



ArcelorMittal



# Forging ahead

Integrated Annual Report 2011



# Overview of ArcelorMittal South Africa

## Our values

Our core philosophy is to produce safe, sustainable steel. In doing so, our top priority is safety, with the intent to be the world's safest steel company.

The group is committed to a promise of 'transforming tomorrow', guided by its values of sustainability, quality and leadership.

ArcelorMittal is constantly striving to develop cleaner steel-making processes and bring about industry-wide improvements in sustainability.

## Forging ahead as Africa's champion of steel

For decades ArcelorMittal South Africa has been Africa's foremost producer of steel, capable of producing 7.8 million tonnes of liquid steel per annum. It is a vital supplier to a continent that is growing fast and urgently needs rail, roads and electrification to sustain and further accelerate that escalation.

In this, our company isn't alone. We are part of the ArcelorMittal Group, the world's single biggest steel manufacturer and home to the champions of steel around the globe.

ArcelorMittal leads in all major global steel markets, including automotive, construction, household appliances and packaging. It shows the way in research and development, and controls sizeable captive supplies of raw materials and outstanding distribution networks. With an industrial presence in more than 20 countries spanning four continents, the company covers all of the key steel markets, from emerging to mature.

In 2011 the group generated revenues of US\$94 billion and produced 91.9 million tonnes of steel, which is about 6% of world annual output.

About 35% of its steel is produced in the Americas, 47% in Europe and 18% in other regions, including Kazakhstan, South Africa and Ukraine.

ArcelorMittal has grown through acquiring various steel-making and related assets, which are divided into six operating segments: Flat Carbon Americas, Flat Carbon Europe, Long Carbon Americas and Europe, Asia, Africa, and Commonwealth of Independent States (AACIS), Mining and Distribution Solutions.

With its significant global presence, the group uses its size and worldwide reach to optimise services throughout, while also deploying economies of scale.

Shared services include purchasing, energy, shipping, IT, legal, real estate and by-products sales. The shared services teams work to make sure best practice is followed throughout the group, while also sharing local good practices with the entire organisation.

## Fast facts

Founded in 1928.

Headquarters in Vanderbijlpark in South Africa's Gauteng Province.

Annual steel production of 7.8 million tonnes of liquid steel (long and flat) products.

Over 9 800 employees.

Revenue of R31.5 billion.

Annual energy consumption of 127 PJ.

Annual water abstraction of 20 231 000 kl.

Global standing underpinned by being part of the world's largest steel producer.

The company holds a 16% stake in coal producer Coal of Africa.

## Feedback

We need your feedback to ensure that we report on the ArcelorMittal South Africa specifics that matter to you – our stakeholders.

Please go to the weblink: [www.arcelormittal.com/southafrica/investors/feedback.com](http://www.arcelormittal.com/southafrica/investors/feedback.com) to download or print out our feedback form.



# Our report

[www.arcelormittal.com/southafrica](http://www.arcelormittal.com/southafrica)

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The JSE Limited (JSE) has granted ArcelorMittal South Africa Limited a listing in respect of 445 752 132 shares (the listing), share code ACL and ISIN: ZAE000134961

Financial year-end: 31 December of each year

Notice of annual general meeting  
Featured on pages 83 to 92 of this report

Tear-out form of proxy is on pages 87 to 88.

## Scope and boundary of the report

This is our first integrated annual report prepared in accordance with the guidelines of the King Code of Governance for South Africa 2009 (King III). It is based on the solid foundation of our 2010 annual report. We acknowledge that accomplished integrated reporting is a journey and that this Integrated annual report is a step towards that end.

This report covers the period from 1 January 2011 to 31 December 2011 and contains most material issues of concern to all our stakeholders. Companies in which the ArcelorMittal South Africa group has a joint interest, minority shareholding or contractual interest are not included in the scope of this report, although we may work with these companies to provide guidance and assistance with aspects of their economic, social and sustainable development.

This report should be read in conjunction with the Sustainability Report and the Financial Report. References to supporting information contained on our website ([www.arcelormittal.com/southafrica](http://www.arcelormittal.com/southafrica)) are provided in this report.

Our aim is to achieve disclosures of the highest standard to provide meaningful, accurate, transparent and balanced information to stakeholders. We have been guided by the principles of King III and the Global Reporting Initiative (GRI). The Board and Board committees were actively involved in finalising disclosures made in this report.

The financial information contained in this report has been independently assured by Deloitte and Touche, but the non-financial information has not been assured. We have commenced on our external assurance journey, and expect to begin obtaining limited non-financial assurance in time for the 2012 reporting.

## Forward looking statements

*Certain statements in this document constitute 'forward looking statements'. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the company to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements.*

*These forward looking statements speak only as of the date of this document. The company undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events.*

## Board responsibility

The ArcelorMittal South Africa Board of Directors (the Board) acknowledges its responsibility to ensure the veracity of the Integrated annual report for the 2011 financial year. The Board has accordingly applied its mind to this report and, in its opinion, this report addresses all material issues and accurately presents the integrated performance of the organisation and its impacts. The report has been prepared in accordance with the recommendations of principle 9.1 of the King III Code and the guidelines of the Global Reporting Initiative (GRI 3.1), to the fullest extent that current ArcelorMittal South Africa management policies and processes enable. The Board authorised this report for release on 14 March 2012.

Signed by Chief Executive Officer,  
who has been duly authorised thereto  
by the Board.





# Forging ahead

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## About the company

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Africa's largest steel manufacturer, ArcelorMittal South Africa, can produce up to 7.8 million tonnes of liquid steel per annum. We supply over 60% of the steel utilised in South Africa and export significant amounts of steel to sub-Saharan Africa and elsewhere

Founded in 1929 as a state-owned enterprise and privatised in 1989, the company is part of the global ArcelorMittal Group, which is the world's leading integrated steel and mining company, with a presence in more than 60 countries.

Our steel manufacturing and associated coke and chemical plants are based in Newcastle, Pretoria, Saldanha, Vanderbijlpark and Vereeniging. We directly employ 9 886 people and support thousands more contractor jobs through outsourced and specialised functions.

We are committed to producing safe, sustainable steel and take pride in our role as an important pillar and major driver of the South African economy.

### Our business

ArcelorMittal South Africa is an integrated steel producer. Our steel is produced in flat and long products that are suitable for further processing by downstream manufacturers for use in the construction, automotive, packaging, appliance and general manufacturing industries. We are considering widening this core range to include value-added steel products to support emerging sectors such as renewable energy.

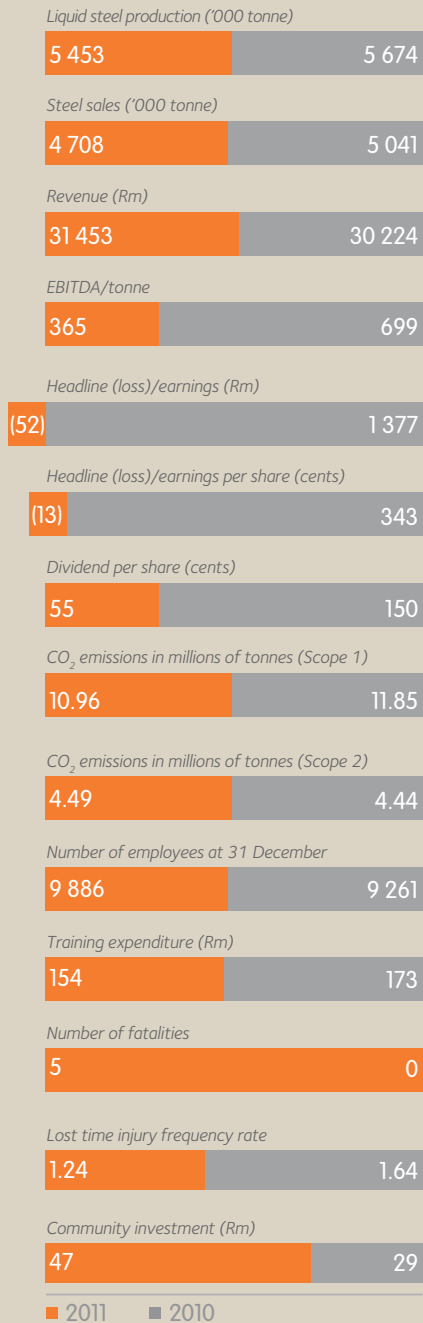
Steel manufacturing is complemented by a coke and chemical operation that produces commercial grade coke for use by the ferro-alloy industry and processes by-products resulting from the steel manufacturing process.

We are extending our interest in mines that supply iron ore and coking coal to our operations, to reduce costs and improve efficiencies through vertical integration of our sources of raw materials.





## Performance at a glance



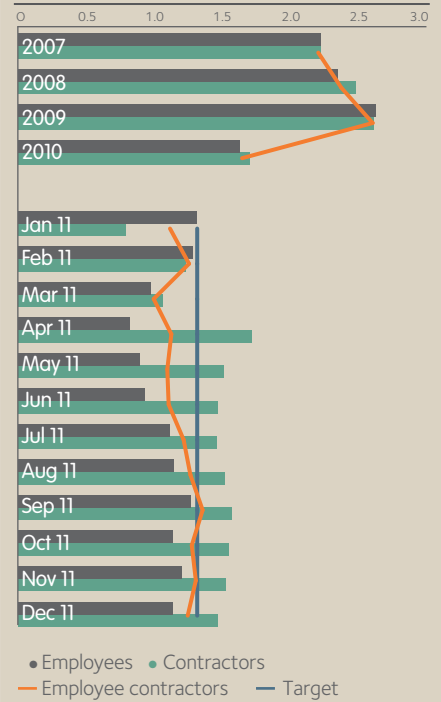
## Safety

The 2011 lost time injury frequency rate (LTIFR) reduced to 1.24 (2010: 1.64), which is the lowest ever recorded in the history of the company. All of our plants improved their LTIFR compared to 2010. The Saldanha Works, Newcastle Works and Tubular Products recorded outstanding LTIFR scores of below 1.

The safety of our employees and contractors is our first priority and the company's safety record has improved steadily over the past decade. Steel-making is an inherently dangerous business, and we train our people to constantly be aware of personal safety, while rooting out risky behaviours and rectifying unsafe situations that can result in fatalities or injuries.

It was regrettable that five fatalities occurred in a year in which we substantially improved the safety performance at our plants. These events caused a major refocus on entrenching compliance with our fatality prevention standards and safe behaviour code as part of the company's Journey to Zero programme for eliminating all workplace fatalities and injuries.

## Cumulative lost time injury frequency rate



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## Vision

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We take pride in our market leadership position in South Africa and aim to extend our role to serve the broader sub-Saharan African continent. We value our customers and aspire to be regarded by them as their supplier of choice. We intend to accomplish this by producing quality steel products through the expertise of the best people in the industry. We will continuously strive to be among the lowest-cost steel-producers in the world.

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## Values

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Our goal is to produce safe, sustainable steel. We have a clear vision of the future with a well defined set of brand values, namely:

**Sustainability:** Our commitment to the world around us extends beyond the bottom line, to include the people in whom we invest, the communities we support and the world in which we operate. This long-term approach is central to our business philosophy.

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

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

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## Key strategic objectives

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- Drive business transformation to achieve excellence in safety, people, plants and processes in line with ArcelorMittal Group benchmark targets for employee productivity and operational efficiency.
- Meet customer expectations for product quality and service and thereby maintain our domestic market share and expand our presence in sub-Saharan Africa.
- Continue embedding our corporate responsibility programmes for safety, health, environment and the well-being of employees, contractors and the communities in which we operate.
- Build on relations with key stakeholders to improve interaction and enhance our reputation.
- Further improve our levels of employee engagement to continue developing a positive work environment that attracts and retains talented people.
- Retain our position in the lowest-cost quartile to ensure that the company remains a globally competitive steel producer.
- Comply with our short-term BEE goals by 2014.
- Reach 80% self-sufficiency in iron ore within five years.

# Business management

The steel business is impacted by global economic cycles and moves between high profit and lean years

## Corporate governance

In recent years, we have restructured our corporate governance and management systems to accord with the revised global ArcelorMittal Group and South Africa's King III requirements.

We are confident that the Board and executive management are equipped to provide the highest standards of strategic oversight, leadership and operational control.

## Risk

With the aid of expert consultants, we have conducted a deep review of the company's risk management process. During this process, we introduced further enhancement to our enterprise risk management system, which has standardised risk management throughout the company and has reassessed all risks in terms of a new risk database.

## Sustainability

The steel business is highly impacted by global economic cycles and, in response, moves between high profit and very lean years. In the immediate aftermath of the 2008 financial crisis, the industry entered a down cycle from which it is yet to emerge.

We are confident that we have the resources and leadership to sustain ourselves through another lean period despite the multiplicity of challenges confronting us, such as carbon tax, emissions control and the steel pricing model.

## How will we achieve sustainable steel?

Steel is a vital component of our buildings, transport systems, power stations, cars and household goods. Modern life simply could not function without it. But steel-making also has an environmental footprint, and consumes natural resources. So the question is how to produce the steel the world needs in a way that minimises our environmental impacts, while contributing to global efforts to tackle climate change. We do not yet have all the answers, but we are investing in resources to find them.

Our position in our industry brings unique opportunities, and unique responsibilities. Large companies, in sectors like ours, have a responsibility to operate in a responsible and transparent manner. We see this as an opportunity to seize the initiative and define the way forward for ourselves. We want to instil pride in our workforce, gain admiration from our peers and build the trust we need to operate profitably and add value for our stakeholders. This is what our corporate responsibility strategy is designed to achieve.



## ArcelorMittal South Africa will achieve safe sustainable steel by:

Investing in our people	Making steel more sustainable	Enriching our communities
Making each and every person working in our operations feel valued.	Using our expertise in steel to develop cleaner processes and greener products.	Our presence plays an important role in all the communities where we operate.
... all this is underpinned by transparent governance.		





# Business operations

## Operational segments

### Operational segments

#### Flat Steel Products



#### Long Steel Products



#### Coke and Chemicals



### Key products

Slab, heavy plate or coils.

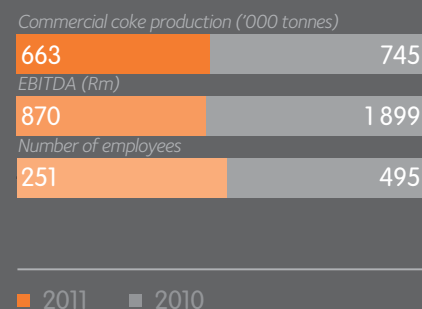
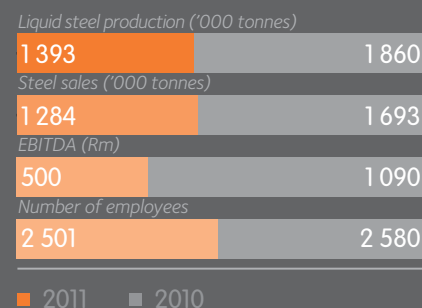
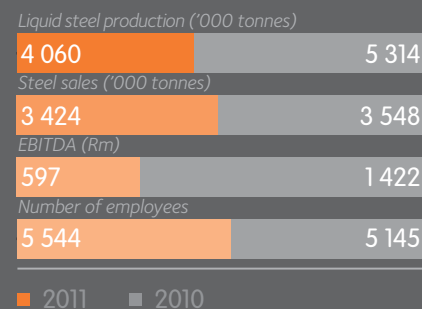
Hot rolled strip, cold rolled and coated products such as tinplate and hot dip galvanized, electro-galvanized and organic coated sheet.

Bar, billets, blooms, hot finished and cold-drawn seamless tubes, window and fencing profiles. Light, medium and heavy sections and rod.

Commercial coke for the ferro-alloy industry and metallurgical and steel by-products, including coal tar.

By-products from coke and iron-making production are processed and sold as raw materials to make aggregates for road pavement, cements, fertilisers, plastics, electronics and roofing.

### Performance 2011



## Sites of operations

### Site

#### Vanderbijlpark Works

#### Saldanha Works

#### Vereeniging Works

#### Newcastle Works

#### Coke and Chemicals

### Profile

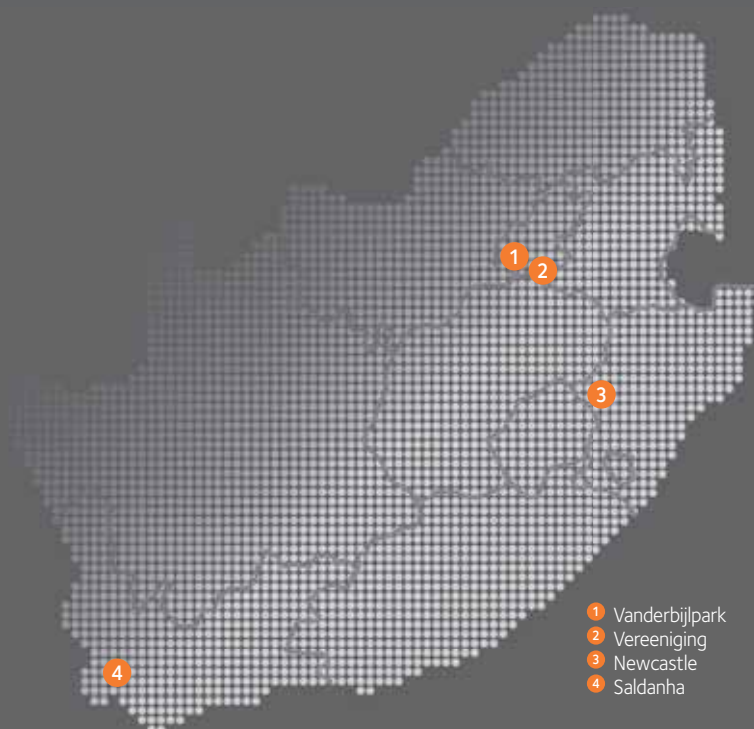
One of the world's largest inland steel mills and the largest producer of Flat Steel Products in Africa, with an annual capacity of 4.4 million tonnes of liquid steel. Vanderbijlpark Works has two blast furnaces, three electric arc furnaces and three basic oxygen furnaces.

This is the only steel mill in the world to successfully combine the Corex/Midrex process into a continuous process that eliminates the need for coke ovens and blast furnaces. It is a world leader in emission control and environmental management. It can produce 1.2 million tonnes of liquid steel per annum.

This year celebrating 100 years in operation, Vereeniging Works is the country's major supplier of speciality steel products, seamless tube and forge products. It has the capacity to produce 400 000 tonnes of speciality product per annum, by processing ingots and billets generated by its electric arc furnace, as well as input steel from Newcastle Works.

The Newcastle facility is located in northern KwaZulu-Natal and is the country's foremost supplier of profiled steel products. Rated among the lowest cash-cost producers in the world, Newcastle Works utilises a blast furnace and three basic oxygen furnaces. It can produce 1.9 million tonnes of liquid steel per annum.

This operation produces commercial coke for the ferro-alloy industry from coke batteries located in Pretoria and Newcastle Works, as well as from excess capacity at Vanderbijlpark Works. It also processes metallurgical and steel by-products, including coal tar.



# Stakeholder engagement

Since 2010, ArcelorMittal South Africa has been developing an enhanced and comprehensive stakeholder engagement programme. All South Africans have a stake in the company continuing to produce good-quality steel as the foundation of much of the country's built environment and its manufacturing sectors. As part of the global ArcelorMittal Group, we have aligned our stakeholder engagement strategy with the group's community engagement standard.

We work to create meaningful engagement with everyone affected by our presence. The highest priorities are accorded to groups adjacent to our facilities that are affected, or dependent on the company. Our most important stakeholders are individuals and communities who rely on us for their livelihood, either directly or indirectly, whose health, safety, or well-being could be affected by our operations. This includes the employees, suppliers, business partners and those communities living close to our sites.

The wider stakeholder group includes government authorities, the media and relevant community or activist groups.

The following is a high-level summary of the way we engage, the reason why we engage and the feedback following the engagements held with our stakeholders.

## Stakeholder engagement strategy

*Identifying the stakeholders with whom we should engage, is primarily determined by the following:*

- Are affected by our activities?
- Do they have influence or control over our activities?
- Do they have an interest in the company's success or failure and help in defining our value proposition?



## Customers

### Reasons of engagement

- To make current and potential customers aware of current and incoming products
- To understand and resolve customer complaints and utilise these to improve service
- To share and understand trends in the steel and related industries

### Examples of engagement

- Customer survey questionnaires
- Exhibitions and show days
- Site tours
- Presentations

### Feedback and actions

- Quality: Reports sent to Quality management for follow-up and improvement
- Order demands: Actions in place to reduce lead times
- Price: Price list simplified and extras split out for clarity



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## Investors

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### Reasons for engagement

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- Consistent interaction with investors promotes a good understanding of our business and establishes good relationships

### Examples of engagement

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- Institutional and stockbroking analysts and fund managers are invited to visit production sites to learn the challenges faced by steel producers
- Meetings with institutional investors for updates on the business and its operating environment
- One-on-one meetings, initiated by the company or current and potential shareholders, to explore issues or for the company to convey information
- Results presentations to analysts and fund managers remain the most significant individual events in our investor relations' strategy

### Feedback and actions

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- Three site visits were held at Vanderbijlpark Works, Vereeniging Works and Saldanha Works, respectively. Most attendees gained an improved understanding of the steel operational environment
- Two well-attended meetings were held, in Cape Town and Johannesburg respectively, with institutional investors
- Personal meetings clarify issues and assist analysts and fund managers with their modelling and forecasting. A total of 48 meetings were held in 2011, of which 37 were with local and 11 with foreign companies
- Four results presentations were split between Johannesburg and Cape Town, supported by two telephone conferences

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## Community

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### Reasons for engagement

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- They are our neighbours and are directly impacted by our operations
- Share the same resources and infrastructure, such as water, power, roads and rail
- Supply the bulk of our workforce
- Complaints of emissions and smells from Vanderbijlpark Works and Saldanha Works
- Complaints of groundwater pollution at Vanderbijlpark Works

### Examples of engagement

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- Environmental, waste and other committees
- Numerous CSI projects
- Employees volunteering for community projects
- Essential infrastructure development in communities
- Impilo grant and mini grant funding
- Public participation exercises conducted as part of environmental impact assessment (EIA) processes
- Monitoring committees for permits and permissions

### Feedback and actions

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- Some 2 200 asbestos-roofed houses re-roofed since 2010, with a further 800 houses to be re-roofed during 2012
- Presently constructing a community wellness centre at Sebokeng Hospital that will support HIV/Aids and TB patients, as well as being an antiretroviral (ARV) clinic
- Building schools distributed around South Africa using low-cost steel technology
- A partnership with provincial authorities and other stakeholders has been established regarding the state of the Leeuwspruit River in Boipatong
- Working to improve general compliance levels

# Stakeholder engagement

continued

## Government and regulators

### Government departments, ministers and officials

#### Reasons for engagement

- Resolve issues such as pricing model, transport logistics and power supply
- Help government understand current business challenges faced by the company
- Enable frank discussion on policy issues with key government officers
- Briefings on broader industry related issues

#### Examples of engagement

- Background briefing sessions
- Formal meetings and workshops with government representatives
- Operational site visits
- Monitoring forums including national, provincial and local authorities
- Formal hearings
- Written submissions

#### Feedback and actions

- Pricing methodology discussions with government
- Structure of the carbon tax
- Water-use licences and usage
- Role of the company within the manufacturing industry
- Preferential procurement role
- Community assistance programmes

## Environmental and water affairs

#### Reasons for engagement

- Participate in developing and regulating environmental legislation
- Applications or amendments to necessary permissions such as water-use licences and zoning of activities
- Compliance with relevant legislation and regulations

#### Examples of engagement

- Environmental impact assessment (EIAs) coordinated with authorities and stakeholders
- Official inspections conducted at our Newcastle Works and Pretoria Works by environmental management inspectors (Green Scorpions)

#### Feedback and actions

- Official inspections
- NGOs and other stakeholders engage directly with the company regarding their concerns
- Commissioning the sinter emission abatement project at Vanderbijlpark Works to reduce particulate and SO<sub>2</sub> emissions further
- Restore the zero efficient discharge (ZED) status of Vanderbijlpark Works during 2012
- Complete Newcastle Works ZED project by 2013
- Continue rehabilitating contaminated legacy sites
- Upgrade monitoring systems for improved air emissions accuracy

## Government and regulators *continued*

### Supporting national education

#### Reasons for engagement

- Support basic education in critical subjects such as maths and science
- Encourage learners to take up critical subjects and prepare for tertiary education
- Identify suitable learners for the company pipeline
- Help develop basic education infrastructure by introducing low-cost steel technology
- Support a national apprenticeship model
- Help coordinate guaranteed funding for artisan training
- Support a national recognition model for prior learning
- Enhance technician training and work-integrated learning
- Help align university and tertiary education with industry requirements

#### Examples of engagement

- School visits and presentations to teachers and learners
- Talent assessment sessions
- Sector skills priorities determined
- Funding provided for skills priorities
- Mandatory and discretionary grants claimed
- New programmes successfully implemented
- Advisory communiqué to Minister on single guaranteed funding model from National Skills Fund
- Lecturer visits to plants and training centres
- Interaction with examiners and moderators
- Virtual classroom and on-site training of our employees

#### Feedback and actions

- Establishment of science centres for selected learners to pursue critical subjects
- Recent introduction of mobile laboratories at the science centres
- A new apprenticeship model is emerging
- PPL policy currently under development
- University and tertiary course content being aligned with industry technology and trends
- Effective on-job training for employees
- The company's skills development pipeline well populated and delivering trained employees

## Suppliers

#### Reasons for engagement

- Security of raw material supplies
- Consistent quality
- Delivery logistics
- Planning for current and future consumption requirements
- Plant expansion plans and upgrades
- Pricing and planning for incoming carbon tax

#### Examples of engagement

- Negotiations regarding iron ore dispute and preparations for arbitration
- Negotiations with current and potential suppliers
- Joint projects with Transnet and Eskom

#### Feedback and actions

- Favourable High Court decision on 15 December 2011 regarding ownership of mineral rights
- Joint project with Transnet to improve train scheduling and turnaround times

# Stakeholder engagement

continued

## Employees and contractors

### Reasons for engagement

- Cordial relations and buy-in to company mission
- To keep the company sustainable through a well, healthy, safe and productive workforce
- Ensure that contractors maintain an acceptable level of employee relations and training

### Examples of engagement

- Salary and wage negotiations
- Regular checks on contractor standards
- Employee campaigns, such as the recent safety and health and wellness drives
- More comprehensive reporting on governance and remuneration
- One-on-one performance management meetings
- Internal communications

### Feedback and actions

- A potential strike was averted
- Improved safety levels at all plants
- Reduced staff turnover
- Roll-out of a new medical aid system and a health and wellness campaign

## Industrial organisations

### Reasons for engagement

- Develop industries and promote responsible practices
- Cooperate on issues such as:
  - Industry challenges
  - Climate change
  - Responsible sourcing

### Examples of engagement

- South Africa Iron and Steel Institute
- South African Institute of Steel Construction
- Manufacturing circle
- Downstream Development Committee

### Feedback and actions

- Inputs in industrial policy formulation
- Downstream industry development
- Countervailing actions
- Export development

## Non-governmental organisations (NGOs)

### Reasons for engagement

- Environmental concerns
- Socio-economic development
- Working conditions
- Health and safety

### Examples of engagement

- Regular meetings with Vaal Environment Justice Action Group (VEJA) and groundWork
- Volunteer and financial support for CSI projects managed by NGOs
- Presentations and briefings

### Feedback and actions

- NGOs provide communities with feedback of interactions with us
- NGOs represented on waste and emissions monitoring committees
- Interact with numerous NGOs in CSI projects

## Media

### Reasons for engagement

- Help the media understand current business challenges faced by the company
- Educate the media about the company, its products and approach to business
- Build relationships between the media and management

### Examples of engagement

- Background briefing session
- Educational session by various departments
- One media survey conducted by our PR service providers
- Environmental site visit at Vanderbijlpark Works
- Operational site visit at Vanderbijlpark Works

### Feedback and actions

- Iron ore supply contract cancellation
- Developmental price debate with government
- Pricing methodology
- Understanding of environmental challenges and spend
- B-BBEE and acquisition plans

Additional detailed information about the stakeholder process can be found in the Sustainability report or our website.



# Risks impacting strategic objectives

The strategic framework incorporates risk assessment and sustainability. Risks are listed on a residual risk assessment basis and how these impact our strategic objectives.

Strategic objective	Risk description	Performance	Management plan
<ul style="list-style-type: none"> <li>• Drive business transformation to achieve excellence in safety, people, plants and processes in line with ArcelorMittal Group benchmark targets for employee productivity and operational efficiency</li> <li>• Work to retain our position as a global low-cost steel producer</li> </ul>	<ul style="list-style-type: none"> <li>• Safety incidents as a result of non-adherence to fatality prevention standards (FPSs), unsafe acts and unsafe conditions</li> <li>• Risk of further downturn in domestic demand increasing the dependency on export markets with lower margins</li> <li>• Loss of production due to operational issues (machinery breakdown)</li> <li>• Loss of cost-competitiveness</li> <li>• The potential imposition of pricing controls by government</li> <li>• Increase in electricity costs</li> <li>• Risk to consistent supply of electricity</li> </ul>	<ul style="list-style-type: none"> <li>• Fatalities: 5 (2010: 0)</li> <li>• LTIFR: 1.24 (2010: 1.64)</li> <li>• Steel sales: 4.7 million tonnes (2010: 5 million tonnes)</li> <li>• Domestic sales as % of total sales: 74% (2010: 68%)</li> <li>• Capacity utilisation: <ul style="list-style-type: none"> <li>• Flat steel: 71% (2010: 67%)</li> <li>• Long steel: 61% (2010: 81%)</li> </ul> </li> <li>• Moved to median position on cost curve (2010: lowest quartile)</li> <li>• Not quantifiable at this stage</li> <li>• Increase in electricity: 28% (2010: 25%)</li> </ul>	<ul style="list-style-type: none"> <li>• Driving the adherence to FPSs</li> <li>• Journey to Zero programme</li> <li>• Improved focus on leading indicators</li> <li>• Adequate market intelligence</li> <li>• Review of the discount and concession policy</li> <li>• Maintain leadership position in the domestic market</li> <li>• Initiatives include business improvement and world-class manufacturing</li> <li>• Reduce the gap to benchmarks in terms of global yield and non-prime generation</li> <li>• Operational excellence</li> <li>• Skills acquisition and retention</li> <li>• Ongoing discussions with government</li> <li>• Internal power generation</li> <li>• Optimise electricity consumption</li> <li>• Focus on energy efficiency</li> <li>• Demand-side management process with Eskom</li> </ul>
<ul style="list-style-type: none"> <li>• Reach 80% self-sufficiency in iron ore within five years</li> </ul>	<ul style="list-style-type: none"> <li>• Permanent loss of the supply agreement for Sishen iron ore at cost plus 3%</li> </ul>	<ul style="list-style-type: none"> <li>• Interim price agreement was extended from July 2011 to end July 2012 at same price levels as previously</li> </ul>	<ul style="list-style-type: none"> <li>• Arbitration process between ArcelorMittal South Africa and Sishen Iron Ore Company (SIOC)</li> <li>• Investigate the acquisition of alternative sources</li> <li>• Evaluate the economic viability of the Thabazimbi mine</li> </ul>
<ul style="list-style-type: none"> <li>• Continue embedding our corporate responsibility programmes for health, environment and the well-being of employees, contractors and the communities in which we operate</li> </ul>	<ul style="list-style-type: none"> <li>• Non-compliance to safety, health and environmental legislation can lead to penalties and plant closure</li> </ul>	<ul style="list-style-type: none"> <li>• No penalties (2010: No penalties)</li> </ul>	<p>Individual action plans for each identified exposure – major projects include:</p> <ul style="list-style-type: none"> <li>• Newcastle zero effluent discharge (ZED) project planned for 2013 completion</li> <li>• Vanderbijlpark coke batteries refurbishment</li> </ul>
<ul style="list-style-type: none"> <li>• Build on relations with key stakeholders to improve interaction and enhance our reputation</li> </ul>	<ul style="list-style-type: none"> <li>• Breach of anti-trust law resulting in potential penalties imposed by the Competition Commission</li> </ul>	<ul style="list-style-type: none"> <li>• 2011: 5 cases being investigated by Competition Commission (2010: 4 cases)</li> </ul>	<ul style="list-style-type: none"> <li>• Appropriate legal defences are being prepared</li> </ul>
<ul style="list-style-type: none"> <li>• Further improve our levels of employee engagement to continue developing a positive work environment that attracts and retains talented people</li> <li>• Comply with our short-term BEE goals by 2014</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of technical skills</li> <li>• Non-compliance with BEE legislation</li> </ul>	<ul style="list-style-type: none"> <li>• Attrition rate: 9% (2010: 7%)</li> <li>• BEE rating: 7 (2010: 8)</li> </ul>	<ul style="list-style-type: none"> <li>• Retain key talent and technical skills</li> <li>• Retain and attract steel-making expertise</li> <li>• Career growth and succession planning to be successfully conducted</li> </ul>

# reports to stakeholders





The Board responded swiftly to the need to make changes to the company's corporate governance structures in response to the King III guidelines. During this period, we amended the terms of reference of all Board committees and introduced an IT Governance Charter and anti-fraud policy. We also established a Social and Ethics Committee.

## Chairman's report

ArcelorMittal South Africa has experienced one of its most difficult years of the past decade. The muted global economy and a series of operational challenges put the Board and management to the test time and again, but we were equal to them.

The company recorded positive developments that augur well for the years ahead. Our business improvement project that we commenced in 2010 delivered substantial cost and operational gains in 2011, with the promise of greater rewards in future.

For over seven decades now we have produced the steel at the core of our vigorous and evolving nation. We remain committed to this responsibility and will continue delivering products that grow communities, provide jobs and develop skills, generate revenue for the economy, and sustain a growing circle of stakeholders.

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## Chief Executive Officer's report

The steel industry was challenged by numerous negative factors over the year.

Input costs escalated dramatically following a substantial increase in the prices of almost all commodities, as well as rising energy costs. Together with supply disruptions, these have continued to place pressure on steel industry margins while also impacting the overall competitiveness of the industry.

There is much we can do to sustain our business through an unfavourable market cycle. Our immediate goal is to restore our cost position in the lowest quartile of the global cost curve from the median position we currently occupy.

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## Chief Financial Officer's report

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# Chairman's report



*Johnson Njeke*

Dear stakeholders,

In a year that presented a series of challenges, I express my heartfelt appreciation to the Board and the executive team for the extraordinary manner in which they pulled together to resolve the issues. This degree of collegiality bodes well for the further tests that are sure to come our way in a world that is grappling with economic uncertainty and climate change, while South Africa works to create millions more jobs and reduce the inequalities across our society.



## Overview

ArcelorMittal South Africa has experienced one of its most difficult years of the past decade. The broader economic environment in which we operate was unsettled and deteriorated towards the end of the year, while our output of steel was constrained by an unprecedented series of operational breakdowns. We also had to contend with the margin-shrinking effects of the rising input costs of electricity, coking coal and iron ore over which the company has no control. These challenges notwithstanding, the company recorded positive operational improvements that auger well for the years ahead. The business improvement project that we commenced in 2010 delivered substantial cost and operational gains in 2011, with the promise of greater rewards in the future.

Job creation was boosted by the introduction of a fourth team to the shift cycle at Vanderbijlpark and Newcastle. The new shift pattern is being phased in over a 3-year period and will create 800 new permanent jobs in the company, with more than 600 positions already filled. A major benefit of this shift rotation is the elimination of excessive overtime whilst offering scope to further improve productivity.

## Industry trends

Steel is a mature and cyclical industry that is generally linked to economic activity, in particular the construction and manufacturing sectors. China has emerged as the most important factor determining industry dynamics over the past decade, with annual growth averaging 15% per annum. The country is now both the largest producer and consumer of steel globally, accounting for over 40%. Chinese steel demand growth slowed to a still healthy 8% in 2011, underpinning commodities prices with iron

ore and coking coal trading above historical highs for most of the year. Steel demand was more subdued in other parts of the world, leading to steel price rises failing to fully compensate for escalating input costs. Pressure on margins has been the reality for steelmakers since the global economic crisis.

In South Africa, steel demand showed some resilience in the first half of 2011 and began to decline in the second half as the European debt crisis weighed heavily on the global economy. The government's planned infrastructure programme estimated at R845 billion will boost domestic demand for several years into the future. The first of two power stations being built under Eskom's new generation programme will be completed next year, and the second one the year after. The first few projects in a country-wide expansion and revamp of national water infrastructure are expected to get underway in 2012 as will the planned upgrade of the country's rail network and rolling stock.

As a steel producer, we significantly contribute towards the government's strategic objective to increase the percentage of raw material beneficiation within South Africa. The bulk of our raw material inputs are sourced from South African mines. In addition, approximately 70% of our steel output is sold domestically to customers who further process primary steel into finished products used in diverse sectors of the economy.

## Legal proceedings

Since mid-2010 the company has been embroiled in high-profile legal proceedings involving Sishen Iron Ore Company (Proprietary) Limited (SIOC) and Imperial Crown Trading 289 (Proprietary) Limited (ICT).

In essence, these legal proceedings involve a court case and an arbitration process. The court hearing, held in August 2011 at the North Gauteng High Court, was to determine the legality of the prospecting rights awarded to ICT on the Sishen property by the Department of Mineral Resources (DMR). On 15 December 2011, the North Gauteng High Court ruled that SIOC holds the full 100% of the mining right over the Sishen property and that ICT had no claim to the contested 21.4% portion, previously held by ArcelorMittal South Africa.

This ruling upheld our argument upon which we have based our conviction that the iron ore supply contract with Kumba remains valid and binding. Both ICT and the DMR have appealed against the ruling, which will serve to further delay the arbitration hearing.

## B-BBEE transaction

In August 2010, the company announced its intention to establish a broad-based black economic empowerment vehicle that would acquire a 26% shareholding in ArcelorMittal South Africa worth approximately R9 billion. Our new equity partners would have included more than 8 500 of our employees, neighbouring communities and a special-purpose vehicle controlled by the Ayigobi Consortium. In late September 2011, we announced that the parties had failed to reach agreement on an extension for the fulfilment of conditions precedent, and therefore the Sale and Subscription Agreement had lapsed. We simultaneously announced that the proposed acquisition of ICT had also lapsed.

Although the failure of this proposed deal was a setback, we remain determined to conclude a suitable B-BBEE transaction in the near future.

## Corporate governance and company ethics

The Board responded swiftly to the need to make changes to the company's corporate governance structures in response to the King III guidelines. During this period, we amended the terms of reference of all Board committees and introduced an IT Governance Charter and an anti-fraud policy. We also established a Social and Ethics Committee that absorbed the previous Transformation Committee.

The company is committed to ethical business conduct and is determined to uncover and punish any instances of fraud and corruption in our ranks. We have adopted a zero-tolerance approach in laying charges against alleged perpetrators. All employees receive training in our code of conduct whilst appropriate levels of staff also receive ethics and anti-corruption training.

## Skills development for South Africa

We are justifiably proud of our active support for national skills development efforts. Our programme commences with basic education and introduces thousands of learners from disadvantaged areas to maths, science and English at high school level through our three science centres. This extensive initiative prepares thousands of young South Africans for tertiary education and enables the most talented to progress right through to engineering degrees and technical diplomas with financial assistance from ArcelorMittal.

South Africa's economic development depends critically on skills, with engineering and technical expertise in particularly short supply. We are proud that the millions the company invests annually into maths, science and technical training are directed at bolstering a

particularly weak aspect of our national education system.

## Corporate citizenship

Over and above our strategic responsibility as South Africa's primary steel manufacturer, our social investments continue to improve the lives of people in our stakeholder communities, particularly in the fields of education, health and community infrastructure.

We partnered with the national Department of Education in building a pilot low-cost school at Mamelodi in Gauteng, using a steel technology developed by a sister company within the ArcelorMittal Group. A second school at Mthatha in the Eastern Cape is presently under construction. We believe this technology has the potential to revolutionise low-cost construction in the public and private sectors in the country.

As a major provider of jobs in our areas of operations, we pay careful attention to the availability of healthcare and HIV/Aids support in our neighbouring communities. We contribute to numerous local health institutions and are currently building a R10 million clinic at the Sebokeng District Hospital.

Community infrastructure and housing are also sorely needed in these areas. We are in the final year of a three-year programme to replace the roofs of approximately 3 000 asbestos-roofed houses in Boipatong and Bophelong. Moreover, we have partnered with Habitat for Humanity to build low cost houses in Newcastle and the Vaal as part of our employees' volunteering initiative.

## Journey to integrated annual reporting

We commenced our integrated annual reporting journey when we published our 2010 annual report, which complied with King II and the Global Reporting Initiative to the fullest extent that the company was able to in that period. For the 2011 financial period, we have taken further strides in publishing an integrated report, sustainability report and financial report – all linked and referenced to a comprehensive corporate website offering disclosures in more detail. These reports and the supporting online information were compiled under the guidance of the company's Audit and Risk Committee, which has overseen this process.

At this early stage of integrated and sustainability annual reporting, we are still bedding down the revised internal reporting systems required to deliver the specific forms of stakeholder information required to populate these reports. We therefore decided that the company is not fully prepared for outside assurance on the sustainability and non-financial aspects of our 2011 reporting, but will commence with our limited external assurance journey when preparing our 2012 reports.

### **Acknowledgements**

In a year that presented a series of challenges, I express my heartfelt appreciation to the Board and the executive team for the extraordinary manner in which they pulled together to address issues confronting the company. This degree of collegiality bodes well for the further tests that are sure to come our way in a world that is grappling with economic uncertainty and climate change, while South Africa works to create millions more jobs and reduce the inequalities across our society.

I take this opportunity to bid farewell to Messrs Arnaud Poupart-Lafarge and Christophe Cornier, who shared their invaluable expertise and insights during their term as non-executive directors on the Board. I also warmly welcome Ms Fran du Plessis and Mr Gonzalo Urquijo. I am confident they will add new strengths to an already effective Board.

For over seven decades now we have produced the steel at the core of our vigorous and evolving nation. We remain committed to this responsibility and will continue delivering products that grow communities, develop skills, provide jobs and generate revenue for the economy and sustain a growing circle of stakeholders.

### **Invitation to attend the annual general meeting to consider the 2011 financial year**

I hereby extend an invitation to all our shareholders to attend the twenty-fourth ArcelorMittal South Africa annual general meeting to be held at the Radisson Blu Sandton Hotel, Room JSE 3, 12th Floor, c/o Rivonia Road and Daisy Street, Sandton, Johannesburg, South Africa on Wednesday, 16 May 2012 at 11:00.

# Chief Executive Officer's report



*Nonkululeko Nyembezi-Heita*

Dear stakeholders,

The steel industry was challenged by numerous negative factors over the year. Input costs increased dramatically. Steel demand declined and the structural failure of the blast furnace dust catcher at our Newcastle facility were a few that had the most significant impact on ArcelorMittal South Africa. We expect 2012 will bring with it a great deal of uncertainty as there remains no great optimism that the global economy will prove resilient. Nevertheless, we have complete confidence that ArcelorMittal South Africa will weather the storm – as it has done numerous times before.

## Overview

In the immediate aftermath of the global economic crisis, we predicted a slow, gradual recovery to normal levels of economic activity and steel demand. By all accounts, 2010 and the first half of 2011 followed the expected course. However, in the second half, the industry was challenged by numerous negative factors.

Input costs escalated dramatically following a substantial increase in the prices of almost all commodities, as well as rising energy costs. Together with supply disruptions for certain commodities, this has continued to place pressure on steel industry margins while also impacting the overall competitiveness of the industry.

Global steel demand softened in response to slower or negative growth in Europe and the US.

For ArcelorMittal South Africa, the most significant impact on the year's steel output was the structural failure of the blast furnace dust catcher at our Newcastle facility in August 2011. We were also affected by certain other production outages, as well as the general industry strike in July. Even though ArcelorMittal South Africa employees did not participate in the strike, many customers were affected, leading to knock-on effects on despatches from our operations.

Overall liquid production was 4% lower at 5.5 million tonnes and capacity utilisation decreased from 71% to 68%. Steel shipments declined by 7% to a total of 4.7 million tonnes, with export sales falling 26%, year-on-year.

Key raw material and electricity costs continued to escalate, although certain commodities prices started slipping as 2011 came to an end.

Earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 51% to R1.7 billion. The EBITDA margin of 6% was half of that achieved in 2010.

The overall result for ArcelorMittal South Africa was a headline loss of R52 million following on the profit of R1.3 billion last year.

## Safety performance

After a fatality-free 2010, we had five fatalities in 2011, of whom three were employed by contractors. Thorough investigations were carried out to determine the root causes of each incident, and the outcomes have served as a basis for enhancing our safe working procedures in the all-important drive to eliminate all fatalities and injuries from the workplace.

While the Board of Directors has formally expressed its condolences, I would like to extend my personal sympathy to the families and friends of the deceased employees.

Safety continues to be an overriding priority for all of us at ArcelorMittal South Africa. We have seen steady progress in our safety performance as measured by the lost time frequency rate, which improved by 24% from the year before to 1.24 in 2011, an all-time record for the company. The foundation of our safety improvement programme across all plants is the much higher intensity of shop floor and plant audits to observe employee behaviour and assess plant conditions. We have also stepped up our supervision of contractor safety management and training.

## Global environment

Steel is primarily used in the building and construction sector, and its fortunes are directly linked to national and global economic cycles. Since the global economic crisis, the steel industry has experienced much higher levels of volatility and poorer visibility of demand factors. The upturn of late 2009 slowed considerably in mid-2011 as the Eurozone debt crisis steadily grew in scope and impact, while the economic recovery in the US has been sluggish at best. The major shift of economic activity towards emerging economies is nowhere clearer than in the steel industry. China is now the single most important factor influencing steel industry dynamics, accounting for 46% of global steel production and 45% of steel consumption. Signs of a slowdown in China are understandably being monitored very carefully – and anxiously – by everyone in our industry.

While European and US demand for steel may well be muted for years to come, the African continent's economic prospects are more positive. In South Africa, the extensive construction of infrastructure that preceded the 2010 FIFA World Cup™ slowed to a near halt. The South African government has, however, announced an economic and jobs stimulus programme worth R845 billion comprising much needed infrastructure development. The flagship of the programme thus far has been Eskom's power station construction programme, with the rest of the planned projects being slower to launch. Indications are that these projects will raise local steel demand by an estimated 2.5 million tonnes over the next three years.

In the broader sub-Saharan African region, countries such as Mozambique, Tanzania, Zambia, Kenya, Ghana and Nigeria are consistently registering growth rates of over 5.5% per annum. The outlook for these countries remains promising, to the extent that they have been dubbed the "African Lions", ready to emulate the sparkling economic performance of the "Asian Tigers" in the 1990s. These economies desperately lack infrastructure to underpin growth, and the African Union is prioritising continent-wide development of rail, road and electricity links – all of which will require considerable quantities of steel. We estimate that the demand for steel in Africa – in particular, the sub-Saharan region – will grow by 5% per annum over the next five years.

The South Africa Rand traded at fairly strong levels for three quarters of the year, posing challenges to our export-facing business and strong competition from imports in the domestic market. The currency did, however, weaken against the US Dollar in the fourth quarter, providing much needed relief to exporters.

## Group performance Steel market

Aggregate steel demand for the entire year was slightly higher than 2010 but remained substantially below pre-crisis levels. The building and construction industry remained lacklustre throughout the year, and hopes of fresh private sector fixed investment, particularly in the mining industry, failed to materialise. The



manufacturing sector remained sluggish for most of the year, with a slight improvement in the fourth quarter to an annualised growth rate of 2.4%. We anticipate that steel demand will remain muted until South Africa's pipeline of new infrastructure projects – highlighted in President Jacob Zuma's State of the Nation address in February this year – is initiated, which may only be in the latter part of this year or early 2013.

Net realised prices were up 12% year-on-year. International prices started softening towards the end of the year, with this trend continuing into the early part of the first quarter of 2012.

## Imports

Steel supply in South Africa is dominated by local producers, of which ArcelorMittal South Africa is by far the largest, with about 62% market share. Historically, imported primary steel accounted for 10% to 12% of domestic consumption and consisted principally of steel grades that were not produced by any of the local steelmakers.

Two factors explain the steep rise in imports in 2011, which captured a 19% share of the South African market. Firstly, the local currency traded at relatively strong levels for the first three quarters of the year, and secondly, production problems led to significantly lower domestic output; in our case, due largely to the Newcastle incident.

Imports of finished steel products continue to be a major concern, which is not only impacting our sales to the domestic market in the short run, but could also have a long-term effect on South Africa's manufacturing base if the trend continues. Some of the steel sub-sectors where we have seen increasing quantities of finished product imports are wire and wire products, pipe and tube, fabricated structures, nuts and bolts. With that said, we do anticipate that primary steel imports will again subside to normal levels in 2012 based on our restored production capacity. It is important to note, however, that steels imports traditionally increase during times of heightened spending by the government and we expect this trend

to continue when the recently announced infrastructure spending programme begins to gain traction.

## Exports

We are maintaining our focus on building customer relationship in selected sub-Saharan African markets, which remains a key element of our strategy. An important development over the past year in this regard was our change to a direct selling model for neighbouring countries. Sales volumes are still relatively small in comparison to South Africa, but most countries in our target markets are consistently posting economic growth rates of 5.5% and more and we expect demand levels to increase over the short to medium term. Recently, flows into the mining sectors of a number of countries have risen and certain countries are also seeing increasing levels of urbanisation, which should serve to boost steel demand in the longer term as infrastructural requirements increase.

Our most important markets in the region are the Southern African Development Community countries as well as east Africa, with most of our exports being dispatched to Kenya. Cementing our position as a consistent supply to export markets was a major challenge in 2011 as a consequence of production disruptions, with dispatches dropping 26% from the level achieved the year before. However, regular supply has now been re-established.

## Operations

Our operational performance did not meet our expectations due to a variety of factors. As previously mentioned, the operational breakdown of the Newcastle blast furnace dust catcher was severe. An independent investigation concluded that the root cause of this accident was a combination of higher than normal operating pressure and corrosion in an inaccessible part of the structure. The sourcing and importation of a replacement cyclone from one of the ArcelorMittal Group facilities in France was affected in record time, without which the production disruption could have been significantly longer. Local engineers worked closely with their global peers in the planning,

design and installation of the new equipment, delivering the project on time and within budget.

Over and above the Newcastle incident, the Saldanha plant was halted for slightly over 40 days for a planned repair to the corex tap-hole, while Vanderbijlpark had to manage a series of blast furnace instabilities, initially as a result of poor raw material quality in the early part of the year. This unit has struggled with cold conditions on the blast furnaces for some time now, and in the past year took major steps to address the situation. Advanced refresher training was provided to senior operators and engineers on operational techniques. Furthermore, we are collaborating with the ArcelorMittal Group Research and Development unit, which has developed a remote monitoring and diagnostic system (RMDS) for blast furnaces. The system gathers signals and measurements from all blast furnaces in the group and stores the data in a central database. The intention is to make the data and predefined trends available centrally so that group expertise can be utilised centrally when instabilities are detected or trials are run on specific furnaces. We will connect the two Vanderbijlpark furnaces to the RMDS system during the course of the year and the Newcastle furnace in early 2013.

## Business improvement

The economic challenges that began with the financial crisis of 2008 instilled a renewed sense of urgency in the drive to improve the company's competitiveness. In 2010, we launched a formal, all-encompassing business improvement programme focusing on reliability, cost efficiencies and enhancing operational processes throughout ArcelorMittal South Africa. The prime objectives of the initiative were to improve throughput, reduce costs and maintain consistent quality. All the change programmes drew extensively from best practices and world-class methodologies developed elsewhere within the broader ArcelorMittal Group. Over time, these initiatives should deliver an improvement in overall equipment effectiveness and reverse the recent negative trend in operational

performance, particularly at our Vanderbijlpark operation.

The Saldanha business unit introduced World-Class Manufacturing (WCM), which is a recognised methodology for improving efficiency in manufacturing. The WCM pillars deployed so far are: autonomous maintenance, professional maintenance, focused improvement and people development. The strength of WCM is the involvement of the entire workforce from the outset, ensuring total commitment from all levels – from management to the shop floor. This is a long-term change programme, but the early results achieved since programme launch are promising and exceeded the 2011 cost reduction target.

The implementation of Standardised Work Routine Management in Newcastle is a direct outcome of the twinning initiative with Monlevade, an ArcelorMittal Group long steel plant in Brazil. The foundation of the programme is an integrated management system, which focuses on instilling operational discipline by eliminating variation. The first phase currently underway has seen special attention being paid to simplifying and properly documenting standard operating procedures.

After a complete site diagnostics in early 2010, Vanderbijlpark embarked on a business transformation programme initially focusing on maintenance, quality control, human resource development and reducing production costs. The methodology deployed at the site is modelled on a change programme used widely within ArcelorMittal's Flat Carbon Europe business unit. The programme has entailed a wholesale change in our maintenance practices to tackle the most pressing challenge at this site, namely, to create a stable operating platform.

### Environmental considerations

We made steady progress in meeting our environmental goals during the year under review. The coke clean gas project at Vanderbijlpark was commissioned, resulting in a 46% reduction in sulphur dioxide emissions – a significant achievement. We are close to completing

the off-gas treatment project at the sinter plant, which will further reduce both sulphur dioxide and particulate emissions.

Without doubt, the most significant challenge is upgrading our facilities to adhere to the air emissions standards prescribed by the new Air Quality Act. The greatest difficulty lies with the coke oven batteries, some of which may prove too expensive to modify and will therefore have to be decommissioned. The Board will review final plans during 2012 and approve the necessary facility upgrades to ensure compliance within the required five- to ten-year period.

The steel industry is presently experiencing tough market conditions. The proposed carbon tax and South Africa's positioning at the 2011 COP 17 conference in Durban to cap carbon emissions in absolute terms would serve to further strain our profitability – even to the extent of forcing the company to cease certain operations. We are currently in negotiations with the National Treasury regarding the provisions of the envisaged carbon tax. The outcome of these discussions will no doubt unfold over the course of the year.

### Risk management

The company has taken major strides in embedding its enterprise wide risk management processes throughout the organisation. A critical aspect hereof entails risk identification procedures and how these are assessed and managed within the group. Our risk policy is aligned with the global ArcelorMittal Group risk management policy, King III and the ISO 31000 standard.

In October 2010, we appointed an external service provider to assess our risk management process and furnish an independent assessment of its effectiveness. The firm's mandate included making recommendations on enhancements to the existing system and risk reporting framework. We followed an intensive process overseen by the Audit and Risk Committee and involving the Executive Committee and the Board. Incorporation of the major recommendations into existing systems is in progress.

### Outlook

We expect 2012 will bring with it a great deal of uncertainty as there remains no great optimism that the global economy will prove resilient against the many negative forces affecting the developed world and indeed, many emerging economies.

There is much we can do to sustain our business through an unfavourable market cycle. Our immediate goal is to restore our cost position in the lowest quartile of the global cost curve from the median position we currently occupy. Further, we understand the imperative need to create more jobs in South Africa, not least in downstream manufacturing, which is generally threatened by imports of finished products. We are exploring various avenues to combat this trend and will consult with affected industry participants as appropriate.

Internally, we will continue to focus on the execution of our operational improvement programmes while externally, the crucial matters to resolve are the dispute over the Sishen iron ore supply agreement and the ongoing discussions with the Department of Trade and Industry over steel pricing. Moreover, there are a number of outstanding issues relating to competition legislation matters, where we are complying fully with the authorities.

Thus, it is difficult to predict with any degree of certainty what the future will bring for our industry and more specifically, our company, clouded as it is by a number of factors that pose a risk to the overall health of the economy. Nevertheless, we have complete confidence that ArcelorMittal South Africa will weather this storm – as it has done numerous times before.

# Chief Financial Officer's report



Rudolph Torlage

Dear stakeholders,

2011 was indeed a challenging year for ArcelorMittal South Africa. This was due to the reduced performance of most key drivers in the business.

Sales and production dropped in the second half of the year due to technical interruptions at three of our major business units. Input costs remained high throughout the year, especially electricity, iron ore and coking coal.

Despite the challenges of 2011, we are confident of improved results in 2012 on the back of production stability and higher sales volumes partially offset by lower international steel prices.

## Overview

The company recorded a disappointing financial year due to an increase in selling prices being outweighed by a substantial increase in costs and a decrease in volumes.

Sales dropped in the second half of the year and production volumes contracted by more than 20% as a result of technical interruptions at three of our major business units. Input costs remained high, especially electricity, iron ore and coking coal. The strong Rand had a negative impact, though it did weaken and improve returns towards the end of the year. Employee salary and wage rate increases averaged above the national rate of inflation. Losses and impairment charges emanating from Coal of Africa Limited (CoAL), of which ArcelorMittal South Africa is a 15.9% shareholder, negatively impacted our results, although CoAL's prospects improved following an agreement signed with environmental objectors to its Vele Colliery in November 2011. Production of coal from this source will, however, require capital investment and years of development to reach its full delivery potential.

A major negative impact on our financial performance in 2011 was the production interruptions experienced at our Newcastle, Vanderbijlpark and Saldanha Works. The Newcastle Works blast furnace underwent a chilled hearth shutdown between December 2010 and February 2011, and in August 2011 the dust catcher at the blast furnace collapsed and halted steel production until December 2011. These two incidents resulted in operating losses of R270 million and R865 million, respectively. The total loss resulting from the dust catcher failure is estimated at R1.1 billion, of which R120 million is for plant repairs and the remainder a loss of income due to reduced steel production. This was partially offset by an interim insurance payout of R489 million in the fourth quarter of 2011, after a deductible of R160 million was taken into account. The full dust catcher insurance claim is anticipated to be finalised in the 2012 financial year.

*This report should be read in conjunction with the condensed financial statements presented on pages 70 to 79 of this report, together with full financial statements published on the ArcelorMittal South Africa website at <http://www.arcelormittal.com/southafrica>.*

Vanderbijlpark Works experienced chilled hearth conditions on blast furnace C in February 2011 and on blast furnace D in August 2011. These resulted in a loss of R240 million. At Saldanha Works, a necessary tap-hole repair at the corex plant during August and September 2011 caused a loss of R230 million. We view the tap-hole repair as being linked to a 2009 insurance claim, and are currently

negotiating the reopening of this claim with the insurers.

An industrial strike action, which lasted for two weeks impacted negatively on demand from both our flat and long steel customers, resulting in lost sales of approximately 125 000 tonnes and an EBITDA loss of R218 million.

	Year ended 31 December	
	2011 Rm	2010 Rm
<b>Financial performance</b>		
Revenue	31 453	30 224
Profit from operations	297	2 151
Finance and investment income	31	71
Finance costs	(168)	(507)
(Loss)/income after tax from equity-accounted investments	(34)	122
Income tax expense	(118)	(492)
Profit attributable to owners of the company	8	1 345
<i>Adjusted for:</i>		
(Profit)/loss on disposal or scrapping of assets	(82)	44
Headline (loss)/earnings after tax	(52)	1 377
Headline (loss)/earnings per share (cents)	(13)	343

Our 2011 headline loss of R52 million is a sharp drop from the R1 377 million profit recorded in 2010, while profit from operations decreased from R2 151 million to R297 million.

Revenue increased by 4% to R31.5 billion, driven by price increases averaging 12%, but partially offset by 7% lower sales volumes. Domestic sales volumes increased by 3% and exports decreased by 26%. The cash cost of steel sales on a Rand-per-tonne basis increased by 19% over 2010.

Our finance cost of R168 million includes the foreign exchange profit of R123 million incurred on the revaluation of the US Dollar denominated cash, receivables and payables. This resulted from the Rand weakening by 24% at the close of the year. In 2010, the Rand had strengthened by 11%, resulting in a loss of R150 million.

The loss from equity-accounted investments of R34 million was R156 million down from the 2010 profit of R122 million, which was primarily due to our loss of R211 million incurred

through our share in CoAL. Income received from the marketing and shipping joint venture, Macsteel International Holdings, decreased by 37% to R177 million.

The effective tax rate (ETR) for the year of 94% was disproportionate to the previous year (27%) due to the drop in pre-tax profit from R1 837 million to R126 million. Factors contributing to the increase in ETR are:

- secondary tax on companies on dividends declared during the third quarter of the year (17%);
- non-deductible legal and other expenditure not decreasing in comparison with the decrease in profit (16%);
- losses incurred by offshore subsidiaries not tax deductible in South Africa (11%);
- non-recoverable withholding taxon dividends received from foreign subsidiary (10%);
- effect of consolidated loss from associates and joint ventures (7%);
- income of controlled foreign companies taxable in South Africa (6%).

# Chief Financial Officer's report *continued*

## Cost performance

The production cash cost per tonne of hot-rolled coil and billets increased by 19% and 23%, respectively, while raw materials and consumable costs increased by 17%. Our iron ore costs rose by 17%, mainly due to higher costs emanating from the Thabazimbi mine, operated by

Kumba, which sells its entire iron ore production to us. The year-on-year costs of imported coking coal and scrap climbed by 52% and 29%, respectively.

Employee costs increased by 7% in line with the average salary and wages increase.

Energy costs – comprising gas and electricity – rose a startling 31%, which was on top of a 17% increase in 2010. The price of electricity increased by 28%. Other operating expenses (hired labour, maintenance and transport) grew by 4%.

## Cash flow

	Year ended 31 December	
	2011 Rm	2010 Rm
Cash generated from operations	1 934	3 766
Working capital	(2 813)	(1 100)
Cash (utilised in)/generated from operations	(879)	2 666
Interest income	29	69
Finance costs	(103)	(85)
Investment income and dividend from equity-accounted investments	52	128
Realised foreign exchange movement	5	(58)
Income tax	(243)	(653)
Dividends	(221)	(602)
Capital expenditure	(1 190)	(1 714)
Proceeds from scrapping of assets	106	–
Investment in associate	(180)	(120)
Repayment of borrowings and finance lease obligations	(616)	(374)
Decrease in cash	(3 240)	(743)
Effect of foreign exchange rate changes	173	(99)
Net cash outflow	(3 067)	(842)

The company commenced the 2011 financial year with a cash reserve of R3.5 billion, but an outflow of R3.1 billion reduced the cash reserve to R439 million by year-end. Spending from the cash reserve was allocated to:

- Funding an increase in inventory, due to sharply reduced sales in the fourth quarter of 2011 and higher raw material prices
- Increasing the coke inventories at Newcastle Works to protect the batteries during the repair period of the dust catcher
- Importing steel to service our long steel customers during the Newcastle Works production stoppage
- The continued off-take of iron ore, in terms of the interim agreement with SIOC, despite lower production volumes
- Capital expenditure of R1 190 million
- A R135 million participation in a capital raise by CoAL
- Tax payments of R243 million
- Dividend payments of R221 million.

## Dividend

An interim dividend of 55 cents per share was declared and paid during 2011. Following the headline loss of R720 million recorded in the second half of 2011, no final dividend was declared.

## Share performance

Over a five-year period, the share price has decreased by an average of 8.8% per annum, compared with the 5.2% per annum rise of the All Share Index over the same period.

Up until the end of 2008, our share price outperformed the All Share Index. It has underperformed since the commencement of the global financial crises, but moved in line with global industry peers. In 2010, our share performance was negatively impacted when the dispute with SIOC was announced.

## Currency, commodity and credit risk management

We are exposed to financial risks due to our exposure to foreign exchange rates, commodity price movements and counterparty credit risk. These risks are managed within the framework of our treasury and financial risk management policy, which is regularly reviewed and approved by the Board. Exposures and our management thereof are reported each quarter to the Executive Committee and Audit and Risk Committee.

## Currency risk

As we undertake transactions in currencies other than the South African Rand, we are exposed to transactional currency risk. Export revenue received in US Dollars acts as a natural hedge for US Dollar imports. Capital expenditure and firm import commitments in currencies other than the US Dollar are hedged using forward exchange contracts. Surplus US Dollar cash is sold on a short-term rolling forward basis to reduce any short-term Rand borrowings.



### Commodity risk

We have not undertaken any economic hedging of commodities since mid-2008. We continually monitor the markets to determine the most opportune time to commence hedging. We did, however, hedge to reduce the currency volatility risk when we imported steel for domestic customers during the Newcastle Works production outage.

### Credit risk management

Our counterparty credit risk arises mainly from exposure to customers and financial institutions. There is some concentration of credit risk with respect to trade receivables, as three main customers account for approximately a third of the receivables balance. Third-party trade receivables are covered by credit insurance placed with the Coface Group.

Exposure to counterparty financial institutions arising from deposits, derivatives and foreign exchange settlements is managed according to predetermined limits approved by the Board. These limits are determined in accordance with various rating indicators by Fitch Ratings, and are continuously reassessed according to the latest information in the financial markets.

### Capital commitments and contingencies

#### Capital investments

Projects requiring development capital have been identified for 2012 in terms of a longer-term infrastructure development strategy, but are subject to more clarity on outcomes of the fragile economic situations in Europe and the USA.

#### Contingent liabilities

The case brought before the Competition Tribunal by Barnes Fencing Industries Limited, relating to alleged price and exclusionary conduct on the sale of wire rod, is continuing in accordance with Tribunal procedures. A date for the hearing has not been set and an amount has not yet been provided.

The Competition Commission (Commission) has referred ArcelorMittal South Africa and three other primary steel producers in South Africa to the Tribunal for alleged price fixing and market division, in respect of certain long steel products. The Commission has

recommended the imposition of a financial penalty of 10% of the company's 2008 annual turnover. On 3 September 2010, the Tribunal refused access to the bulk of the documentation requested by the company, causing us to file a notice of appeal with the Competition Appeal Court (CAC) to review the Tribunal's decision. The company also requested the CAC to suspend the Tribunal's order that we should file its answering affidavit, pending the outcome of the appeal. An appeal and review hearing was heard on 2 December 2011. The decision is still outstanding, and is not expected before the second quarter of 2012. The company has also filed an application challenging the validity of the referral of this matter to the Tribunal. No date has been set as yet for the hearing of this application.

During the fourth quarter of 2011, South African Revenue Service (SARS) issued a letter of assessment relating to the erroneous claiming of customs value added tax (VAT) by the company for the period 2005 to 2008, relating to the wholly-owned subsidiary Saldanha Steel (Proprietary) Limited. The VAT was unintentionally reclaimed in error by us, as the parent company. In this letter, SARS demands that a principal amount of R249 million should be repaid by the company and that SARS may consider imposing interest and penalties thereon, though no amount was quantified. We issued a letter of objection to this, as SARS was not in any manner disadvantaged by the company claiming the VAT in the place of Saldanha Steel. We had requested for this dispute with SARS to be advanced to a formal alternative dispute resolution process. (ADR) The ADR was held on 20 February 2012 and a ruling is outstanding. Only R1 million has been provided for, as disclosed in note 21 of the annual financial statements in the financial report.

### Competition Commission investigations

The Commission is formally investigating five complaints against the company, as detailed on page 37 of this report. The company is cooperating fully with the Commission in these investigations, and has delivered all requested documentation to the authorities.

### Dispute with Sishen Iron Ore Company (Proprietary) Limited (SIOC)

A judgment favourable to ArcelorMittal South Africa was released on 15 December 2011 by the North Gauteng High Court in the review application brought by SIOC against the Department of Mineral Resources (DMR) and Imperial Crown Trading 289 (Proprietary) Limited (ICT). Once this case is finalised, we are confident that the arbitration process will rule in our favour on the supply agreement with SIOC.

### Acquisition

The due diligence on the Northern Cape Iron Ore mining project is complete, except for the final approval of the transaction by the Minister in terms of the Minerals and Petroleum Resources Development Act No 28 of 2002. The proposed transaction outlines terms to acquire certain Northern Cape prospecting rights, which were renewed during the due diligence process. We hope to soon be in a position to commence earlystage exploration.

### 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 2011.

The principal accounting policies and methods of calculation are consistent with those applied in 2010, 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.

### Outlook

We expect improved results for 2012 on the back of higher sales driven by improved production stability, efficiency initiatives and the easing in the price of coal, which should more than offset electricity, wage and general inflationary cost increases.

# Forging ahead

## Governance changes during the year were:

- New policy on appointment of director
- Anti-fraud policy
- Counterparty limits
- Approvals framework
- Social and Ethics Committee
- Amended all committee terms and references

## Corporate governance report

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## Board of directors



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## Audit and Risk Committee report

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## Statement of King III compliance

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## Ethics

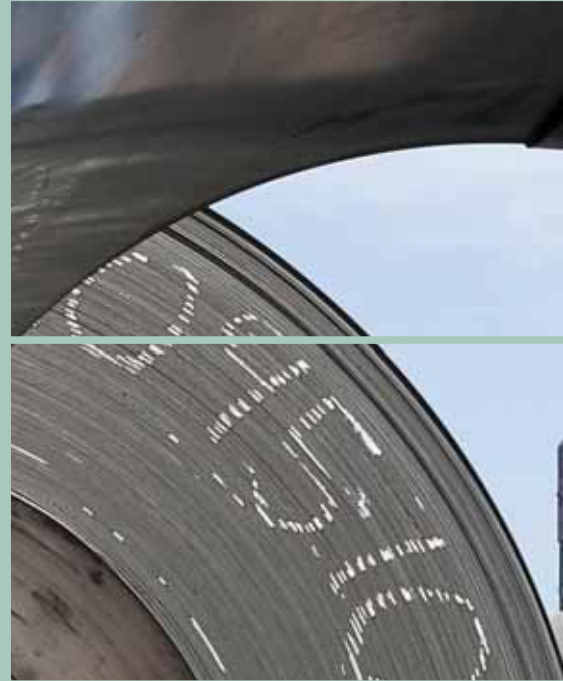
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## Remuneration report

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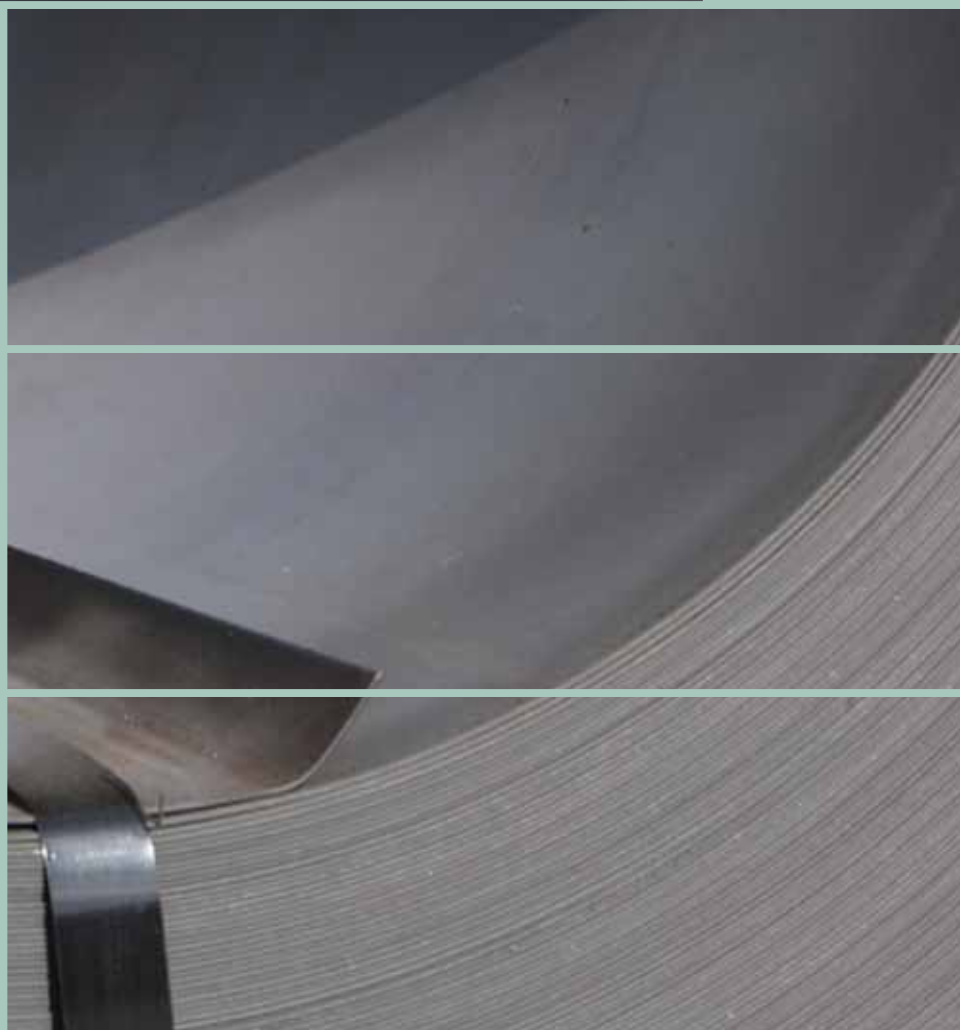
## Risk management

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The Board is ultimately accountable for company performance and affairs. It discharges its duties through committees that act within approved terms of reference. The minutes of all committee meetings are provided to the Board, while each committee's chairperson reports directly at Board meetings.

# governance and accountability



# Corporate governance report

ArcelorMittal South Africa is a public company listed under the "Industrial – Steel and Other Metals" sector of the JSE Limited (JSE). The company is subject to the JSE Listings Requirements, the Companies Act of South Africa, as well as other legislation applicable to companies in South Africa.

In addition, the company supports the principles set out in the King Report on Governance for South Africa 2009 (King Code). This report sets out how the company has applied the principles set out in the King Code during the period under review.

The Board of Directors confirms its commitment to the highest standards of corporate governance and recognises that practices and procedures can always be improved. Hence, the Board will continually review the company's own standards against those in a variety of jurisdictions.

## Companies Act

The Companies Act with its regulations came into effect on 1 May 2011. A committee has been formed to ensure full compliance with the new obligations imposed upon the company, and a number of necessary resolutions are included in the notice of the annual general meeting.

Other matters, such as the adoption of the memorandum of incorporation by shareholders, will be addressed within the transition period set out in the Companies Act.

## Key changes for the year under review

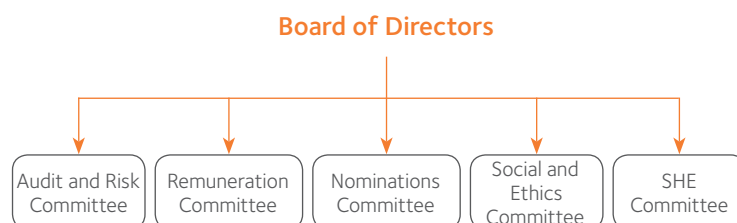
The Board's governance policies and procedures are continually updated to ensure ongoing adherence to the JSE Listings Requirements, the King Code and current legislation. The Board approved revised Board and committee terms of references. During the period under review, the following changes were made:

- Appointment of directors' policy
- Anti-fraud policy
- Counterparty limits policy
- Corporate approval framework
- Social and Ethics Committee was constituted as a statutory committee

insofar as its obligations are set by the Companies Act;

- The Transformation Committee was dissolved to incorporate the Social and Ethics Committee
- The terms of references for all the Board committees were amended
- Work plans for the Board and Board committees for 2012 were approved
- Board and committee evaluations were carried out during 2011.

Shareholders are encouraged to read the full corporate governance report on the website.



## The Board of Directors

### Roles and responsibilities

The Board is governed by a formal Board Charter setting out composition, processes and responsibilities. The primary responsibilities of the Board are to:

- 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.

### Membership

At the date of signing this report, the Board consists of 11 members: five independent non-executive directors (Messrs MJN Njeke, DCG Murray, M Macdonald, Ms ND Orleyn and Ms FA du Plessis), four non-executive directors (Messrs DK Chugh, S Maheshwari, GP Urquijo and LP Mondli) and two executive directors (Ms N Nyembezi-Heita, the Chief Executive Officer, and Mr RH Torlage, the Chief Financial Officer).

The independent non-executive directors completed an assessment of the Board (based on the guidelines contained in the JSE Listings Requirements, the King Code and the Companies Act) and are satisfied that it is independent in mind, character and judgement.

### Chairman

Mr MJN Njeke was appointed as Chairman on 4 February 2010, as he is independent and free of any conflicts of interest. The Chairman's role and functions are formalised to:

- setting the ethical tone for the Board and the company;
- providing overall leadership to the Board;
- as Chairman of the Nomination Committee, identifying and participating in selecting Board members and overseeing a formal succession plan for the Board, the CEO, the CFO and certain key management appointments;
- together with the Company Secretary, formulating a yearly Board work plan;
- ensuring that the directors are aware of their fiduciary duties as directors of the Board;
- ensuring that complete, timely, relevant, accurate and accessible information is placed before the Board to enable it to reach an informed decision;
- ensuring that decisions by the Board are executed; and
- ensuring that good relations are maintained with the company's major shareholders and stakeholders.

### Chief Executive Officer

Ms N Nyembezi-Heita was appointed as the CEO on 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 group. 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:

- 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 organisational structure for the company to enable execution of its strategic planning.

### Company Secretary

The Company Secretary is Premium Corporate Consulting Services (Proprietary) Limited, which 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. On a quarterly basis, the Board is informed of changes to legislation, regulation and best practice.

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.

### Directors

The Board, through the Nominations Committee, has considered that the executive and non-executive directors together have the range of skills, knowledge and experience necessary to enable them to govern the business effectively. Directors exercise objective judgement on the affairs of the company independently from management, but with sufficient management information to enable proper and objective assessments to be made.

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

The directors understand their fiduciary duty to act in good faith and in a manner that the directors reasonably believe 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.

### Changes to directorate

The following changes in directorate took place during the period under review:

- Ms FA du Plessis was appointed as an independent non-executive director and member of the Audit and Risk Committee on 4 May 2011, and as the Chairman of the Social and Ethics Committee on 26 October 2011
- Mr AMHO Poupart-Lafarge resigned as a non-executive director on 25 May 2011
- Mr GP Urquijo was appointed as a non-executive director on 27 May 2011, and as a member of the Social and Ethics Committee on 26 October 2011
- Ms ND Orleyn was appointed as a member of the Social and Ethics Committee on 26 October 2011
- Mr CPD Cornier resigned as a non-executive director on 24 January 2012.

### Retirement and re-election of directors

In terms of the approved Board Charter, the retirement age for an executive director is 63 and for a non-executive director is 70 years of age, subject to review at the discretion of the Board on the recommendation of the Nominations Committee. As Mr M Macdonald turns 70 years of age in April 2012, the Board waived the retirement age for Mr M Macdonald and he was re-elected as an independent director and Chairman of the Audit and Risk Committee. Mr M Macdonald will retire at the 2013 annual general meeting. The Nominations Committee will start with its succession process to find a suitable replacement for Mr M Macdonald.

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). Ms ND Orleyn and Messrs DK Chugh and M Macdonald retire and, being eligible, have offered themselves for re-election. Their biographical details are provided on page 34 to 35 of this report to enable shareholders to make an informed decision in respect of their possible re-election.



In accordance with the company's articles, Ms FA du Plessis and Mr GP Urquijo's appointment as directors of the Board will be confirmed by shareholders at the forthcoming annual general meeting.

## Board and committee evaluations

The Board evaluated the performance of the Chairman, the Board and its committees through a self-evaluation process against their respective mandates, in terms of the Board Charter and the terms of reference of the Board committees. A consolidated summary of the evaluation was reported to and discussed by the Board, including any actions and suggestions for improvements.

The annual evaluation process showed that the Chairman, the Board and its Board committees had functioned well and discharged their duties as per the mandates in their charters. Furthermore, the independence of each director was evaluated. The Board determined that although some directors had served as members for nine years or longer, they all demonstrated that they were independent in character and judgement, and there were no relationships or circumstances that were likely to affect or could appear to affect their independence.

## 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 and a matter for the Board as a whole. The Nominations 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 judgements made by the Board. The Board particularly considers the knowledge and experience required to fill the gaps in the Board, the integrity of the individual and the skills and capacity of the individual to discharge his/her duties to the Board.

Meetings are scheduled for new directors to meet key management and visit all the operational sites of the company.

## 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 discharge its duties properly. 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.

## Audit and Risk Committee

The Audit and Risk Committee report, required in terms of section 94(7) of the Companies Act No 71 of 2008, is set out on page 36 in this report.

## 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.

The committee comprised Mr DCG Murray (Chairman), Mr M Macdonald and the CEO. The committee appointed representatives of both NUMSA and Solidarity as permanent invitees. The general managers of all business units, the Chief Operating Officer (COO) and the Chief Technology Officer; the Group Manager: Health, Safety and Wellness as well as the Group Manager: Environment are permanent invitees of the committee.

The committee met three times during the year under review and rotated its visits between all plant sites. The main duties of the committee are to:

- ensure that the management of safety, health and the environment in the company is aligned with the overall business strategy of the company;
- consider and approve corporate safety, health and environmental strategies and policies;
- ensure that its members are informed about all significant impacts on the company in the safety, health and

environmental field and how these are managed (process and activities);

- monitor the company's safety, health and environmental performance; progress and continual improvement; and deal with any other matters formally delegated by the Board to the committee from time to time; and
- ensure adequate resource provision to comply with SHE policies, standards and regulatory requirements.

## Remuneration Committee

The Remuneration Committee comprised Ms ND Orleyn (Chairman), and Messrs DCG Murray, DK Chugh and LP Mondli. The CEO, Mr AMHO Poupart-Lafarge, the General Manager: Human Resources and the Vice President: Human Resources for the global ArcelorMittal Group attend the meetings by invitation. This committee met three times during the period under review.

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.

### Nominations Committee

The Nominations Committee is chaired by the Chairman of the Board and consists only of independent directors, namely Mr MJN Njeke (Chairman), Ms ND Orleyn and Mr DCG Murray. The CEO, Messrs DK Chugh and GP Urquijo, the General Manager: Human Resources and the Vice President: Human Resources of the global ArcelorMittal Group attend the meetings by invitation.

The functions of the Nominations 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 nominations matters formally delegated by the Board to the committee from time to time.

This committee met twice during the period under review.

### Social and Ethics Committee

The Socials and Ethics Committee was appointed by the Board as a statutory committee on 26 October 2011.

The members are independent directors Ms FA du Plessis (Chairman), Mr M Macdonald and Ms ND Orleyn. The CEO and Mr GP Urquijo will attend the meetings by invitation. The committee will meet three times in 2012 and have the responsibilities as set out in the Companies Act.

### Board meetings and attendance

The Board meets regularly, at least once a quarter and when necessary to fulfil its role. The Board held five meetings during the past financial year, and a Board strategy session in August 2011. Attendance by directors at Board meetings is set out in the table below.

Director	Category	Board	Audit and Risk	SHE	Remuneration	Nominations
Mr MJN Njeke <sup>1</sup>	Independent	5/5	N/A	N/A	N/A	2/2 <sup>1</sup>
Ms NMC Nyembezi-Heita	Executive	5/5	5/5 <sup>2</sup>	3/3	3/3 <sup>2</sup>	2/2 <sup>2</sup>
Mr RH Torlage	Executive	5/5	5/5 <sup>2</sup>	N/A	N/A	N/A
Mr DK Chugh <sup>8</sup>	Non-executive	4/5	N/A	N/A	3/3	1/2 <sup>2</sup>
Mr CDP Cornier <sup>7,8</sup>	Non-executive	4/5	N/A	N/A	N/A	N/A
Mr M Macdonald	Independent	5/5	5/5 <sup>1</sup>	3/3	N/A	N/A
Mr S Maheshwari <sup>8</sup>	Non-executive	5/5	N/A	N/A	N/A	N/A
Mr LP Mondy	Non-executive	4/5	N/A	N/A	2/3	N/A
Mr DCG Murray	Independent	5/5	5/5	3/3 <sup>1</sup>	3/3	2/2
Ms ND Orleyn	Independent	4/5	2/2 <sup>6</sup>	N/A	3/3 <sup>1</sup>	2/2
Mr AMHO Poupart-Lafarge <sup>3,8</sup>	Non-executive	2/2	N/A	N/A	N/A	N/A
Ms FA du Plessis <sup>4</sup>	Independent	3/4	3/3	N/A	N/A	N/A
Mr GP Urquijo <sup>5,8</sup>	Non-executive	3/3	N/A	N/A	1/3 <sup>2</sup>	N/A <sup>2</sup>

<sup>1</sup> Chairman

<sup>2</sup> Attended by invitation

<sup>3</sup> Resigned from the Board on 25 May 2011

<sup>4</sup> Appointed to the Board on 4 May 2011

<sup>5</sup> Appointed to the Board on 27 May 2011

<sup>6</sup> Member until appointment of Ms FA du Plessis

<sup>7</sup> Resigned from the Board on 24 January 2012

<sup>8</sup> Attended the meeting by video conference

# Board of directors



**MJN Njeke (Johnson) (53)**  
*Independent non-executive Chairman*

**BCom, BCompt (Hons), CA(SA), Higher Diploma Tax Law**

Appointed non-executive director of ArcelorMittal South Africa on 1 January 2002. Appointed Chairman of the Board of ArcelorMittal South Africa and Chairman of the Nominations Committee on 4 February 2010. Chairman of MMI Holdings Limited, Adcorp Holdings Limited, and Resilient Property Income Fund Limited. Director of various companies in the MTN Group, Sasol Limited, Sameh Properties (Proprietary) Limited, Serengethi Properties (Proprietary) Limited, Silver Unicorn Trading 33 (Proprietary) Limited, the Council of the University of Johannesburg, the South African Qualifications Authority.



**N Nyembezi-Heita (Nonkululeko) (52)**  
*Chief Executive Officer*

**BSc (Hons) (Elec Eng), MSc (Elec Eng), MBA**

Appointed Chief Executive Officer of ArcelorMittal South Africa on 1 March 2008. Member of the Safety, Health and Environment Committee and a permanent invitee to all the Board committees as well as a member of the ArcelorMittal Group Management Committee. Serves as non-executive director on the boards of Old Mutual and the JSE Limited.



**R Torlage (Rudolph) (49)**  
*Chief Financial Officer*

**BAccounting, 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.



**DK Chugh (Davinder) (55)**  
*Non-executive director*

**BSc (Physics), LLB, MBA**

Appointed Senior Executive Vice President and member of the Group Management Board of ArcelorMittal in September 2006. Previously Chief Executive Officer of ArcelorMittal South Africa from September 2004 to September 2006. Previously Executive Director: Commercial, since May 2002. Former Vice President: Purchasing for Mittal Steel Europe.



**CPD Cornier (Christophe) (59)**  
*Non-executive director*

**Qualifications: École Polytechnique and École des Mines in Paris**

Appointed non-executive director of ArcelorMittal South Africa on 14 May 2008. Adviser to the CEO and the Group Management Board of ArcelorMittal. Was previously responsible for Asia, Africa and India, Technology, Steel Greenfield Projects Execution.



**M Macdonald (Malcolm) (69)**  
*Independent non-executive director*

**BCom, CA(SA)**

Appointed as independent non-executive director of ArcelorMittal South Africa on 4 February 2010. Chairman of the Audit and Risk Committee and member of the Safety, Health and Environment Committee and the Social and Ethics Committee. Previously the financial director of Iscor between 1997 and 2004. Director and chairperson of audit committees on the boards of Astral Foods Limited and GijimaAST Limited.



**S Maheshwari (Sudhir) (48)**  
*Non-executive director*

**BCom (Hons), CA CS**

Appointed non-executive director in December 2002. Senior Executive Vice President of ArcelorMittal, member of the ArcelorMittal Group Management Board, responsible for corporate finance, M&A, business development and risk management. He also serves on the board of various subsidiaries of ArcelorMittal. Has over 24 years' experience in the steel and related industries. Over a 23-year career with ArcelorMittal, he also held the positions of Chief Financial Officer at Mittal Steel Europe S.A., Mittal Steel Germany and Mittal Steel Point Lisas, and director of finance and M&A at Mittal Steel.



**LP Mondi (Lumkile) (49)**

*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 of ArcelorMittal South Africa on 11 May 2007. Chairman of the Share Trust Committee and member of the Remuneration Committee. He is currently employed by the Industrial Development Corporation (IDC) in Johannesburg, South Africa as a chief economist. He is a member of the State Owned Enterprises Presidential Review Committee. Previously served as a member of President Mbeki's Economic Advisory Panel. Serves on the boards of Yard Capital.



**ND Orleyn (Thandi) (56)**

*Independent non-executive director*

**BJuris, BProc LLB**

Appointed as an independent non-executive director of ArcelorMittal South Africa on 1 February 2007. Chairs the Remuneration Committee and is a member of the Nominations Committee and the Social and Ethics Committee of ArcelorMittal South Africa. Director and shareholder of Peotona Group Holdings. Serves as a non-executive director of South African Reserve Bank, Toyota SA, Implants Limited, Reunert Limited, Freeworld Coatings Limited and Ceramic Industries Limited. Serves as a trustee on a number of charitable trusts and foundations and is also a mediator and arbitrator, an adjunct professor of law at the University of Cape Town, and a member of council of the University of Fort Hare.



**G Urquijo (Gonzalo) (50)**

*Non-executive director*

**Economics and Political Science (Yale), MBA (Instituto de Empresa, Madrid)**

Appointed as a non-executive director on 30 May 2011. Member of the Group Management Board of ArcelorMittal, responsible for AACIS (excluding China and India), Distribution Solutions, Tubular Products, Corporate Responsibility, Investment Allocation Committee (IAC) Chairman.



**DCG Murray (Chris) (67)**

*Independent non-executive director*

**BCom, CA, MBL**

Appointed non-executive director of ArcelorMittal South Africa on 11 May 2007. Chairman of the Safety, Health and Environment Committee. Previously managing director of the Haggie Group of Companies. Since retirement from Haggie in 2004, has acted for the Steel and Engineering Industries Federation of South Africa (SEIFSA – an employers' association) in the following capacities:

- Representative on BUSA's retirement reform technical task team
- Trustee of all SEIFSA long-term funds – pension, provident, permanent disability and sick-pay funds
- Director of Metal Industries Benefit Funds Administrators (MIBFA)
- Member of MIBFA and MerSETA audit committees
- Member of SEIFSA Exco.



**FA du Plessis (Fran) (57)**

*Independent non-executive director*

**BCom (Law), LLB (Stellenbosch University), CA**

Appointed as an independent non-executive director and Chairman of the Social and Ethics Committee and member of the Audit and Risk Committee. Previously served on the IDC and SAA boards. She also serves on the boards of Naspers Limited, Sanlam Limited, Palaborwa Mining Company Limited and Life Healthcare Group Holdings Limited.

# Audit and Risk Committee report

The Audit and Risk Committee (the committee) has pleasure in submitting its report to shareholders as required in terms of section 94 (7) of the Companies Act No 71 of 2008.

## Membership of the committee

The committee comprised the following members at the date of this report:

Name of member	Qualifications
Mr M Macdonald (Chairman)	BCom, CA(SA)
Mr DCG Murray	BCom, CA, MBL
Ms FA du Plessis	BCom LLB (US), BCom (Hons) (Taxation), Registered Chartered Accountant, Advocate of the High Court SA Cape Bar

Each member is an independent director and has adequate relevant knowledge and experience to equip the committee to perform its functions. (Refer to abbreviated curriculum vitae on page 34 to 35 of this report for the members' experience.)

Ms FA du Plessis was appointed to the committee on 4 May 2011. The above members were nominated by the Board for re-election as members of the committee, subject to shareholder approval at the annual general meeting to be held on 16 May 2012.

## Functions of the committee

During the year under review, five meetings were held. Details of attendance are set out in the table on page 33 of this report.

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

During the financial year under review, the committee reviewed 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
- Statements on ethical standards for the company and considered how they are promoted and enforced
- Significant cases of unethical activity by employees or by the company itself
- Reports on the risk management process in the company and assessed the company's exposure to the following risks:
  - Top strategic risks (including credit and market risks, human resources risks and compliance risks)
  - Operational risks
  - Information technology risks.

## Independence of the auditor

The committee reviewed a presentation by the external auditor and, after conducting its own review, is satisfied with the independence and objectivity of Deloitte & Touche as external auditors and Mr R Duffy as the designated auditor. The committee further approved the fees to be paid to Deloitte & Touche and their terms of engagement, and pre-approved any proposed contract with Deloitte & Touche for the provision of non-audit services to the company.

## Statutory reporting

The committee has evaluated the annual financial statements of ArcelorMittal South Africa Limited and the group for the year ended 31 December 2011 and, based on the information provided to the committee, considers that the company and group comply, in all material respects, with the requirements of the Companies Act No 71 of 2008 as amended, International Financial Reporting Standards (IFRS), the AC 500 Standards as issued by the Accounting Practices Board and its successor, Listings Requirements of the JSE Limited and applicable legislation.

## Internal financial controls

The committee agendas provide for confidential meetings between committee members and the internal auditors.

The committee has oversight of the group's financial statements and reporting process, including the system of internal financial control. It is responsible for ensuring the group's internal audit function is independent and has the

necessary resources, standing and authority in the organisation to discharge its duties. The committee oversees cooperation between internal and external auditors, and serves as a link between the Board of Directors and these functions. The head of internal audit reports functionally to the CEO and has unconstrained access to the Chairman.

The committee is of the opinion, after having considered the assurance provided by the internal audit function, that the group's system of internal financial controls in all key material aspects is effective and provides reasonable assurance that the financial records may be relied upon for the preparation of the annual financial statements. This is based on the information and explanations given by management and the group internal audit function. The group's internal function is more fully detailed in the corporate governance section of the annual financial statements report.

## Expertise and experience of the Chief Financial Officer and the finance function

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

The committee, having conducted a review of the appropriateness, skills and resourcing of the group's finance function, has satisfied itself on the overall adequacy and appropriateness of the finance function.

## Recommendation of the integrated annual report

The committee, having fulfilled the oversight role regarding the reporting process and the integrated annual report and having regard to material factors that may impact on the integrity of the integrated annual report, recommended the integrated annual report and the consolidated annual financial statements for approval by the Board of Directors.



M Macdonald  
Chairman

14 March 2012



# Statement of King III compliance

The Board, through the Audit and Risk Committee, has satisfied itself with the extent of the company's compliance with the King Code for the financial year ended 31 December 2011.

The King Code recommends that the Board should comprise a majority of non-executive directors, and that the

majority of the non-executive directors should be independent.

The Board comprises a majority of non-executive directors, but there is currently a requisite balance of independent non-executive directors and non-executive directors.

However, at the date of signing this report, the Board comprises a majority of non-executive directors of whom a majority are independent directors. This is as a result of Mr CPD Cornier's resignation as a non-executive director on 24 January 2012.

## Ethics

Fair and ethical business practices are at the heart of our values. These principles are entrenched in our Code of Business Conduct and reinforced by specific policies and training programmes on issues such as anti-trust and anti-corruption behaviour.

The anti-corruption policy establishes procedures for handling concerns about possible corrupt practices, and provides 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.

The anti-corruption policy also provides guidelines regarding 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 Legal department and the global ArcelorMittal Group's regional General Counsel. 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.

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

Over the past year, 51 ethics-related incidences were reported. About 60% of substantiated cases involved dishonesty,

while the remaining incidences were allegations that included kickbacks and contractual breaches. A formal process is in place to track and report incidents, while also ensuring that recommendations are fully implemented by management. We have zero tolerance for performing or concealing fraudulent and/or illegal acts, as defined in the company's anti-fraud policy. Actions taken as a consequence of investigations include disciplinary hearings, termination of employment of employees, criminal and/or civil action and – in the case of suppliers and contractors – the cancellation of contracts. Suppliers and/or employees may also be blacklisted.

### Competition Authority investigations

The Competition Commission (the Commission) is formally investigating the following five cases:

#### Scrap metal investigation

Arising out of an immunity application from the Commission's 2008 scrap metal industry investigation, it alleges that we contravened the Competition Act in our dealings with a major scrap supplier by 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 alleges 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, along with differentiated pricing strategies for flat and long steel products to customers regarding the transport of the affected products.

### "Basket of goods" pricing for flat steel

The Commission alleges ongoing unhappiness with our "basket of goods" pricing methodology, in the belief that this pricing does not reflect the economic value of the goods and thus constitutes excessive pricing. This complaint relates to flat steel pricing for the period 1 January 2006 to July 2011. It is also alleged that the iron ore surcharge arrangement constituted the unilateral conduct of abuse on our part of a dominant position.

### Full cooperation with the Competition Commission

We are cooperating 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).

Other matters that have been referred by the Commission to the Tribunal have been disclosed as contingent liabilities as noted in the report of the Chief Financial Officer.

# Remuneration report

**Our remuneration policy has been revised to accord with the King III recommendations and to align with the ArcelorMittal Group's global remuneration and benefits policy. Once fully in place, it will offer a balanced spread of remuneration for employees at all levels**

The governance of remuneration policy within ArcelorMittal South Africa is in line with the recommendations contained in the Report of the King Committee on Corporate Governance (September 2009) (King III) and will be reviewed annually in future by its Remuneration Committee, constituted as explained in the Corporate Governance Report. This review in terms of the extended mandate of the committee will relate to remuneration policy at all levels in the company.

The end-product of these initiatives will be a balanced dispensation for employees at all levels – and will serve as a springboard and foundation for individual development and growth as well as long-term wealth creation whilst striking a balance between the interest of shareholders and employees alike.

## **Remuneration philosophy**

The primary objective of the ArcelorMittal South Africa remuneration strategy remains to attract, motivate and retain employees possessing the right competencies into the right positions within the organisation. To achieve this, the organisation needs to build long-term relationships with employees and provide them with meaningful career opportunities as well as fair and equitable rewards. Only in this way will it secure the benefits of their talents, flair and loyal service on a sustainable basis.

Employee rewards are designed to provide pay that is internally equitable and compensation that is based on individual performance and contribution. The company provides rewards that are market competitive when compared to a selection of peer companies of a similar size and scope, and are benchmarked at the market median of this peer group.

The general principle observed in the market-positioning of guaranteed pay is that higher levels of variable pay are awarded to employees who are required to put a greater proportion of fixed pay at risk and to assume greater levels of responsibility in relation to the achievement of organisational goals. The company has accordingly adopted a concept of "Total Remuneration" which involves an independent focus on the guaranteed packages of each category of employees on the one hand and their variable dispensation on the other trying to strike a balance between risk (performance based pay) and reward. Variable pay as part of the remuneration mix is designed to incentivise and reward both team and individual effort, serving as a tool which managers can use to attract, motivate and retain staff of the calibre that is needed to achieve both current and future organisational goals.

Share-based incentives are utilised to align senior executives' interests with those of the shareholders and to increase their long term retention.

The company will from time to time approve implementation of a top-up bonus plan payable to senior management which takes the form of a mid-year bonus aimed at sharpening their focus on financial performance and drive desired short term results.

## **Key policies affecting guaranteed pay**

The remuneration of all employees other than bargaining unit employees is contracted on a total cost to company package basis. The annual package includes the cost to the organisation of all forms of remuneration, including basic salary, travel and other allowances, and contributions by the organisation to

retirement savings, death and disability risk insurance and medical aid plan.

The amount of the annual package is determined with effect from 1 April in each year based on parameters approved by the Board for each year, differentiating pay levels based on individual and market factors, as follows:

- Position profiles are compiled for each approved position in each division and department, and these are graded using the company's grading system. A competency level is then determined for each employee in an approved position by the manager that he or she reports to. This may be influenced by the annual formal performance reviews of the employee under the company's performance management system, and the employee may receive merit increments from year to year which over time enable him or her to earn remuneration at a level with or above the market median for the position.
- The market positioning of the pay benchmarked and re-assessed regularly, using the market median levels of independent salary survey as reference points. General remuneration increases may be approved from year to year based on movements in inflation, market pay movement and individual performance against annual objectives.

In relation to employees represented by a trade union their wages and substantive conditions of employment are negotiated with the National Union of Metalworkers of South Africa (NUMSA) and Solidarity, which are parties to the Metal and Engineering Industries Bargaining Council. Various collective agreements apply, including the Substantive Agreement as revised at agreed cycles and regulate rates of pay for bargaining unit represented employees.

## **Policies regulating variable pay** **The performance bonus plan**

All full-time employees (outside the collective bargaining unit) are eligible to receive a performance bonus annually based on a formal assessment of their job-related performance in terms of the

company's performance management system on the following basis:

- The bonus is determined using a performance scorecard which assesses performance based on both financial and non-financial performance criteria on a weighted basis. A weight of 70% is attributed to the financial criteria and of 30% to the non-financial criteria.
- Bonuses are graduated on a straight-line basis from a percentage threshold performance level of target to a percentage stretch level on exceeding target. These limits are based on an assessed probability of achievement at different levels of performance with the threshold participation at 80% and stretch at 120% of business plan. The Bonus participation for senior executives ranges from 15% to 60% of CTC.

#### **The productivity bonus scheme**

Employees in the bargaining unit are eligible to participate in a Productivity Bonus Scheme as negotiated with the trade unions. This scheme has been amended in relation to the 2012 financial year to enhance rewarding plant KPIs of participants that are within line of sight to improve productivity. This scheme will help embed a performance culture and is in line with our "pay for performance" principle.

#### **The long-term incentive schemes**

ArcelorMittal South Africa have been using a number of share option schemes between 1989 and 2004. These have been terminated, and will be wound up when all outstanding options have been exercised or lapsed. From 2005 until the present time, the 2005 Share Option Scheme has been utilised and has provided for annual grants of call options to senior executives exercisable at the price ruling at the date of grant. The options vest in three annual tranches of one-third commencing on the first anniversary and expire at the end of the

tenth anniversary of the date of the grant. The number of options granted to senior executives has been fixed in their letters of appointment during the period of the operation of this scheme (up to the end of the 2011 financial year).

The unexercised options under these schemes as at 31 December, 2011, are shown on the detailed schedules pertaining to shareholdings of executive directors and prescribed officers.

A proposed revised Long-Term Incentive Plan (LTIP) has been approved by the Board for 2012 onwards for adoption in 2012. This proposal is submitted to shareholders for approval at the annual general meeting.

The purpose of the LTIP is to recognise contributions made by selected employees and to provide them an opportunity to receive shares in ArcelorMittal South Africa. The LTIP will also enable the company to attract and retain the right employees and competencies and also supports the principle of alignment of management and shareholder interests.

The LTIP rules make provision for the grant of Conditional Share Awards that can be granted with or without performance vesting conditions. In terms of the rules of the LTIP, eligible senior managers will be awarded conditional shares in the form of LTIP's at annual intervals on the following basis:

- The CEO, CFO and certain designated members of the Executive Committee will receive LTIP awards, which only vest with attainment of prescribed performance conditions. Other eligible senior managers will be issued conditional shares without performance conditions but subject only to continued employment and individual performance contribution.

- The applicable performance conditions during 2012 will be ROCE and Improvement in ratio of TCOE/t which is equally weighted.
- Each award of LTIP share will vest after three years have elapsed, subject only to continued employment during this period and/or attainment of performance conditions, entitling the holder to one share of the issued shares of the company for every share held on vesting.
- Proportionate awards are provided for where there is a change in the effective control of the company or where the employee is retrenched, retires or dies whilst in service.

The salient features of the proposed ArcelorMittal South Africa LTIP have been incorporated into the circular to the shareholders. The detailed rules of the proposed LTIP is available for inspection at the registered office of ArcelorMittal South Africa for the duration of the notice period for the annual general meeting.

#### **Contractual arrangements**

No fixed-term contracts have been entered into with executive directors or other senior executives.

The period of notice to terminate employment applying in the case of the Chief Executive Officer is two months on either side.

In all other cases, standard terms and conditions of employment apply, which provide for notice of termination of one month's notice on either side.

No restraint or special severance compensation is payable to any of the incumbent executive directors or other senior executives.

# Remuneration report continued

The fees paid to executive directors, prescribed officers and highest paid senior employees for the 2011 and 2010 financial years were as follows:

	Notes	Guaranteed pay <sup>1</sup> R	Short-term incentives <sup>2</sup> R	Equity incentives <sup>3</sup> R	Other <sup>4</sup> R	Total remuneration <b>2011</b>	Total remuneration 2010
<b>Executive directors</b>							
N Nyembezi-Heita		4 386 040	1 915 000	1 729 976	2 174	8 033 190	4 132 038
RH Torlage	5	2 056 916	682 300	484 881	114 030	3 338 127	630 391
HJ Verster	6						2 616 607
<b>Subtotal</b>		<b>6 442 956</b>	<b>2 597 300</b>	<b>2 214 857</b>	<b>116 204</b>	<b>11 371 317</b>	<b>7 379 036</b>
<b>Prescribed officers and highest paid employees</b>							
JJ Fourie	7	2 524 812	1 210 000	144 941	3 714 116	7 593 869	2 843 309
H Kriel		2 232 188	802 800	372 458	142 296	3 549 742	2 410 164
WA Nel	8	2 042 872	149 591	1 263 762	7 940	3 464 165	
S Kumar	9	1 714 077	794 700	912 314	23 016	3 444 107	1 147 713
T Nkosi		2 035 876	587 800	336 640	18 502	2 978 818	2 916 114
JJ Aernout	10	1 663 198	302 400	456 089	25 159	2 446 846	
M Manjingolo		1 385 819	286 769	56 393	15 800	1 744 781	1 338 723
<b>Subtotal</b>		<b>13 548 842</b>	<b>4 134 060</b>	<b>3 542 547</b>	<b>3 946 829</b>	<b>25 222 328</b>	<b>10 656 023</b>
<b>Total</b>		<b>20 041 798</b>	<b>6 731 360</b>	<b>5 757 454</b>	<b>4 063 033</b>	<b>36 593 645</b>	<b>18 035 059</b>

## Notes

- <sup>1</sup> Guaranteed pay includes travel allowances, retirement and healthcare funding.
- <sup>2</sup> The short-term incentives relate to December 2010 financial year, paid in March 2011.
- <sup>3</sup> The equity incentives have been computed using the binomial matrix formula. Detailed calculations can be found under directors' unexercised options in the table that follows.
- <sup>4</sup> Other includes separation payments, leave encashments and business travel claims.
- <sup>5</sup> Appointed as Chief Financial Officer and executive director on 3 September 2010.
- <sup>6</sup> Resigned on 23 August 2010.
- <sup>7</sup> Resigned 31 December 2011.
- <sup>8</sup> Appointed 1 January 2011.
- <sup>9</sup> Appointed 1 August 2010.
- <sup>10</sup> Appointed 1 February 2011.

The following table reflects the status of unexercised options held by executive directors, the prescribed officers and the highest paid senior employees as a result of past awards during the year ended 31 December 2011.

	Award date	Number of allocations at start of year	Number of allocations made during the year	Number of allocations exercised and paid during the year	Number of allocations that lapsed/forfeited during the year	Number of allocations at the end of the year	Number of allocations vested at the end of the year	Issue price R	Exercise price R	Exercise date	Present value of unvested share options at the end of the year R
<b>Executive directors</b>											
N Nyembezi-Heita	2008/03/25	31 660				31 660	31 660	186.5			
	2008/11/10	66 520				66 520	66 520	73.75			
	2009/11/02	66 520				66 520	44 347	106.5			270 578
	2011/09/29		110 620			110 620		59.00			1 873 472
	2011/11/07		66 520			66 520		67.00			893 354
		<b>164 700</b>	<b>177 140</b>			<b>341 840</b>	<b>142 527</b>				<b>3 037 404</b>
RH Torlage	2006/11/08	29 563				29 563	29 563	83.88			
	2006/12/12	2 946				2 946	2 946	82.02			
	2007/11/20	16 770				16 770	16 770	133.50			
	2008/11/10	16 770				16 770	16 770	73.75			
	2009/11/02	15 250				15 250	10 167	106.50			62 036
	2011/09/29		53 500			53 500		59.00			906 087
	2011/11/07		35 153			35 153		67.00			472 118
		<b>81 299</b>	<b>88 653</b>			<b>169 952</b>	<b>76 216</b>				<b>1 440 241</b>
<b>Subtotal</b>		<b>245 999</b>	<b>265 793</b>			<b>511 792</b>	<b>218 743</b>				<b>4 477 645</b>
<b>Prescribed officers and highest paid employees</b>											
JJ Fourie			42 790		42 790			59.00			
			32 170		32 170			67.00			
			<b>74 960</b>		<b>74 960</b>						
H Kriel			20 510		20 510			87.20			167 278
			17 310		17 310			67.00			232 474
			<b>37 820</b>		<b>37 820</b>						<b>399 752</b>
WA Nel*			14 010		14 010			87.20			114 259
			17 310		17 310			67.00			232 475
			<b>31 320</b>		<b>31 320</b>						<b>346 734</b>
S Kumar*											
T Nkosi			18 650		18 650			87.20			152 102
			13 840		13 840			67.00			185 884
			<b>32 490</b>		<b>32 490</b>						<b>337 986</b>
JJ Aernout*											
M Manjingolo			17 480		17 480			59.00			296 064
			10 520		10 520			67.00			141 285
			<b>28 000</b>		<b>28 000</b>						<b>437 349</b>
<b>Subtotal</b>		<b>204 590</b>		<b>129 630</b>						<b>1 521 821</b>	
<b>Total</b>		<b>245 999</b>	<b>470 383</b>		<b>641 422</b>	<b>218 743</b>					<b>5 999 466</b>

\*These employees belong to the Group Executive International Mobility Share Option Plan. Refer to note 28.2.1 in the annual financial statement in the Financial report for further details.

#### Notes

- Share options vest within three years and exercisable within 10 years of issue date.
- Share options for 2010 were issued in February 2011 and are accounted for in 2011. 2011 allocations were also done and accounted for in 2011.



# Remuneration report continued

## Policies affecting non-executive directors

The appointments of non-executive directors are based on proposals submitted by the Nominations Committee to the Board for approval.

Non-executive directors do not receive short-term incentives, nor do they participate in the long-term incentive plans.

The term of office of an independent non-executive director is based on a three-year cycle. In terms of the articles, one-third of the directors retires at the annual general meeting held each year, but are eligible for re-election.

## Non-executive directors' remuneration

The fees for the services of Board and subcommittee members as directors are recommended to the Board by the Remuneration Committee and reviewed

annually. The review addresses market comparisons of fees.

Non-executive fees comprise an annual fee and in addition a fee for attending Board meetings. The Chairman receives an annual fee inclusive of all Board and Board committee attendances.

The fees paid to non-executive directors for the 2011 and 2010 financial years were as follows:

	Notes	Directors' fees R	Committee fees R	Other <sup>1</sup> R	Total emoluments 2011 R	Total emoluments 2010 R
<b>Non-executive directors</b>						
DCG Murray		141 900	316 600	35 863	<b>494 363</b>	486 923
EK Diack	2					282 000
FA du Plessis	3	94 687	75 900	36 400	<b>206 987</b>	
LP Mondl		161 766	104 310		<b>266 076</b>	286 400
MJN Njeke	4	860 000		12 245	<b>872 245</b>	865 120
M Macdonald	5	162 433	261 400	731	<b>424 564</b>	361 416
ND Orleyn		141 900	251 700		<b>393 600</b>	406 000
<b>Total</b>		<b>1 562 686</b>	<b>1 009 910</b>	<b>85 239</b>	<b>2 657 835</b>	<b>2 687 859</b>

Directors' remuneration is not paid to the non-executive directors in the employment of the ArcelorMittal Group.

## Notes

<sup>1</sup> Other includes separation payments and business travel claims.

<sup>2</sup> Resigned on 9 July 2010.

<sup>3</sup> Appointed as an independent non-executive director and member of the Audit and Risk Committee with effect from 4 May 2011.

<sup>4</sup> Appointed as Chairman of the Board with effect from 4 February 2010.

<sup>5</sup> Appointed on 4 February 2010 as independent non-executive director.

The tariff of fees applicable for 2011 was as follows:

- Chairman's fee: R880 000
- Fee for ordinary member of Board: R145 200

Additional fees for attendance of subcommittee meetings (per meeting):

## Audit Committee

- Chairman: R26 500
- Member: R13 200

## Remuneration Committee

- Chairman: R24 200
- Member: R12 100

## Nominations Committee

- Chairman: R24 200
- Member: R12 100

## Safety, Health and Environment Committee

- Chairman: R24 200
- Member: R12 100

## Share Trust Committee

- Chairman: R24 200
- Member: R12 100

## Social and Ethics Committee

- Chairman: R24 200
- Member: R12 100

# Risk management

Effective risk management of the enterprise requires that processes, principles and objectives are aligned across the company. A consolidated risk database has brought identified risks in all parts of the business into a standardised assessment system

## The integrated approach

The company recognises that effective risk management is critical to our continued profitability and the long-term sustainability of our business as part of the largest steel producer in the world. The enterprise risk management (ERM) policy adopted by us is aligned with the global ArcelorMittal Group risk management policy, world best practices, the King III proposals and the ISO 31000 standard.

The objective of ERM in the company is to enhance its capability to manage the uncertainties faced by it. In the long run, this will create greater confidence in our capacity to seize opportunities and achieve sustainable successes.

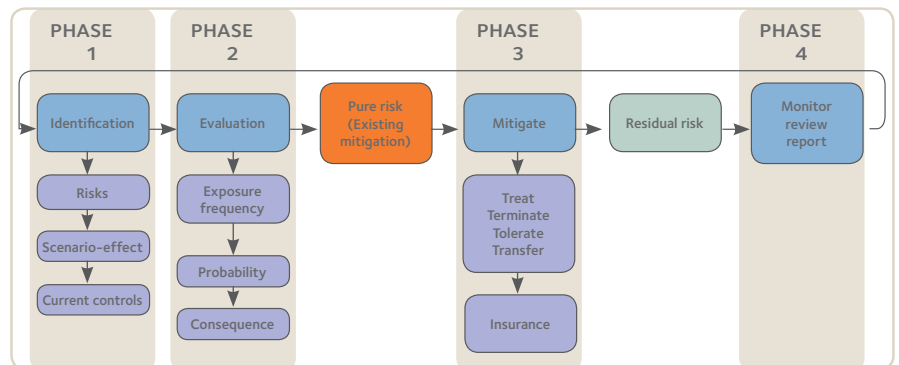
Our ERM is a structured and systematic process that is interwoven with existing risk management structures and responsibilities. It is an integrated approach to risk management that allows our management to compare risks on a common basis and within a consistent framework, thereby ensuring that core risks are properly defined, understood and managed. This process ensures that risk management receives the status and attention that it requires from the Board.

## Board accountability

The Board is ultimately accountable for risk management within the company, and has established an Audit and Risk Committee as a subcommittee, also overseeing the company's risk policies and strategies.

## Organisational structures and reporting framework

Risk management is structured around the following functional risk areas: sales and marketing, procurement and logistics, human resources, finance, strategic, legal, health and safety, environment, and operations. The risk management process is divided into four distinct phases, as indicated in the following diagram:



Each risk area, department or business unit has a risk officer, who reports directly to the head of each department. The Manager: Risk and Insurance attends all high-level Risk Committee meetings and prepares a consolidated risk management report, which is presented on a monthly basis to the EXCO and quarterly to the Audit and Risk Committee and finally, to the Board of Directors. The consolidated top risks of the company are also reported to the global ArcelorMittal Group.

A list of our top risks impacting strategic objectives is included on page 13 of this report.

## Continuous improvement

The company is committed to continuous improvement. To improve the robustness of the ERM process, we consulted with consultants to review our risk management performance, with outcomes from the assessment implemented accordingly.

The review process:

- Assessed the adequacy of our current risk efforts
- Benchmarked our risk management activities to a risk maturity model
- Assessed the degree to which management is identifying risks
- Assessed the alignment of risk efforts with our strategy and executive goals
- Assessed the performance and adequacy of our risk reporting requirements.

The consultants rated our risk management process as “being

developed” (level 3, from level 4) and made recommendations to improve to “advanced”.

We then engaged the consultants to assist with the implementation of the recommendations, in a phased approach, consisting of:

- A “clean sheet” top-down risk review, which was overseen by the EXCO and the Audit and Risk Committee. In the top-down process, a number of strategic risks were identified for adoption into the existing risk register.
- A pilot at an operational area and a shared service environment, where recommendations will be implemented and tested – and, if adopted, rolled out to the rest of the company.

We recognise that effective risk management requires that ERM processes, principles and objectives are aligned and embedded across the company. Substantial progress has been made towards the alignment of the methodology and reporting process. The implementation of a risk database also contributed towards streamlining the alignment and reporting process. A risk-based combined assurance process was also initiated by the Internal Assurance department, and will be further enhanced in 2012.

In the year ahead, we will focus our attention on improving the robustness of the process by, among others, implementing the recommendations of the consultants.



## sustainable value creation



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### Sustaining value

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*Over the long term, steel products save energy, as it is intrinsically durable and offers long life cycles. Scrapped steel can then be recycled into liquid steel and reused.*

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Additional detailed information about making steel more sustainable, investing in our people, transformation and social and community investment can be found in the Sustainability report or on our website.

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## Making steel more sustainable

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We made steady progress in meeting our environmental goals during the year under review, although hampered by construction deadlines being missed at two environmental infrastructure programmes. All key projects are on track for completion and there were no serious findings from the various audits and site visits conducted by the environmental authorities.

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 Efficiency Accord, the company has already committed itself to reducing our electricity consumption by some 12% by 2014.

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

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## Investing in our people

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The health, safety and wellness of our employees and contractors are paramount. The business of steel-making and its associated operations is inherently dangerous, and we continue to motivate and train our people to be aware constantly of personal health and safety, while rooting out behaviours and rectifying unsafe situations that potentially cause fatalities, injuries or physical and mental health issues.

Appropriate remuneration is a high-priority issue for both management and employees. In an industry that demands a constant supply of technical skills, offering competitive and market-related salaries is crucial to attracting and retaining the best people. In 2011, HR implemented a three-year programme to resolve all internal pay anomalies and to establish innovative and competitive policies for paying fairly and retaining talent.

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# Value added statement

Steel manufacturing depends on complex technological processes that need a wide array of skilled and dedicated people to drive them. Our people are the heart of the company, and it is their motivation and energy that enables our business to succeed, year after year

Steel contributes significantly to the South African economy by providing sustainable full-time employment and investing in the development of people through training and skills development, and by the provision of public goods and services through taxes paid. Sourcing products locally wherever possible further stimulates economic activity.

	2011 (Rm)	2010 (Rm)
Revenue	31 453	30 224
Purchased material and services	(29 116)	(24 576)
Finance income	29	9
Investment income	52	128
<b>Value added</b>	<b>2 418</b>	<b>5 786</b>
Distributed to:		
Employees	3 164	2 951
Providers of equity capital	221	602
Providers of debt	719	459
Governments	243	653
Community investment	47	29
Reinvested in the group	1 264	1 834
<b>Total distributed</b>	<b>5 658</b>	<b>6 528</b>

In 2011 and 2010, more cash was distributed than value added, to the amount of R3 240 million and R743 million, respectively. These distributions were made from cash reserves.

## Making steel more sustainable

As some degree of environmental impact is 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

### Environmental impact of 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. As 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.

Our most pressing environmental issue is to regain the zero effluent discharge (ZED) status of Vanderbijlpark Works during 2012, and to achieve ZED status at Newcastle Works. Construction work to erect the necessary infrastructure at Newcastle will commence shortly and we are confident that ZED status will be

achieved by late 2013 or early 2014. Newcastle Works was issued with a new water-use licence during 2011 which is currently the subject of an amendment process.

The new air emissions standards, promulgated in the Air Quality Act No 39 of 2004, compelled us to draw up new compliance plans, which include a revised coke strategy.

The Board is in the process of reviewing these plans and will approve the necessary facility upgrades in due course.

Due to several technical disruptions, the company produced a lower overall volume of steel in this period. However, despite the reduced production, the reduction of CO<sub>2</sub> emissions in terms of electricity and coal consumption per tonne of steel produced remained fairly stable when compared to previous years.



These factors notwithstanding, we have made steady progress in meeting our environmental goals during the year under review, although hampered by construction deadlines being missed at two environmental infrastructure programmes. All key projects are on track there were no serious findings from the various audits and site visits conducted by the environmental authorities.

### Energy and climate change

Although mitigating climate change is a global and national priority, how it is done can pose a threat to our manufacturing operations.

The company's goal is to reduce its CO<sub>2</sub> emissions by 8% equating to 170 kg/tonne of steel produced by 2020. While we do not believe that it is possible for South African industry and businesses alike to achieve government's target to reduce CO<sub>2</sub> emissions by 34% by 2020, as outlined in the 2009 Copenhagen Climate Change Summit, we remain fully committed to engaging with key stakeholders to set achievable targets.

Global warming precipitated by increased carbon emissions is likely to result in weather pattern disturbances that may hamper the company's ability to operate. Steel-making operations that rely heavily on water will be impacted by potential droughts and floods. Flooding, in particular, has the potential to disrupt the supply chain from mines that provide our raw materials for production.

### Quantifying the challenge

Steel production 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. However, 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 steel-makers 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 Efficiency Accord, the company has already committed itself to reducing our electricity consumption by some 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 R2.1 billion in 2011.

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 40 MW installed capacity, power generation plant at Vanderbijlpark Works, which uses waste heat from the DRI kilns to generate power. This plant raises the company's own power generation capacity to 80 MW.

At this time, other major co-generation plans linked to the company's expansion plans remain shelved. Such projects can only be implemented once operational capital requirements have been met. Current efforts will be directed at maintaining existing power generation facilities, with further power generation projects being considered when the capital becomes available.

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, pure wind energy is too costly to be included in the generation mix. A smaller wind project – which will limit capital expenditure and

allow further research into wind as an alternative green electricity supply option – is currently under investigation.

### 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 long-term periods. With high levels of durability and strength, the material's life cycle is prolonged. Steel products and infrastructure last and do not need to be replaced as often as those made from other materials. Moreover steel is easily recyclable, which has the net impact of reducing production costs and carbon emissions.

The development of advanced and lighter steel products reduces carbon emissions. The World Steel Association reports, for example, that: *"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."*

# Investing in our people

## The health, safety and wellness of our employees and contractors are paramount

### Safety

The health, safety and wellness of our employees and contractors are paramount. The business of steel-making is inherently dangerous, and we continue to motivate and train our people to be constantly aware of personal health and safety. We have placed a major focus on rooting out unsafe behaviours and rectifying unsafe plant conditions that potentially cause fatalities, injuries or physical and mental health issues.

We focus our prevention drive on four key areas to establish the necessary organisational mindset:

- Remaining focused on health and safety fundamentals
- Proactively anticipating and eliminating unsafe acts and conditions
- Creating a culture of shared responsibility
- Engendering operational self-discipline.

It was most regrettable that five fatalities occurred in a year in which we substantially improved safety performance at our plants.

The 2011 lost time injury frequency rate (LTIFR) reduced to 1.24 (2010: 1.64), which is the lowest ever recorded in the history of the company. All of our plants improved their LTIFR compared to 2010. The Saldanha Works, Newcastle Works and Tubular Products recorded outstanding LTIFR scores of below 1.

The total injury frequency rate (TIFR) of 19.27 was a new company record, and the first time ever that we have scored a TIFR value of below 20.

Contractor management standards were revised to manage subcontractors better. All subcontractors are now appraised in the same way as principal contractors, and those not already on the company's vendor list are screened by our Safety, Health, Environment, Risk and Quality departments in terms of vendor

management audit criteria. Compulsory audits are now required for vendors performing projects or tasks scheduled for more than 14 days. Increased controls were also implemented for multiple contractors working in close proximity to one another.

### Human resources strategy

Steel manufacturing depends on complex technological processes that need a wide array of skilled and dedicated people to drive them. Our people are the heart of the company, and it is their motivation and energy that enables our business to succeed, year after year.

Since 2008, the company has been making headway against economic, market, environmental and circumstantial obstacles that have made the steel industry exceptionally challenging at this time. Nonetheless, we continue to tackle these challenges and make progress due to our dedicated employees who expertly and willingly perform their roles every day.

The hiring freeze implemented in 2009 was lifted, and this opened doors for HR to resume with the implementation of critical people related programmes, which substantially lifted employee morale, as shown in a recent culture survey.

Filling vacancies and advertising new posts enabled us to improve the diversity profile of our workforce significantly, particularly in the management and technical ranks. We avoided an industry-wide industrial strike by reaching a fair and equitable two-year wage agreement with the trade unions in which an average wage increase of 7.1% per annum was awarded to bargaining unit employees. A 7% allocation was made to package category employees.

Our biggest challenge remains the shortage of technical skills in specific areas, such as coke-making and blast furnace operations. This is compounded by the relative ageing of our technical and artisan workforce, in which about 9% of employees are eligible to retire within the next five years. The skills pipeline programme discussed in the Sustainability report will produce new trained employees in these skills, but this is a process that takes time. Retaining sufficient technical and senior management skills remains a challenge.

Appropriate remuneration is a high-priority issue for both management and employees. In an industry that demands a constant supply of technical skills, offering competitive, market-related salaries is crucial to attracting and retaining the best people. In 2011, HR implemented a three-year programme to resolve all internal pay anomalies and establish innovative and competitive policies to ensure that we offer fair compensation and retain talent.

### Health and wellness

During the year, 12 occupational disease cases were diagnosed, resulting in a 2011 occupational disease frequency rate of 0.37 compared with 0.42 the previous year.

### Skills development

Each year, the company performs a skills audit and training needs analysis to highlight workforce skills gaps. These are supported by a workforce analysis to identify our long-term skills pipeline and succession planning needs. The results of these assessments inform a comprehensive workplace skills development plan. Our training department is accredited by merSETA (the Manufacturing, Engineering and Related Services Sector Education and Training Authority) and submits its training plan to merSETA once a year.

During the year, our training department was highly active and conducted nearly 159 000 training interventions – meaning that, on average, every employee interacted with the department on more than 17 occasions during the year.

As an industry that relies heavily on technology and the technical expertise of our workforce, we have dovetailed the twin needs of providing career development opportunities for our employees and the corporate requirement for a robust skills pipeline to ensure that a constant supply of these engineering, technical and artisan skills is available. On average, the company requires about 160 skilled artisans per annum, but the pipeline takes about 500 mainly previously disadvantaged and unemployed South Africans into artisan training each year, so it also provides an invaluable flow of skills into broader South African industry.

# Transformation

**Concluding a viable and significant B-BBEE transaction remains a priority and our Board and top management are committed to conclude a transaction that will truly benefit our staff members and local communities**

We are committed to transforming the company in line with broad developments in the South African economic, political and social landscape. In this regard, several projects have been initiated to

help us achieve our transformation objectives.

Despite the cancellation of our proposed B-BBEE transaction in 2011, concluding an equitable B-BBEE transaction remains a priority. Our Board and top management are committed to concluding a transaction that will truly benefit our staff members and local communities. We expect that a successful B-BBEE transaction will substantially improve the company's BEE rating.

In 2010, we identified enterprise development as a priority area that requires focused attention. Since then, considerable time has been spent on refining our policies and strategies for developing a sustainable enterprise development programme. A key aspect was studying existing private sector development programmes against our

own pilot project, initiated in 2009. Numerous lessons from this exercise were incorporated into the company's new preferential procurement policy, which will inform the delivery action plan to be rolled out in 2012.

In July 2011, the company's progress against the B-BBEE scorecard was externally audited by an accredited verification agency. This agency awarded the company a level 7 BEE status rating, which is slightly improved from the level 8 status assigned in previous years.

# Social investment and community affairs

**Our CSI policy is to prioritise the critical areas of education, health and community development. We favour projects with the potential to become self-sustainable and continue to support streams of beneficiaries**

Our corporate citizenship and social investment strategy focuses on the communities surrounding our steel business units at Vanderbijlpark, Newcastle, Saldanha and Vereeniging.

In the area of education our foundation projects are the building of schools and the science centres.

The second school – the Nelson Mandela Primary School in Mthatha – is under construction and will be handed over towards the end of 2012. We have completed the renovations of the science centre in Madaden, near the Newcastle plant during 2011. This centre will be fully operational in 2012, bringing the number of science centres to three, one at Vanderbijlpark, one at Saldanha and then this one at Newcastle.

One of our many projects under the health focus area is the wellness centre at the Sebokeng Hospital. It is under construction and will be handed over during 2012. This centre is also being constructed using the lightweight steel technology.

Our projects under community development is ongoing and detail of these can be found in the Sustainability report.

The accredited BEE verification agency awarded a 100% score for the company's socio-economic development efforts during the 2011 audit process.

# Forging ahead

The biggest demand for steel is from the construction sector, at about 55%, which includes public sector infrastructure, commercial and residential developments. The second largest, at about 25%, is from manufacturing, of which the automotive industry takes the biggest portion. Mining and agriculture operations in South Africa take a 15% slice

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## Group financial and non-financial performance

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## Steel market and sustainability

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## Operational review

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## Flat Steel Products

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*Posted a R536 million operating loss during the year, compared with an operating profit of R347 million in 2010.*

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## Long Steel Products

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*The net operating income decreased from R826 million to R231 million. Total shipments were down by 24%.*

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## Coke and Chemicals

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*Revenue from our Coke and Chemicals business remained flat, with commercial coke sales at 631 000 tonnes.*

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# performance overview





# Group financial and non-financial performance

	2011	2010	2009
<b>Physical ('000 tonnes)</b>			
Liquid steel production	5 453	5 674	5 307
Steel sales	4 708	5 041	4 473
– Domestic	3 507	3 414	3 072
– Export	1 201	1 627	1 401
<b>Financials (Rm)</b>			
Revenue	31 453	30 224	25 598
EBITDA	1 720	3 522	1 547
EBITDA/tonne	365	699	346
Profit from operations	297	2 151	229
Headline (loss)/earnings	(52)	1 377	(440)
Net cash (out)/in flows	(2 634)	(244)	346
Total assets	32 422	31 718	30 784
<b>Share information (cents)</b>			
Headline (loss)/earnings per share	(13)	343	(104)
Dividend per share	55	150	
<b>Financial ratios (%)</b>			
Return on shareholders' equity (based on headline earnings)	(0.2)	6.2	(1.8)
Net cash to equity	0.4	14.2	18.1
Return on invested capital	1.1	10.1	1.9
Operating margin	0.9	7.1	0.9
<b>Exchange rate ZAR/USD</b>			
– Average rate for the year	7.26	7.34	8.44
– Closing rate at end of the year	8.18	6.62	7.40
<b>Environmental</b>			
Particulate emissions from point sources in tonnes	4 729	4 081	3 591
Water abstraction in kℓ	20 231 422	20 554 392	17 822 203
% of by-products disposed (%)	45	39	44
CO <sub>2</sub> emissions in millions of tonnes (Scope 1)	10.96	11.85	10.11
CO <sub>2</sub> emissions in millions of tonnes (Scope 2)	4.49	4.44	4.35
Energy consumption in PJ	127	130	115
<b>Human resources</b>			
Number of employees at 31 December			
– Steel	8 045	7 725	7 831
– Corporate and other	1 841	1 536	1 202
Investment in employee training and development (Rm)	154	173	93
<b>Safety</b>			
Fatalities	5	0	5
Lost time injury frequency rate	1.24	1.64	2.60
<b>Community investment spend (Rm)</b>			
	47	29	36

# Steel markets and sustainability

**Slowing demand, however, wasn't our biggest challenge of the year, as the blast furnace dust catcher collapse at Newcastle Works severely disrupted our steel production. During this period, we could not produce steel in sufficient quantities to meet local demand fully, forcing us to import steel from ArcelorMittal Group companies around the world**

## Overview

Market activity in the 2011 financial year further confirmed that steel markets are becoming increasingly volatile and unpredictable. Demand for steel is mainly bound to construction and manufacturing activity, which rises and falls in relation to global economic conditions. Since the abrupt end of the economic boom years in 2008, the demand for steel has tracked the international economy through positive and negative cycles.

## Steel markets

### Local steel market

South African demand stabilised in 2011 following the significant 2009 drop due to the global economic recession. Even so, steel demand was less than the previous year – during which pre-World Cup construction was underway – and remained substantially below the 2008 pre-recession levels. The 2011 year commenced with robust demand, but slowed in the second half as the growing Eurozone crisis began unsettling capital investors. We anticipate that demand will remain muted until South Africa's pipeline of infrastructure projects gets properly underway, which may only be in 2013.

To create jobs and stimulate the national economy in terms of the New Growth Path and National Development Plan, the South African government intends investing R845 billion in infrastructure development projects in the next three years. Certain projects such as the mammoth Medupi and Kusile coal power plants are being constructed, but others – such as the Transnet rail upgrades – are yet to launch. Given the high priority accorded to these developments, we are confident that public sector infrastructure development will absorb a considerable percentage of our potential steel production in coming years.

Slowing demand, however, was not our biggest challenge of the year, as two serious technical outages at the Newcastle Works severely disrupted our steel production. A chilled hearth in November 2010 that took some time to recover reduced supply, but this proved to be the precursor to a more damaging event at Newcastle in August 2011, when the blast furnace dust catcher collapsed. The plant's steel-producing capacity was substantially reduced until emergency repairs were completed in December 2011.

During this period, we could not produce steel in sufficient quantities to meet local demand, forcing us to import steel – obviously at a higher cost – from ArcelorMittal Group companies around the world. Despite strenuous efforts from our sales teams to import alternative supplies, some deliveries were delayed – which did negatively impact our reputation in the marketplace. It undoubtedly also contributed to some customers turning to other suppliers for their steel, which challenges us to work even harder to restore a reliable serve to the market.

The South African economy is recovering steadily from the global recession, with GDP growing at 3.1% in 2011. The first half of the year showed good growth, with annualised GDP growth of 3.4% and 3.3% in the first and second quarter respectively, but later slowing down to 3.1% to 2.7% in the third and fourth

quarter respectively. Activity in the construction centre remained subdued. Mining and agriculture traditionally consume around 15% of steel output, but the widely publicised calls for nationalisation of the mining sector unnerved providers of capital, who are adopting a "wait and see" stance on new investment in mining plant. According to the South African Iron and Steel Institute (SAISI) data, real steel consumption in South Africa rose slightly, from 4.9 million tonnes in 2010 to 5.1 million tonnes in 2011, which is still weak compared to the peak levels of 2006 to 2007.

### African steel markets

For the past decade, African countries have consistently recorded economic growth rates that averaged 5.5%. The projected economic growth rate for Africa in 2012 is 5%. As their economies expand and mining activities increase, the need for upgraded infrastructure such as new mines, rail lines, roads, dams and power grids has become urgent. With Africa's prospects looking bright against the gloomy backdrop of Europe's economic woes, governments and major private sector companies are accessing institutional and investor funding for a deepening pipeline of infrastructure projects. All these will require massive quantities of steel.

We are geographically the best-positioned supplier of steel to southern and central African countries, as South Africa – with its well-organised logistics, road and rail networks – is the recognised gateway into Africa.

We are actively engaging African markets and expect the demand for steel across the broader continent to grow heavily over the next decade. A projection shows African steel demand growing 5% per annum over the next five years.

### International steel market

According to the World Steel Association, total world steel output for 2011 is estimated at 1.43 billion tonnes, which is a slight rise from the 1.4 billion tonnes recorded in 2010.

# Steel markets and sustainability

continued

In developed markets, the real estate sector remains weak with fears of a “double dip” recession growing, due to European debt and USA political infighting. China’s role as the locomotive of steel demand cannot be overstated, as it accounts for nearly 45% of the global steel consumption. Thus, the effects of the Chinese government’s moves to cool the country’s real estate sector will negatively affect the steel sector, and this effect is expected to carry over into 2012. India, with an anticipated growth rate of 9% for the year ahead, is expected to overtake Japan in 2012 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 2012 and 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.

## Market share and imports

We are the leading steel producer in South Africa, with over 62% of the total market share. This is primarily made up of a 69% share of flat steel products and a 51% share in long steel products.

The biggest demand for steel is from the construction sector, at about 55%, which includes public sector infrastructure, commercial and residential developments. The second largest, at about 25%, is from manufacturing, of which the automotive industry takes the biggest portion. Mining and agriculture have traditionally taken a 15% slice, though while the nationalisation debate remains on the table, mining sector demand will be primarily limited to maintenance and repair programmes. The development of new mines, which require considerable quantities of steel in the set-up phases, is steaming ahead in other African countries.



In 2011, the market share of imported steel spiked to 19%, which was considerably higher than its usual 10% – 12% zone. This can mainly be attributed to the relatively strong Rand during the first three quarters of the year and the supply difficulties that we experienced because of our Newcastle operational setbacks.

We foresee that steel imports in 2012 will fall back into its normal run rate due to stabilised steel output from domestic producers provided the trading level of the Rand remains favourable.



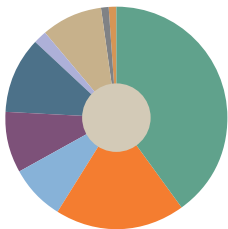
Markets	% of total sales	
	2011	2010*
<b>Geographical sales distribution</b>		
South Africa	75	68
Rest of Africa	17	20
Asia	7	11
Americas	1	1
<b>Local market segmentation (%) of total sales</b>		
Building and construction	40	43
Pipe and tube (welded)	19	15
Packaging	8	9
Automotive	9	8
Mining, energy, water, chemicals and gas	11	12
Furniture and appliances	2	3
Machinery and equipment	9	8
Agriculture	1	1
Transportation	1	1

\* Restated due to the calculation methodology being adapted.



### Local market segmentation

% of total sales



● Building and construction	40%
● Pipe and tube (welded)	19%
● Packaging	8%
● Automotive	9%
● Mining, energy, water, chemicals and gas	11%
● Furniture and appliances	2%
● Machinery and equipment	9%
● Agriculture	1%
● Transportation	1%





# Operational review

## Flat Steel Products

### Financial performance

The Flat Steel Products segment posted a R536 million operating loss during the year, compared with an operating profit of R347 million in 2010. Sales were higher by 2% and net realised prices in Rand terms were higher by 9%. Costs were negatively affected due to higher iron ore, imported coking coal, scrap and electricity prices.

### Market performance

#### Domestic

Despatches of flat steel products to the domestic market in 2011 were 5.6% higher than in 2010. The ratio of domestic sales to total sales increased from 70% in 2010 to 72% in 2011.

Our local market segmentation as a percentage of total sales shifted slightly, with building and construction falling below 40% and pipe and tube increasing

to 29%. The growth in pipe and tube is mainly on the back of infrastructure development. Automotive showed an increase as a result of the substantial improvement in new car sales in 2011. Mining weakened due to nationalisation fears, causing investors to take a "wait and see" approach towards new investment.

#### International

Despatches of flat products decreased by 5.5% from 2010 to 2011. The ratio of export sales to total sales decreased from 30% in 2010 to 28% in 2011. Exports outside the African continent decreased marginally from 12% in 2010 to 9% in 2011, emphasising our strategy to remain focused on the sub-Saharan African region. Our net realised export prices in US Dollar terms in 2011 were, on average, 15.2% higher than in 2010.

### Financial and non-financial performance

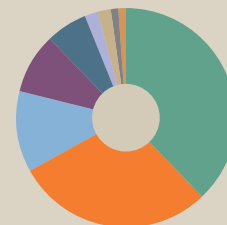
	2011	2010
Revenue (Rm)	21 793	19 434
EBITDA (Rm)	597	1 422
EBITDA/tonne (R/tonne)*	174	425
Net operating (loss)/income (Rm)	(536)	347
Liquid steel production ('000 tonnes)	4 060	3 814
Capacity utilisation (%)*	71%	67%
Steel sales ('000 tonnes)	3 424	3 348
Domestic	2 468	2 336
Export	956	1 012
Domestic sales as % of total steel sales (%)	72	70
Capital expenditure (Rm)	717	1 147
Value-adding	138	284
Replacements	532	687
Environmental	47	176
Average hot rolled coil export price (USD/t C&F)	804	703
Total HRC production cash cost (R/tonne)	4 823	4 045
Number of employees at 31 December	5 544	5 145
Lost time injury frequency rate		
• Vanderbijlpark Works	1.41	1.45
• Saldanha Works	0.25	2.29
Particulated emissions from point sources in tonnes	3 734	3 007
Water abstraction in (KI)	14 068 640	13 955 377
By-product disposed (% of total)	49	45
CO <sub>2</sub> emissions (Scope 1) (millions of tonnes)	8.2	8.1
CO <sub>2</sub> emissions (Scope 2) (millions of tonnes)	3.7	3.5

\* Calculated figure.



### Local market segmentation

% of total sales



Building and construction	38%
Pipe and tube (welded)	29%
Packaging	12%
Automotive	9%
Mining, energy, water, chemicals and gas	6%
Furniture and appliances	2%
Machinery and equipment	2%
Agriculture	1%
Transportation	1%





### Operational performance

#### Vanderbijlpark Works

Chilled hearth conditions at both our blast furnaces during the year affected overall production output of liquid iron, contributing to a loss of 93 000 in liquid steel production. Electric arc furnaces were utilised to balance supply and demand, and therefore operated for most of the year. Re-training of operators and maintenance staff is one area being addressed in our ability to handle these conditions better in future.

After the Newcastle incident Vanderbijlpark also reduced export sales to produce 75 000 slabs for Newcastle to serve the local market.

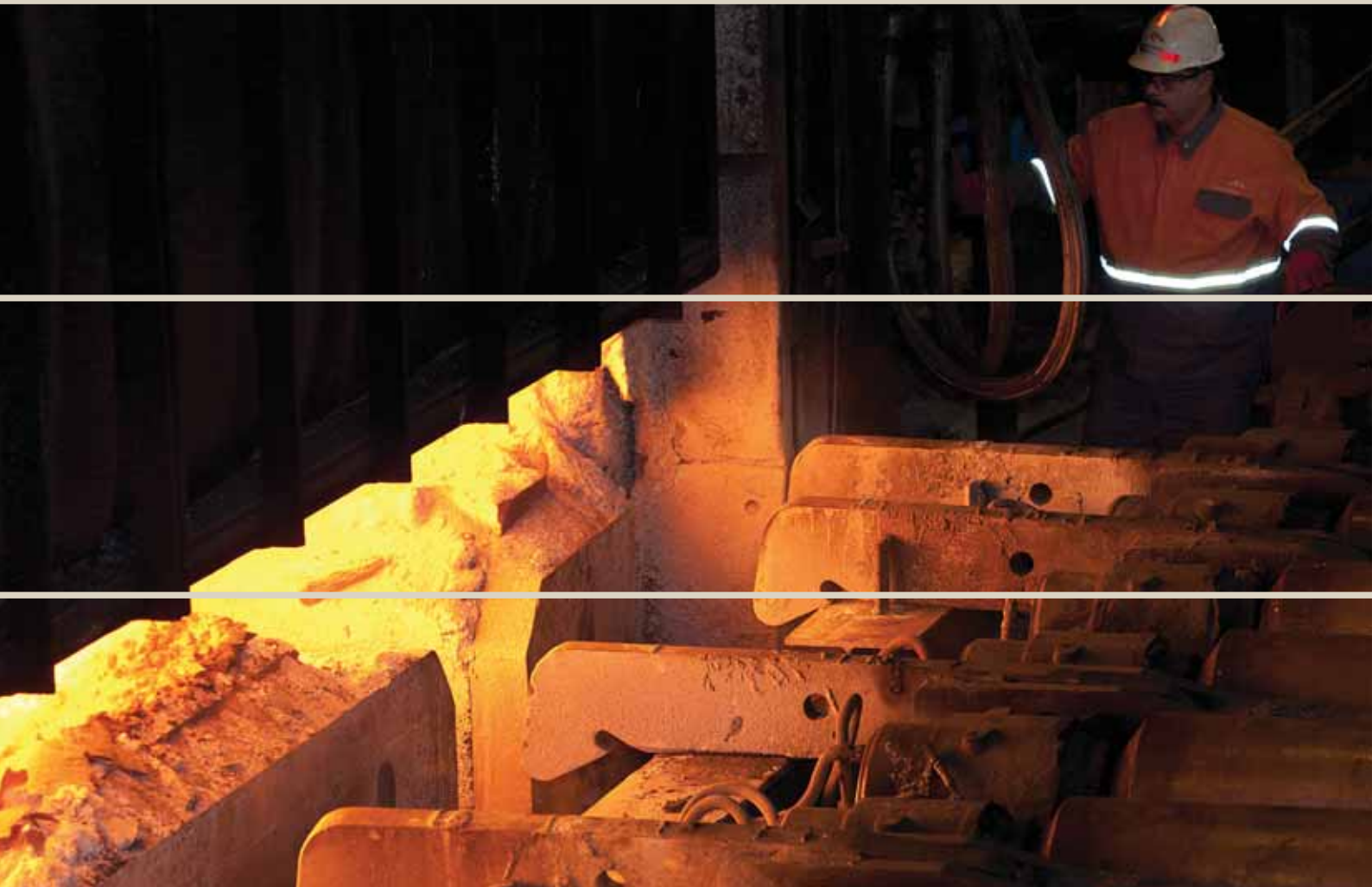
The completion of the sinter bag house facility has resulted in a dramatic reduction of emissions, and further added to the good progress already being made in implementing our pollution prevention projects. A setback was experienced when effluent was released into the Rietspruit River, invalidating our zero effluent discharge (ZED) status. Potential solutions to remedy the situation are in a final stage of evaluation.

During the year, an Energy Steering Committee was established, identifying various projects in our aim to be more energy efficient. Despite the hugely capital-intensive nature of these investments, we have already made good progress through finalising some smaller projects.

### Sales distribution

# 72%

Sales distribution for 2011 for South Africa, with 19% for the rest of Africa and 9% for Asia.



### **Saldanha Works**

Safety performance for the year was exceptional, with a record performance of 0.259 LTIFR. The plant further achieved a level 5 grading in respect of fatality prevention standards.

During the early part of the year, the plant had a stoppage for six days due to the failure of the compressor (CO<sub>2</sub>) guide vane shaft, which broke at the air separation unit. During the stoppage, the plant's capacity was limited to 74%.

The plant operated for the greater part of the year with one tap hole, and the subsequent risk associated with such operation was well managed. The tap hole was repaired during a 42-day shutdown in August, and the plant has since been producing at full capacity.

### **Business improvement**

Continuous business improvement forms an integral part of our philosophy. In the drive to improve, Vanderbijlpark Works adopted idea-generation and cost-savings modelling philosophies from our sister companies in Europe. This business improvement approach is a medium to long-term programme. At this early stage, we remain optimistic that good results will be achieved.

Saldanha Works implemented world-class manufacturing techniques and has already achieved excellent results, achieving a bronze award in December.

### **Product development**

Saldanha Works achieved excellent results in stabilising the plant and producing large quantities of very thin-gauge steel.

Vanderbijlpark Works substantially improved the quality of the packaging material, and this process is now being used as a blueprint for rolling out quality improvements to other products.

A heat reflective pigment has been developed for our colour coated product range that has the potential to decrease room temperature by up to 8 degrees, without the temperature dropping past ambient. The product was developed as a contribution to environmentally friendly building initiatives.

Ultra high tensile hot rolled coil was developed to assist in the drive towards localisation. Quenchable/hardening steel, which is new to South Africa, has been developed in hot rolled and cold rolled coils, primarily for use in the ever-growing automotive sector.

In our drive to improve, Vanderbijlpark Works adopted idea-generation and cost-savings modelling philosophies from our sister companies in Europe and good results have been achieved

### Key priorities 2012

Safety will remain our primary focus. Vanderbijlpark Works has set a target of achieving level 3 on fatality prevention standards compliance and a LTIFR ratio below 1. To achieve this and to improve morale the visible felt leadership programme will continue together with the roll out of the behavioural-based care programme that was introduced in late 2011. Saldanha Works will focus on maintaining its level 5 compliance.

Plant stability is the main focus to reduce cost and improve profitability. Advanced training to prevent cold furnace conditions was done by global ArcelorMittal experts. A team was established to manage raw material handling to optimise train flows and reduce the use of road transport with the attendant cost of double handling of raw materials. In addition, the roll-out of centralised maintenance during the course of 2012 will streamline our maintenance practices and contribute to better management of maintenance costs for the plant in total.



### Sales

Revenue (Rm)		2010
2011	21 793	19 434
Steel shipments ('000 tonnes)		
2011	3 424	3 348



## Long Steel Products

### Financial performance

Financial performance for the year was poor, as a result of the significant operational challenges experienced.

The net operating income decreased from R826 million to R231 million. Total shipments were down by 24%, whereas net realised prices in Rand terms showed an increase of 18%. Costs were negatively affected by higher prices for imported coking coal, iron ore, scrap and electricity.

### Market performance

#### Domestic

Dispatches of long steel products to the domestic market decreased by 4% against 2010. This was primarily due to the structural failure of the Newcastle blast furnace dust catcher in the second half of the year. 81% of Long Steel

Product sales were dispatched to the local market, in comparison with 64% in 2010. This demonstrates our commitment to the local market.

Our local market segmentation as a percentage of total sales shifted slightly away from building and construction, which can be attributed to the sluggish period experienced between the 2010 FIFA World Cup™ and government's planned R845 billion infrastructure development programme. The shift towards machinery and equipment can be linked to better-than-expected growth in real gross fixed capital formation.

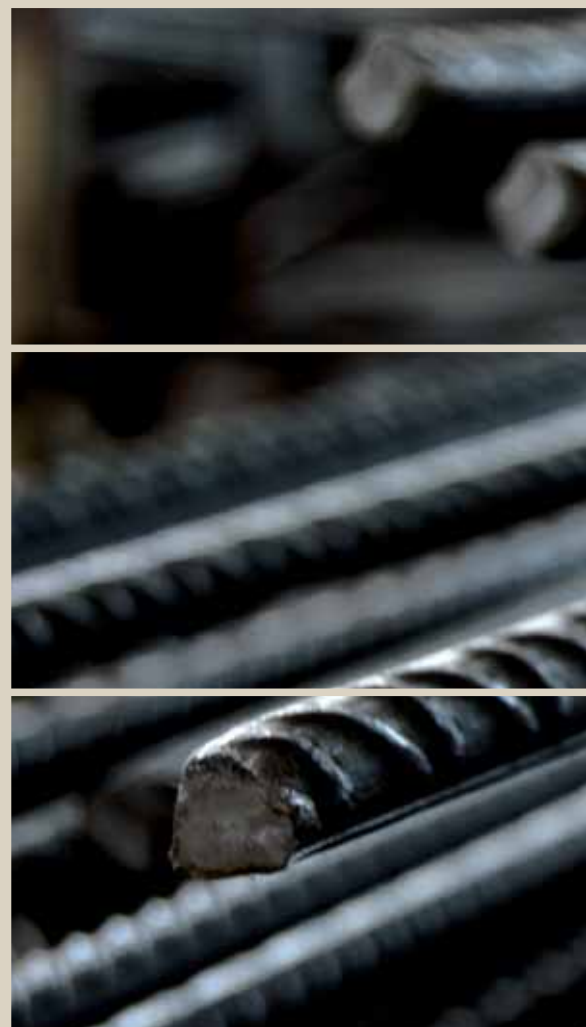
#### International

Export sales of long steel products were 60% lower than the previous year, due to the Newcastle dust catcher incident. Shipments outside the African continent

### Financial and non-financial performance

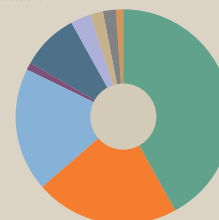
	2011	2010
Revenue (Rm)	9 514	9 769
EBITDA (Rm)	500	1 090
EBITDA/tonne (R/tonne)*	389	644
Net operating income (Rm)	231	826
Liquid steel production ('000 tonnes)	1 393	1 860
Capacity utilisation (%)*	61	81
Steel sales ('000 tonnes)	1 283	1 693
Domestic	1 039	1 078
Export	244	615
Domestic sales as % of total steel sales	81	64
Capital expenditure (Rm)	392	457
Value-adding	107	67
Replacements	253	270
Environmental	32	120
Average low-carbon wire-rod export price (USD/t C&F)	760	698
Total billet production cash cost (R/tonne)	4 255	3 466
Number of employees at 31 December	2 501	2 580
Lost time injury frequency rate		
• Newcastle Works	0.94	1.26
• Vereeniging Works	1.63	1.66
• Tubular Products	0.95	5.10
Particulated emissions from point sources in tonnes	913	1 061
Water abstraction in (kl)	6 162 782	6 599 015
By-product disposed (% of total)	34	26
CO <sub>2</sub> emissions (Scope 1) (millions in tonnes)	2.7	3.7
CO <sub>2</sub> emissions (Scope 2) (millions in tonnes)	0.8	0.9

\* Calculated figure



### Local market segmentation

% of total sales



Building and construction	43%
Pipe and tube (welded)	22%
Packaging	19%
Automotive	0%
Mining, energy, water, chemicals and gas	9%
Furniture and appliances	3%
Machinery and equipment	2%
Agriculture	2%
Transportation	0%



– mainly Asia, Europe and the Americas  
 – amounted to 7% of total Long Steel Product sales, compared with 11% in 2010. Our average net realised export prices in US Dollar terms were 38% higher than the previous year.

**Operational performance**  
**Newcastle Works**

Safety performance for the year showed an improvement, and the targeted level 5 grading with regard to fatality prevention standards was achieved. The good safety performance was, particularly noteworthy given the long-repair stop in August during which the plant experienced no injuries. With regard to operation, two major incidences were suffered, namely:

- Cold hearth conditions that developed in December 2010 at blast furnace N5 took the best part of January and February 2011 to resolve, severely

affecting production and resulting in a loss of liquid iron production of 131 000 tonnes and a R98 million loss in income.

- On 5 August 2011, the dust catcher in the gas plant of the blast furnace collapsed. Although we were able to source a cyclone from one of our sister companies in France, it took considerable time to demolish the collapsed structure, install the new cyclone and recommission the plant. The incident meant that the plant could not produce liquid steel for close to four months leading to a loss of 587 000 tonnes of liquid steel. Mitigating actions were taken by importing steel to service domestic markets.

**Sales distribution**

**81%**

*Sales distribution for 2011 for South Africa, with 12% for the rest of Africa, 4% for Asia, 1% for Europe and 2% for the Americas.*





A claim of approximately R1.1 billion was registered against our insurers relating to the dust catcher failure of which R120 million is for plant repairs and the remainder for a loss of income. An interim payment of R489 million was received in 2011.

### **Vereeniging Works**

Safety performance for the year showed an improvement, and a level 4 grading was achieved with regard to fatality prevention standards.

Vereeniging Works operated at 82% of capacity (2010: 74%).

### **Business improvement**

As with our flat steel business, continuous business improvement is an integral part of our operation. Newcastle Works twinned with Brazil, in process adopting their approach to the standardisation of work routines, visual management and an integrated management system.

Vereeniging Works implemented some pricing methodology changes between commodity-type products and speciality steels. The project was one of the major initiatives launched during the year and is already showing good results.

### **Product development**

Newcastle is developing a higher strength rebar in line with international standards, to be used in the construction of nuclear power stations. The application will contribute to reduced civil engineering costs, as less steel can be used for the same performance criteria.



Continuous business improvement forms an integral part of our daily business operation. Newcastle Works has adopted a twinning methodology with a benchmark plant in Brazil, the aim of which is to share standardised operating procedures and lessons in integrated management



#### Key priorities 2012

In line with the rest of the group, safety will remain the number one priority. Vereeniging aims to achieve level 5 compliance on fatality prevention standards, and Newcastle Works will focus on maintaining its level 5 compliance following an excellent safety performance in 2011.

Various operational programmes are underway to improve overall plant performance in terms of utilisation, yields and production rates, to achieve more stable operating conditions. Preparations are ongoing for the planned relining of blast furnace N5 in Newcastle in 2014.

Energy-saving projects focusing on the generation of additional electricity are continuing, together with our plans to achieve ZED status by the end of 2013.



#### Sales

Revenue (Rm)		2010
2011	9 514	9 769
Steel shipments ('000 tonnes)		2010
2011	1 283	1 693

# Operational review

## Coke and Chemicals

### Financial performance

Revenue from our Coke and Chemicals business remained flat, with commercial coke sales at 631 000 tonnes. Prices for commercial coke dropped and demand fell and remains low compared to 2008 and earlier levels. Despite the current low demand for coke, this business remains a valuable contributor to revenue and profit.

### Operational performance

Market conditions for commercial coke reflected the low levels of 2010, with the usual demand drop in winter as our main customers in the ferro-alloy industry curtail their consumption due to high winter electricity tariffs. There are technical constraints to the degree to which production can be curtailed so as not to damage the coke oven batteries, leading to high year-end stocks.

### Business improvement

Coke and Chemicals has adopted world-class manufacturing which the

unit will continue to roll during 2012. The aim is to reduce machine down-time, thus improving plant availability and utilisation. Good results have already been achieved at the tar distillation facility, and we anticipate further improvements in 2012.

### Key priorities 2012

Safety continues to remain lost time a key priority. Our goal is to achieve zero injuries during 2012 and level 5 on fatality prevention standards.

Demand for commercial coke by South African ferro-alloy producers is expected to remain flat in 2012. We will therefore focus expanding our commercial coke market beyond our borders.

Operational stability, in particular at the tar distillation plant, remains a priority. To achieve this, we have embarked on a maintenance strategy aimed at renewing the distillation facility during planned plant stoppages.

### Financial and non-financial performance

	2011	2010
Revenue (Rm)	2 378	2 449
EBITDA (Rm)	870	1 029
Net operating income (Rm)	818	985
Commercial coke production ('000 tonnes)	663	745
Sales ('000 tonnes)	1 800	1 642
Coke	631	629
Tar	117	125
Other	1 052	887
Capital expenditure (Rm)	18	29
Value-adding	2	25
Replacements	7	2
Environmental	9	2
Number of employees at 31 December	251	244
Lost time injury frequency rate	2.43	3.75
Particulated emissions from point sources in tonnes	82	Not measured



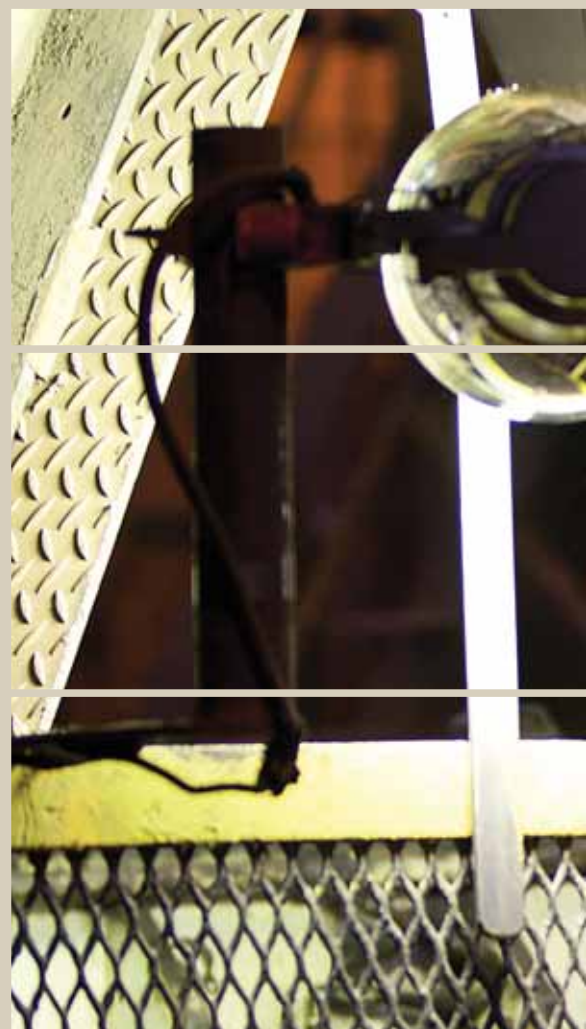




# Forging ahead

## Summary of business priorities in 2012

Our key priorities for 2012 are informed by our strategic objectives and material challenges. These represent real challenges in some instances, but we are confident that our management and workforce are up to the task of securing business sustainability for the benefit of all our stakeholders.



### Strategic objective

### Priority

Drive business transformation to achieve excellence in safety, people, plants and processes in line with ArcelorMittal Group benchmark targets for employee productivity and operational efficiency.	<ul style="list-style-type: none"> <li>• Eliminate fatalities</li> <li>• Reduce LTIFR to below 1 in 2012</li> <li>• Business improvement initiatives focusing on plant availability and efficiencies</li> <li>• Finalise industrial footprint</li> <li>• Eliminate or minimise technical breakdowns</li> <li>• Continue to roll out and bed down the four shift rotation</li> <li>• Roll out of employee recognition and rewards system</li> </ul>
Meet customer expectations for product quality and service and thereby maintain our domestic market share and expand our presence in sub-Saharan Africa.	<ul style="list-style-type: none"> <li>• Regain production stability in all plants</li> <li>• Improve quality of products</li> <li>• Improve on-time delivery</li> <li>• Introduce new products</li> </ul>
Continue embedding our corporate responsibility programmes for safety, health, environment and the well-being of employees, contractors and the communities in which we operate.	<ul style="list-style-type: none"> <li>• Regain zero effluent discharge (ZED) status at Vanderbijlpark Works</li> <li>• Continue progress on the ZED programme for Newcastle Works for award in 2013</li> <li>• Recommission the Sinter Plant Emission Abatement system at the Vanderbijlpark Works to reduce particulate and SO<sub>2</sub> emissions</li> </ul>
Retain our position in the lowest-cost quartile to ensure that the company remains a globally competitive steel producer.	<ul style="list-style-type: none"> <li>• Arbitration with SIOC to be finalised</li> <li>• Develop raw material strategy with the aim of reaching 80% self-sufficiency in iron ore within five years</li> <li>• Minimise electricity costs and focus on reliable supply</li> <li>• Develop partnership with Transnet Freight Rail to manage transport costs</li> <li>• Evaluate the economic viability to continue at the Thabazimbi mine in light of the significant increase in cost</li> </ul>
Further improve our levels of employee engagement by continuing to develop a positive work environment that attracts and retains talented people.	<ul style="list-style-type: none"> <li>• Manage recruitment and skills development pipeline to replace retiring or departing employees with suitably skilled recruits</li> <li>• Use performance management and other forums to intensify employee engagement</li> </ul>
Comply with our short-term BEE goals by 2014.	<ul style="list-style-type: none"> <li>• Upgrade and meet employment equity targets</li> <li>• Raise percentage of BEE procurement</li> <li>• Broaden small and BEE enterprise development</li> </ul>
Build on relations with key stakeholders to improve interaction and enhance our reputation.	<ul style="list-style-type: none"> <li>• Obtain quality inputs from stakeholders to inform our assessment of material issues and risk</li> <li>• Ensure that stakeholders are clearly informed of challenges and company responses</li> <li>• Respond timeously to stakeholder issues</li> </ul>



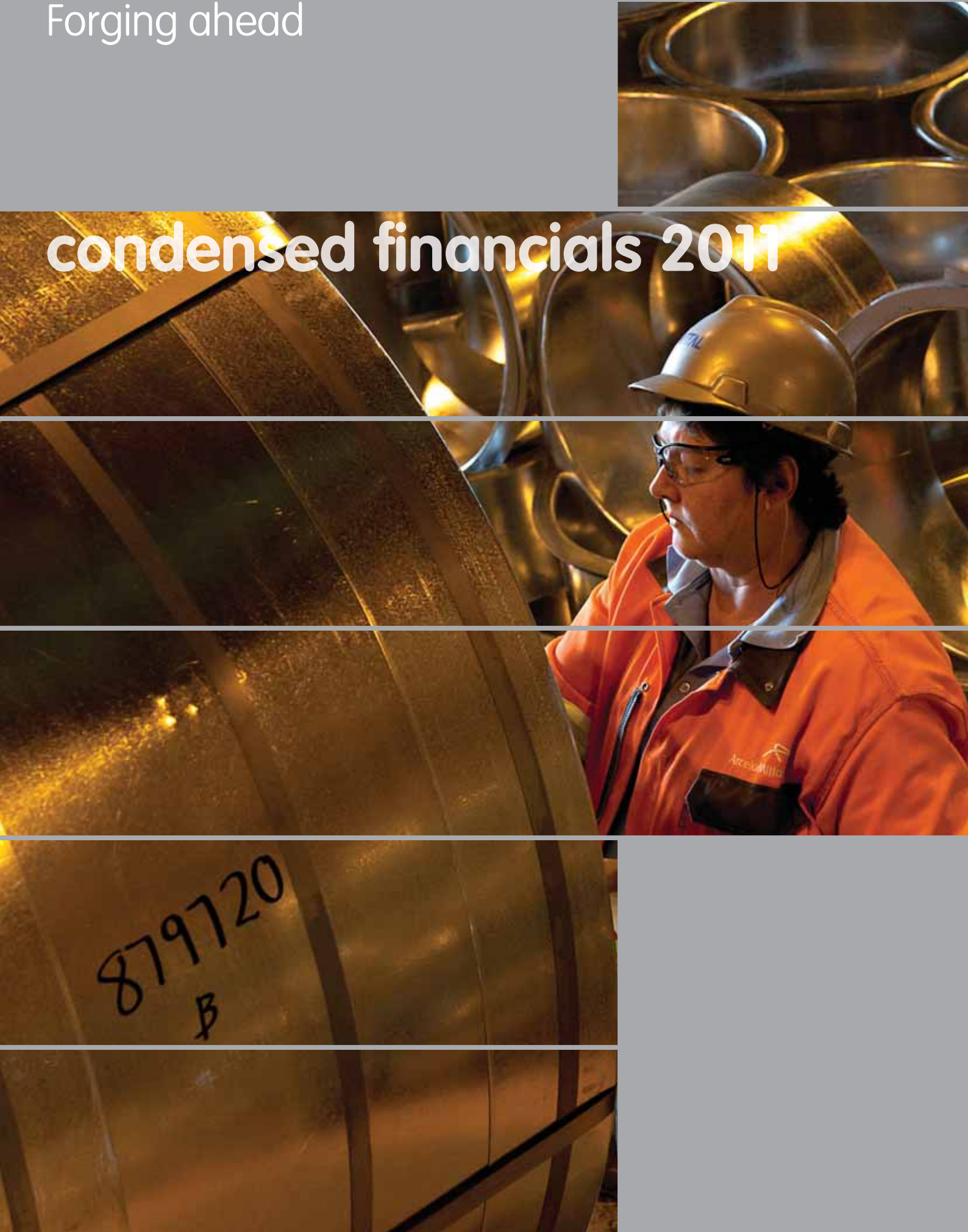
A large industrial metal roll is the central focus of the image, moving through a factory. The roll is dark and has a textured surface. It is surrounded by yellow safety railings and a metal mesh fence. The lighting is industrial, with some bright spots and shadows. The text "Key priorities 2012" is overlaid in white on the right side of the image.

# Key priorities 2012



Forging ahead

# condensed financials 2011







In this report the financial statements are condensed to comply with the principles and intent of King III and the integrated reporting model. The traditional full set of financial statements is available in the Financial report or on the website.



# Condensed financial statements 2011

## Basis of preparation

The condensed consolidated group financial statements for the year ended 31 December 2011 have been 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 in particular International Accounting Standard 34, *Interim Financial Reporting*, the AC 500 standard as issued by the Accounting Practices Board or its successor, that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2011, and the South African Companies Act 2008.

The condensed consolidated group financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments in equity instruments classified as available-for-sale.

The accounting policies applied in the preparation of the condensed consolidated group financial statements are consistent with those applied for the comparative year except as follows:

The following standards, which did not have a significant impact on the financial results, were early adopted:

- IAS 12 (Amendment): *Deferred Tax – recovery of underlying assets.*
- IFRS 1 (Amendment): *First-time Adoption of IFRS – severe hyperinflation and removal of fixed dates for first-time adopters.*
- IFRS 7 (Amendment): *Financial Instruments: Disclosure – offsetting financial assets and financial liabilities.*
- IFRS 7 (Amendment): *Financial Instruments: Disclosures – increased disclosure requirements for transactions involving the transfer for financial assets.*
- IAS 32 (Amendment): *Financial Instruments: Presentation – offsetting financial assets and financial liabilities.*

The condensed consolidated financial statements are presented in Rand, which is the group's functional and presentation currency.

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 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:

- The assumptions used in impairment tests of carrying values of cash-generating units and intangible assets
- Estimates of useful lives and residual values for intangible assets and property, plant and equipment
- Valuation of available-for-sale investment.

Mr RH Torlage CA(SA), Chief Financial Officer is responsible for this set of financial results and has supervised the preparation thereof.

# Condensed group statements of comprehensive income

for the year ended 31 December 2011

	Group	
	2011 Rm	2010 Rm
<b>Revenue</b>	<b>31 453</b>	30 224
Raw materials and consumables used	<b>(19 886)</b>	(17 027)
Employee costs	<b>(3 164)</b>	(2 951)
Energy	<b>(3 177)</b>	(2 419)
Movement in inventories of finished goods and work-in-progress	<b>1 733</b>	744
Depreciation	<b>(1 409)</b>	(1 360)
Amortisation of intangible assets	<b>(14)</b>	(11)
Other operating expenses	<b>(5 239)</b>	(5 049)
<b>Profit from operations</b>	<b>297</b>	2 151
Finance and investment income	<b>31</b>	71
Finance costs	<b>(168)</b>	(507)
Income after tax from equity-accounted investments	<b>(34)</b>	122
<b>Profit before taxation</b>	<b>126</b>	1 837
Income tax expense	<b>(118)</b>	(492)
<b>Profit for the year</b>	<b>8</b>	1 345
Other comprehensive income		
Exchange differences on translation of foreign operations	<b>315</b>	(200)
(Losses)/gains on available-for-sale investment taken to equity	<b>(12)</b>	29
Movement in losses deferred from equity on cash flow hedges		8
Share of other comprehensive income of equity-accounted investments	<b>7</b>	75
Tax effect on amounts taken directly to equity		(2)
<b>Total comprehensive income for the year</b>	<b>318</b>	1 255
<b>Profit attributable to:</b>		
Owners of the company	<b>8</b>	1 345
<b>Total comprehensive income attributable to:</b>		
Owners of the company	<b>318</b>	1 255
<b>Attributable earnings per share (cents)</b>		
– Basic	<b>2</b>	335
– Diluted	<b>2</b>	335



# Condensed group statements of financial position

as at 31 December 2011

	Group	
	2011 Rm	2010 Rm
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	16 618	16 432
Intangible assets	126	84
Equity-accounted investments	2 772	2 386
Other financial assets	57	208
Total non-current assets	19 573	19 110
<b>Current assets</b>		
Inventories	9 935	7 156
Trade and other receivables	2 374	1 816
Taxation	100	18
Other financial assets	1	112
Cash and cash equivalents	439	3 506
Total current assets	12 849	12 608
<b>Total assets</b>	<b>32 422</b>	<b>31 718</b>
<b>Equity and liabilities</b>		
<b>Capital and reserves</b>		
Stated capital	37	37
Reserves	(2 231)	(2 475)
Retained income	24 863	24 994
Total shareholders' equity	22 669	22 556
<b>Non-current liabilities</b>		
Borrowings and other payables	241	224
Finance lease obligations	451	515
Non-current provisions	1 472	1 499
Deferred income tax liability	2 310	2 354
Total non-current liabilities	4 474	4 592
<b>Current liabilities</b>		
Trade and other payables	4 644	4 020
Borrowings and other payables	107	88
Finance lease obligations	57	59
Current provisions	471	403
Total current liabilities	5 279	4 570
<b>Total equity and liabilities</b>	<b>32 422</b>	<b>31 718</b>

# Condensed group statements of cash flows

for the year ended 31 December 2011

	Group	
	2011 Rm	2010 Rm
Cash (utilised in)/generated from operations	(879)	2 666
Interest income	29	69
Finance cost	(103)	(85)
Dividends paid	(221)	(602)
Income tax paid	(243)	(653)
Realised foreign exchange movements	5	(58)
<b>Cash flows from operating activities</b>	<b>(1 412)</b>	<b>1 337</b>
Investment to maintain operations	(924)	(1 259)
Investment to expand operations	(266)	(455)
Investment in associates	(180)	(120)
Proceeds from scrapping of assets	106	
Dividend from equity-accounted investments	50	126
Income from investments – interest	2	2
<b>Cash flows from investing activities</b>	<b>(1 212)</b>	<b>(1 706)</b>
Borrowings and other payables repaid	(45)	(43)
Finance lease obligation repaid	(561)	(320)
Increase in contributions to the Management Share Trust and other	(10)	(11)
<b>Cash flows from financing activities</b>	<b>(616)</b>	<b>(374)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(3 240)</b>	<b>(743)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	173	(99)
<b>Cash and cash equivalents at beginning of year</b>	<b>3 506</b>	<b>4 348</b>
<b>Cash and cash equivalents at end of year</b>	<b>439</b>	<b>3 506</b>

# Condensed group statements of changes in equity

for the year ended 31 December 2011

	Non-distributable reserves							Retained income Rm	Total equity Rm
	Stated capital Rm	Treasury share equity reserve <sup>1</sup> Rm	Management Share Trust reserve <sup>2</sup> Rm	Share-based payment reserve <sup>3</sup> Rm	Attributable reserves of equity-accounted investments Rm	Other reserve <sup>4</sup> Rm	Cash flow hedge accounting reserve <sup>5</sup> Rm		
<b>Group</b>									
<b>Balance at 1 January 2010</b>	37	(3 918)	(219)	150	1 255	394	(6)	24 232	21 925
Total comprehensive income/ (loss) for the 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	
<b>Balance at 31 December 2010</b>	<b>37</b>	<b>(3 918)</b>	<b>(273)</b>	<b>182</b>	<b>1 236</b>	<b>298</b>		<b>24 994</b>	<b>22 556</b>
Total comprehensive income for the year						310**		8	318
Management Share Trust: net treasury share purchases (net of income tax)			(12)						(12)
Share-based payment expense				28					28
Dividend								(221)	(221)
Transfer of equity-accounted earnings					(82)			82	
<b>Balance at 31 December 2011</b>	<b>37</b>	<b>(3 918)</b>	<b>(285)</b>	<b>210</b>	<b>1 154</b>	<b>608</b>		<b>24 863</b>	<b>22 669</b>

	2011	2010
<b>Dividends per share (cents)</b>		
• Interim	55	150
• Final (declared after statement of financial position date)		
<b>Total</b>	<b>55</b>	<b>150</b>

\* R75 million relates to equity-accounted investments.

\*\*R7 million relates to equity-accounted investments.

# Notes to the condensed group annual financial statements

for the year ended 31 December 2011

## 1. 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 (the executive committee) in order to allocate resources to the segment and to assess its performance.

The group's reportable segments are as follows:

- Flat Steel Products consisting of the Vanderbijlpark Works, Saldanha Works and ArcelorMittal South Africa Distribution;
- Long 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; and
- Corporate and Other, includes 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.

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 condensed group annual financial statements

for the year ended 31 December 2011

	Flat Steel Products		Long Steel Products	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
<b>1. Segmental report</b> <i>continued</i>				
<b>Revenue</b>				
– External customers	21 092	18 848	8 044	8 976
– Intersegment customers	701	586	1 470	793
<b>Total revenue</b>	<b>21 793</b>	<b>19 434</b>	<b>9 514</b>	<b>9 769</b>
Distributed as:				
– Local	16 370	14 529	6 601	6 258
– Export				
Africa	3 499	2 722	732	1 715
Europe	4	4	88	64
Asia	1 219	1 593	309	487
Other			314	452
<b>Results</b>				
Earnings before interest, tax, depreciation and amortisation	597	1 442	500	1 090
Depreciation and amortisation	(1 133)	(1 095)	(269)	(264)
<b>(Loss)/profit from operations</b>	<b>(536)</b>	<b>347</b>	<b>231</b>	<b>826</b>
Finance and investment income				
Finance costs	14	(24)	7	(11)
(Loss)/income after tax from equity-accounted investments				
<b>(Loss)/profit before tax</b>	<b>(522)</b>	<b>323</b>	<b>238</b>	<b>815</b>
Income tax expense				
<b>Profit after tax</b>				
<b>Segment assets</b>	<b>21 322</b>	<b>19 177</b>	<b>6 965</b>	<b>5 277</b>
<b>Investments in equity-accounted entities</b>				
<b>Capital expenditure</b>	<b>717</b>	<b>1 147</b>	<b>392</b>	<b>457</b>
<b>Segment liabilities</b>	<b>8 693</b>	<b>8 483</b>	<b>4 412</b>	<b>4 335</b>
<b>Cash (utilised in)/generated from operations</b>	<b>(1 655)</b>	<b>1 144</b>	<b>(1 054)</b>	<b>789</b>
<b>Number of employees at year-end</b>	<b>5 544</b>	<b>5 145</b>	<b>2 501</b>	<b>2 580</b>



Coke and Chemicals		Corporate and Other		Adjustments and eliminations		Total reconciling to the consolidated amounts	
2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
2 317	2 400					31 453	30 244
61	49			(2 232)	(1 428)		
2 378	2 449			(2 232)	(1 428)	31 453	30 244
2 314	2 398					25 285	23 185
3	2					4 234	4 439
						92	68
						1 528	2 080
						314	452
870	1 029	(203)	(87)	(44)	48	1 720	3 522
(52)	(44)	(15)	(8)	46	40	(1 423)	(1 371)
818	985	(218)	(95)	2	88	297	2 151
		31	71			31	71
		(189)	(472)			(168)	(507)
		(34)	108		14	(34)	122
818	985	(410)	(388)	2	102	126	1 837
						(118)	(492)
						8	1 345
1 082	1 079	3 891	8 273	(3 610)	(4 474)	29 650	29 332
		2 772	2 386			2 772	2 386
18	29	63	81			1 190	1 714
1 404	1 178	(4 539)	(4 552)	(217)	(282)	9 753	9 162
830	832	1 000	(25)		1	(879)	2 791
251	244	1 590	1 292			9 886	9 261

# Notes to the condensed group annual financial statements

for the year ended 31 December 2011

	Group	
	2011	2010
<b>2. Earnings/(losses) per share</b>		
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 10 of the annual financial statements.		
Profit attributable to owners of the company (Rm)	8	1 345
Weighted average number of ordinary shares in issue (thousands)	401 202	401 202
<b>Basic earnings per share (cents)</b>	<b>2</b>	<b>335</b>
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 attributable to owners of the company (Rm)	8	1 345
Weighted average number of diluted shares (thousands)	401 444	401 532
<b>Diluted earnings per share (cents)</b>	<b>2</b>	<b>335</b>

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

	Group			
	Gross 2011 Rm	Net of tax 2011 Rm	Gross 2010 Rm	Net of tax 2010 Rm
Profit attributable to owners of the company		8		1 345
Plus IAS16 (profit)/loss on disposal or scrapping of property, plant and equipment	(82)	(60)	44	32
<b>Headline (loss)/earnings</b>		<b>(52)</b>		<b>1 377</b>

	Group	
	2011	2010
<b>Headline (loss)/earnings per share (cents)</b>		
– Basic	(13)	343
– Diluted	(13)	343
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	401 202
Adjustments for dilutive impact of the Management Share Trust (thousands):		
– Shares under option	242	330
<b>Weighted average number of diluted shares (thousands)</b>	<b>401 444</b>	<b>401 532</b>

	Group	
	2011 Rm	2010 Rm
<b>3. Commitments</b>		
<b>Capital commitments</b>		
Capital expenditure contracted for property, plant and equipment	887	641
Capital expenditure authorised but not contracted for property, plant and equipment	728	1 045
<b>Total</b>	<b>1 615</b>	<b>1 686</b>
<b>Operating lease commitments</b>		
Equipment and vehicles		
The future minimum payments under non-cancellable standalone and embedded operating leases are as follows:		
• Less than one year	83	148
• More than one year and less than five years	190	161
• More than five years	4	4
<b>Total</b>	<b>277</b>	<b>313</b>

# Assurance reports

## Combined assurance

According to the King Code of Governance for South Africa 2009 (King III), the Audit Committee is responsible for ensuring that a combined assurance model is applied to coordinate all assurance activities.

Principle 3.5 of the King III report introduces combined assurance as a recommended governance practice. This principle motivates that more can be done to improve assurance coverage and quality through better coordination of the internal and external assurance providers.

Combined Assurance is a coordinated approach of all assurance activities to ensure that assurance provided by management, internal assurance providers and external assurance providers adequately addresses all significant risks facing the company, and that suitable controls exist to mitigate and/or reduce these risks.

Good progress has been made in implementing the combined assurance model for the company. The combined assurance model is based on identified risks and how assurance is achieved and reported to the Board through the Audit and Risk Committee.

The Audit and Risk Committee is further responsible for monitoring the appropriateness of the company's combined assurance model and confirming that significant risks facing the company are adequately addressed. It also monitors the relationship between external assurance providers and the company.

## Independent auditors' report

The condensed group financial statements set out on pages 70 to 79, which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended and related consolidated notes, are derived from the audited consolidated annual financial statements of ArcelorMittal South Africa Limited for the year ended 31 December 2011. We expressed an unmodified audit opinion on those consolidated annual financial statements in our report dated 14 March 2012. Those consolidated annual financial statements, and the condensed group financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The condensed group financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa. Reading the condensed group financial statements, therefore, is not a substitute for reading the audited consolidated annual financial statements of ArcelorMittal South Africa.

### Directors' responsibility for the condensed group financial statements

The directors are responsible for the preparation of the condensed group financial statements in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the AC 500 standards as issued by the Accounting Practices Board or its successor and the information as required by International Accounting Standards (IAS) 34, *Interim Financial Reporting* and the Companies Act of South Africa.

### Auditors' responsibility

Our responsibility is to express an opinion on the condensed group financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA)810, *Engagements to Report on Summary Financial Statements*.

### Opinion

In our opinion, the condensed group financial statements derived from the audited annual financial statements of ArcelorMittal South Africa Limited for the year ended 31 December 2011 are consistent, in all material respects, with those financial statements, in accordance with the framework concepts and the measurement and recognition requirements of IFRS, the AC 500 standards as issued by the Accounting Practices Board or its successor and the information as required by IAS 34 – *Interim Financial Reporting* and the Companies Act of South Africa.

*Deloitte & Touche*

#### **Deloitte & Touche**

*Registered Auditors*

RM Duffy

Partner

14 March 2012

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

National Executive: GG Gelink (Chief Executive), AE Swiegers (Chief Operating Officer), GM Pinnock (Audit), DL Kennedy (Risk Advisory and Legal Services), NB Kader (Tax), L Geeringh (Consulting), L Bam (Corporate Finance), JK Mazzocco (Human Resources), CR Beukman (Finance), TJ Brown (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.



# Analysis of shareholders

as at 31 December 2011

	Number of shareholdings	% of total shareholdings	Number of shares	% of shares in issue
<b>Size of holdings</b>				
1 – 100 shares	7 479	27.12%	365 145	0.10%
101 – 1 000 shares	17 818	65.43%	3 735 938	1.02%
1 001 – 50 000 shares	1 524	6.67%	10 776 089	2.80%
50 001 – 100 000 shares	111	0.28%	7 838 928	1.42%
100 001 – 10 000 000 shares	186	0.49%	102 377 418	23.36%
10 000 001 and more shares	5	0.02%	320 658 614	71.29%
<b>Total</b>	<b>27 123</b>	<b>100.00%</b>	<b>445 752 132</b>	<b>100.00%</b>

<b>Distribution of shareholders</b>				
Corporate holdings	4	0.01%	208 778 655	46.84%
Other funds	75	0.28%	37 600 699	8.44%
Pension funds	227	0.84%	65 832 215	14.77%
Other management funds	134	0.49%	78 946 583	17.71%
Insurance companies	30	0.11%	17 041 468	3.82%
Unit trusts	140	0.52%	30 007 820	6.73%
*Unclassified (Below 10 000 shares)	26 513	97.75%	7 544 692	1.69%
<b>Total</b>	<b>27 123</b>	<b>100.00%</b>	<b>445 752 132</b>	<b>100.00%</b>

<b>Geographical holding by owner</b>				
Switzerland	17	0.06%	209 322 072	46.96%
South Africa	26 585	98.02%	199 784 004	44.82%
United States	104	0.38%	29 494 226	6.62%
Great Britain	74	0.27%	4 838 691	1.09%
Namibia	233	0.86%	1 271 308	0.29%
Balance	110	0.41%	1 041 831	0.23%
<b>Total</b>	<b>27 123</b>	<b>100.00%</b>	<b>445 752 132</b>	<b>100.00%</b>

<b>Beneficial shareholders with a holding greater than 5% of the issued shares</b>				
ArcelorMittal Holdings AG	2	0.01%	208 700 402	46.82%
Vicva Investments and Trading Nine	1	0.00%	44 550 255	9.99%
Government Employees Pension Fund (GEPF/PIC)	10	0.04%	40 555 061	9.10%
Industrial Development Corporation	1	0.00%	35 252 586	7.91%
<b>Total</b>	<b>14</b>	<b>0.05%</b>	<b>329 058 304</b>	<b>73.82%</b>

<b>Public and non-public shareholders</b>				
ArcelorMittal Holdings AG	2	0.01%	208 700 402	46.82%
Vicva Investments and Trading Nine	1	0.00%	44 550 255	9.99%
Directors of the company or its subsidiaries	2	0.01%	6 957	0.0%
	<b>5</b>	<b>0.05%</b>	<b>253 257 614</b>	<b>56.81%</b>
Non-public shareholders	5	0.05%	253 257 614	56.81%
Public shareholders	27 118	99.95%	192 494 518	43.19%
<b>Total</b>	<b>27 123</b>	<b>100.00%</b>	<b>445 752 132</b>	<b>100.00%</b>

<b>Share price performance</b>	
Opening price 3 January 2011	R79.22
Closing price 30 December 2011	R68.58
Intraday high for the period (8 April 2011)	R93.60
Intraday low for the period (23 August and 18 November 2011)	R55.00
Number of shares in issue	445 752 132
Volume traded during period	173 090 133
Ratio of volume traded to shares issued (%)	38.83%



# ArcelorMittal

(Incorporated in the Republic of South Africa)  
(Registration number 1989/002164/06)  
JSE code: ACL ISIN: ZAE000134961  
("the company")

## Definitions

The following definitions are used in this notice:

Defined term	Has the following meaning
Act	Companies Act No 71 of 2008, as amended
ArcelorMittal South Africa	ArcelorMittal South Africa Limited
AGM	Annual general meeting of shareholders of the company
Articles	Articles of association of the company
Beneficial shareholder	Means the holder of a beneficial interest in shares of the company who is entitled to cast the votes attaching to those shares but is not the registered shareholder of those shares
Board	Board of Directors of the company
Company	ArcelorMittal South Africa Limited (Registration number 1989/002164/06)
CSDP	Central Securities Depository Participant
Group	The company and its subsidiaries
JSE	JSE Limited (Registration number 2005/022939/06), a company licensed to operate an exchange under the Securities Services Act No 36 of 2004, as amended
JSE Listings Requirements	Listings Requirements of the JSE as amended from time to time
Meeting	AGM to be held on Wednesday, 16 May 2012 at 11:00
Meeting record date	Friday, 11 May 2012, being the date on which an individual must be registered as a shareholder for purposes of being entitled to attend, participate in and vote at the meeting
Register	Company's securities register
Registered shareholder or shareholder	The holder of those shares whose own name is entered in the company's register as such and who is entitled to cast the votes attaching to those shares

# Notice of annual general meeting

## Notice of meeting

Notice is hereby given that the twenty-fourth AGM of the company will be held at Radisson Blu Sandton Hotel, Room JSE 3, 12th Floor, c/o Rivonia Road and Daisy Street, Sandton, Johannesburg, South Africa on Wednesday, 16 May 2012 at 11:00.

Shareholders or their proxies may participate in the meeting by way of a teleconference call and, if they wish to do so:

- must contact the Company Secretary (by email at the address [sw@premcop.co.za](mailto:sw@premcop.co.za)) by no later than 09:00 on Wednesday, 9 May 2012 in order to obtain a pin number and dial-in details for that conference call;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the meeting.

This notice of meeting includes the attached form of proxy.

## Attendance and voting

The date on which an individual must be registered as a shareholder in the company's register for purposes of being entitled to attend, participate in and vote at the meeting is Friday, 11 May 2012 (meeting record date). Therefore the last day to trade to be registered as a shareholder in the company's register is Friday, 4 May 2012.

If you are a registered shareholder as at the meeting record date, you may attend the meeting in person. Alternatively, you may appoint a proxy (who need not be a shareholder of the company) to represent you at the meeting. Any appointment of a proxy may be affected by using the attached form of proxy and, in order for the proxy to be effective and valid, must be completed and delivered in accordance with the instructions contained in the attached form of proxy.

If you are a beneficial shareholder and not a registered shareholder as at the record date:

- and wish to attend the meeting, you must obtain the necessary letter of representation to represent the registered shareholder of your shares from your CSDP or broker;
- and do not wish to attend the meeting but would like your vote to be recorded at the meeting, you should contact the registered shareholder of your shares through your CSDP or broker and furnish them with your voting instructions; and
- you must not complete the attached form of proxy.

*All participants at the meeting will be required to provide identification reasonably satisfactory to the chairman of the meeting.*

## Purpose of the meeting

In order for a proposed ordinary resolution (other than ordinary resolution number 6) to be approved by shareholders, it must be supported by more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the meeting.

In order for a proposed special resolution and ordinary resolution number 6 to be approved by shareholders, it must be supported by at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the meeting.

The purpose of this meeting is to :

- present the directors' report and the audited annual financial statements of the group for the year ended 31 December 2011;
- present the Audit and Risk Committee report;
- consider any matters raised by shareholders; and
- consider and, if deemed fit, to pass, with or without modification, the resolutions set out below:

**1. Ordinary resolution number 1: Adoption of the annual financial statements**

To receive and consider the consolidated annual financial statements of the company and the group for the financial year ended 31 December 2011, which financial statements have been approved by the Board and signed by two directors and include the directors' report, the report of the independent auditors, as well as the report of the Audit and Risk Committee.

**2. Ordinary resolution number 2: Appointment of auditors**

To appoint Deloitte & Touche upon the recommendation of the current Audit and Risk Committee as the independent registered auditor of the company, and to note Dr D Steyn as the individual determined by Deloitte & Touche to be responsible for performing the functions of the auditor and who will undertake the audit of the company for the ensuing year.

**3. Ordinary resolution number 3: Re-election of directors**

To elect Ms FA du Plessis and Mr GP Urquijo as directors, by way of separate resolutions, who retire in accordance with the provisions of article 15.2 of the provisions of the Articles, by virtue of their respective appointments being made pursuant to the last AGM and are required to retire at this AGM. Both Ms FA du Plessis and Mr GP Urquijo, being eligible, offer themselves for re-election.

To elect Ms ND Orleyn and Messrs DK Chugh and M Macdonald as directors, by way of separate resolutions, who retire in accordance with the provisions of article 16.1 of the provisions of the Articles and, being eligible, offers themselves for re-election as directors of the company.

A brief curriculum vitae of the directors standing for re-election is provided on page 34 to 35 of this report and forms an integral part of this notice of AGM.

**4. Ordinary resolution number 4: Election of the Audit and Risk Committee members**

To elect, by way of separate resolutions, Messrs M Macdonald (Chairman) and DCG Murray and Ms F du Plessis as members of the Audit and Risk Committee until the next AGM.

The Board is satisfied that the abovementioned directors are suitably skilled and experienced independent non-executive directors and that they collectively have the appropriate experience and qualifications to fulfil their Audit and Risk Committee obligations as set out in section 95 of the Act.

A brief curriculum vitae of the abovementioned directors reflecting their experience and qualifications are provided on page 34 to 35 of this report and forms an integral part of this notice of AGM.

**5. Ordinary resolution number 5: Remuneration policy**

To endorse the company's remuneration policy, as set out in the remuneration report on page 38 to 42 of this report, by way of a non-binding advisory vote.

**6. Ordinary resolution number 6: Long-term Incentive Plan 2012**

To approve the ArcelorMittal South Africa Long-term Incentive Plan 2012, the salient terms and conditions of which appear on page 89 to 92 of this report and form an integral part of this notice of AGM.

The ArcelorMittal South Africa Long-term Incentive Plan 2012 will be available for inspection by shareholders at the company's registered office and at ArcelorMittal South Africa Limited, First Floor, The Place, 1 Sandton Drive, Sandton during business hours from the date of this notice to the date of the AGM.

In terms of the JSE Listings Requirements, a 75% majority of the votes cast in favour of this resolution by shareholders present or represented by proxy at the AGM is required to approve this resolution.

# Notice to annual general meeting *continued*

## **7. Special resolution number 1: Financial assistance to related or inter-related company**

That the Board may authorise the company (for a period of two years from the date on which this resolution is passed) to generally provide any direct or indirect financial assistance in the manner contemplated in and subject to the provisions of Sections 44 and 45 of the Act to a related or inter-related company or corporation or to a member of a related or inter-related corporation, pursuant to the authority hereby conferred upon the Board for these purposes.

### **Reason for and effect of this special resolution**

The reason for this special resolution is that, from time to time, the company may be required to provide financial assistance to subsidiaries and other related companies within the group. The effect of this special resolution is that the company will be authorised to provide financial assistance to subsidiaries and other related parties within the group.

## **8. Ordinary resolution number 7: Authority to implement resolutions passed at the AGM**

That any director or Company Secretary of the company be authorised to do all such things, perform all acts and sign all such documentation as may be required to give effect to the ordinary and special resolutions adopted at this AGM.

By order of the Board

**Premium Corporate Consulting Services (Proprietary) Limited**  
Company Secretary

14 March 2012



# Form of proxy



**ArcelorMittal**

(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 twenty-fourth annual general meeting of the company to be held at Radisson Blu Sandton Hotel, Room JSE 3, 12th Floor, c/o Rivonia Road and Daisy Street Sandton, Johannesburg, South Africa on Wednesday, 16 May 2012 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: Appointment of auditors			
3. Ordinary resolution number 3: Re-election of directors			
3.1 Ms FA du Plessis			
3.2 Mr GP Urquijo			
3.3 Ms ND Orleyn			
3.4 Mr DK Chugh			
3.5 Mr M Macdonald			
4. Ordinary resolution number 4: Election of Audit and Risk Committee members			
4.1 Mr M Macdonald			
4.2 Mr DCG Murray			
4.3 Ms FA du Plessis			
5. Ordinary resolution number 5: Remuneration policy			
6. Ordinary resolution number 6: Long-term Incentive Plan			
7. Special resolution number 1: Financial assistance to related or inter-related company			
8. Ordinary resolution number 7: Authority to implement resolutions passed at the AGM			

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2012

Signature \_\_\_\_\_

Assisted by (if applicable) \_\_\_\_\_

# Instructions and notes to the proxy form

1. This form of proxy will not be effective at the meeting unless received at the company's transfer office, Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, by no later than 11:00 on Monday, 14 May 2012. If a shareholder does not wish to deliver this form of proxy to that address, it may also be posted, at the risk of the shareholder, to Computershare Investor Services (Proprietary) Limited, PO Box 61051, Marshalltown, 2107.
2. This form is for use by registered shareholders who wish to appoint another person (a proxy) to represent them at the meeting. If duly authorised, companies and other corporate bodies who are registered shareholders may appoint a proxy using this form, or may appoint a representative in accordance with paragraph 12 below.

Other shareholders should not use this form. All beneficial shareholders who have dematerialised their shares through a CSDP or broker, must provide the CSDP or broker with their voting instruction. Alternatively, if they wish to attend the meeting in person, they should request the CSDP or broker to provide them with a letter of representation in terms of the custody agreement entered into between the beneficial shareholder and the CSDP or broker.
3. This proxy shall apply to all ordinary shares registered in the name of the shareholder who signs this form of proxy at the record date unless a lesser number of shares is inserted.
4. A shareholder may appoint one person of his own choice as his proxy by inserting the name of such proxy in the space provided. Any such proxy need not be a shareholder of the company. If the name of the proxy is not inserted, the chairman of the meeting will be appointed as proxy. If more than one name is inserted, then the person whose name appears first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of any persons whose names follow. The proxy appointed in this form of proxy may delegate the authority given to him in this form of proxy by delivering to the company, in the manner required by these instructions, a further form of proxy which has been completed in a manner consistent with the authority given to the proxy in this form of proxy.
5. Unless revoked, the appointment of a proxy in terms of this form of proxy remains valid until the end of the meeting, even if the meeting or part thereof is postponed or adjourned.
6. If:
  - 6.1 a shareholder does not indicate on this instrument that the proxy is to vote in favour of or against or to abstain from voting or any resolution; or
  - 6.2 the shareholder gives contradictory instructions in relation to any matter; or
  - 6.3 any additional resolution/s which are properly put before the meeting; or
  - 6.4 any resolution listed in the form of proxy is modified or amended,then the proxy shall be entitled to vote or abstain from voting, as he/she thinks fit, in relation to that resolution or matter. If however, the shareholder has provided further written instructions which accompany this form and which indicate how the proxy should vote or abstain from voting in any of the circumstances referred to in 6.1 to 6.4, then the proxy shall comply with those instructions.
7. If this proxy is signed by a person (signatory) on behalf of the shareholder, whether in terms of a power of attorney or otherwise, then this form of proxy will not be effective unless –
  - 7.1 it is accompanied by a certified copy of the authority given by the shareholder to the signatory; or
  - 7.2 the company has already received a certified copy of that authority.
8. The chairman of the meeting may, in his discretion, accept or reject any form of proxy or other written appointment of a proxy which is received by the chairman prior to the time when the meeting deals with a resolution or matter to which the appointment of the proxy relates, even if that appointment of a proxy has not been completed and/or received in accordance with these instructions. However, the chairman shall not accept any such appointment of a proxy unless the chairman is satisfied that it reflects the intention of the shareholder appointing the proxy.
9. Any alternations made in this form of proxy must be initialled by the authorised signatory/ies.
10. This form of proxy is revoked if the shareholder who granted the proxy:
  - 10.1 gives written notice of such revocation to the company, so that it is received by the company by not later than 11:00 on Monday, 14 May 2012; or
  - 10.2 subsequently appoints another proxy for the meeting; or
  - 10.3 attends the meeting himself/herself in person.
11. All notices which a shareholder is entitled to receive in relation to the company shall continue to be sent to that shareholder and shall not be sent to the proxy.
12. If duly authorised, companies and other corporate bodies who are shareholders of the company having shares registered in their own names may, instead of completing this form of proxy, appoint a representative to represent them and exercise all of their rights at the meeting by giving written notice of the appointment of that representative. That notice will not be effective at the meeting unless it is accompanied by a duly certified copy of the resolution/s or other authorities in terms of which that representative is appointed and is received at the company's transfer office, Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, by not later than 11:00 on Monday, 14 May 2012. If a shareholder does not wish to deliver that notice to that address, it may also be posted, at the risk of the shareholder, to Computershare Investor Services (Proprietary) Limited, PO Box 61061, Marshalltown, 2107.
13. 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.
14. 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 (Proprietary) Limited  
70 Marshall Street, Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)

# Annexure A

## The salient features of the ArcelorMittal South Africa Long-term Incentive Plan 2012

### Glossary

<b>Auditors</b>	the auditors of the company from time to time;
<b>AMSA Management Share Trust</b>	the AMSA Management Share Trust as approved by an ordinary resolution passed at a general meeting of the company held at Sandton on 11 May 2010 to be replaced by the plan;
<b>Business day</b>	any day on which the JSE is open for the transaction of business;
<b>Capitalisation issue</b>	the issue of capitalisation shares as contemplated in section 47 of the Act;
<b>Committee</b>	the Remuneration Committee of the Board of Directors of the company, or any other duly authorised committee of the Board of directors of the company, the members of which do not hold any executive office with any participating company, to which its authority is delegated for purposes of this plan;
<b>Company</b>	ArcelorMittal South Africa Limited (Registration number 1989/002164/06);
<b>Conditional award</b>	a conditional award of shares granted to a participant in terms of the plan;
<b>Control</b>	means, in relation to a company: (a) owning, directly or indirectly, over 50% (fifty percent) of the shares or other securities of a company; (b) having the ability, directly or indirectly, to control more than 50% (fifty percent) of the general voting rights associated with the issued securities of that company, whether pursuant to a shareholders' agreement or otherwise; (c) having the ability, directly or indirectly, to appoint or elect, or control the appointment or election of, directors of that company who control the majority of the votes,  whether individually or collectively pursuant to an agreement to co-operate;
<b>Cost to company</b>	the annual cost to company of an employee;
<b>Date of grant</b>	the date on which the committee resolves to grant conditional awards to an employee as specified in the letter of grant;
<b>Directors</b>	the Board of directors of the company from time to time or any committee thereof to whom the powers of the directors in respect of the Plan are delegated;
<b>Employee</b>	any person holding full time salaried employment or office with a participating company, including an executive director of a participating company, appointed on any of grades A to D (i.e. senior management and specialists grades) as at the time of the granting of the conditional award;
<b>Face value of grant</b>	the market value of the shares forming the subject matter of the conditional award, as at date of grant;
<b>Financial year</b>	the financial year of the company, which runs from 1 January to 31 December each year, as at the time of adoption of this plan;
<b>Grant</b>	a grant of a conditional award;
<b>Grant conditions</b>	the conditions specified in the letter of grant, to which the vesting of the conditional award is subject;
<b>Grant period</b>	the period in respect of which a grant condition is to be satisfied as stated in the letter of grant, which shall be no less than 3 (three) years except in the case of grants to new appointees to compensate them for share-based opportunity losses suffered by them as a result of termination of employment at their former employer;
<b>Group</b>	the company, its subsidiaries and such associated organisations as determined by the directors from time to time;
<b>Group member</b>	a company which is a member of the group;
<b>JSE</b>	the JSE Limited (Registration number 2005/022939/06), a company licensed to operate an exchange under the Securities Services Act No 36 of 2004, as amended;
<b>Letter of grant</b>	a document prepared by or on behalf of the participating company, which details the name of the Employee to whom the conditional award is granted, the number of shares in respect of which the conditional award is granted, and any applicable grant conditions pertaining thereto;
<b>Listings requirements</b>	the Listings Requirements of the JSE, as amended from time to time;

# Annexure A *continued*

<b>Market value</b>	in relation to a share on any particular day, the volume weighted average price of a share as quoted on the securities exchange operated by the JSE over the preceding 10 (ten) Business Days;
<b>Medical disability</b>	where a participant is declared medically disabled by the trustees of any pension or provident fund of the group;
<b>Participant</b>	an Employee to whom a grant has been made and who has accepted a grant, including the executor of his deceased estate, but excluding a non-executive director;
<b>Participating Company</b>	the group member which employs a participant;
<b>Plan</b>	the ArcelorMittal South Africa Limited Long Term Incentive Plan 2012 constituted by this document, as amended from time to time;
<b>Prohibited period</b>	(a) a closed period, as defined in the Listings Requirements, applicable to the company from time to time; or (b) any other period when there exists any matter, which constitutes unpublished price sensitive information in relation to the company's securities;
<b>Redundancy</b>	where a participant's services are no longer required by any group member due to operational requirements, or when the Participant's contract of employment is transferred to a third party who is not a group member, whether pursuant to a contractual agreement or by operation of law;
<b>Retirement</b>	in relation to a participant, retirement in terms of the rules of the applicable group pension or provident fund or, in relation to a participant who is not a member of such fund, reaching the age of 63 years or retirement pursuant to a service contract between the participant and his current employer in the group, including participants who retire early with the consent of a group member;
<b>Rights Issue</b>	the offer of any securities of the company, or those of another company, to all ordinary shareholders of the company pro rata to their holdings;
<b>Settlement</b>	the delivery of shares to a participant pursuant to the vesting of the conditional award;
<b>Settlement date</b>	the date on which settlement occurs;
<b>Shares</b>	ordinary shares of no par value in the capital of the company and includes any securities which are attributable to such ordinary shares following a reconstruction or takeover;
<b>Takeover</b>	any takeover, merger, amalgamation or reconstruction, however effected, including a reverse takeover, reorganisation or scheme of arrangement sanctioned by the court, or any other corporate action, but does not include any event which consists of or is part of an internal reconstruction, which does not involve any change in control of the company;
<b>Vest</b>	a participant becoming entitled to the conditional award, without restriction, after confirmation by the committee that the grant conditions have been fulfilled and "vested" and "vesting" shall be construed accordingly;
<b>Vesting date</b>	the date on which vesting occurs.

## Salient features

### 1. Eligibility

The committee may, on behalf of a participating company, select any employee of such participating company to be a participant in the plan.

In addition, the committee may, on behalf of a participating company, select any full-time salaried employee of such participating company to be a participant in the plan.

Non-executive directors are specifically excluded from participation in the plan.

### 2. Limits

#### 2.1 Shares available for the plan

The aggregate number of shares which may be allocated under the plan, and any shares allocated to employees in terms of the AMSA Management Share Trust but that have not yet vested in or been released to the relevant employees in accordance with the terms of the applicable scheme, shall not exceed 22 287 607 (twenty two million two hundred and eighty seven thousand six hundred and seven) shares, equating to approximately 5% (five percent) of the number of issued shares of the company. In the event of a discrepancy between the number of shares and the percentage of issued shares it equates to, the number of shares shall prevail over the stated percentage.

The limit referred to above shall exclude shares that were the subject of conditional awards allocated under the plan, but which had not vested with a participant as a result of the forfeiture or lapsing of the conditional awards and shares that were the subject of any other share incentive scheme for participation by management operated by the company, but which had not vested in or been released to the relevant employees as a result of the forfeiture or lapsing of the relevant awards.

#### 2.2 Individual limit

The maximum number of shares that are the subject of all unvested conditional awards granted to any participant, in respect of this plan and any options offered and accepted in terms of the AMSA Management Share Trust as operated by the company for participation by management, shall not exceed 4 457 521 (four million four hundred and fifty seven thousand five hundred and twenty one) shares, equating to approximately 1% (one percent) of the issued ordinary share capital of the company. In the event of a discrepancy between the number of shares and the percentage of issued shares it equates to, the number of shares shall prevail over the stated percentage.

The committee, acting on behalf of any participating company, may not grant conditional awards to an employee in any financial year to the extent that it would, at the proposed date of grant, cause the fair value of the grant which such employee has been granted in that financial year, to exceed 150% (one hundred and fifty percent) of the employee's cost to company at the proposed date of grant. In order to enhance the company's ability to attract external candidates, the committee has the discretion to increase such limit to 250% (two hundred and fifty percent) in the year of appointment of an employee.



## 3. Termination of employment

### 3.1 General

If a participant ceases to be employed by a group member before the vesting date for any lawful reason other than as set out below in 3.2 and 3.3, all unvested conditional awards will lapse and a participant will have no further entitlement to any awards.

### 3.2 Redundancy, medical disability and retirement

If a participant ceases to be employed by a group member before the vesting date, by reason of redundancy, medical disability and retirement, the participant shall continue to participate in the plan until the end of the grant period and the vesting of the conditional awards subject to grant conditions shall remain subject to the grant conditions. The extent to which the grant conditions have been met at the end of the grant period, shall determine the number of shares to vest. Such number shall further be pro-rated to the number of full calendar months elapsed at the date of termination of employment relative to the grant period. Conditional awards not subject to grant conditions will vest pro rata the day following the last day of employment.

### 3.3 Death

A portion of the conditional awards shall vest on the date of death. The portion that vests shall be pro-rated to reflect the number of full months that have elapsed at the date of death relative to the total months of the grant period. No grant conditions shall apply to the vesting of the conditional awards.

### 3.4 Resignation, and dismissal

If a participant ceases to be employed by a group member by reason of his resignation or dismissal before the vesting date, he shall cease to be entitled to any rights associated with the grant.

## 4. Settlement method

The plan will settle the benefits by delivering shares to participants. The participating company shall, on instruction of the directors procure the funds for the purchase of the shares on the market and shall instruct any third party to acquire and deliver the shares to participants employed or which were employed by such participating company.

## 5. Takeover

In the event of a takeover of the company before the vesting date, the committee must review the grant conditions and the extent to which it has been satisfied up to the date of the takeover, and calculate the number of shares to vest in each participant accordingly. The number of conditional awards that vest shall be proportionate to the number of months served in the grant period. Settlement shall be made for the vested shares so calculated as soon as practicable. The portion of the conditional awards that do not vest early shall continue to be subject to the terms of the letter of grant relating thereto, unless the Committee, in its absolute discretion, determines that the terms of the letter of grant relating thereto are no longer appropriate, in which case the committee can make an adjustment to the number of shares subject to a conditional award or convert conditional awards into share awards in respect of shares in one or more other companies provided the participant is no worse off.

If there is an internal reconstruction or other event which does not involve any substantial change in the ultimate control of the company, and therefore is not a takeover, or if any other event happens which may affect grants, including the shares ceasing to be listed on the JSE, shares shall not vest early. However, the committee may take such action as it considers appropriate to protect the interests of participants, limited to converting grants into equivalent grants in respect of shares in one or more other companies or making an adjustment to the number of shares subject to a conditional award, provided the participant is no worse-off.

Save in the instance of a takeover, if a resolution for the voluntary winding-up of the company is duly passed by the holders of shares, the vesting date of all unvested conditional awards granted to participants shall be advanced to the date of the resolution being passed. If the company is wound-up by a court, the vesting date of all unvested conditional awards granted to participants shall be advanced to the date of the winding-up order. In the event of the vesting date of all unvested conditional awards granted to participants being advanced, the grant period in relation to each grant shall be adjusted so as to terminate on the vesting date.

## 6. Variation in share capital

In the event of a rights issue, capitalisation issue, sub-division or consolidation or any other corporate action or other event reducing or otherwise affecting the share capital of the company, a demerger (in whatever form), or the company making a distribution to its shareholders (including a distribution in specie) (other than a dividend paid in the ordinary course of business out of distributable reserves), before the settlement date in respect of a conditional award, the committee must, adjust the number of shares available for the plan and the maximum individual limit and may make such adjustment to the number of shares comprised in the relevant grants as would give a participant the same proportion of the company's equity capital as that to which he would have been entitled under the plan prior to the adjustment.

The auditors shall confirm in writing to the JSE whether these adjustments were calculated in accordance with the provisions of the plan. Such confirmation is to be provided to the JSE at the time that the relevant adjustment is finalised.

Any adjustments made shall be reported on in the company's annual financial statements in the year during which the adjustment is made.

The issue of shares in consideration of an acquisition, the issue of shares for cash and the issue of shares pursuant to a vendor consideration placing shall not be regarded as a circumstance requiring adjustment in terms of this clause 6.

## 7. Amendments and termination

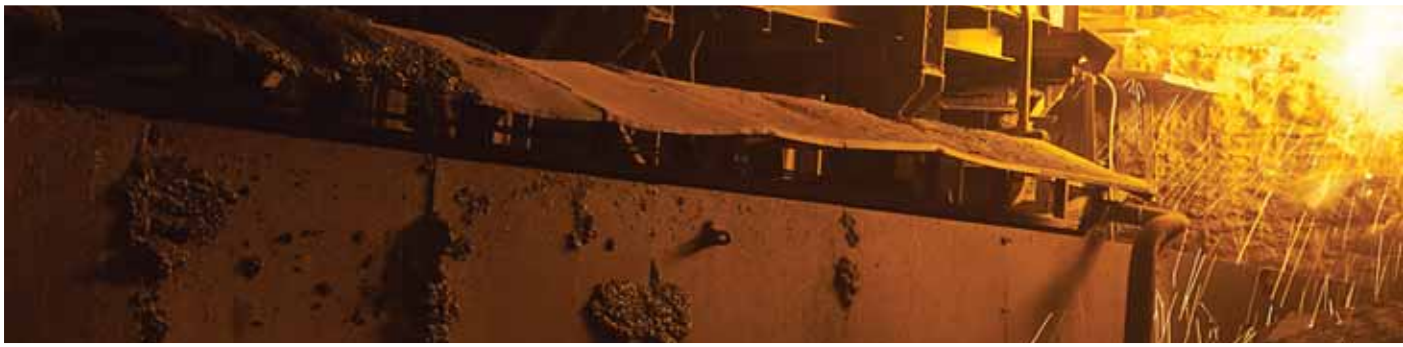
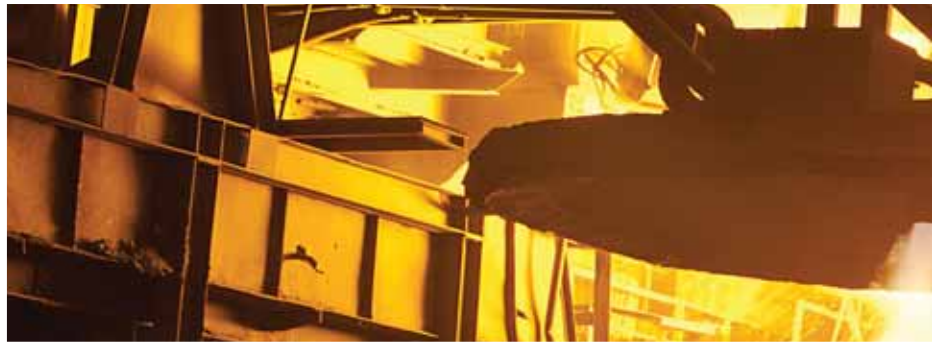
7.1 Subject as provided in this clause 7, the committee may in its discretion alter, vary or add to these terms and conditions subject to shareholder approval as set out in par 7.2. Amendments to these terms and conditions may only affect grants which have already been made if they are to the advantage of participants.

7.2 Except as provided in clause 7.1, the provisions relating to:

- eligibility to participate in the plan;
- the aggregate number of shares subject to the plan;
- the basis for determining grants;
- the amount (if any) payable by an employee for a grant on the acceptance, vesting and/or settlement of a grant
- the adjustment of grants in the event of a variation of capital of the company;
- the voting, dividend, transfer and other rights attaching to the shares of the plan, including those arising on a liquidation of the company;
- the maximum number of shares allocated to all unvested conditional awards granted to any participant;
- the rights of participants who leave the employment of the company whether by termination, resignation, retirement or death, insofar as their early departure from the plan is concerned;
- the rights of participants in instances of mergers, takeovers and other corporate actions; and
- the terms of this clause 7.2.,

may not be amended without the prior approval by ordinary resolution of the shareholders of the company in general meeting, requiring a 75% (seventy five percent) majority of the votes cast in favour of such resolution by shareholders present or represented by proxy at the general meeting to approve such resolution, excluding all the votes attached to all Shares owned or controlled by persons who are existing participants in the plan and which have been acquired in terms of the plan.

The committee may make minor amendments to benefit the administration of the plan, to comply with or take account of the provisions of any proposed or existing legislation or to obtain or maintain favourable, taxation or regulatory treatment of any company in the company or any present or future participant.



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