprietary) Limited, was reversed.				
Impairment charge against investments in subsidiaries				
In 2009 the company recognised an impairment charge of R131 million against non-permanent loan accounts between the company and various loss-making or dormant subsidiaries, primarily ArcelorMittal Maputo SA.				
9. FINANCE COSTS				
Interest expense on bank overdrafts and loans	**(8)**	(43)	**(3)**	(34)
Interest expense on finance lease obligations	**(77)**	(79)	**(53)**	(55)
Discounting rate adjustment of the non-current provisions	**(101)**	49	**(102)**	48
Net foreign exchange losses on financing activities	**(149)**	(813)	**(131)**	(776)
Unwinding of the discounting effect in the present valued carrying amount of the non-current provisions	**(172)**	(203)	**(169)**	(200)
Total	**(507)**	(1 089)	**(458)**	(1 017)

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

	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
10. INCOME TAX EXPENSE				
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	533		533	
Adjustments recognised in the current year in relation to the current tax of prior years	(25)	3	(26)	12
	508	3	507	12
Deferred tax (income)/expense relating to the origination and reversal of temporary differences	(57)	(131)	66	13
Deferred tax (income)/expense recognised in the current year in relation to the deferred tax of prior years	(19)	5	(10)	2
	(76)	(126)	56	15
Secondary tax on companies	60	158	60	156
Total	492	35	623	183
The total charge for the year can be reconciled to the accounting profit as follows:				
Profit/(loss) before tax	1 837	(443)	2 064	(235)
Income tax expense/(income) calculated at 28%	514	(124)	578	(66)
Effect of income that is non-taxable/exempt	(7)	(4)		(6)
Effect of expenses that are not deductible	23	51	20	48
Effect of assessed loss not recognised	(3)	12		
Effect of impairment (reversal)/charge		(2)		34
Effect of (i) equity-accounted investments disclosed net of tax on the face of the statement of comprehensive income and (ii) the effect of different tax rates of subsidiaries operating in other jurisdictions	(52)	(66)		
Effect of taxable income imputed from controlled foreign companies	6	2	6	2
Tax rebate on foreign dividends	(5)		(5)	
Adjustments recognised in the current year in relation to the current tax and deferred tax of prior years.	(44)	8	(36)	15
Secondary tax on companies	60	158	60	156
	492	35	623	183
Taxation as a percentage of profit before taxation	26.8%	(7.9%)	30.2%	(77.9%)
Income tax recognised in equity and other comprehensive income				
Current and deferred tax expense/(income)				
Tax effect of:				
– Losses realised on cash flow hedges	2	10	2	10
– Contributions to Management Share Trust and non-exercised option at year-end	34	(5)	35	(5)
Unrealised losses on cash flow hedges		30		31
Total current and deferred tax recognised in equity	36	35	37	36

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
11. EARNINGS/(LOSSES) PER SHARE				
Basic earnings per share is calculated by dividing profit attributable to the owners of the company by the weighted average number of ordinary shares, held by third parties.				
The weighted average number of shares is calculated taking into account the shares issued as disclosed in the Directors' Report and note 29.				
Profit/(loss) attributable to owners of the company (Rm)	**1 345**	(478)		
Weighted average number of ordinary shares in issue (thousands)	**401 202**	423 050		
Basic earnings/(loss) per share (cents)	**335**	(113)		
Diluted earnings per share is calculated by dividing the profit/loss attributable to the owners of the company by the weighted average number of ordinary shares, held by third parties increased by the number of additional ordinary shares that would have been outstanding assuming the conversion of all outstanding share options representing dilutive potential ordinary shares.				
Profit/(loss) attributable to owners of the company (Rm)	**1 345**	(478)		
– Weighted average number of diluted shares (thousands)	**401 532**	423 684		
Diluted (loss)/earnings per share (cents)	**335**	(113)		

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

	Group		Company	
	2010 Gross Rm	2009 Gross net of tax Rm	**2010 Gross Rm**	2009 Gross net of tax Rm
Profit/(loss) attributable to owners of the company		1 345		(478)
Plus IAS16 loss on disposal or scrapping of property, plant and equipment	**44**	32	**29**	21
Plus impairment charge against property, plant and equipment			**26**	26
Less impairment reversal on equity-accounted investments			**(9)**	(9)
Headline earnings/(loss)		1 377		(440)

	Group	
	2010 Rm	2009 Rm
11. EARNINGS/(LOSSES) PER SHARE continued		
Headline earnings/(loss) per share (cents)		
– Basic	**343**	(104)
– Diluted	**343**	(104)
The weighted average number of shares used in the computation of diluted earnings per share was determined as follows (thousands):		
– Shares in issue held by third parties	**401 202**	401 202
– Weighted average number of shares	**401 202**	423 050
Adjustments for dilutive impact of the Management Share Trust:		
– Shares under option	**330**	634
– Weighted average number of diluted shares (thousands)	**401 532**	423 684

12. DIVIDEND PER SHARE

The dividend distribution for 2010 consists of the following:

- Consistent with the group's dividend policy, no final dividend was declared for the 2009 financial year.
- On 28 July 2010, an interim dividend of 150 cents per share (R602 million) for the 2010 financial year was paid to stakeholders on 6 September 2010.

The dividend distribution for 2009 consists of the following:

- On 29 January 2009, a final dividend of 365 cents per share (R1 627 million) for the 2008 financial year was declared and paid to stakeholders on 16 March 2009. This dividend preceded the 2009 share buy-back arrangement and was based on a weighted average number of 445 752 000 shares.
- Consistent with the group's dividend policy, no interim dividend was declared in 2009.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings Rm	Buildings and infrastructure Rm	Machinery, plant and equipment Rm
Group			
For the year ended 31 December 2010			
Net carrying amount			
Carrying amount at beginning of year	**65**	**894**	**12 862**
Additions		**17**	**420**
Disposals		**(1)**	**(58)**
Depreciation charges		**(51)**	**(1 185)**
Other movements	**1**	**19**	**371**
Carrying amount at end of year	**66**	**878**	**12 410**
At 31 December 2010			
Cost	**68**	**2 092**	**25 167**
Accumulated depreciation	**(2)**	**(1 214)**	**(12 757)**
Net carrying amount	**66**	**878**	**12 410**
Group			
For the year ended 31 December 2009			
Net carrying amount			
Carrying amount at beginning of year	57	716	12 863
Additions		16	480
Disposals			(38)
Depreciation charges		(68)	(1 110)
Impairment charge			(26)
Other movements	8	230	693
Carrying amount at end of year	65	894	12 862
At 31 December 2009			
Cost	67	2 057	24 565
Accumulated depreciation	(2)	(1 163)	(11 703)
Net carrying amount	65	894	12 862

[1] *Including the assets of the two captive mines for an amount of R934 million (December 2009: R754 million).*

Site preparation Rm	Asset retirement obligation component asset at present value Rm	Leased assets[1] Rm	Extensions under construction Rm	Total Rm
38	**26**	**1 195**	**782**	**15 862**
			1 253	**1 690**
				(59)
(4)	**(14)**	**(106)**		**(1 360)**
	34	**265**	**(391)**	**299**
34	**46**	**1 354**	**1 644**	**16 432**
102	**213**	**3 065**	**1 644**	**32 351**
(68)	**(167)**	**(1 711)**		**(15 919)**
34	**46**	**1 354**	**1 644**	**16 432**
41	61	859	1 320	15 917
			404	900
				(38)
(3)	(25)	(73)		(1 279)
				(26)
	(10)	409	(942)	388
38	26	1 195	782	15 862
102	179	2 800	782	30 552
(64)	(153)	(1 605)		(14 690)
38	26	1 195	782	15 862

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

13. 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 2010			
Net carrying amount			
Carrying amount at beginning of year	**53**	**642**	**7 477**
Additions		**14**	**290**
Disposals			**(24)**
Depreciation charges		**(44)**	**(795)**
Other movements		**19**	**346**
Carrying amount at end of year	**53**	**631**	**7 294**
At 31 December 2010			
Cost	**53**	**1 691**	**15 413**
Accumulated depreciation		**(1 060)**	**(8 119)**
Net carrying amount	**53**	**631**	**7 294**
Company			
For the year ended 31 December 2009			
Net carrying amount			
Carrying amount at beginning of year	53	491	7 173
Additions		16	463
Disposals			(36)
Depreciation charges		(42)	(776)
Other movements		177	653
Carrying amount at end of year	53	642	7 477
At 31 December 2009			
Cost	53	1 658	14 898
Accumulated depreciation		(1 016)	(7 421)
Net carrying amount	53	642	7 477

[1] *Including the assets of the two captive mines for an amount of R934 million (December 2009: R754 million).*

Site preparation Rm	Asset retirement obligation component asset at present value Rm	Leased assets[1] Rm	Extensions under construction Rm	Total Rm
38	**20**	**1 105**	**737**	**10 072**
			1 190	**1 494**
				(24)
(3)	**(13)**	**(96)**		**(951)**
	30	**262**	**(364)**	**293**
35	**37**	**1 271**	**1 563**	**10 884**
103	**203**	**2 866**	**1 563**	**21 892**
(68)	**(166)**	**(1 595)**		**(11 008)**
35	**37**	**1 271**	**1 563**	**10 884**
41	61	761	1 201	9 781
			366	845
				(36)
(3)	(23)	(65)		(909)
	(18)	409	(830)	391
38	20	1 105	737	10 072
103	173	2 604	737	20 216
(65)	(153)	(1 499)		(10 144)
38	20	1 105	737	10 072

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

13. PROPERTY, PLANT AND EQUIPMENT continued

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.

Critical judgements and estimates

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

The estimates of depreciation and amortisation rates and the residual lives of the assets are reviewed annually taking cognisance of:

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

Useful life range

Land	Not depreciated
Buildings	10 to 50 years
Steel plant equipment	15 to 30 years
Other facilities	15 to 30 years
Vehicles and general equipment	5 to 20 years

These useful lives represent management's current best estimates.

Impairment indicator assessment for the carrying amount of the cash-generating units

An impairment indicator review was performed on all operating cash generation units of the group including subsidiaries. However, it was necessary only to perform an impairment assessment on the export focused Saldanha Works.

The principle assumptions applied in the determination of the recoverable amount of the Saldanha cash-generating unit represents averages over a 20-year valuation timeframe and are as follows:

- Discount rate: 11.6% to 13.9% (2009: 14.4% to 16.4%)
- ZAR/USD average rate of exchange for 2010: R7.50 (2009: R7.75)
- Average annual risk-free interest rate differential between SA and the USA: 3.34% (2009: 3.98%)
- Average annual sales volumes: 1.2 million tonnes (2009: 1.2 million tonnes)
- Cumulative nominal growth rate in USD per tonne steel prices over coming five years: 6.4% (2009: 32%)
- Cost of production is per the budget for 2011 and thereafter consensus view of analysts
- The carrying amount of the property, plant and equipment of the Saldanha cash-generating unit amounted to R6 368 million at 31 December 2010 (31 December 2009: R6 745 million)

	Patents and trademarks Rm	Non-integrated software Rm	Total Rm
14. INTANGIBLE ASSETS			
Group			
For the year ended 31 December 2010			
Net carrying amount			
Carrying amount at beginning of year	**20**	**52**	**72**
Additions		**24**	**24**
Disposals	**(1)**		**(1)**
Amortisation charge	**(2)**	**(9)**	**(11)**
Carrying amount at end of year	**17**	**67**	**84**
At 31 December 2010			
Cost	**40**	**279**	**319**
Accumulated amortisation and impairment	**(23)**	**(212)**	**(235)**
Net carrying amount	**17**	**67**	**84**
Group			
For the year ended 31 December 2009			
Net carrying amount			
Carrying amount at beginning of year	22	49	71
Additions		14	14
Amortisation charge	(2)	(11)	(13)
Carrying amount at end of year	20	52	72
At 31 December 2009			
Cost	41	260	301
Accumulated amortisation and impairment	(21)	(208)	(229)
Net carrying amount	20	52	72
Company			
For the year ended 31 December 2010			
Net carrying amount			
Carrying amount at beginning of year		**51**	**51**
Additions		**13**	**13**
Amortisation charge		**(9)**	**(9)**
Carrying amount at end of year		**55**	**55**
At 31 December 2010			
Cost		**266**	**266**
Accumulated amortisation and impairment		**(211)**	**(211)**
Net carrying amount		**55**	**55**
Company			
For the year ended 31 December 2009			
Net carrying amount			
Carrying amount at beginning of year		48	48
Additions		13	13
Amortisation charge		(10)	(10)
Carrying amount at end of year		51	51
At 31 December 2009			
Cost		257	257
Accumulated amortisation and impairment		(206)	(206)
Net carrying amount		51	51

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
15. INVESTMENTS IN SUBSIDIARIES				
Indebtedness				
– by subsidiaries			**8 962**	8 645
– to subsidiaries			**(94)**	(94)
Total indebtedness			**8 868**	8 551
Less: Provision for attributable losses			**(80)**	(53)
Net indebtedness after provision			**8 788**	8 498
Shares at cost (Annexure 2)			**253**	253
Total			**9 041**	8 751
Aggregate attributable after tax losses			**(155)**	(398)

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.

Critical judgements and estimates

Consolidation of special purpose entities

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

For reasons comparable to those described above, the results of the ArcelorMittal Foundation, a public benefit organisation, are not included in the consolidated results of the group.

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

	Group				Company			
	Non-current		Current		Non-current		Current	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
16. OTHER FINANCIAL ASSETS/(LIABILITIES)								
Derivatives designated as hedging instruments carried at fair value								
Base metal forward purchase contracts				(3)				(2)
Financial assets carried at fair value through profit or loss (FVTPL)								
Embedded derivatives at FVTPL	**139**	150	**112**	83	**139**	150	**112**	83
Available-for-sale (AFS) investments carried at fair value								
Equity instruments	**69**	37						
Total	**208**	187	**112**	80	**139**	150	**112**	81
Included in the financial statements as:								
Other financial assets	**208**	187	**112**	83	**139**	150	**112**	83
Other financial liabilities				(3)				(2)
Total	**208**	187	**112**	80	**139**	150	**112**	81

16. OTHER FINANCIAL ASSETS/(LIABILITIES) continued

Critical judgements, estimates and sensitivities

Valuation of financial instruments

The principal valuation assumptions utilised in the valuation of the embedded derivative in the Sasol Gas contract at 31 December are as follows:

Assumption	2010	2009
Market price for natural gas at valuation date (R/GJ)	**90.92**	82.98
Contracted base prices at valuation date (R/GJ)		
– Newcastle	**32.29**	34.95
– Vanderbijlpark	**39.46**	42.66
– Vereeniging	**40.26**	43.57
Capped oil price inflation (% p.a.[1])	**9.0**	0.6
SEIFSA inflation (% p.a.[1])	**7.1**	3.8
Market price inflation for natural gas (% p.a.[1])	**12.6**	8.4
Natural gas volumes purchased (million GJ)[1]	**12.1**	16.3
Bulk-user price discount to normal market prices for industrial gas %[1]	**41.7**	40.1

[1] Over a three-year period, being the remaining tenure of the contract (2009: four-year period).

The key discrete sensitivities pertaining to the fair valued carrying amount are as follows:

	2010 Rm	2009 Rm
10% decrease in the market price of gas at 31 December	**(65)**	(86)
10% decrease in inflation applicable to gas	**(16)**	(15)
10% decrease in the gas volume off-take[1]	**(11)**	(23)
10% decrease in the bulk-user price discount to ordinary industrial gas price	**53**	57

1 Volume sensitivity for the current year is solely applied to the forecasted off-take volumes of 2011 as, due to the claw-out mechanism, volume downside in 2012 and 2013 are highly improbable. The comparative year's sensitivity value, however, reflects a volume sensitivity applied on all forecasted volumes without regard to probability of the downside risk

AFS investments

The group holds 10% of the ordinary share capital of Hwange Colliery Company Limited, a coal, coke and by-products producer in Zimbabwe.

The share is traded on the dollarised Zimbabwe Stock Exchange. The carrying amount of the investment represents its market value at the reporting date, namely R69 million (2009: R37 million), against a cost price of R9 million.

17. INVENTORIES

	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
Finished products	**1 620**	1 281	**1 353**	1 104
Work-in-progress	**2 197**	2 018	**2 012**	1 908
Raw materials	**2 723**	1 891	**2 416**	1 676
Plant spares and consumable stores	**616**	577	**503**	451
Total	**7 156**	5 767	**6 284**	5 139

Included in the above are finished products of R845 million (December 2009: R215 million), work-in-progress of R374 million (December 2009: R154 million) and raw materials of R1 709 million (December 2009: R639 million) carried at net realisable value.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
18. TRADE AND OTHER RECEIVABLES				
Trade receivables				
– Local	**1 485**	1 717	**1 371**	1 609
– Exports	**249**	1 77	**183**	118
Total gross trade receivables	**1 734**	1 894	**1 554**	1 727
Less allowances				
Allowance for doubtful debts				
– Local	**(1)**	(16)	**(1)**	(16)
– Exports	**(4)**	(1)	**(4)**	(1)
Total allowances for doubtful debts	**(5)**	(17)	**(5)**	(17)
Other allowances				
– Local	**(178)**	(171)	**(178)**	(171)
– Exports	**(1)**	(1)	**(1)**	(1)
Total other allowances	**(179)**	(172)	**(179)**	(172)
Net trade receivables				
– Local	**1 306**	1 530	**1 192**	1 422
– Exports	**244**	175	**178**	116
Total net trade receivables	**1 550**	1 705	**1 370**	1 538
Other receivables	**146**	328	**120**	89
Less: allowance for doubtful debts	**(17)**	(28)	**(17)**	(28)
	129	300	**103**	61
Net value-added tax receivable	**137**	91	**109**	45
Net other receivables	**266**	391	**212**	106
Total	**1 816**	2 096	**1 582**	1 644
Average credit period for trade receivables				
The sectoral split of the average credit period on sales of goods is as follows:				
– Local	**34**	33	**34**	34
– Exports	**9**	9	**9**	9

No interest is charged on trade receivables for the first 30 days from date of statement. Thereafter, interest is charged at prime + 3% per annum on the outstanding balance.

Other receivables relate primarily to by-product sales, site rental due, prepayments 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 ageing of customers and the calculation of customers handed over to the insurers, based on whether there is insurance cover or not. The amount provided for, is 10% excess for receivables that are handed over to the insurers and the remaining 90% will be paid as the participation percentage of the insurer. Customers without cover and older than 180 days are fully provided for. The movement in allowance for doubtful debts is not deemed material.
- 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. The movement in other allowances is not deemed material.

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.

18. TRADE AND OTHER RECEIVABLES continued

The credit risk management policy sets out the framework within which the customer credit risk is managed.

The objectives of the credit risk management policy are to:

- increase sales through investing in the customer base;
- avoid extensions that could lead to the financial distress and default by customers;
- maintain productive customer relationships within the framework of prudent risk management;
- optimising cash collection periods; and
- diversifying credit exposure over a broad client base.

The Credit Policy is enacted by the Credit Management department (Credit Management). 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.

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.

Customers are independently rated. Independent rating agency, Experian South Africa (Proprietary) Limited, are 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. 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.

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 balances (both inclusive of value-added tax) of the top three customers at the balance sheet date for the group and company:

Customer	Rating	**Credit limit 2010 Rm**	**Balance 2010 Rm**	Credit limit 2009 Rm	Balance 2009 Rm
Top three customers by sales value	Two with A-ratings and one with a B-rating	**1 850**	**429**	1 550	511
% of net trade receivables					
– Group			**28%**		30%
– Company			**31%**		33%

Credit risk exposure by class for the group and company is as follows:

	Group 2010 %	**Company 2010 %**
Local	**86**	**88**
Exports	**14**	**12**
	100	**100**

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
19. STATED CAPITAL				
Authorised				
1 200 000 000 ordinary shares at no par value (December 2009: 1 200 000 000 ordinary shares at no par value)				
2 357 584 "C" redeemable preference shares at R10 each (December 2009: 2 357 584)				
Issued				
445 752 132 ordinary shares at no par value (December 2009: 445 752 132 ordinary shares at no par value)	**37**	37	**37**	37
Total	**37**	37	**37**	37
The unissued ordinary shares are not under the control of the directors.				
20. BORROWINGS AND OTHER PAYABLES				
Borrowings				
Unsecured – at amortised cost				
Loan from Pretoria Portland Cement	**30**	41		
Other payables				
Cash-settled share-based payments		32		32
Leave pay benefits accrual	**282**	300	**282**	300
Total	**312**	373	**282**	332
Included in the financial statements as:				
Non-current borrowings and other payables	**224**	220	**204**	189
Current borrowings and other payables	**88**	153	**78**	143
Total	**312**	373	**282**	332

Loan from Pretoria Portland Cement
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.

Leave pay benefits accrual
In terms of group and company policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle. The obligation is reviewed annually.

	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
21. FINANCE LEASE OBLIGATIONS				
Secured – at amortised cost	**574**	614	**434**	467
Included in the financial statements as:				
Non-current finance lease obligations	**515**	557	**384**	420
Current finance lease obligations	**59**	57	**50**	47
Total	**574**	614	**434**	467
The finance leases are embedded within supply arrangements with suppliers and have been assessed in terms of IFRIC 4, determining whether an arrangement contains a lease.				
Maturity profile				
At 31 December				
Minimum lease payments				
Not later than one year	**130**	131	**98**	98
Later than one year and not later than five years	**482**	488	**369**	376
Later than five years	**329**	429	**183**	254
Total	**941**	1 048	**650**	728
Less future finance charges	**(367)**	(434)	**(216)**	(261)
Present value of minimum lease payments	**574**	614	**434**	467

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 defaults.

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

Functional category	Term expiry date	Fixed effective interest rate
Raw materials	2014 – 2016	0%
Gasses	2016 – 2019	10.97% – 22%
Electricity and transport utilities	2018 - 2022	15.28% – 17.13%
Steel processing and foundry services	2011 - 2012	6.46% – 6.90%

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Asset retirement obligation Rm	Environ-mental remediation Rm	Onerous contracts Rm	Post-retirement medical aid benefits Rm	Other Rm	Total Rm
22. PROVISIONS						
Group						
For the year ended 31 December 2010						
At beginning of year	203	1 116	328	10	273	1 930
Charge to income statement	21	194	31	(1)	87	332
Additions/(releases)		(3)	(24)	(1)	87	59
Discount rate change	4	75	22			101
Unwinding of the discount effect	17	122	33			172
Utilised during year	(13)	(88)	(67)		(215)	(383)
Capitalisation to asset	23					23
At end of year	234	1 222	292	9	145	1 902
Included in the financial statements as:						
Non-current provisions	201	1 064	226	8		1 499
Current provision	33	158	66	1	145	403
Total	234	1 222	292	9	145	1 902
Company						
For the year ended 31 December 2010						
At beginning of year	194	1 116	308	9	273	1 900
Charge to income statement	21	194	29	1	87	332
Additions/(releases)		(3)	(24)	1	87	61
Discount rate change	5	75	22			102
Unwinding of the discount effect	16	122	31			169
Utilised during year	(16)	(88)	(57)	(1)	(215)	(377)
Capitalisation to asset	23					23
At end of year	222	1 222	280	9	145	1 878
Included in the financial statements as:						
Non-current provisions	188	1 064	221	8		1 481
Current provisions	34	158	59	1	145	397
Total	222	1 222	280	9	145	1 878

22. PROVISIONS continued

Maturity profile

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

	Total Rm	Less than one year Rm	More than one year less than five years Rm	Five years + Rm
Group				
At 31 December 2010				
Asset retirement obligation	233	53	122	58
Environmental remediation	1 222	186	615	421
Onerous contracts	292	65	143	84
Post-retirement medical aid benefits	9	1	8	
Other	146	146		
Total	1 902	451	888	563
Company				
At 31 December 2010				
Asset retirement obligation	221	52	119	50
Environmental remediation	1 222	186	615	421
Onerous contracts	280	59	138	83
Post-retirement medical aid benefits	9	1	8	
Other	146	146		
Total	1 878	444	880	554

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

22. PROVISIONS continued

Asset retirement obligation and environmental remediation obligation provisions

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

Environmental remediation obligations represent the present value of the cost of remedial action to clean-up and secure a site. These actions are primarily attributable to historical, that is legacy, waste disposal activities. Legal obligations exist to remediate these facilities.

Estimating the future cash flows associated with these obligations and the related asset components is complex. In particular, judgement is required in distinguishing between asset retirement obligations and environmental remediation obligations.

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

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

The asset retirement obligations represent management's best estimate of the present value of costs that will be required to retire plant and equipment. The majority of the obligation relates to ancillary plant and equipment that will be retired as part of the clean-up and closure of those facilities to be remediated via the environmental remediation obligation. The net carrying amount of the asset retirement obligation asset component, included in note 13, amounts to R46 million (December 2009: R26 million) for the group and R37 million (December 2009: R20 million) for the company.

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

Average discount rates	December 2010 %	December 2009 %
Asset retirement obligation	**8.7**	11.6
Environmental remediation obligation	**9.0**	11.7
Onerous contracts	**8.4**	10.5

The average escalation factor applied to the current cash flow estimates is 5.7% (2009: average rate of 6.1%).

Onerous contract provision

Included in the provision is an onerous operating lease contract embedded in a long-term, take-or-pay gas supply contract with Afrox. The unavoidability of the cost arose upon the 1997 decommissioning of steel-making facilities at Pretoria Works. Net cash outflow for the year amounted to R57 million (December 2009: R46 million). The unexpired term of the contract is nine years.

Also included is a long-term contract containing a take-or-pay clause for burnt dolomite and coal fines sourced from PPC. The take-or-pay obligation arose historically due to lower off-take on account of efficiency improvements and method changes. The carrying amount at 31 December 2010 equalled R12 million (December 2009: R20 million). Net cash outflow for the year amounted to R10 million (December 2009: R8 million). The unexpired term of the contract is two years.

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.

22. PROVISIONS continued

Other provisions

Research and development

A research and development fee of R86 million (December 2009: R187 million) payable to the ArcelorMittal Group was outstanding at year-end. The amount has not yet been paid as Reserve Bank approval is still awaited. Due to the uncertainty relating to the timing of the payment, the amount is classified as a provision.

Shift pattern buy-out

The group and company have partially adopted the four-shift-team work pattern in 2010. As an inducement, the affected employees are to be offered a non-recurring buy-out of the overtime and similar allowances that are expected to cease when replacing the three-shift system. The remaining amount payable is R59 million (December 2009: R86 million). Due to the uncertainty relating to the timing of the payment, the amount is classified as a provision.

The sensitivity of the carrying amount of the obligations at 31 December 2010 in response to changes in key inputs is as follows:

	Asset retirement obligations Rm	Environmental remediation obligations Rm	Onerous contracts Rm
Carrying amount at 31 December 2010			
% change in all cash flows			
+10%; -10%	+23; -23	+122; -122	+29; -29
% change in cash flows in first five years			
+10%; -10%	+17; -17	+80; -80	+21; -21
Basis point change in discount rate			
+100 bps; -100 bps	-22; +22	-131; +131	-24; +24
Basis point change in discount rate in first five years			
+100 bps; -100 bps	-17; +17	-100; +100	-19; +19

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Cash flow hedges Rm	Property, plant, equipment and intangible assets Rm	Employee cost Rm
23. DEFERRED TAXATION			
Deferred tax liabilities/(assets) arise from the following:			
Group			
For the year ended 31 December 2010			
Temporary differences			
At beginning of year		**3 308**	**(111)**
Amounts in equity utilised against assessed loss			
Charged to income		**(99)**	**29**
Charged to equity			**(5)**
At end of year		**3 209**	**(87)**
Group			
For the year ended 31 December 2009			
Temporary differences			
At beginning of year	(34)	3 229	(85)
Amounts in equity utilised against assessed loss			
Charged to income	4	79	(26)
Charged to equity	30		
At end of year		3 308	(111)
Company			
For the year ended 31 December 2010			
Temporary differences			
At beginning of year		**1 807**	**(111)**
Amounts in equity utilised against assessed loss			
Charged to income		**(43)**	**29**
Charged to equity			**(5)**
At end of year		**1 764**	**(87)**
Company			
For the year ended 31 December 2009			
Temporary differences			
At beginning of year	(31)	1 638	(85)
Amounts in equity utilised against assessed loss			
Charged to income		169	(26)
Charged to equity	31		
At end of year		1 807	(111)

	Temporary differences				Unused tax losses and credits	
	Provisions Rm	Doubtful debts Rm	Finance lease obligations Rm	Other Rm	Tax losses Rm	Total Rm
	(493)	**(11)**	**(172)**	**(11)**	**(75)**	**2 435**
				5	**(5)**	
	17	**5**	**11**	**11**	**(50)**	**(76)**
						(5)
	(476)	**(6)**	**(161)**	**5**	**(130)**	**2 354**
	(475)	(7)	(99)	(3)		2 526
					5	5
	(18)	(4)	(73)	(8)	(80)	(126)
						30
	(493)	(11)	(172)	(11)	(75)	2 435
	(485)	**(10)**	**(130)**	**(13)**	**(14)**	**1 044**
					(5)	**(5)**
	16	**5**	**10**	**20**	**19**	**56**
				(3)		**(8)**
	(469)	**(5)**	**(120)**	**4**		**1 087**
	(469)	(7)	(55)	2		993
					5	5
	(16)	(3)	(75)	(15)	(19)	15
						31
	(485)	(10)	(130)	(13)	(14)	1 044

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
24. TRADE AND OTHER PAYABLES				
Trade payables	3 665	3 053	3 161	2 450
Other payables	355	443	333	442
– Sundry	86	17	57	17
– Accruals	269	426	276	425
Total	4 020	3 496	3 494	2 892
25. NOTES TO THE STATEMENT OF CASH FLOWS				
25.1 Cash generated from operations				
Profit from operations	2 151	229	2 452	698
Adjusted for non-cash movements				
– Depreciation and amortisation	1 371	1 292	960	919
– Unrealised profit on sales to joint ventures	(3)	(6)		
– Embedded derivatives unrealised	(18)	133	(18)	133
– Share option and participation costs	32	73	32	73
– Impairment charge		26		
– Movements in provisions	59	79	61	60
– Net movements in leave pay accrual	(18)	39	(18)	39
– Allowance for net realisable value	155	(28)	146	(5)
– Movements in allowance for doubtful debt and other	(23)	(47)	(23)	(32)
– Reconditionable spares usage	16	9	7	7
– Loss on disposal or scrapping of property, plant and equipment	44	29	17	29
Working capital movements				
– (Increase)/decrease in inventories	(1 544)	2 903	(1 291)	2 942
– Decrease/(increase) in trade and other receivables	303	(18)	85	153
– Increase/(decrease) in trade and other payables	524	112	602	(1)
– Utilisation of provisions	(383)	(119)	(377)	(111)
	2 666	4 706	2 635	4 904
25.2 Dividends paid				
Charged to equity	(602)	(1 627)	(669)	(1 627)
	(602)	(1 627)	(669)	(1 627)

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
25. NOTES TO THE STATEMENT OF CASH FLOWS continued				
25.3 Normal taxation				
Normal taxation payable at beginning of year	**(8)**	(780)	**(11)**	(690)
Amounts charged to the income statement	**(568)**	(161)	**(567)**	(168)
Amounts recognised in equity	**(8)**	(5)	**(4)**	(5)
Amounts in equity (reversed from)/taken into account in deferred tax	**(5)**	5	**(5)**	5
Other movements	**(46)**	(1)	**(46)**	
Normal taxation (recoverable)/payable at end of year	**(18)**	8	**(23)**	11
	(653)	(934)	**(656)**	(847)
25.4 Investment to maintain operations				
Replacement of property, plant and equipment	**(853)**	(442)	**(674)**	(408)
Intangible assets	**(24)**	(14)	**(12)**	(13)
Environmental	**(298)**	(251)	**(297)**	(247)
Reconditionable spares	**(84)**	(77)	**(81)**	(65)
	(1 259)	(784)	**(1 064)**	(733)
25.5 Investment to expand operations				
Property, plant and equipment for expansion and new technology	**(455)**	(130)	**(443)**	(125)
	(455)	(130)	**(443)**	(125)
Total capital expenditure	**(1 714)**	(914)	**(1 507)**	(858)
26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT				
26.1 Categories of financial instruments				
Financial assets				
Fair value through profit or loss (FVTPL)				
• Designated at FVTPL				
– Bifurcated embedded derivatives	**251**	233	**251**	233
Loans and receivables				
• Cash and cash equivalents	**3 506**	4 348	**3 155**	4 222
• Trade and other receivables	**1 816**	2 096	**1 582**	1 644
Available-for-sale financial assets	**69**	37		
Total	**5 642**	6 714	**4 988**	6 099
Financial liabilities				
Derivative instruments in designated hedge accounting relationships		3		2
Loans carried at amortised cost				
• Borrowings	**30**	41		
• Finance lease obligations	**574**	614	**434**	467
• Trade and other payables	**4 020**	3 496	**3 494**	2 892
Total	**4 624**	4 154	**3 928**	3 361
Net financial assets	**1 018**	2 560	**1 060**	2 738

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.2 Financial instruments carried at fair value

For financial instruments that are measured at fair value in the statement of financial position, the table below provides an analysis of their grouping based on the degree to which fair value is objectively observable. Levels 1 and 3 are applicable to the group and company.

- Level 1: fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for one or more significant inputs for the asset or liability valuation that are not based on observable data (unobservable inputs).

There were no transfers during the reporting period between Levels 1 and 3.

	Level 1	Level 3	Total
Group			
For the year ended 31 December 2010			
Financial assets measured at fair value			
Financial assets at FVTPL			
• Bifurcated embedded derivatives		**251**	**251**
Available-for-sale financial assets	**69**		**69**
Total	**69**	**251**	**320**
Group			
For the year ended 31 December 2009			
Financial assets measured at fair value			
Financial assets at FVTPL			
• Bifurcated embedded derivatives		233	233
Available-for-sale financial assets	37		37
Total	37	233	270
Financial liabilities measured at fair value			
Derivative instruments in designated hedge accounting relationships			
• Matured yet unsettled	(3)		(3)
Total	(3)		(3)
Net financial assets measured at fair value	34	233	267
Company			
For the year ended 31 December 2010			
Financial assets measured at fair value			
Financial assets at FVTPL			
• Bifurcated embedded derivatives		**251**	**251**
Total		**251**	**251**
Company			
For the year ended 31 December 2009			
Financial assets measured at fair value			
Financial assets at FVTPL			
• Bifurcated embedded derivatives		233	233
Total		233	233
Financial liabilities measured at fair value			
Derivative instruments in designated hedge accounting relationships	(2)		(2)
Total	(2)		(2)
Net financial (liabilities)/assets measured at fair value	(2)	233	231

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

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.2 Financial instruments carried at fair value continued

	Carrying amount 2010 Rm	Fair value 2010 Rm	Carrying amount 2009 Rm	Fair value 2009 Rm
Group				
Non-current liabilities				
Non-current borrowings[1]	**20**	**20**	31	28
Non-current finance lease obligations	**515**	**515**	557	541
Current liabilities				
Current borrowings[2]	**10**	**13**	10	15
Current finance lease obligation	**59**	**121**	57	55
Total liabilities				
Total borrowings	**30**	**33**	41	43
Total finance lease obligation	**574**	**636**	614	596
Company				
Non-current liabilities				
Non-current finance lease obligations	**384**	**368**	420	379
Current liabilities				
Current finance lease obligation	**50**	**92**	47	44
Total liabilities				
Total finance lease obligation	**434**	**460**	467	423

The directors consider that the carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables recognised at amortised cost in the financial statements approximate their fair values.

[1] *As included in the line item Non-current borrowings and other payables.*
[2] *As included in the line item Current borrowings and other payables.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.3 Financial risk management overview and objectives

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

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

- Financial market risk, consisting of:
  - foreign currency risk;
  - commodity price risks;
  - interest rate risk; and
  - liquidity risk, being
    - cash flow volatility, and
    - fair value and cash flow interest rate risk.
- Capital management and gearing risk.
- Customer credit risk as detailed in note 18.

Treasury and financial risk management policy details the framework within which financial risk (other than customer credit risk) of the group and company are managed. The policy is approved by the Board of Directors and is reviewed annually.

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

- Financing facilities.
- Financial guarantees and letters of credit.
- Market risk management through:
  - foreign currency risk management;
  - commodity risk management;
  - interest rate management; and
- Cash management through liquidity management.

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

26.4 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.

The group and company have not undertaken any economic hedging of commodity or foreign exchange rates since mid-2008. Markets continue to be monitored in order to determine the most opportune time to commence hedging.

Movement in the cash flow hedging reserve for the reporting and the comparative period is visible in the statement of changes in equity. The movement for 2010 was limited to the release of a deferred loss for the group and company relating to base metal forward contracts. The hedging reserve for the group and company at 31 December 2010 is Rnil (December 2009: R6 million deferred loss).

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.5 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	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Monetary assets				
(i) USD				
Loans and receivables				
• Cash and cash equivalents	**2 277**	2 406	**1 937**	2 295
• Trade and other receivables				
– Related parties	**341**	280	**177**	126
Total foreign denominated monetary assets	**2 618**	2 686	**2 114**	2 421
Monetary liabilities				
(i) USD				
Carried at amortised cost				
• Trade and other payables				
– Related parties	**(203)**	(444)	**(137)**	(410)
– Unrelated parties	**(58)**	(37)	**(57)**	(37)
(ii) EUR				
Carried at amortised cost				
• Trade and other payables				
– Related parties	**(263)**	(214)	**(262)**	(214)
– Unrelated parties	**(55)**	(26)	**(32)**	(24)
Total foreign denominated monetary liabilities	**(579)**	(721)	**(488)**	(685)
Total net foreign denominated monetary assets	**2 039**	1 965	**1 625**	1 736

Only notable currency holdings are disclosed.

Foreign currency sensitivity

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

A (negative)/positive number indicates a (decrease)/increase in profit or loss where the ZAR strengthens against the relevant currency.

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
USD				
Profit or loss	**(236)**	(220)	**(192)**	(197)
EUR				
Profit or loss	**32**	24	**29**	24
Total				
Profit or loss	**(204)**	(196)	**(163)**	(173)

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.6 Commodity risk managed by embedded derivatives

Embedded derivative instrument	Expiry period	Fair value Rm	Recognised fair value gains/(loss) Rm
Group and company			
For the year ended 31 December 2010			
Energy – pricing cap	**2011 to 2013**	**251**	**18**
For the year ended 31 December 2009			
Energy – pricing cap	2010 to 2013	233	(133)

The embedded derivative represents a pricing cap on the purchase of natural gas.

The natural-gas supplier invoked the four year claw-out mechanism, effective from 1 January 2010. The mechanism limits off-take volumes to actual levels in the year (the "reference year") preceding the invocation, namely 2009. In the first year of the claw-out period (2010), volumes are limited to 100% of those of the reference year, reducing to 75% (2011), 50% (2012) and 25% (2013) respectively for the subsequent three years.

26.7 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.

The group's and companies' sensitivity to interest rates has decreased due to lower average ZAR cash holdings and interest rates compared with the comparative reporting period.

26.8 Liquidity risk management

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

The objectives of the liquidity management policy are as follows:

- maintenance of adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities;
- optimise the account and domestic cash pool structures;
- minimise bank charges (payments and collection fees, spreads etc);
- optimise the availability and use of short-term liquidity positions across the group without compromising the day-to-day cash needs;
- optimise the net interest result; and
- minimise the number of bank accounts, to reduce risk of misuse and costs.

Liquidity and interest risk tables

(i) Contractual maturity for its non-derivative financial liabilities

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

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.8 Liquidity risk management continued

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.

	Annual effective interest rate	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 2010							
Non-interest bearing							
• Trade and other payables	**0.0%**	**4 020**					**4 020**
Finance lease liability	**12.5%**	**64**	**66**	**482**	**329**	**(367)**	**574**
Borrowings and other payables	**11.4%**	**14**		**23**		**(7)**	**30**
Total		**4 098**	**66**	**505**	**329**	**(374)**	**4 624**
Group							
For the year ended 31 December 2009							
Non-interest bearing							
• Trade and other payables	0.0%	3 496					3 496
Finance lease liability	12.4%	64	67	488	429	(434)	614
Borrowings and other payables	6.9%	34	16	38		(15)	73
Total		3 594	83	526	429	(449)	4 183
Company							
For the year ended 31 December 2010							
Non-interest bearing							
• Trade and other payables	**0.0%**	**3 494**					**3 494**
Finance lease liability	**11.2%**	**49**	**49**	**369**	**183**	**(216)**	**434**
Total		**3 543**	**49**	**369**	**183**	**(216)**	**3 928**
Company							
For the year ended 31 December 2009							
Non-interest bearing							
• Trade and other payables	0%	2 892					2 892
Finance lease liability	10.7%	48	50	376	254	(261)	467
Borrowings and other payables	6.3%	34				(2)	32
Total		2 974	50	376	254	(263)	3 391

(ii) Expected maturity for its non-derivative financial, assets

The following table details the group's and companies' 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.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.8 Liquidity risk management continued

	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 2010							
Fixed interest rate receivables							
• Trade and other receivables[2]	**0.3%**	**1 822**				**(6)**	**1 816**
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	**4.3%**	**3 581**	**76**			**(151)**	**3 506**
Total		**5 403**	**76**			**(157)**	**5 322**
Group							
For the year ended 31 December 2009							
Fixed interest rate receivables							
• Trade and other receivables[2]	0.3%	2 102				(6)	2 096
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	2.3%	4 397	49			(98)	4 348
Total		6 499	49			(104)	6 444

[1] *Calculated over the remaining tenure of the non-derivative financial asset.*
[2] *Fixed-rate interest applicable on overdue accounts.*
[3] *Fixed and variable rates applicable to call and short-term deposit holdings. Maturity profile reflects the synthesised availability of the cash and cash equivalents on hand at the end of the reporting period, and the expected annual interest income to be earned thereon.*

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.8 Liquidity risk management continued

	Annual effective interest rate[1]	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
Company							
For the year ended 31 December 2010							
Fixed interest rate receivables							
• Trade and other receivables[2]	**0.4%**	**1 588**				**(6)**	**1 582**
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	**4%**	**3 218**	**63**			**(126)**	**3 155**
Total		**4 806**	**63**			**(132)**	**4 737**
Company							
For the year ended 31 December 2009							
Fixed interest rate receivables							
• Trade and other receivables[2]	0.4%	1 650				(6)	1 644
Fixed and variable interest rate cash holdings							
• Cash and cash equivalents[3]	1.7%	4 259	35			(72)	4 222
Total		5 909	35			(78)	5 866

[1] Calculated over the remaining tenure of the non-derivative financial asset.
[2] Fixed-rate interest applicable on overdue accounts.
[3] Fixed and variable rates applicable to call and short-term deposit holdings. Maturity profile reflects the synthesised availability of the cash and cash equivalents on hand at the end of the reporting period, and the expected annual interest income to be earned thereon.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

26.8 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.

Financial assets/(liabilities)	0 – 6 months Rm	7 – 12 months Rm	1 – 5 years Rm	>5 years Rm	Discount Rm	Carrying amount Rm
Group and company						
For the year ended 31 December 2010						
Embedded derivatives	**54**	**63**	**161**		**(27)**	**251**
Total	**54**	**63**	**161**		**(27)**	**251**
For the year ended 31 December 2009						
Embedded derivatives	39	46	180		(32)	233
Total	39	46	180		(32)	233

26.9 Capital risk management

The group and company objectives when managing capital are:

- to safeguard the ability to continue as a going concern, so as to be able to continue to provide returns for shareholders and benefits for other stakeholders; 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 and company overall strategy remained unchanged for 2010.

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 per the statement of financial position.

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Cash and cash equivalents	**3 506**	4 348	**3 155**	4 222
Less: total interest-bearing borrowings and finance lease obligations	**(604)**	(655)	**(434)**	(467)
Net cash and cash equivalents	**2 902**	3 693	**2 721**	3 755
Total shareholders' equity	**22 556**	21 925	**24 837**	24 081
Gearing ratio %	**0**	0	**0**	0

27. RELATED PARTY TRANSACTIONS

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

Companies within the greater ArcelorMittal Group

The company purchased products and services to the value of R3 897 million (2009: R3 045 million) from, and sold goods to the value of R22 million (2009: R31 million) to other companies in the ArcelorMittal Group.

The outstanding balances at year-end are as follows:

- Included in trade and other receivables, R23 million (December 2009: R15 million).
- Included in trade and other payables, R412 million (December 2009: R447 million).

ArcelorMittal South Africa paid a corporate service fee of R39 million (2009: R18 million) to ArcelorMittal Group for corporate services rendered and have provided for a research and development fee of R87 million to ArcelorMittal Investigation (2009: R187 million).

Jointly controlled entities and associates

Interest income from jointly controlled entities of R2 million (2009: R3 million) is included in note 8.

The group purchased goods and services to the value of R92 million (2009: R72 million) from, and sold goods to the value of R6 557 million (2009: R5 172 million) to its equity-accounted entities.

The outstanding balances at year-end are as follows:

- Included in trade and other receivables, R217 million (December 2009: R161 million).
- Included in trade and other payables, R12 million (December 2009: Rnil).
- Included in the carrying value of jointly controlled entities are long-term loans of R76 million (December 2009: R9 million).

Subsidiaries

Details of income from investments and indebtedness in subsidiaries are disclosed in notes 8 and 15 respectively, and in Annexure 2.

ArcelorMittal South Africa received a management fee of R172 million (2009: R166 million) from Saldanha Steel (Proprietary) Limited for ArcelorMittal South Africa employees employed at Saldanha Works.

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 29.

Shareholders

The principal shareholders of the company are detailed in the Analysis of Shareholders schedule on page 198.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

28. POST-EMPLOYMENT BENEFITS

28.1 Pensions

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

- ArcelorMittal South Africa Selector Pension Fund (Reg no. 12/8/35421) and ArcelorMittal 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.
- ArcelorMittal 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 company and group in funds under the control of the trustees. All funds are governed by the South African Pension Funds Act of 1956.

28.1.1 Defined contribution plans

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

	Working members		Employer contributions	
	2010	2009	**2010 Rm**	2009 Rm
ArcelorMittal South Africa Selector Pension and Provident Funds	**4 395**	4 373	**97**	96
Iscor Employees' Provident Fund	**3 776**	3 848	**46**	30
Total	**8 171**	8 221	**143**	126

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.

28.1.2 Defined benefit plans

ArcelorMittal South Africa Pension Fund

The company and group operate the ArcelorMittal South Africa Pension Fund, which is a wholly funded defined benefit plan, for qualifying employees. The fund is administered by Sanlam Employee Benefit. 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 precede the member's retirement.

The last statutory actuarial valuation was performed as at 31 December 2009. The actuaries were of the opinion that the fund was adequately funded. The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The trustees' 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.

28. POST-EMPLOYMENT BENEFITS continued

28.1 Pensions continued

28.1.2 Defined benefit plans continued

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.

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 2009. The actuaries were of the opinion that the fund was adequately funded.

Membership

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund	
	2010	2009	**2010**	2009
As at 31 December				
Active members	**44**	47		
Pensioner members	**8 242**	8 536	**1 208**	1 315
Contingent pensioner members			**33 715**	39 877

Pension fund assets	**Rm**	Rm	**Rm**	Rm
The major categories of plan assets are as follows:				
Cash	**2 036**	569	**59**	34
Equities	**1 871**	2 393	**108**	138
Fixed-interest-bearing stock	**2 251**	3 202	**213**	218
Foreign investments	**1 008**	1 131	**62**	58
Total	**7 166**	7 295	**442**	448

Principal actuarial assumptions

Weighted average assumptions used for the purposes of the actuarial valuations determined in consultation with independent actuaries for both of the funds are the same.

	2010 %	2009 %
At valuation date		
Discount rate	**8.2**	9.2
Expected return on plan assets	**9.2**	9.9
General inflation rates	**5.2**	5.9
Salary inflation	**5.9 + merit increase**	6.9 + merit increase

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

28. POST-EMPLOYMENT BENEFITS continued

28.1 Pensions continued

28.1.2 Defined benefit plans continued

Assumptions regarding future mortality are based on published statistics and mortality tables.

Net periodic cost/(gain) recognised in the income statement

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
For the year ended 31 December						
Service cost	**3**	2			**3**	2
Interest cost	**573**	557	**33**	35	**606**	592
Expected return on assets	**(685)**	(671)	**(41)**	(44)	**(726)**	(715)
Net actuarial (gains)/losses	**(109)**	(112)	**(8)**	(9)	**(117)**	(121)
Asset restriction adjustment	**110**	113	**8**	9	**118**	122
Subtotal	**1**	1			**1**	1
Less member contributions						
Employee costs	**(1)**	(1)			**(1)**	(1)

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

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
For the year ended 31 December						
Projected benefit obligation	**6 915**	6 592	**368**	387	**7 283**	6 979
Fair value of plan assets	**(7 167)**	(7 295)	**(442)**	(448)	**(7 609)**	(7 743)
Surplus	**(252)**	(703)	**(74)**	(61)	**(326)**	(764)
Cumulative unrecognised actuarial (losses)/gains	**(1 433)**	(872)	**(66)**	(71)	**(1 499)**	(943)
Unrecognised defined benefit asset[1]	**963**	963	**90**	90	**1 053**	1 053
Subtotal	**(722)**	(612)	**(50)**	(42)	**(772)**	(654)
Asset restriction adjustment[1]	**722**	612	**50**	42	**772**	654
Net (asset)/liability recognised						

[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.*

28. POST-EMPLOYMENT BENEFITS continued

28.1 Pensions continued

28.1.2 Defined benefit plans continued

Movement in present value of benefit obligation

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
For the year ended 31 December						
Projected benefit obligation at beginning of year	**6 592**	6 562	**387**	405	**6 979**	6 967
Interest cost	**573**	557	**33**	35	**606**	592
Service cost	**3**	2			**3**	2
Benefits paid	**(758)**	(727)	**(59)**	(35)	**(817)**	(762)
Actuarial losses/(gains)	**505**	198	**7**	(18)	**512**	180
Projected benefit obligation at end of year	**6 915**	6 592	**368**	387	**7 283**	6 979

Movement in present value of plan assets

	ArcelorMittal South Africa Pension Fund		Iscor Retirement Fund		Total	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
For the year ended 31 December						
Fair value of plan assets at beginning of year	**7 295**	7 276	**448**	476	**7 743**	7 752
Expected return	**685**	671	**41**	44	**726**	715
Contributions	**1**	2			**1**	2
Benefits paid	**(758)**	(727)	**(59)**	(35)	**(817)**	(762)
Actuarial (losses)/gains	**(56)**	73	**12**	(37)	**(44)**	36
Fair value of plan assets at end of year	**7 167**	7 295	**442**	448	**7 609**	7 743

The plan assets of both of the defined benefits funds include ordinary shares of ArcelorMittal South Africa with a fair value of Rnil (31 December 2009: Rnil).

Contributions

Funding is based on the actuarially determined contributions. The expected pension contributions for the 2011 financial year are R2 million (2010: R1 million) to the ArcelorMittal South Africa Pension Fund and Rnil (2010: Rnil) to the Iscor Retirement Fund.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

28. POST-EMPLOYMENT BENEFITS continued

28.1 Pensions continued

28.1.2 Defined benefit plans continued

History of experience adjustment

	ArcelorMittal South Africa Pension Fund				
	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
As at 31 December					
Present value of defined benefit obligation	**6 915**	6 592	6 562	6 870	6 739
Fair value of plan assets	**(7 167)**	(7 295)	(7 276)	(8 274)	(8 299)
Surplus	**(252)**	(703)	(714)	(1 404)	(1 560)
Experience adjustments on plan liabilities – gains/(losses)	**(505)**	(198)	121	(328)	(590)
Experience adjustments on plan assets – (losses)/gains	**(56)**	73	(1 004)	(25)	1 079

	Iscor Retirement Fund				
	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
For the year ended 31 December					
Present value of defined benefit obligation	**368**	387	405	410	406
Fair value of plan assets	**(442)**	(448)	(476)	(513)	(519)
Surplus	**(74)**	(61)	(71)	(103)	(113)
Experience adjustments on plan liabilities – gains/(losses)	**(7)**	18	6	(32)	(54)
Experience adjustments on plan assets – (losses)/gains	**12**	(37)	(50)	10	68

Medical benefits

The group and company contribute to medical aid schemes for the benefit of retired employees and their dependants, where those qualifying retirees accepted early retirement in 1994. At 31 December 2010 there were 49 qualifying retirees (December 2009: 52).

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

29. SHARE-BASED PAYMENTS

29.1 ArcelorMittal South Africa Cash-settled Share Participation Rights

In 2007 the group and company granted share participation rights to a limited number of key employees for retention purposes. The share participation rights were fully settled in 2010 for R33 million. The charge to earnings for the year equalled R1 million (2009: R19 million).

29.2 ArcelorMittal South Africa Equity-settled Share Option Plan

The group and company operate the Management Share Trust, consisting of an option 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 (Pty) Limited.

Option 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.

"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 employees' role grading within the company and group as approved by the Remuneration Committee of ArcelorMittal South Africa and as incorporated within the trust deed of the Management Share Trust. Upon resignation, the share options lapse immediately. Upon death, the options lapse within six months.

For the options granted during 2010, the key inputs utilised to determine the grant date valuation appear below:

- Discount rate: 6.88% (2009: 7.47%)
- Annual volatility rate: 56.6% (2009: 64.45%)
- Early exercise multiple: 2.5 times strike price (2009: 2.7 times strike price)
- Continuous dividend yield: 5.4% (2009: 3.08%)
- Expected attrition rate: 9.13% (2009: 7.7%)

The weighted average fair value per option granted for the reporting period ended 31 December 2010 amounted to R33.13 (2009: R55.43).

	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 at 1 January 2010	**40.3**
Add: Share option releases, forfeitures and resignations	**0.3**
Add: Shares releasable	**0.5**
Number of shares available for future utilisation at 31 December 2010	**41.1**

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

29. SHARE-BASED PAYMENTS continued

29.2 ArcelorMittal South Africa Equity-settled Share Option Plan continued

The charge for the group and company for this equity-settled share option plan amounted to R36 million (2009: R32 million).

	Options	
	2010 Million	2009 Million
Outstanding at beginning of year	**4.3**	3.5
Issued	**0.1**	1.3
Exercised	**(0.5)**	(0.4)
Lapsed/cancelled	**(0.4)**	(0.1)
Outstanding at end of year	**3.5**	4.3
Weighted average remaining contractual life in days at year-end		
Average days until fully vested	**553**	803
Average days until expiry	**3 110**	2 861
Weighted average prices applicable per transaction type		
Issued (R/unit)	**79.58**	103.88
Exercised strike price (R/unit)	**67.08**	66.03
Lapsed/cancelled (R/unit)	**96.97**	111.28
Outstanding (R/unit)	**94.89**	93.33

Details of outstanding options as at 31 December 2010 are as follows:

	Options	
Latest expiry date	**2020**	2019
1. ArcelorMittal group-type option plan		
Exercise price range (R)	**50.26 – 250.00**	50.26 – 250.00
Number of outstanding instruments	**3 421 697**	4 180 187
Total proceeds if outstanding instruments were immediately exercised (Rm)[1]	**14**	69
Total intrinsic value of out-of-the-money options at 31 December (Rm)	**(75)**	(37)
2. 30:30:40 option plan		
Latest expiry date	**2011**	2011
Exercise price range (R)	**41.81 – 56.86**	34.34 – 57.99
Number of outstanding instruments	**104 179**	157 657
Total proceeds if outstanding instruments were immediately exercised (Rm)[1]	**3**	9
3. Legacy option plan		
Latest expiry date	**2011**	2011
Exercise price range (R)	**9.71 – 10.10**	9.71 – 10.10
Number of outstanding instruments	**4 979**	4 979
Total proceeds if outstanding instruments were immediately exercised (Rm)[1]	**0**[2]	0[2]
ArcelorMittal South Africa closing price at 31 December 2010	**R79.22**	R103.00

1 Hypothetical scenario, assuming all instruments were to vest on 31 December (excludes out-of-the-money options, where applicable).

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

29. SHARE-BASED PAYMENTS continued

29.2 ArcelorMittal South Africa Equity-settled Share Option Plan continued

Terms of the options outstanding at the reporting date are as follows:

	Options			
	Exercise price range 2010 R	Outstanding numbers 2010	Exercise price range 2009 R	Outstanding numbers 2009
For year ended 31 December				
Expiry date details				
2010			34.34 – 57.99	30 205
2011	**9.71 – 56.86**	**132 034**	9.71 – 56.86	155 307
2015	**53.38**	**320 823**	53.38	448 645
2016	**54.19 – 83.88**	**625 219**	54.19 – 83.88	930 279
2017	**97.72 – 140**	**699 618**	97.72 – 140.00	790 738
2018	**73.75 – 250**	**868 051**	73.75 – 250.00	1 012 159
2019	**95.50 – 121.50**	**851 710**	80 – 121.50	975 490
2020	**76.88 – 77.88**	**33 400**		
Total		**3 530 855**		4 342 823

29.3 ArcelorMittal Group Equity-settled Share-Based Payment Plans

29.3.1 Executive International Mobility Share Option Plan

The ArcelorMittal Group issued equity-settled share options over its own shares, denominated in USD, to its executive employees seconded to ArcelorMittal South Africa. The charge to the group and company for the year amounted to R3 million (2009: R22 million).

Details of outstanding options as at 31 December are as follows[1]:

	2010	2009
Latest expiry date	**2 020**	2 019
Exercise price range (USD)	**28.75 – 85.57**	28.75 – 82.57
Number of outstanding instruments	**72 653**	56 093
Total proceeds if outstanding instruments were immediately exercised (Rm)[2]		4
Total intrinsic value of out-the-money options at 31 December (Rm)[2]	**(1.5)**	(3)

[1] *Includes, at the reporting dates, those outstanding options received before and during the participants' tenure as employees of ArcelorMittal South Africa.*

[2] *Hypothetical scenario, assuming all instruments were to vest on 31 December (excludes out-of-the-money options, where applicable). Translated to ZAR using the closing exchange rate at 31 December.*

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

29. SHARE-BASED PAYMENTS continued

29.3 ArcelorMittal Group Equity-settled Share-Based Payment Plans continued

29.3.1 Executive International Mobility Share Option Plan continued

	Options			
	Exercise price range per option 2010 USD	Outstanding option numbers 2010	Exercise price range per option 2009 USD	Outstanding option numbers 2009
Expiry date details				
2015	**28.75**	**21 769**	28.75	21 813
2016	**33.76**	**20 886**	33.76	8 680
2017	**64.30**	**15 600**	64.30	9 600
2018	**82.57**	**9 732**	82.57	8 000
2019	**38.30**	**4 666**	38.30	8 000
Total		**72 653**		56 093

[1] *Includes, at the reporting dates, those outstanding options received before and during the participants' tenure as employees of ArcelorMittal South Africa.*

[2] *Hypothetical scenario, assuming all instruments were to vest on 31 December (excludes out-of-the-money options, where applicable). Translated to ZAR using the closing exchange rate at 31 December.*

Details related to the individual holdings are contained in the Directors' Remuneration Report.

29.3.2 Employee Share Purchase Plan

The ArcelorMittal Group enables all employees within its group to participate in the Employee Share Purchase Plan. In terms of the plan, ArcelorMittal group shares (denominated in USD) are purchased at a discount to the ruling market price at grant date. The shares vest after three years. The charge to the group and company for the year amounted to Rnil[1] (2009: Rnil[1]).

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

Details of unvested shares as at 31 December 2010 are as follows:

Vesting date	21 January 2011
Number of shares	77
Market price on grant date (USD)	21.71
Discounted market price (USD)	18.45 – 19.54

	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
30. CONTINGENT LIABILITIES				
Contingent liabilities at the statement of financial position date, not recognised in these financial statements, are:				
• 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**	4	**24**	44
Total	**1**	4	**24**	44

Alleged contravention of the Competition Act referred by the Competition Commission to the Competition Tribunal

Two actions have been referred by the Competition Commission (the "commission") to the Competition Tribunal (the "tribunal"), which remain unresolved at 31 December 2010:

- the Barnes Fencing complaint lodged with the competition authorities; and
- alleged prohibited practices in Long Steel Products, including reinforcing rebar, wire rod and sections ("Long Steel Products matter").

In both instances, the litigation processes have not progressed far enough to allow for an assessment to be performed of the amount at risk, if any, and the probability of its realisation.

Barnes Fencing Industries Limited

The case brought by Barnes Fencing Industries Limited ("Barnes Fencing") before the tribunal, alleges 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 against the company to terminate these practices and further 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 case before the tribunal is likely to be heard during the first quarter of 2011.

Based on the current status of the litigation process, no provision has been raised and no contingent liability quantified.

Long Steel Products matter

The Commission investigated ArcelorMittal South Africa, together with four other primary steel producers in South Africa, in respect of alleged market collusion and price-fixing relating to certain long steel products.

The allegations concern alleged possible contraventions of section 4(1)(b) of the Competition Act. The commission has requested that the tribunal impose an administrative penalty of 10% of the company's 2008 revenue.

In order for the company to appropriately plead to the allegations by submission of an answering affidavit, it submitted on 17 December 2009, an application to the tribunal for information and documents from the commission relating to the allegations, including documents from the leniency application upon which the commission relies in its referral to the complaint to the Commission.

On 3 September 2010 the tribunal refused the bulk of the documents requested by the company, and in response ArcelorMittal South Africa filed a notice of appeal and an application to review the tribunal's decision at the Competition Appeal Court. An application has also been filed to suspend the tribunal's order that the company should file its answering affidavit pending the outcome of the appeal before the Competition Appeal Court. A date for the hearing of the appeal and applications is awaited.

Based on the current status of the litigation process, no provision has been raised and no contingent liability quantified.

Notes to the group and company annual financial statements continued

for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
31. COMMITMENTS				
Capital commitments				
Capital expenditure contracted for property, plant and equipment	**641**	560	**559**	500
Capital expenditure authorised but not contracted for property, plant and equipment	**1 045**	972	**982**	920
Total	**1 686**	1 532	**1 541**	1 420
Operating lease commitments				
Equipment and vehicles				
The future minimum payments under non-cancellable stand-alone and embedded operating leases are as follows:				
– Less than one year	**148**	35	**112**	32
– More than one year and less than five years	**161**	16	**161**	13
– More than five years	**4**		**4**	
Total	**313**	51	**277**	45

32. RENTAL AGREEMENT

A depot and off-loading facility owned by the group and company (included under note 13) are leased to a third party in terms of a 14-year rental agreement ending 30 June 2013. In terms of the rental agreement, the lessee does not have the option to purchase the facility at any stage during or after the completion of the contract.

The total rentals received for the year ended 31 December 2010 amounted to R20 million (2009: R21 million). The future gross operating rentals to be received in accordance with the agreement are set out below:

	2010 Rm	2009 Rm
Gross operating rentals		
Less than one year	**18**	20
More than one year and less than five years	**24**	42
Total	**42**	62

Annexure 1: Equity-accounted investments

	Functional currency	Number of shares held	Percentage holding 2010 %	Percentage holding 2009 %	Group carrying amount 2010 Rm	Group carrying amount 2009 Rm	Company carrying amount 2010 Rm	Company carrying amount 2009 Rm	Year-end other than 31 December
JOINTLY CONTROLLED ENTITIES									
Unlisted shares									
• Collect-a-Can (Proprietary) Limited	ZAR	2 400 000	**60**	60	**17**	14	**2**	2	
• Consolidated Wire Industries (Proprietary) Limited	ZAR	1 999 999	**50**	50	**90**	98	**14**	14	
• Ensimbini Terminals (Proprietary) Limited	ZAR	1 000	**50**	50	**20**	17	**8**	10	30 June
• Macsteel International Holdings BV	USD	35 001	**50**	50	**1 720**	1 671			
• Microsteel (Proprietary) Limited	ZAR	2 000	**50**	50	**38**	36	**38**	37	30 June
• Pietersburg Iron Company (Proprietary) Limited	ZAR	4 000	**50**	50	**5**	(3)	**36**	14	
Associates									
Listed shares									
• Coal of Africa	AUD	84 801 192	**16**	16.2	**482**	522	**623**	524	30 June
Unlisted shares									
• Toyota Tsusho South Africa Processing (Proprietary) Limited	ZAR	20	**20**	20	**14**	14	**16**	16	31 March
Total investment					**2 386**	2 369	**737**	617	
Directors' valuation of shares in jointly controlled entities and associates					**2 711**	2 783			

Annexure 1: Equity-accounted investments continued

JOINTLY CONTROLLED ENTITIES continued

The summarised financial information in respect of the jointly controlled entities are as follows:

	2010 Rm	2009 Rm
Total assets	6 028	6 065
Total liabilities	2 383	2 325
Revenue	21 461	22 017
Net profit attributable to ordinary shareholders[1]	560	425
[1] Indicative, amounts were translated at the average ZAR/USD exchange rate for the year and not at the monthly exchange rate. The amounts will thus not agree.		
The summarised financial information in respect of the unlisted associate is as follows:		
Total assets	214	210
Total liabilities	152	152
Revenue	377	351
Net profit/(loss) attributable to ordinary shareholders	3	5
The summarised financial information in respect of the listed associate is as follows:		
Total assets	4 892	4 567
Total liabilities	917	299
Total equity and liabilities	4 892	4 567
Revenue	700	168
Net profit attributable to ordinary shareholders	(232)	(153)

Critical judgement and estimates

Equity accounting in the group's accounts of the investment in Coal of Africa Limited (Coal)

As ArcelorMittal South Africa has representation on the board of directors and exercises significant influence, equity accounting has been applied in the consolidated accounts of the group.

Fair value of unlisted investments

In determining the fair value of the unlisted investments for impairment assessment and disclosure purposes, use was made of net asset value, liquidation, simple earnings multiple and discounted cash flow valuation techniques.

In general, an earnings multiple of 6.5 was applied to the investments (2009: earnings multiples of 6.5 to 7 times), while average liquidation realisation rates ranged from 90% to 100% on net asset value depending on the nature of the business (2009: 90% to 100%). The realisation rates are based on the observable market rates for similar assets.

Annexure 2: Investments in subsidiaries

	Country of incorporation[1]	Functional Currency	Issued capital (unlisted ordinary shares)	Interest of company Shares 2010 R	Shares 2009 R	Indebtedness 2010 Rm	Indebtedness 2009 Rm
PROPERTY							
Yskor Landgoed (Proprietary) Limited	RSA	ZAR	4 000	**4 000**	4 000	**(94)**	(94)
MANUFACTURING							
Iscor Building Systems (Proprietary) Limited	RSA	ZAR	100	**100**	100	**0**	0
Saldanha Steel (Proprietary) Limited	RSA	ZAR	2 000	**1 009**	1 009	**4 649**[2]	4 251[2]
SERVICE							
ArcelorMittal South Africa Investments and Trading One Limited	RSA	ZAR	9	**10**	10		
Ferrosure (Isle of Man) Insurance Co Limited[3]	IOM	USD	70	**12 011 246**	12 011 246		
MSSA Investments BV	NEH	USD	134 669	**241 105 200**	241 105 200		
Pybus Fifty-Seven (Proprietary) Limited	RSA	ZAR	1	**1 000**	1 000	**403**	403
Vicva Investments and Trading Nine (Proprietary) Limited	RSA	ZAR	1	**1 000**	1 000	**3 852**	3 918
Dombotema Mining Investments (Proprietary) Limited	RSA	ZAR	100	**100**	100		
ArcelorMittal South Africa Distribution (Proprietary) Limited	RSA	ZAR	100	**100**	100	**58**	63
ArcelorMittal African Investments	Mauritius	USD	100	**716**	716		10
ArcelorMittal South Africa Operations (Proprietary) Limited[4]	RSA	ZAR	1	**1**	1		
Total investments in subsidiaries (note 15)				**253 124 482**	253 124 482	**8 868**	8 551

[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 2009: R8 billion) and intercompany advances of R3.4 billion (December 2009: R4 billion).
[3] Issued capital is non-voting redeemable preference shares.
[4] The name of the company changed from ArcelorMittal Pipes and Tubes (Proprietary) Limited to ArcelorMittal South Africa Operations (Proprietary) Limited from 1 June 2010.

Analysis of shareholders

as at 31 December 2010

	Number of shareholdings	% of total shareholdings	Number of shares	% of shares in issue
SIZE OF HOLDINGS				
1 – 100 shares	8 007	27.32	411 488	0.10
101 – 1 000 shares	19 107	65.20	4 230 370	0.95
1 001 – 50 000 shares	1 518	5.18	4 462 770	1.00
50 001 – 100 000 shares	494	1.68	17 403 729	3.90
100 001 – 10 000 000 shares	175	0.60	98 686 657	22.14
10 000 001 and more shares	5	0.02	320 557 118	71.91
Total	**29 306**	**100.00**	**445 752 132**	**100.00**
DISTRIBUTION OF SHAREHOLDERS				
Corporate holdings	8	0.03	208 821 940	46.85
Other management funds	367	1.25	97 909 835	21.96
Pension funds	139	0.47	49 208 634	11.04
Other funds	24	0.08	35 822 913	8.04
Unit trusts	124	0.42	24 302 798	5.45
Insurance companies	25	0.09	20 711 384	4.65
Unclassified (below 10 000 shares)	28 619	97.66	8 974 628	2.01
Total	**29 306**	**100.00**	**445 752 132**	**100.00**
GEOGRAPHICAL HOLDING BY OWNER				
Switzerland	18	0.06	209 474 733	46.99
South Africa	28 710	97.97	196 000 003	43.97
United States	106	0.36	31 699 142	7.11
Great Britain	80	0.27	6 073 828	1.36
Namibia	274	0.93	1 476 125	0.33
Balance	118	0.40	1 028 301	0.23
Total	**29 306**	**100.00**	**445 752 132**	**100.00**
DIRECT OR INDIRECT BENEFICIAL SHAREHOLDERS WITH A HOLDING OF 5% OR MORE OF THE ISSUED SHARES				
ArcelorMittal Holdings AG	2	0.01	208 700 402	46.82
Vicva Investments and Trading Nine (Proprietary) Limited	1	0.00	44 550 255	9.99
Government Employees Pension Fund (GEPF/PIC)	10	0.03	38 297 932	8.59
Industrial Development Corporation	1	0.00	35 252 586	7.91
Total	**14**	**0.05**	**326 801 175**	**73.31**
PUBLIC AND NON-PUBLIC SHAREHOLDERS				
ArcelorMittal Holdings AG	2	0.01	208 700 402	46.82
Vicva Investments and Trading Nine (Proprietary) Limited	1	0.00	44 550 255	9.99
Government Employees Pension Fund (GEPF/PIC)	10	0.03	38 297 932	8.59
Industrial Development Corporation	1	0.00	35 252 586	7.91
	14	**0.05**	**326 801 175**	**73.31**
Non-public shareholders	14	0.05	326 801 175	73.31
Public shareholders	29 292	99.95	118 950 957	26.69
Total	**29 306**	**100.00**	**445 752 132**	**100.00**

Shareholders' diary

Financial year-end	31 December 2010
Posting of annual report	31 March 2011
Annual general meeting	25 May 2011
Report and account	
Financial results for December 2010	8 February 2011
First quarter results 2011	11 May 2011
Interim results 2011	27 July 2011
Third quarter results 2011	2 November 2011

Directorate and administration

COMPANY REGISTRATION
ArcelorMittal South Africa Limited
Registration number 1989/002164/06
Share code: ACL
ISIN: ZAE000134961

DIRECTORS
Independent non-executive Chairman
Mr MJN Njeke#

Executive directors
N Nyembezi-Heita (Chief Executive Officer)■†
RH Torlage (Chief Financial Officer)

Non-executive directors
DK Chugh◆■•
CPD Cornier▶
S Maheshwari◆
LP Mondi■•
AMHO Poupart-Lafarge▶#■•

Independent non-executive directors
DCG Murray*#†•
ND Orleyn*#■•
M Macdonald*†

* *Member of Audit and Risk Committee*
\# *Member of Nomination Committee*
• *Member of Remuneration Committee*
† *Member of Safety, Health and Environment Committee*
■ *Member of Transformation Committee*
▶ *Citizen of France*
◆ *Citizen of India*

COMPANY SECRETARY
Premium Corporate Consulting Services
(Proprietary) Limited
(Registration number 2003/09512/07)
Attention: Solete Wilke
Waterford Office Park, Unit 28, First Floor
Cnr Witkoppen and Waterford Drive, Fourways, 2188
South Africa
(PO Box 1078, Jukskei Park, 2153)
Telephone: 011 658 0473/4
Facsimile: 086 512 8872
Email: sw@premcorp.co.za

REGISTERED OFFICE
Vanderbijlpark Steel
Room N3-5, Main Building
Delfos Boulevard
Vanderbijlpark

POSTAL ADDRESS
PO Box 2
Vanderbijlpark, 1900
Telephone: 016 889 9111
Facsimile: 016 889 2079

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

SPONSOR
Deutsche Securities (SA) (Proprietary) Limited
(Registration number 1995/011798/07)
3 Exchange Square, 87 Maude Street, Sandton, 2196
South Africa
(Private Bag X9933, Sandton, 2146)
Telephone: 011 775 7328
Facsimile: 011 775 7610

TRANSFER SECRETARIES
Computershare Investor Services (Pty) Limited
70 Marshall Street, Johannesburg
(PO Box 61051, Marshalltown, 2107)
Telephone: 011 370 5000
Facsimile: 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
Internet: www.bankofny.com

AUDITORS
Deloitte & Touche
Deloitte Place, Building 1, The Woodlands
20 Woodlands Drive, Woodmead, 2052, South Africa
Telephone: 011 209 8005
Facsimile: 011 388 6166
Email: ryduffy@deloitte.co.za

Notice of annual general meeting

ArcelorMittal South Africa Limited
(Incorporated in the Republic of South Africa)
(Registration number 1989/002164/06)
JSE code: ACL ISIN: ZAE000134961
("the company")

Notice is hereby given that the twenty-third annual general meeting of the company's shareholders will be held at the Hilton, 138 Rivonia Road, Sandton, Johannesburg on Wednesday, 25 May 2011 at 11:00, at which the resolutions set out below will be considered and, if deemed fit, passed with or without modification:

1. **Ordinary resolution number 1: Adoption of the annual financial statements**
   "Resolved that the annual financial statements for the company and the group for the year ended 31 December 2010, including the Directors' Report and the Auditors' Report therein, be and are hereby received and confirmed."

2. **Ordinary resolution number 2: Re-election of directors**
   "Resolved that the following directors, who retire in accordance with the articles of association and, being eligible, offers themselves for re-election, be and are hereby re-elected as a directors of the company:
   2.1 Mr CPD Cornier
   2.2 Mr LP Mondi
   2.3 Mr DCG Murray
   2.4 Mr AMHO Poupart-Lafarge

   An abbreviated curriculum vitae in respect of each director offering themselves for re-election is set out on page 6 of this annual report.

3. **Ordinary resolution number 3: Confirmation of board appointment**
   "Resolved that Mr RH Torlage's appointment as director, which was made on 3 September 2010 by the board of directors, be and is hereby confirmed."

   An abbreviated curriculum vitae in respect of Mr RH Torlage is set out on page 7 of this annual report.

4. **Ordinary resolution number 4: Reappointment of auditors**
   "Resolved that Deloitte & Touche be reappointed as the independent auditors of the company and Mr RM Duffy, being a member of Deloitte & Touche, as the individual designated auditor who will undertake the audit of the company, for the ensuing year. "

5. **Ordinary resolution number 5: Remuneration policy**
   "Resolved that the Remuneration Policy, of which the key principles and elements are set out on page 122 of the annual report, be deemed to form part of this Notice of Annual General Meeting, be and is hereby approved. "

6. Special resolution number 1: Non-executive directors' fees

"Resolved that the following non-executive director's fees payable for the period 1 May 2011 until the next annual general meeting, be and are hereby approved:

	Annual retainer	Attendance fee per meeting
Chairman	R880 000	
Director	R145 200	R12 100
Audit and Risk Committee Chairman		R26 400
Audit and Risk Committee Member		R13 200
Remuneration Committee Chairman		R24 200
Remuneration Committee Member		R12 100
Nominations Committee Chairman		R24 200
Nominations Committee Member		R12 100
Safety, Health and Environment Committee Chairman		R24 200
Safety, Health and Environment Committee Member		R12 100
Share Trust Chairman		R24 200
Share Trust Member		R12 100

7. Special resolution number 2: Amendment of articles to allow for electronic payment of dividend

"To consider the proposed amendment of the company's articles of association ("articles") to allow for the electronic payment of dividends of which this notice forms part and, accordingly if deemed fit, to pass the following resolution as a special resolution:

"Resolved that, as a special resolution in accordance with the provisions of section 199 of the Companies Act 61 of 1973, as amended ("the Act"), that the company's articles of association be amended as follows:

(i) by the addition of the following articles as article 39.7 and article 39.8:

"39.7 Payment of dividends

Dividends, interest or other monies payable to the member shall, unless a member notifies the company in writing that he or she desires to receive payment in another form as provided for in the Companies Act, only be paid by electronic funds transfer into a bank or building society account of the member entitled thereto supplied by him or her to the company or, in the case of joint holders, to the bank or building society account of the first named in the register (or subregister, as the case may be) in respect of such joint holdings, which account shall be supplied to the company by such person, and the electronic transfer of the dividends, interest or other monies into such account shall be a good discharge by the company in respect thereof. For the purpose of this article, no notice of change of bank or building society account or instructions as to payment being made at any other bank or building society account which is received by the company after the date on which a member must be registered in order to qualify for dividend or other payment and which would have the effect of changing the currency in which such payment would be made, shall be effective in respect of such payment. A member who is a South African resident shall only be entitled to supply a rand-denominated bank or building society account of a bank or building society registered to operate such account in South Africa. In the event that a member has failed to supply a valid bank account as envisaged therein, the dividends, interest or other monies shall be deemed unclaimed dividend in terms of article 39.5."

"39.8 Fraudulent electronic transfer

"The company shall not be responsible for a member's loss arising from any fraudulent, diverted or incorrect electronic funds transfer of dividends, interest or other moneys payable to a member unless such loss was due to the company's gross negligence or wilful default."

The reason for the special resolution number 1 is to amend the company's articles of association to allow for electronic payment of dividends, interest or other moneys payable to a member and to deal with fraudulent transfers.

The effect of special resolution number 1 is that the articles are amended such that in future the company would only pay dividends by means of electronic funds transfer into the bank accounts supplied by members to the transfer secretaries of the company being Computershare Investor Services (Pty) Ltd, and that the company shall not be liable for fraudulent bank transfers.

Notice of annual general meeting continued

Voting

On a show of hands every shareholder present in person or by proxy and if a member is a body corporate, its representative, shall have one vote and on a poll, every shareholder present in person or by proxy and if the person is a body corporate, its representative, shall have one vote for every share held or represented by him/her.

In terms of the JSE Listings Requirements, any shares held by the company's share incentive scheme may not be taken into account in determining the results of voting on the special resolution.

Proxies

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and on a poll, to vote in his/her stead.

A form of proxy is attached for completion by registered certificated shareholders and dematerialised shareholders with own-name registration who are unable to attend the annual general meeting in person. Forms of proxy must be completed and received by the transfer secretaries, by no later than 11:00 on Monday, 23 May 2011. Registered certificated shareholders and dematerialised shareholders with own-name registration who complete and lodge forms of proxy will nevertheless be entitled to attend and vote in person at the annual general meeting to the exclusion of their appointed proxy/(ies) should such member wish to do so. Dematerialised shareholders, other than with own-name registrations, must inform their CSDP or broker of their intention to attend the annual general meeting and obtain the necessary letter of representation from their Central Securities Depository Participant (CSDP) or broker to attend the annual general meeting or provide their CSDP or broker with their voting instructions should they not be able to attend the annual general meeting in person. This must be done in terms of the agreement entered into between the shareholder and the CSDP or broker concerned.

By order of the board

Premium Corporate Consulting Services (Proprietary) Limited
Company Secretary
8 March 2011

Form of proxy

Form of Proxy
(Incorporated in the Republic of South Africa)
(Registration number 1989/002164/06)
JSE code: ACL ISIN: ZAE000134961
("the company")

To be completed by registered certificated shareholders and dematerialised shareholders with own-name registration only.

For use in respect of the annual general meeting of the company to be held at the Hilton, 138 Rivonia Road, Sandton, Johannesburg, on Wednesday 25 May 2011 at 11:00. Ordinary shareholders who have dematerialised their shares with a CSDP or broker, other than with own-name registration, must arrange with the CSDP or broker concerned to provide them with the necessary Letter of Representation to attend the annual general meeting or the ordinary shareholders concerned must instruct their CSDP or broker as to how they wish to vote in this regard. This must be done in terms of the agreement entered into between the shareholder and the CSDP or broker concerned.

I/We (full name in block letters) _____
of (address)

Telephone _____ (work)_____
__(home)

being the registered owner(s) of _____ordinary shares in the

company hereby appoint _____ or failing him/her

_____or failing him/her, the chairperson of the annual general meeting, as my/our proxy to act for me/us and on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at any adjournment thereof; and to vote for and/or against the ordinary and special resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name(s), in accordance with the following instructions::

* Please indicate with an "X" in the appropriate spaces below how you wish your votes to be cast unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

		Number of votes		
		For*	Against*	Abstain*
1.	Ordinary resolution number 1: Annual financial statements			
2.	Ordinary resolution number 2: Re-election of directors			
	2.1 Mr CDP Cornier			
	2.2 Mr LP Mondi			
	2.3 Mr DCG Murray			
	2.4 Mr AMHO Poupart-Lafarge			
3.	Ordinary resolution number 3: Confirmation of board appointment			
4.	Ordinary resolution number 4: Reappointment of auditors			
5.	Ordinary resolution number 5: Remuneration policy			
6.	Special resolution number 1: Approval of non-executive directors' fees			
7.	Special resolution number 2: Amendment of articles to allow for electronic payment of dividend			

Signed this _____ day of _____2011

Signature _____

Assisted by (if applicable) _____

Please read the notes on the reverse.

Notes to the form of proxy

1. On a poll a shareholder is entitled to one vote for each share held.

2. Forms of proxy must be lodged at, posted to or faxed to Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107 Fax +27 11 688 5238), to reach the company by no later than 11:00 on Monday 23 May 2011.

3. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholders' choice in the space(s) provided, with or without deleting the words "the chairman of the annual general meeting". Any such deletion must be individually initialled by the shareholder, failing which they will not have been validly effected. The person present at the annual general meeting whose name appears first on the form of proxy and has not been deleted shall be entitled to act as proxy to the exclusion of the persons whose names follow.

4. Any alterations or corrections to this form of proxy have to be initialled by the relevant signatory/(ies).

5. Each shareholder is entitled to appoint one or more proxies [who need not be a shareholder(s) of the company] to attend, speak and vote (either on a poll or by show of hands) in place of that shareholder at the annual general meeting.

6. Voting instructions for each of the resolutions must be completed by filling the number of votes (one per ordinary share) under the "In Favour", "Against" or "Abstain" headings on the form of proxy. If no instructions are filled in on the form of proxy, the chairman of the annual general meeting, if the chairman is the authorised proxy, or any other proxy shall be authorised to vote in favour of, against or abstain from voting as he/she deems fit.

7. A shareholder or his/her proxy is entitled but not obliged to vote in respect of all the ordinary shares held by the shareholder. The total number of votes for or against the ordinary and special resolutions and in respect of which any abstention is recorded may not exceed the total number of shares held by the shareholder.

8. Documentary evidence establishing the authority of a person signing this form must be attached to this form of proxy unless previously recorded by the transfer secretaries of the company or waived by the chairman of the annual general meeting.

9. This form of proxy is to be completed only by those shareholders who either still hold shares in a certificated form, or whose shares are recorded in their "own name" in electronic form in the sub-register.

10. Shareholders whose dematerialised shares are held in the name of a nominee and wish to attend the annual general meeting must contact their Central Securities Depository Participant (CSDP) or broker who will furnish them with the necessary letter of authority to attend the annual general meeting. Alternatively, they have to instruct their CSDP or broker as to how they wish to vote. This has to be done in terms of the agreement between the shareholder and the CSDP or the broker.

11. Shareholders who wish to attend and vote at the meeting must ensure that their letters of authority from their CSDP or broker reach the transfer secretaries not later than 11:00 on Monday 23 May 2011.

12. The completion and lodging of this form of proxy does not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person to the exclusion of any proxy appointed by the shareholder.

13. The chairman of the annual general meeting may accept or reject any form of proxy which is completed and/or received other than in accordance with these instructions, provided that he shall not accept a proxy unless he is satisfied as to the manner in which a shareholder wishes to vote.

Transfer secretaries' office
Computershare Investor Services (Pty) Limited
70 Marshall street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

Stephen contains 50% recycled content and 50% elemental chlorine free pulp from well-managed forests and controlled sources.
Stephen is carbon neutral in its manufacture.
Stephen is socially responsible within South Africa. A percentage of sales are donated to JAM, a feeding organisation in Southern Africa.

BASTION GRAPHICS

ArcelorMittal